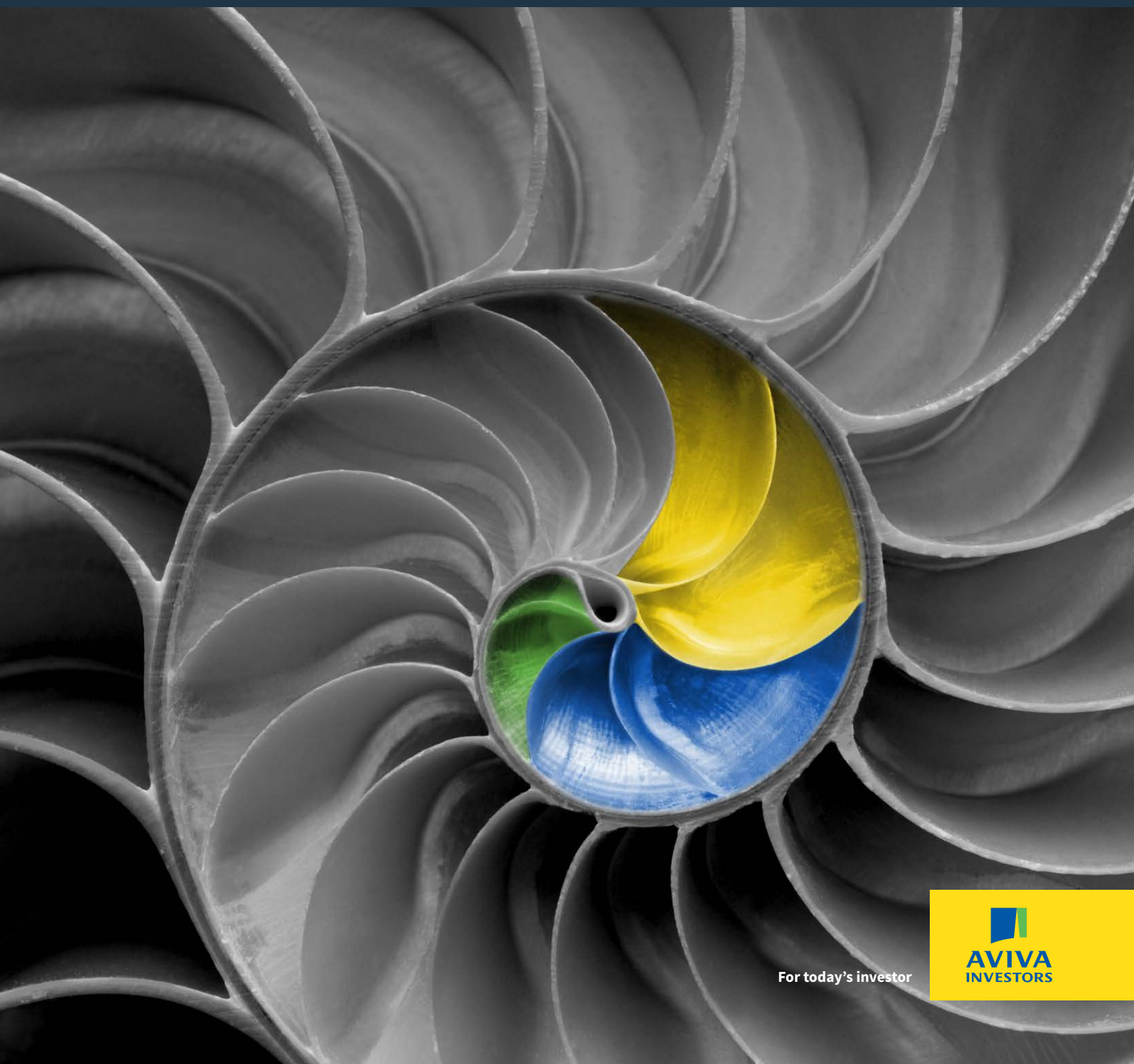


2017 annual review

Responsible investment



For today's investor







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A foreword from Euan Munro

Chief Executive, Aviva Investors

Responsible investment has been central to the values and investment philosophy of Aviva Investors for many years. We are proud to have been amongst the vanguard of investors leading market changing initiatives through the years, including helping to author the world's first corporate governance code, the UN Principles for Responsible Investment and the Global Real Estate Sustainability Benchmark. During my tenure as Chief Executive, we have continued to make strong progress in embedding Environmental, Social and Governance (ESG) factors across our asset base, and importantly have moved beyond simply establishing integration processes, to focusing on leveraging ESG insights to deliver better outcomes for our clients.

As a signal of our on-going commitment to being a leading responsible investor, we have more than doubled the size of the Global Responsible Investment Team during the year. The expanded team will now also support the relaunch of the Stewardship Funds which we are excited to include within Aviva Investors' fund range in 2018. The Stewardship Funds, being one of the oldest and most credible range of ethically screened funds in the UK, will make an excellent addition to our ESG client offering.

We have also continued our efforts to help catalyse reform of our capital markets with the aim of tackling barriers to long-termism and sustainability. This included serving on the Financial Stability Board Task Force on Climate-Related Financial Disclosures and the EU High Level Expert Group (HLEG). We welcome the initial recommendations of the HLEG which has sought to broaden the spotlight of responsibility across the investment ecosystem. Sustainability is a systemic issue and needs a system wide solution.

We are confident that if all actors work collectively, together we can create a sustainable capital market that can better meet the needs of both long-term investors and society.

About Aviva Investors¹



Asset class	£m
Equities	67,730
Fixed Income	215,840
Real Estate	35,391
Other*	34,266
Total	353,227



2017 responsible investment highlights²

- Voted 49,358 resolutions at 4,151 shareholder meetings
- Voted against 26% of management resolutions including 44% of pay proposals
- Engaged 1,381 companies as part of our Stewardship responsibilities
- Responsible Investment Officer Network grown to > 40 Investment Professionals
- Doubled investments in Green and Social Bonds to £744 million
- Published multiple reports including a review of ESG sell-side research and an investor guide to Sustainable Palm Oil
- Member of the EU High Level Expert Group on Sustainable Finance & Member of the Financial Stability Board's Task Force on Climate-related Financial Disclosures
- Responsible Investor Award for Innovation & Industry Leadership 2017

¹ Source: Aviva Investors, as at 31st December 2017

² Source: Aviva Investors, as at 31st December 2017

Our heritage as responsible investors



1970

Records evidencing Norwich Union's exercising of proxy voting rights



1991

Led first prominent form of shareholder activism at Tace plc where Norwich Union requisitioned an EGM and removed the entire board of directors



1992

Norwich Union Chief Investment Officer serves as a member of the Cadbury Committee which published the world's first corporate governance code



1994

Aviva Investors among first asset managers to publish Corporate Governance Voting Policy



2007

Aviva is a founding signatory to ClimateWise and Accounting for Sustainability Principles



2009

Advisory board member of Global Real Estate Sustainability Benchmark, an industry-driven organisation helping real estate investors assess the performance of real estate portfolios

Aviva Investors instrumental in the launching of The Sustainable Stock Exchanges (SSE) initiative, enhancing corporate transparency on ESG reporting and performance



2010

Aviva Investors amongst the first signatories of the UK Stewardship Code



2012

Aviva Investors founded Corporate Sustainability Reporting Coalition with call to action at Rio+20 Conference



1995

At UN Summit, Aviva pledges to 'balance of economic development, the welfare of people and a sound environment, by incorporating these considerations into business activities'



2001

Aviva Investors founding CDP signatory (previously Carbon Disclosure Project) & first asset manager to formally integrate corporate responsibility to voting policy



2003

Began publishing proxy voting records on-line



2006

Aviva Investors is founding signatory of the Principles for Responsible Investment

A Roadmap for Sustainable Capital Markets:

How can the UN Sustainable Development Goals harness the global capital markets?
An Aviva White Paper

2014

Launched Aviva Roadmap for Sustainable Capital Markets & Sustainable Capital Markets Manifesto



2015

Mark Wilson speaks at UN General Assembly on Sustainable Finance
Aviva published Strategic Response to Climate Change & actively participated in COP21
Aviva Investors joined Investor Forum Board



2016

Aviva Investors asked to join European Commission's High Level Expert Group on Sustainable Finance and became a member of the Financial Stability Board Taskforce on climate-related financial disclosures



2017

Corporate Human Rights Benchmark launched at Aviva's offices
Financial Stability Board's Taskforce on Climate-Related Disclosures publishes its final recommendations.
The EU High Level Expert Group begins its work with final report and recommendations to be published in early 2018.





Our contribution to a changing world

By Steve Waygood

There is no question in my mind that 2017 was the year that 'sustainable finance' came of age, with the United Nations, the Financial Stability Board, the European Commission and the UK Government all driving new initiatives in this area. Responsible investment practitioners can be rightly proud to have reached this point, which we could only have dreamed of even five years ago.

It is a privilege to lead Aviva Investors' Global Responsible Investment (GRI) team and I am proud of its many achievements. But even though we have collectively, as an industry, made incredible progress in getting ESG issues embedded into mainstream investment processes, we have much further to go to correct a series of profound market failures.

A third of the world's agricultural land is now seriously degraded. About 90 per cent of the world's seas are fully exploited or overfished, and half of the world's coral reefs have been lost since the 1980s. We are on track for a rise in the average global temperature of almost four degrees by the year 2100, threatening drought and ever more extreme weather conditions.

We also live in a grossly unequal world. Globally, one person in nine does not have enough to eat. Two billion people live on less than \$3 per day and over 70 million of our planet's young people are unable to find work. Yet, the world's richest one per cent now own more wealth than all the other 99 per cent put together. Amazingly, the eight richest people own as much as half of the rest of the world.

We believe capital markets are failing in three related ways. They are failing to take account of investors' personal ethics. They are failing the corporations they exist to fund by forcing them to focus on short-term profit at the expense of long-term growth. And they are failing to properly consider the health of our planet and the people who depend on it; in other words all of us.

We aim to build a better future for our clients, the companies we invest in, and the planet, by driving ESG issues up the investment industry's agenda. We aim to do this in four ways:

- 1 Investment integration:** we will use data on material ESG issues to improve our understanding of different businesses and exploit market inefficiencies in an effort to enhance long-term investment returns. We will seek to demonstrate how responsible business practices are better for long-term investment returns.
- 2 Stewardship:** we will use our voice and our vote as investors to support good long-term business practices on ESG issues and to hold directors to account for poor performance. We will strive to ensure the businesses in which we invest are governed properly. We want to see an entrepreneurial strategy, long-term planning, strong independent oversight, clear standards and values at the heart of corporate culture. We also want to know that the companies we invest in are run for the betterment of those that own them – and not simply those that run them.
- 3 Ethical screening:** we will offer our clients the ability to exclude certain ethically controversial areas such as tobacco, cluster munitions and land mines and the ability to steer their investment preferences towards companies that provide solutions to environmental and social challenges such as climate change, women's empowerment or education.
- 4 Market reform:** as a big institutional investor attached to one of the world's most systemically important insurance companies, we have the ability to help correct market failures by voicing concerns about ESG issues to governments and regulators around the world.

The moral case

We believe this is simply the right thing to do. We elect company directors to represent our interests. This gives us both the ability to influence what they do, as well as some moral responsibility for what they do for our clients. We care about how these directors treat their customers, the people that work for them, the local communities within which they operate and the environment more generally. We will challenge corruption and exploitation in all its forms wherever we find it. This includes slavery, child labour, exploitative wages and the mistreatment of minority groups including on grounds of gender, race, colour, religion or sexuality.

The business case

This is also the financially sensible thing to do. Our study of investment research³ highlighted a growing body of evidence that companies with better ESG practices are better long-term investments. Aviva Investors itself also has an undeniable commercial interest in this work: left unchecked, climate change and other issues arising from unsustainable development such as Antimicrobial Resistance (i.e. superbugs) would affect the actuarial assumptions underpinning the insurance products that our industry provides, potentially rendering significant proportions of the economy uninsurable and shrinking our addressable market.

We are already deliberately different

In 2001 we were amongst the first asset managers in the world to vote against companies at their annual general meetings if they did not produce important data on sustainability issues. Since this time we have engaged with thousands of companies to promote more sustainable business practices. Our Roadmap for Sustainable Capital Markets⁴ was commended by the United Nations and led to Aviva's chief executive Mark Wilson

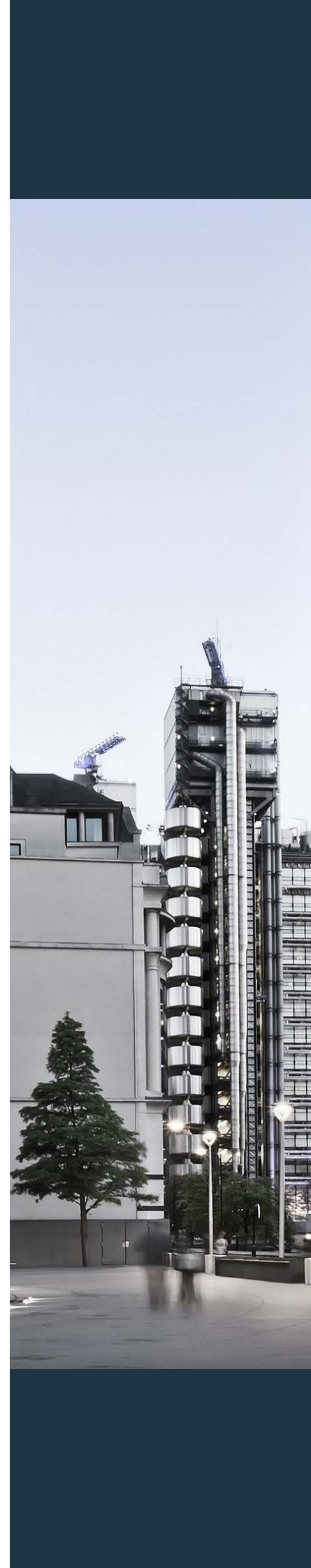
addressing the UN General Assembly in 2015⁵. Since then – we have been working to deliver on the vision he set out in his speech.

How can we be more disruptive?

We will play an active role in improving financial literacy to help our customers better understand what happens to their money. We will build decent standards for sustainable fund management, helping our customers choose fund managers with integrity and reducing the prevalence of 'green-washing'. We will create public league tables ranking companies on how sustainable they are, and allowing clients to better understand the businesses they are funding. This will help drive a revolution in corporate accountability. We firmly believe that transparency and accountability are essential in building trust and engagement within our industry.

More to do!

Our goal is to help build more sustainable capital markets and, through that, better businesses for the long-term. We already collaborate extensively with other investors, policymakers, civil society and governments around the world. But we are far from winning this war and the journey is long. However, the importance of sustainable finance for the future of capital markets and the world means we must collectively redouble our efforts.



³ <https://www.avivainvestors.com/content/dam/aviva-investors/united-kingdom/documents/institutional/research-brave-new-world.pdf>

⁴ <https://www.aviva.com/social-purpose/thought-leadership/roadmap-for-sustainable-capital-markets/>

⁵ <https://www.youtube.com/watch?v=r-AHfatQKJs>



The Global Responsible Investment Team

Steve Waygood

Chief Responsible
Investment Officer
Years with Aviva Investors: 12
ESG Experience: 21 Years

Mirza Baig

Global Head of Governance
Years with Aviva Investors: 2
ESG Experience: 17 years

Abigail Herron

Global Head of
Responsible Investment
Years with Aviva Investors: 5
ESG Experience: 13 Years

Marte Borhaug

Head of ESG Strategic Projects
Years with Aviva Investors:
Less than a year
ESG Experience: 3 Years

Anita Skipper

Senior Corporate
Governance Analyst
Years with Aviva Investors: 25
ESG Experience: 29 Years

Rebecca Vine

Senior Corporate
Governance Analyst
Years with Aviva Investors:
Less than a year
ESG Experience: 10 Years

Eugenie Mathieu

Senior SRI Analyst
Years with Aviva Investors:
Less than a year
ESG Experience: 17 Years

Doris Ko

ESG Operations Manager
Years with Aviva Investors: 11
ESG Experience: 23 Years

Louise Piffaut

ESG Analyst
Years with Aviva Investors: 1
ESG Experience: 3 Years

Stanley Kwong

ESG Analyst
Years with Aviva Investors:
Less than a year
ESG Experience: 4 Years

Natalia Rajewska

ESG Analyst
Years with Aviva Investors:
Less than a year
ESG Experience: 3 Years

Richard Butters

SRI Analyst
Years with Aviva Investors: 4
ESG Experience: 1 Year

Rick Stathers

Senior ESG Analyst
Years with Aviva Investors:
Less than a year
ESG Experience: 18 Years

Sora Utzinger

ESG Analyst
Years with Aviva Investors:
Less than a year
ESG Experience: 4 Years

Sophie Rahm

ESG Analyst
Years with Aviva Investors:
Less than a year
ESG Experience: 10 Years

Nathan Leclercq

Senior Corporate
Governance Analyst
Years with Aviva Investors:
Less than a year
ESG experience: 20 Years

Nicky Ashlee

PA
Years with Aviva Investors: 7

Tasneem Rahman

PA
Years with Aviva Investors:
Less than a year

Advisors to the GRI Team

Pauliina Murphy

Head of International
Government Engagement
Focus: Market Reform

Patrick Arber

Senior Analyst, Global Public Policy
Focus: Market Reform

Simon Oswald

Senior Manager, UK Public Policy
Focus: Market Reform

Alexandra Belias

Senior Manager,
Global Public Policy
Focus: Market Reform

Thomas Taylor

Senior Counsel
Focus: Fiduciary Duties

Ben Carr

RCAM Director, Actuarial
Focus: Capital Adequacy
and Climate Change

Dr Krishanthi Vithana

Lecturer Accounting
Focus: ESG and
Company Valuations



Our responsible investment philosophy

Aviva Investors is a global asset manager with £353bn⁶ under management in equities, fixed income, real estate and multi and alternative assets. We seek to deliver the specific and meaningful outcomes that matter most to today's investor. Our commitment to responsible investment is fundamental to delivering this goal. We focus on integration, active stewardship and market advocacy to deliver positive outcomes from our responsible investment approach.

- 1 Integration of ESG considerations into investment decisions** – we work together with fund managers and analysts, customising ESG integration within our investment process, to deliver improved investment outcomes for clients.
- 2 Active ownership and stewardship through engagement and voting** – we use our influence to promote good practice among those companies in which we invest, and to gain insight and reduce investment risk on ESG issues for our clients. We focus on generating outcomes that benefit our clients and in many cases society, the environment and the broader economy as well.
- 3 Shaping markets for sustainability** – we advocate policy measures that support longer-term, more sustainable capital markets. 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.

⁶ Source: Aviva Investors, as at 31st December 2017



Our responsible investment strategy

1

ESG Investment
Integration

2

Active Ownership
and Responsible
Stewardship

3

Shaping Sustainable
Capital Markets



“The rise of populism has emphasised how politics, economics and social considerations are inextricably linked. Having a holistic analytical framework, which includes ESG, is essential to our ability to navigate and interpret a world experiencing unprecedented change.”

Ian Pizer

Head of Investment Strategy

Pillar 1: ESG investment integration

We incorporate ESG issues into investment analysis and decision-making processes, because we believe it delivers improved investment outcomes for our clients and increasingly for society and the environment.

As long-term investors, we see factors such as corporate culture, good governance, climate change strategy, and hard and soft regulatory landscapes as core to the success of our investments.

Responsible Investment Officer Network

We believe that for responsible investment considerations to have a positive and meaningful impact on investment decisions, they must be fully embedded within the fundamental investment process. Aviva Investors has established a Responsible Investment Officer (RIO) Network of over 40 investment and business specialists representing various asset classes and offices across the organisation. The RIO Network includes representatives from equities, fixed income, multi-asset, alternatives, and real estate as well as client facing functions and internal risk and control teams.

The RIO Network meets formally on a quarterly basis, and works collaboratively with the Global Responsible Investment (GRI) Team in developing and implementing bespoke ESG integration strategies across asset classes and regions. Members of the RIO Network also receive regular internal and external ESG training.

Integrating ESG into Aviva Investors' annual remuneration plan

We were one of the first large asset managers to make the integration of ESG factors part of the pay criteria across the firm, including its investment desk heads. Through our Global Reward Framework, all investment employees should support responsible investment and integrate ESG issues into their investment processes.

The GRI Team undertakes an annual evaluation of investment professionals on the extent to which they supported ESG integration during the year. The results of the evaluation are subsequently shared with the heads of each investment function as well as Aviva Investors' Head of Reward, to ensure that commitment to ESG is reflected in compensation outcomes so that a modest but meaningful part of their annual compensation is linked to ESG performance.

Shaping the macro view

Aviva Investors has developed an intra-departmental approach towards forming forward-looking positions on key political, economic and social trends and expected outcomes. Quarterly meetings of representatives from across the business culminates in the publication of Aviva Investors' House View, which cascades back through the organisation and helps guide medium to long-term investment positions as well as asset allocation for multi-asset strategies.

The GRI Team is a key component in this process and ensures that material ESG factors are considered when determining the firm-wide macro outlook. As a result, themes such as the implications of global climate negotiations, populism and nationalism, and governance and social reform across key markets have helped form the base case outlook.



Integration in practice

Macro

The GRI Team worked with the industrials and technology sector leads to undertake in-depth research into the implications of automation on economies and sectors. While there are unquestionable benefits of automation in terms of efficiencies and productivity, it is also expected to fundamentally disrupt the traditional labour market, with some experts projecting 50% of existing jobs will come under threat. This will have dramatic implications for social cohesion, inequality, economic growth and political stability. As part of our research we formed a view on the economies, sectors and companies that were likely to be the winners and losers of the automation phenomenon.

Shaping the sovereign view

Our Sovereign Debt Team has developed a robust analytical model to evaluate the forward looking prospects of sovereign debt issuers. The model is based on an assessment against six key data themes including growth, the monetary and fiscal environment, the current account, and political conditions.

The GRI Team has been instrumental in identifying factors and data inputs to support the assessment of a country's political condition. Factors that have been fully integrated into the sovereign rating model include measures of corruption control, rule of law, freedom of press, and accountability of government.

The Sovereign Debt Team also review specific ESG data and analysis on sovereign issuers which are embedded in the risk and valuation framework for government debt securities.



Integration in practice

Sovereign

Previously, Aviva Investors adopted an approach of giving preference to green bonds when two identical bonds were trading in the market. However, during 2017 we made a strategic decision to pro-actively build our exposure to green and social bonds within our sovereign portfolios. This resulted in Aviva Investors more than doubling its holdings to £744 million by the end of 2017.

A recent example of our approach is the purchase of a 10 year sustainability bond issued by the Community of Madrid. Proceeds from the bond issue will be exclusively utilised for affordable housing, health, education, social inclusion and tackling climate change. The investor presentation explicitly connected the intended use of the proceeds to seven of the Sustainable Development Goals.

In the coming year the GRI Team and Sovereign Debt Team will seek to develop an enhanced framework to allow for a greater level of differentiation between green and social bonds to maximise the positive impact of our capital allocation.



“The assessment of the political environment is a fundamental consideration for sovereign debt and we have been looking at indicators related to corruption and free press for some time. However, we are now increasingly looking at broader environmental and social factors such as carbon emissions and social cohesion when evaluating the long-term stability of a country.”

Geoffroy Lenoir

Head of Euro Sovereign Rates



“ESG trends are fundamentally changing industry dynamics, from regulation, and supply chains, to shifting consumer patterns. Understanding these ESG factors allows us to better predict the future prospects of each sector.”

Paul Lacoursiere

Global Head of Corporate Research



“The success of our investment philosophy and process is dependent on our ability to assess the risks and future return prospects of individual companies. Consequently a full understanding of the company’s governance and sustainability practices is a key component of our equity investment decisions.”

David Cumming

Global Head of Equities

Shaping the sector view

Aviva Investors provides both equity and debt finance to support companies across global markets. Consequently we have fostered an integrated research philosophy and platform to assist in the evaluation of sector specific risks and opportunities. Dedicated research specialists built around six key sectors meet on a quarterly basis to update the industry outlook and share conclusions with fund managers and evaluate portfolio positions.

The GRI Team formally contribute to the sector assessments by leveraging ESG insights from internal and external research, proxy voting records and experience from company engagements. The GRI Team also work with sector leads to develop thematic long-term cross-sector research which is jointly presented to investment teams across the business.



Integration in practice Sector

The GRI Team contributed to a thematic study and presentation on the future of mobility. Topics addressed included the electrification of vehicles, automated driving and related AI technology, and the impact of shared mobility on future demand dynamics. The presentation reviewed emissions regulations and the fallout from allegations of anti-competitive practices within the German market. Although the technological and regulatory trends are positive from an environmental and social perspective, the near to medium-term disruptive nature of these themes were deemed to be negative for the sector and has resulted in an underweight position across the group.

Shaping the company view

Our ESG Heat map is our key company specific integration tool. It includes a range of material ESG data and analysis, including our internal governance rating, which is based on our historic voting records. This is available to all investment teams through the Bloomberg platform.

The ESG Heat map is supplemented by additional fund manager and analyst briefings (see example below), provided before company meetings, votes or investment decisions. These briefings draw on our Heat map and more detailed independent ESG data and research. We leverage the expertise of the GRI Team, bespoke research commissioned from brokers and research organisations, and additional information from less conventional sources such as NGOs and civil society to build a rich picture of ESG impacts and risks.

The GRI Team meets with equity and fixed income teams in formal weekly, monthly and quarterly meetings to exchange perspectives and insights on individual companies and emerging issues.



Integration in practice Corporate

Fund manager ESG briefing

Aviva Investors' proprietary Heat map – Experian Plc

Average Final Voting Score	Governance Rating Global	Governance Rating Home	ESG Rating	Controversies Overall Flag
C	B	C	A	Yellow
Controversies Overall Score	AGR Rating	Carbon Emissions Exposure	Carbon Emissions Management	AHA Score
D	D	1.7	7.2	5.48

Data security

Experian's business activities, especially in its credit services (55% of revenues) and consumer services (22% of revenues), require handling of sensitive data which results in a high risk of data breaches. In 2015, this risk materialised in the theft of 15 million customers' personal information from subsidiary T-Mobile. We note improvements in efforts to manage this risk with ISO 27001 aligned policies covering all business lines. Experian now ranks in the top quartile on this issue.

Following a series of high profile data breaches and misuse across sectors as well as recently implemented European data protection regulation, data security remains a critical risk for the business (reputational damage, loss of customers, litigation, and regulatory action).

Questions

- Following the controversy in 2015, how did the firm change its approach to data security management?
- What are the processes for scenario testing to ensure Experian's crisis management response to potential data breaches in the future is appropriate and minimises business impact?
- What is the board's role in overseeing data management – is there a designated director with overall responsibility?
- How did the board respond to the Equifax controversy? Did it result in an impact assessment should a similar incident occur at Experian?
- Compared to peers, how does Experian benchmark its own approach towards data security?

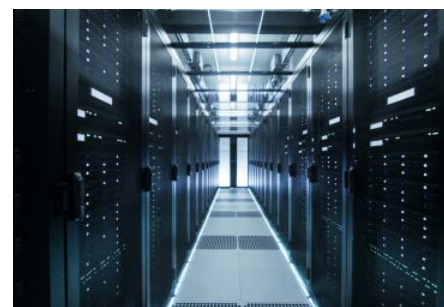
Data accuracy

In 2017 the US Consumer Financial Protection Bureau fined Experian for misleading practices in the historic (2012-2014) marketing of the cost and meaning of their credit scores. Given increasing criticism of credit reporting agencies and their impact on consumer life, in the US, the Consumer Financial Protection Bureau (CFPB) has undertaken an initiative to enforce stricter supervision on the 30 largest credit reporting agencies.

In addition, other, now settled, cases include credit report inaccuracies, erroneous correction practices and improper entries for debts that were discharged through bankruptcy. This highlights the risks associated with the provision of inaccurate or incomplete reporting of individuals' credit histories.

Questions

- Is there a risk the business model of credit agencies becomes increasingly challenged by heavy handed regulation?
- What processes have been put in place to oversee the integrity of customer data – is the board satisfied with the robustness of the new controls environment?
- What steps are being taken to improve the transparency of how scores are calculated, communicated and interpreted?





“When it comes to diversity, it is clear that there is a gap between sentiment and reality. Bearing in mind the growing evidence that diverse teams have the tendency to positively influence investment performance, we would expect more financial institutions to institute policies aimed at narrowing the gender gap both in the general workforce and at more senior levels.”

Isabel Emo Capodilista
Head of Multi-Manager Research

Multi-Manager monitoring

The Multi-Manager (MM) Team is the central source of external manager research and selection within the Aviva Group and is directly responsible for selecting, appointing and monitoring fund managers on behalf of Aviva Investors.

The MM Team aims to assess whether a manager can demonstrate added value from its investment approach. Fund managers are analysed, assessed and ultimately selected according to our 7P process covering Parent, Product, Philosophy, Process, People, Performance and Position. Each of these criteria includes ESG considerations.

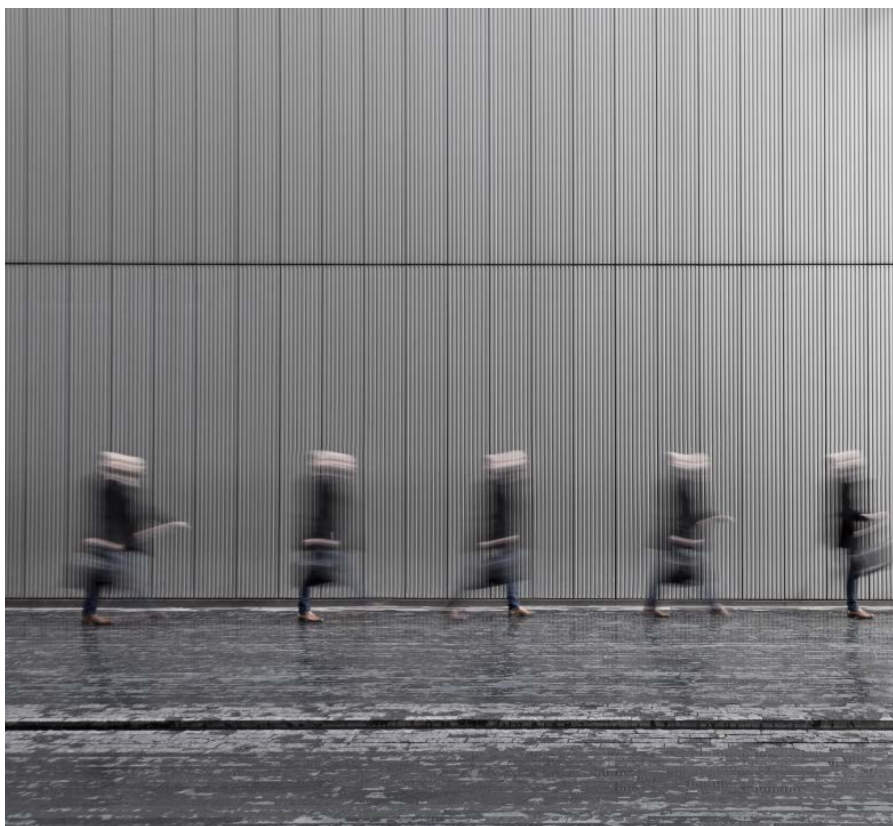
The monitoring process is equally robust – asking fund managers to justify stocks that perform poorly on ESG criteria and discussing their responsible investment approach, including voting and engagement activity.



Integration in practice Multi-Manager

The MM Team completed its third biennial survey of global asset managers on ESG issues. The survey focused on views and policies on diversity and culture, polling 39 asset managers with combined assets of over £4 trillion.

Although more than 90% of respondents believed that diverse businesses are more likely to be successful, less than 5% were able to demonstrate sufficient levels of diversity within their own management and investment teams. The results show that while corporate diversity is taken increasingly seriously, there is significant room for improvement.



ESG and alternative assets

Responsible investment and ESG has traditionally been biased towards liquid assets such as equities and bonds. This has been for several reasons including the weight of assets under management, availability of information, and the rights and access provided to shareholders. However, more recently the importance of ensuring ESG factors are also appropriately embedded within alternative asset classes has risen in prominence. This is primarily due to a reallocation of assets amongst pension funds towards alternative solutions and a recognition that more illiquid assets, by definition have longer-term investment horizons, and consequently are arguably more exposed to ESG risks. The issue has gained even greater significance with the recent focus on blended finance as a tool to help deliver the Sustainable Development Goals.

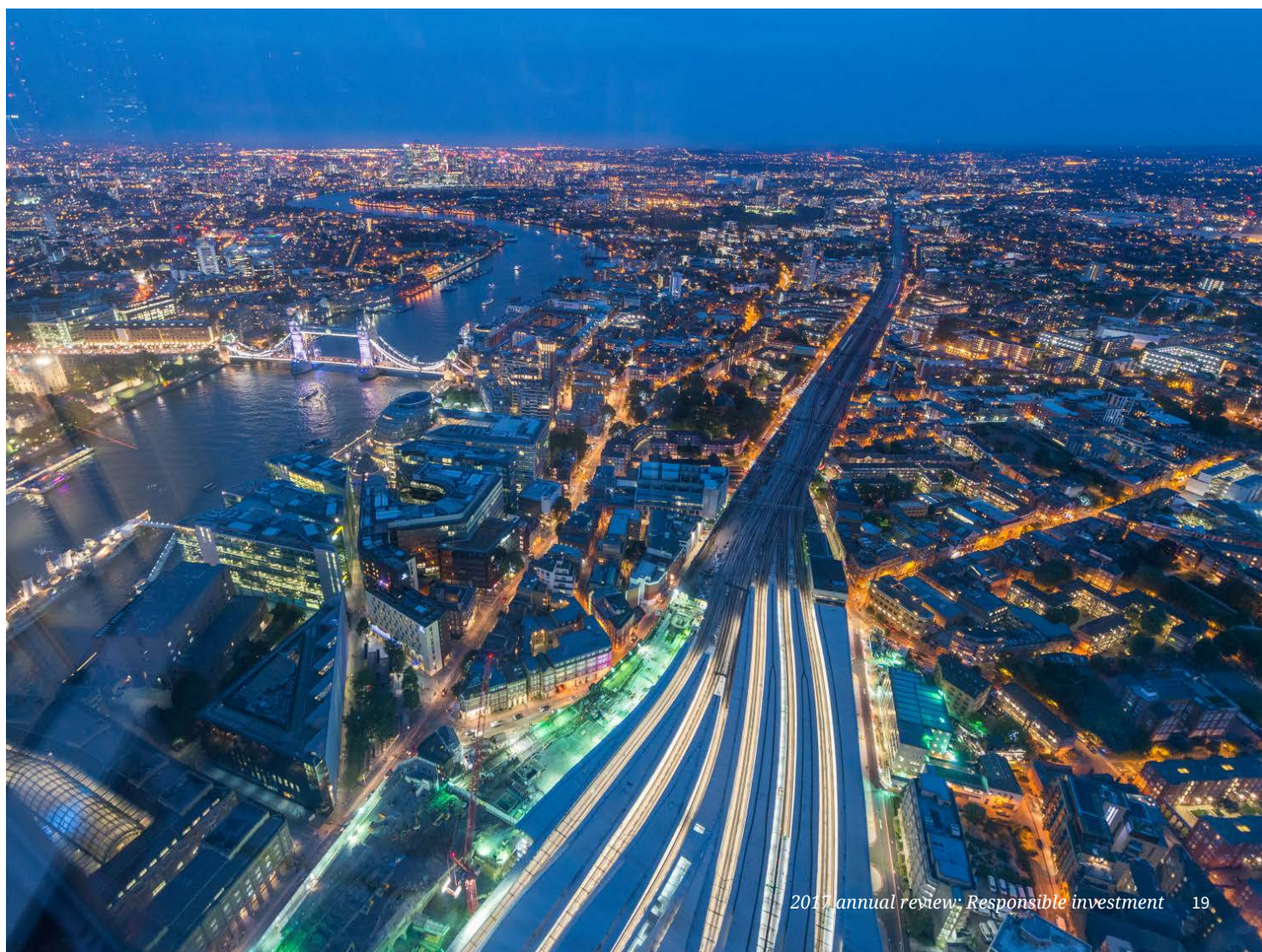
At Aviva Investors we understand that alternative asset classes have unique investment considerations and have made significant progress in developing bespoke ESG strategies from real estate and infrastructure to structured finance and private corporate debt.



“We recognise that our properties can have a significant role to play in local communities and we are working to ensure that they make a positive impact in their location for our customers and the wider community.”

Mark Nevitt

Senior Director Global Real Estate





“We strongly believe that sustainable infrastructure delivers improved investment outcomes for our clients, with tangible benefits for our shareholders, the environment, and broader society.”

Nikhil Chandra

Investment Strategist,
Global Investment Solutions

Sustainable real estate

We believe that integrating ESG considerations can deliver real value in terms of cost savings, enhanced returns and reduced regulatory and obsolescence risk within our real estate assets. Consequently, we consider ESG issues in our investment decision-making and due diligence processes for new investments, as well as existing direct and indirect investments. Our environmental policy, implementation and performance is overseen by our Responsible Property Investment Committee (RPIC) which includes representatives from across the real estate and responsible investment teams. In addition to the quarterly RPIC meeting, we also host a regular meeting with environmental consultants, property managers and suppliers to discuss emerging sustainability themes and to share best practice.

We were founding members of the Global Real Estate Sustainability Benchmark (GRESB), the industry-driven organisation assessing the ESG performance of real assets globally, and have maintained a seat on the GRESB Advisory Board since its launch in 2010. It is supported and used by both our direct and indirect real estate businesses in different ways. In 2017, we submitted 19 funds from our direct real estate business for benchmarking assessment and were delighted that we saw improved scores across all our funds.

Our indirect real estate business engages all our unlisted and listed real estate funds to complete the GRESB survey (we had an 87 per cent global response rate in 2017, up from 78 per cent in 2015). The GRESB results are fed back to each underlying fund and follow-up discussions are held with every manager.



Integration in practice Real estate

The Corn Exchange in Manchester is a Grade II listed building that was converted to restaurants. Following the conversion, energy consumption was identified as being much higher than expected. Carbon Credentials were employed to implement their Collaborative Asset Performance Programme (CAPP) to assist with diagnosing and remediating energy inefficiencies.

Information from data collection devices, site audits and collaboration with stakeholders, produced a list of agreed changes to achieve energy and cost savings. The subsequent changes resulted in a reduction in energy consumption of 42% and a return on investment within 3 months. Aviva Investors is now reviewing the option of fully integrating CAPP within its management systems.



Sustainable infrastructure

In July 2015, Aviva plc announced an investment target of £500 million annually for the next five years in low-carbon infrastructure. We also set an associated carbon savings target for this investment of 100,000 tonnes of CO₂ annually. We worked together with an independent consultant to develop a 'carbon calculator' tool to enable us to measure the carbon equivalent savings associated with our portfolio. In 2017, we exceeded our targets and signed £527.5m of new investment into wind, solar, biomass and energy efficiency projects.

As part of our ESG integration approach, all infrastructure projects that are being considered for either debt or equity funding, are subject to an ESG due diligence process. This covers a broad spectrum of considerations including biodiversity impacts, climate strategy, labour rights and safety, stakeholder relations and political lobbying. The conclusions from the due diligence process are reviewed by the Alternative Investment Committee prior to the approval of any project.



Integration in practice Infrastructure

We address a variety of ESG issues across our transactions, including managing the biodiversity impacts of our projects. When undertaking analysis of a potential medium scale wind farm investment, our ESG due diligence process flagged a concern with disruption to nesting birds in the vicinity. The project received final internal approval only after the commissioning of a Breeding Bird Protection Plan designed to safeguard and mitigate the impact on the birds.

Sustainable lending

Our growing private lending business provides our clients with access to enhanced income, capital preservation, diversification and cash flow matching. This includes commercial real estate debt, structured finance (mortgage-backed securities, government-guaranteed loans, trade and credit financing), and private corporate debt.

Higher premiums are achieved in exchange for less liquidity and transparency. This places additional responsibilities on us to apply greater rigour during the due diligence process to assess ESG risks. Each investment team in collaboration with the GRI Team has begun developing an asset specific ESG assessment framework which applies both pre and post investment. This includes our Paris-based private corporate debt team implementing a comprehensive online ESG due diligence process that all counterparties are required to undergo prior to the finalisation of lending agreements.



Integration in practice Lending

The Structured Finance Team refer high-risk opportunities to the GRI Team for review. The GRI Team then undertake an initial ESG assessment of the underlying counterparty and/or project being financed for reputational and investment related risks. Over the past year this has frequently resulted in requirements for an additional layer of due diligence and an on-going monitoring of the ESG commitments of the counterparty. In the case of a high profile infrastructure project, the proposals presented to the investment committees were revised to include a detailed evaluation of the impact on local communities during the land acquisition process.



“Forthcoming environmental regulations have the potential to impact on building owners’ letting options and resultant cash flows. Therefore, the ESG characteristics of properties and the credentials of our customers to manage these will increasingly become a material factor in our lending decisions.”

James Smith

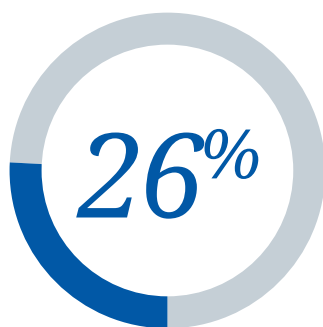
Senior Portfolio Surveyor
(Real Estate Debt)



In 2017 we voted at

4,151

shareholder meetings
and withheld support on



of management proposals.

Pillar 2: Active ownership & responsible stewardship

At its simplest, stewardship means taking responsibility for something entrusted into our care. In this case, it involves the effort and activities undertaken by asset managers to monitor, engage and, where appropriate, intervene on matters that may affect the long-term value of investee companies and the capital invested in them. This can encompass issues such as strategy, performance, corporate governance, and environmental and social challenges that may materially affect the future sustainability of companies and shareholder returns.

We consider active stewardship to be a fundamental responsibility as investors. We were amongst the vanguard of signatories to the UK Stewardship Code, and have since been categorised as a Tier 1 signatory. In December 2014, we were pleased to receive independent assurance on our Stewardship Code Statement under the AAF 01/06 Stewardship Supplement by PwC. We continue to refresh this assurance periodically.

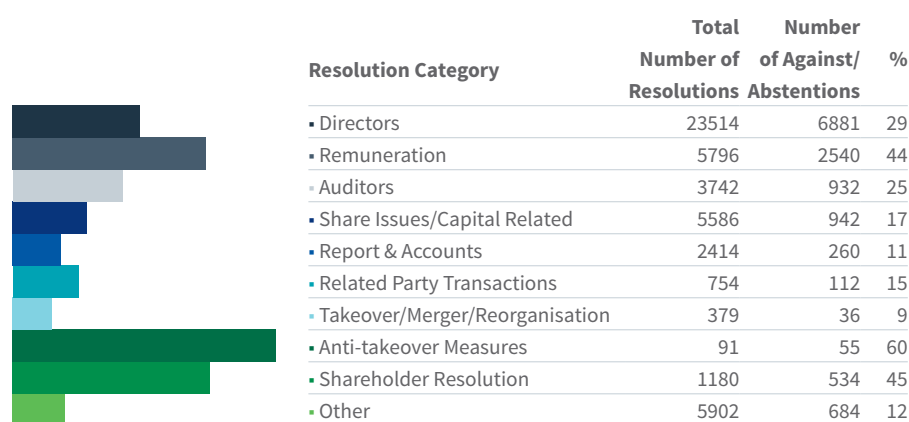
Voting

We consider voting to be an important part of the investment process and have had a formal and considered voting policy since 1994. We have explicitly incorporated corporate responsibility disclosure and performance into our voting since 2001; being one of the first asset managers to do so globally. Our Corporate Governance and Corporate Responsibility Voting Policy is reviewed annually and signed off by the Aviva Investors and Aviva Group Board.

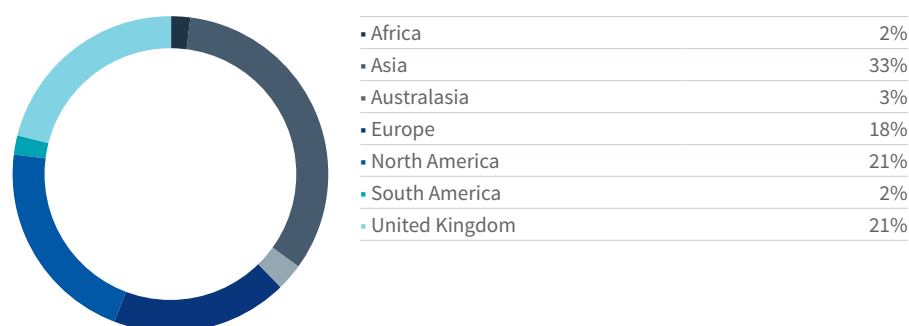
During 2017 we voted at 4,151 shareholder meetings representing 92% of meetings where we had a legal right to do so (95% when excluding French domiciled funds). Unvoted meetings were primarily due to additional costs associated with the vote which were not justified by the benefit delivered to clients.

We vote against items where we consider that the specific proposals are not in the best interests of our clients; where we have wider concerns with individual directors, strategy, oversight and reporting; or to reflect disappointing outcomes from prior engagements. In 2017 we voted against 12,501 management proposals (25.8%) and supported 646 shareholder resolutions (55%). However, 114 of these shareholder resolutions were in effect management approved items that were proposed by major shareholders (frequently occurred in China).

2017 voting activity by issue⁷



2017 voting activity by region⁸



Executive pay:

Holding directors to account

Aviva Investors' global voting record on pay related resolutions

Remuneration Proposals	of Resolutions	Against/ Abstentions
2017	5796	44%
2016	4857	49%
2015	4766	41%
2014	5046	41%

UK pay trends

Following a series of government and regulatory sponsored reviews, the corporate governance agenda in 2017 widened to a broader set of topics including the rights and interests of stakeholders, audit and financial reporting, and board diversity. However, as with previous years, executive pay remained an important topic for investors, politicians and the wider public.

⁷ Source: Aviva Investors, as at 31st December 2017

⁸ Source: Aviva Investors, as at 31st December 2017



There was some progress during the past AGM season, including an 18% fall in the average pay of FTSE 100 bosses. This resulted in a drop in the number of pay proposals that experienced significant investor dissent, and was also reflected in a slight fall in the total number of votes against issued by Aviva Investors. Nevertheless, we still withheld support from a third of all remuneration related proposals in the UK (44% globally) signalling the problem of outsized and unjustified pay arrangements is far from being resolved.

Over the course of 2017 Aviva Investors voted against remuneration proposals for a variety of reasons including the size of awards, poor performance, inadequate disclosure, misalignment with shareholders, and the risk of incentivising inappropriate behaviours. Two of the more high profile cases in the UK involved Carillion and Persimmon described further below.

Carillion – payments for failure

The collapse of Carillion had far reaching implications for thousands of workers, projects and services and called into question the continued suitability of private companies delivering essential public services. Importantly, the former chief executive, who resigned after issuing a shock profits warning, was reported to have earned £1.5m in 2016, including £591,000 in bonuses.

Carillion represents one of the more egregious cases of payments for catastrophic failure. While Aviva Investors could not predict the magnitude of the troubles Carillion would ultimately encounter, long-standing concerns over their governance practices resulted in us consistently voting against their pay arrangements and auditors since 2014.

Persimmon – excessive pay

The UK homebuilder has delivered exceptional performance driving its share price up by circa 150% over the past five years. However, reports of a planned £100 million pay-out to the chief executive under a profit sharing plan caused outrage amongst investors and politicians alike, especially as much of the revenue growth was driven by tax-payer funded home purchase schemes. Although the company backtracked and slashed £50 million in payments to the executive team, the final amounts still dwarfed remuneration levels typically seen in the UK, and surprisingly even those of US investment banks. The furore resulted in the hasty resignations of both the chairman of the board and remuneration committee.

Aviva Investors identified the fundamental structural problems with the initial plan, particularly the absence of a maximum cap on payments, and voted against the original proposals and withheld support every year since.

The way ahead

Various interested parties have proposed a plethora of potential changes to how executive pay should be determined, including greater involvement of the workforce, more disclosure, and the greater use of restricted shares (smaller sized share awards without performance conditions). While some of these measures have merit, ultimately, Aviva Investors believe that real change will only occur when directors take greater individual responsibility for ensuring pay outcomes are appropriate and in the best interest of shareholders, rather than just that of the executive team. To that end, Aviva Investors wrote to the chairmen of listed companies warning them that we are likely to take a stronger line in voting against the re-election of directors when we consider pay arrangements and outcomes are excessive and detached from the experience of shareholders and that of our clients.



Board diversity:

Progress but more to be done

We are proud members of the Investor Group for the 30% Club, which was launched as a campaign in the UK with a goal of achieving a minimum of 30% women on FTSE 100 boards and senior management by 2020. The broad based support for this initiative has led to the 30% Club extending its target universe to the FTSE 350.

Aviva Investors were one of the first asset managers to integrate an assessment of board diversity into our voting approach in the UK. Our voting policy focused particularly on the chairman of the nomination committee and indicated our willingness to vote against their re-election and also the approval of the report and accounts should progress on diversity be deemed inadequate.

In 2017 we voted against the report and accounts of 42 FTSE 350 companies and seven board directors due to concerns over the lack of female board representation. While this number is still higher than we had hoped, we were pleased that there were 32 companies that had sufficiently changed their board composition and diversity policies to enable us to begin supporting their proposals, having previously voted against.

In 2018 our diversity voting policy is to be applied beyond the UK to include the largest US and European companies.



Shareholder proposals:

ExxonMobil – oil giant u-turn on climate⁹

Shareholder tabled resolutions, are typically opposed by management, and can span a range of topics including ESG issues.

Aviva Investors has a rich history of engaging with management on the spirit and letter of shareholder proposals and supporting resolutions where we consider them to encourage more responsible corporate behaviours.

Aviva Investors' voting record on shareholder proposals¹⁰

	Shareholder resolutions	supported	not supported
2011	734	478 65%	256 35%
2012	766	524 68%	242 32%
2013	1071	575 54%	496 46%
2014	1114	629 56%	485 44%
2015	1075	654 61%	421 39%
2016	1095	653 60%	442 40%
2017	1180	646 55%	534 45%

ExxonMobil corporation

Aviva Investors has been engaging with ExxonMobil on their climate strategy for a number of years. Traditionally ExxonMobil has been amongst the more resistant of the oil majors to publicly support robust climate change policies and provide the market with investment-relevant reporting. We have been participating in a number of collaborative initiatives to apply pressure on management to adopt a more progressive approach, including a dialogue led by the Church Commissioners of England.



⁹ Source: Aviva Investors, as at 31st December 2017

¹⁰ 114 of these shareholder resolutions were in effect management proposals that were proposed by major shareholders which is a typical practice in China.



In 2017 we undertook

1,381

company engagements
to encourage better
ESG practices of holdings
within our equity and fixed
income portfolios.

There have been a number of positive outcomes from the collective engagement including ExxonMobil finally issuing a public statement of support for the Paris Climate Accord. However, the most significant milestone occurred at the 2017 AGM where the Church Commissioners co-filed a shareholder proposal requiring ExxonMobil to publish an annual assessment of the long-term portfolio impacts of global climate agreements. Aviva Investors supported the proposal along with a staggering 62% of other shareholders.

In February 2018, ExxonMobil published its first report in response to the shareholder proposal. It also issued a new energy and carbon summary report alongside its latest Energy Outlook. Their reporting now includes two degree impact assessments and also portfolio sensitivity analysis to various supply and demand scenarios such as the proliferation of electric cars.

We welcome the positive steps that the company has taken thus far, and are optimistic that it will intensify pressure on the remaining industry laggards to enhance their own climate approach and reporting.

Engagement

While stewardship is most commonly associated with equity investments, we consider engagement to be an important part of our investment process across a range of asset classes. The aim of our engagement is to identify and reduce ESG risks in our portfolios. Where we consider a company's approach to governance or the management of its sustainability impacts falls short of our expectations, we will engage with the board to improve performance over time.

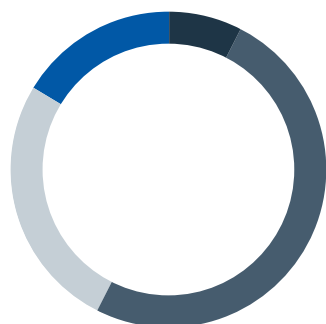
Our approach to engagement, including how we escalate concerns, is set out in our Stewardship Code Statement. Engagement routinely takes the form of meetings or calls with the board or senior sustainability executives. We set out clear objectives for engagement and follow-up where appropriate. Engagement outcomes are reflected in our voting and feed into our ESG Heat map. For active holdings, engagement is undertaken in close co-operation with the investment teams and key conclusions from company engagements are fed back to fund managers through weekly meetings.

Effective engagement is resource intensive and we therefore need to prioritise where we focus our efforts. We use our ESG Heat map to prioritise areas of greatest concern and overlay considerations, such as the size of our holding, thematic priorities, AGM-related priorities and event-triggered engagement. We draw up engagement plans annually, with progress reviewed and assessed on a quarterly basis.

In 2017 we undertook 1,381 company engagements with 955 individual companies. Engagement intensity ranges from a single letter to multiple meetings. Approximately 56% of this year's engagements involved substantive dialogue.

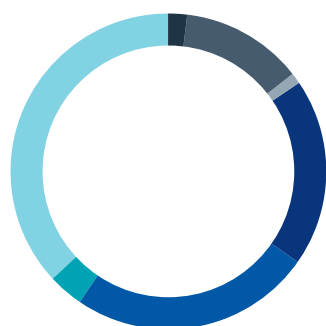
Above and beyond the engagements highlighted above, Aviva Investors also participated in a further 4,217 collaborative letter based engagements addressing topics such as climate disclosure and human rights.

Engagement by Category (substantive engagements)¹¹



Climate change	8%
Environment & social	50%
Governance	26%
Strategy	16%

ESG Engagement by Region (substantive)¹²



Africa	2%
Asia	12%
Australasia	1%
Europe (ex UK)	19%
North America	25%
South America	4%
UK	37%



Company engagement: London Stock Exchange (LSE)

Leadership battle splits investors

The chief executive, who had presided over a period of sustained success for the company, unexpectedly announced his resignation. An activist investor highlighted a conflict with the chairman and requisitioned a shareholder meeting to remove the chairman and reinstate the chief executive.

Aviva Investors held meetings with both the company and activist, and gained a deep insight into the board and management culture, and circumstances surrounding the chief executive's abrupt departure. We firmly believe that maintaining a transparent, accountable and collaborative culture is essential for the long-term success of a company, and we had reservations over the current chief executive's ability to establish the right 'tone from the top'. This was particularly important for the LSE as it was looking to navigate a new corporate strategy following the failed merger with Deutsche Boerse. Based on our engagement insights, we publicly backed the chairman and the board, and encouraged other long-term investors to take a similar position.

Aviva Investors voted for the re-election of the chairman and the proposal passed with 80% shareholder support. We will continue our dialogue with the board after providing a series of recommendations regarding succession planning and the retention of senior staff.



¹¹ Source: Aviva Investors, as at 31st December 2017

¹² Source: Aviva Investors, as at 31st December 2017



Company engagement: Royal Dutch Shell

Setting new standards for combating emissions

Royal Dutch Shell has been amongst the industry leaders in addressing the impacts of climate change. Aviva Investors has undertaken a multi-year engagement with the company tackling issues related to gas flaring, drilling in sensitive regions, portfolio stress testing and carbon reporting. The company has made positive strides but still falls short of best practice in a number of areas. This includes the dislocation of long-term climate strategy and executive compensation, and the absence of robust Scope 3 targets which takes account of total emissions through the full life cycle of Shell's activities from extraction through to customer use.

An environmental campaign group proposed a shareholder resolution at the 2017 AGM which urged the board to set stretching Scope 3 targets. Aviva Investors undertook extensive engagement with the Shell chairman and executive team, prior to and after the AGM, to encourage the company to explore options for integrating Scope 3 targets into its corporate objectives. Although we acknowledged the practical challenges with the specific asks of the shareholder proposal, Aviva Investors voted for the resolution along with only 6% of shareholders.

At the November capital markets day, Shell announced new ambitious climate targets which included doubling investments in 'new energy' and setting goals to cut in half the 'net carbon footprint' of its products. We will continue to engage with the company on the methodology employed and the implications for future capital allocation plans, while also promoting Shell's progressive position when engaging with other oil majors.



Company engagement: Samsung Electronics

Green shoots of reform

The rise of South Korea as an economic power has been built upon the global success of its major corporations, of which Samsung Electronics has been at the forefront. However, the company has also been tainted with a series of controversy over the years, including leveraging undue political influence, misappropriation of shareholder funds, and most recently its involvement in the corruption scandal that brought down the Park government.

Aviva Investors are long-term shareholders in Samsung Electronics and have maintained regular dialogue with the company to discuss pressing governance concerns including board composition, independence, succession planning and oversight of related party transactions. We objected to recent moves to restructure the circular ownership structure of Samsung affiliated entities which strengthened the controlling power of the family, and expressed disappointment with the continued presence of Mr Lee on the board while serving a custodial sentence for his part in the government scandal.

After many years of passively listening to shareholder concerns, we were pleased with the announcement of a series of positive governance reforms including the appointment of independent international directors, the splitting of the roles of chairman and chief executive, and importantly significantly increasing the dividend pay-out ratio. The latter point has traditionally served as a key point of contention between the controlling family and minority shareholders.

We retain some reservation over the extent to which meaningful change can truly occur until Samsung's cross-shareholdings are fully unwound. However, we welcome the initial set of reforms and will continue to engage with the company and monitor indicators of cultural change.



Company engagement: Fund manager perspective

DS Smith – Thinking outside the box

At Aviva Investors we are very clear that we will engage with companies on their ESG practices rather than just observe from a distance. One company where this has firmly been the case is the FTSE 100 packaging company DS Smith, where Aviva Investors are their

largest shareholder. We are investors in the company for many reasons but one of the most important ones is that they take sustainability incredibly seriously and it is one of the Board's key KPIs. While we have had many interactions with the company, we had an opportunity to focus specifically on sustainability considerations at half day stakeholder workshops organised in both 2016 and 2017.

In its last Sustainability Report some impressive statistics were disclosed including 90% of their packaging materials now coming from recovered sources, a reduction in waste to landfill by 26.2%, and the prevention of 562,686 trees being cut down.

As the UK has gone coffee mad over the last decade the public are waking up to the environmental issue of all these coffee cups going to waste (around 500,000 cups are thrown

away every day in the UK). DS Smith have identified this as a problem and had the vision to come up with a solution involving converting capacity at their paper mill in Kent to recycle up to 2.5 billion coffee cups. In April 2018 Costa Coffee, one of the UK's favourite coffee shops, announced that they will recycle at least 100m cups this year and up to 500m a year by 2020. DS Smith is now in prime position to capitalise on this opportunity, as one of only three UK paper mills that can service this demand.

As DS Smith shareholders we recognise both the business and social opportunities of the company thinking outside the box when it comes to packaging and recycling.

Trevor Green

Head of UK Equities



Thematic engagement: Antimicrobial Resistance (AMR)

McDonald's leads the way

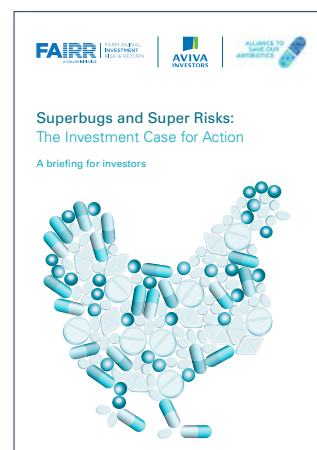
It isn't just health that is at risk from the spread of drug-resistant 'superbugs': dangerously high levels of Antimicrobial Resistance (AMR) risks wiping \$100 trillion off global output by 2050¹³.

While the risks to public health and business from AMR are clearly worrisome, there are positive signs of more coordinated action between governments, industry, investors and the civil society. Investors, in particular, have a key role to play in engaging with companies to ensure they have robust policies in place and to encourage best practice.

We are proud to be a founding signatory to the Farm Animal Investment Risk & Return (FAIRR) investor initiative which has brought together a coalition of more than 70 institutional investors managing over \$2.5 trillion. The coalition is calling for an end to the routine, non-therapeutic use of antibiotics in companies' supply chains.

We have engaged collectively and individually with the companies we invest in, mainly in the pharma, food retailer and producers sectors to discuss their strategy on antibiotic resistance. The most noteworthy outcome to date came with the announcement that McDonald's would remove antibiotics that are critically important for human medicine from their global broiler chicken supply chain. The CEO of Aviva plc, Mark Wilson, wrote to the CEO of McDonald's, to congratulate him on the significance of this milestone for McDonald's and for the industry.

There has also been significant movement at an intergovernmental level, with the United Nations General Assembly (UNGA) declaration on AMR being the landmark statement of intent. We were honoured to be the only insurance and investment company invited to present at the Call to Action Conference. We also addressed the first ever investor conference in the US on antibiotic resistance in March 2017. The meeting was convened by FAIRR and hosted at Blackrock's Manhattan offices.



13 Antimicrobial Resistance: Tackling a crisis for the health and wealth of nations



Thematic research: Sell-side investment research

A brave new world

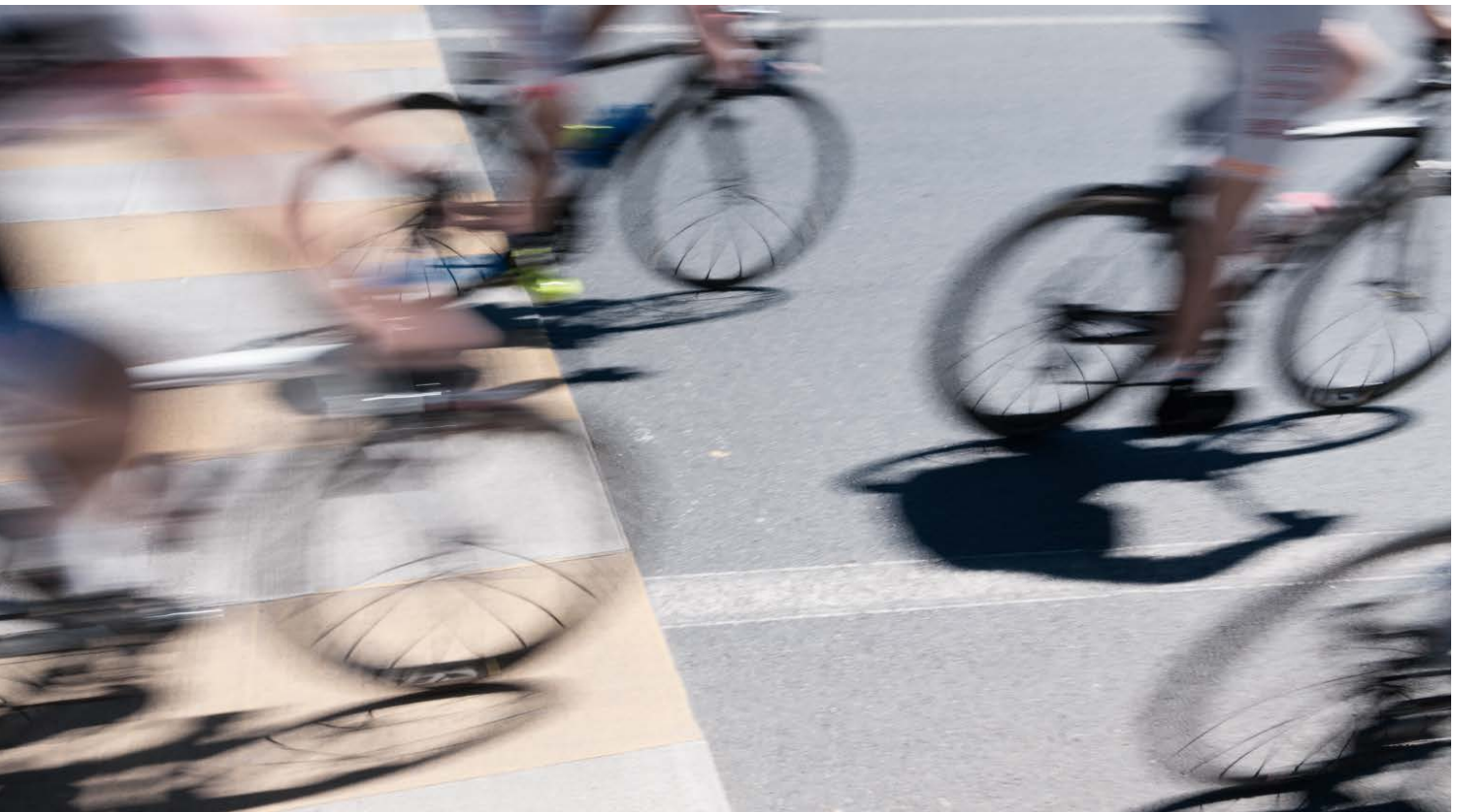
Sell-side research is a critical component in the ecosystem of capital markets and plays a significant role in influencing fund manager decisions and ultimately capital allocation. Aviva Investors have long-held concerns with the quality of research, particularly as it relates to longer-term considerations and ESG factors.

In 2017 we commissioned a study by Tomorrow's Company which included a survey of 342 sell-side analysts. The findings of the report validated many of our concerns including:

- 42% of analysts believed sell-side research has a detrimental short-term focus.
- Only 35% think sell-side research tackles controversial topics and offers negative assessments of companies when appropriate.
- 90% said they would take 'some additional caution' when writing on topics that were commercially sensitive to their own bank.

As a result, price targets and ratings often present an overly positive view of a company's long-term prospects, impairing the efficient functioning of capital markets.

Our report made a series of recommendations that aimed to encourage a shift in the culture of the sell-side, to better support independent, long-term research. Our key recommendations related to corporate culture, ESG research, conflicts of interest, and analyst compensation structures.¹⁴



¹⁴ <https://www.avivainvestors.com/content/dam/aviva-investors/united-kingdom/documents/institutional/research-brave-new-world.pdf>

Collaboration with other investors

Aviva Investors actively engages with other investors in the belief that collaboration is an important and sometimes essential requirement for exercising appropriate influence at companies. We also seek to share information and best practice so that we can collectively become a more powerful force for change.

We are founder members and active participants in a number of UK and international investor networks. These networks facilitate discussion through which individual institutions may decide to work collaboratively when appropriate. The following are examples of organisations and networks where Aviva Investors are participants:

- Association for Sustainable and Responsible Investment in Asia
- Asian Corporate Governance Association
- Business Benchmark for Farm Animal Welfare
- Corporate Human Rights Benchmark (CHRB)
- CDP
- Climate Action 100+
- The ClimateWise Principles
- Council of Institutional Investors
- European Sustainable Investment Forum (Eurosif)
- Extractive Industries Transparency Initiative
- The FAIRR Foundation
- GIGN – Global Investors Collaboration Services
- Global Real Estate Sustainability Benchmark (GRESB)
- Institutional Investors Group on Climate Change (IIGCC)
- Interfaith Center on Corporate Responsibility (ICCR)
- International Corporate Governance Network (ICGN)
- Pensions and Lifetime Savings Association
- Principles for Sustainable Insurance
- Sustainable Accounting Standards Board
- Sustainable Stock Exchange Initiative
- The Investment Association
- The Investor Forum
- The Transition Pathways Initiative (TPI)
- UK Sustainable Investment and Finance Association
- UN Global Compact
- UN Principles of Responsible Investment
- University of Cambridge Institute for Sustainability Leadership (CISL)
- US Sustainable Investment Forum
- World Benchmarking Alliance
- Shareholder Voting Working Group (SVWG)
- 2020 Stewardship Working Party



Collaborative engagement: Sustainable fisheries

Resuscitating marine life

For over three decades, the world's marine fish stocks have come under increasing pressure from fishing, loss of habitats and pollution. Illegal fishing and unreported catches further undermine fisheries management, while subsidies continue to incentivise unsustainable practices. Around 85 per cent of global fish stocks are now depleted or recovering from exploitation. Rising sea temperatures and increased acidity of the oceans is placing further pressure on already stressed ecosystems.

At stake is a multibillion dollar global industry, one of the oldest in the world. As a society, the destruction of a crucial source of food and income comes at a time when the global population is predicted to swell to 9.7 billion people by 2050. Positive engagement with management can steer investee companies towards more sustainable strategies that both improve business performance and aid the environment and society. However, shareholders need to be able to ask the right questions of companies and press them for substantial answers. Aviva Investors, Sustainable Fisheries Partnership and the United Nations Principle of Responsible Investment launched a report designed to guide investor engagement with seafood companies.

We hosted an oversubscribed TED style teach-in for the investment community in conjunction with RI.com and Sustainable Fisheries Partnership on tools and initiatives available with a complete debriefing document subsequently distributed on World Oceans Day 2017.



Collaborative engagement: Chevron

Preserving our global heritage

Nearly a third of all natural World Heritage sites are subject to extractive activity, despite protection from the UNESCO World Heritage Convention. Following a number of successful engagements on this topic, including SOCO International and BP, we helped launch a collaborative project to call on extractive companies to make 'no go' commitments in World Heritage Sites.

As part of this program we engaged with Chevron over plans to drill in the Great Australian Bight Marine Sanctuary. This was of particular significance, given that more than 270 deep sea species previously unknown to science have been discovered in the region.

Following our engagement, the company confirmed that they have abandoned oil exploration plans in the Great Australian Bight. We took great comfort in Chevron's decision to exit the area and continue to engage with companies and other key stakeholders in order to protect our global heritage.





Collaborative engagement: Palm oil

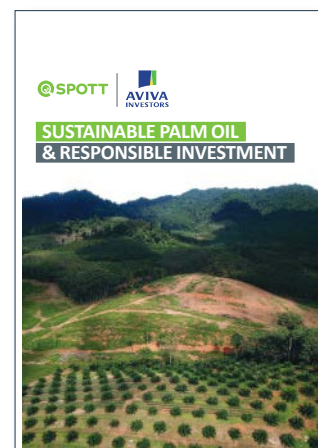
Addressing the burning questions

The palm oil industry has been considered a high risk sector for over a decade due to poor corporate practices such as land grabbing, illegal deforestation and human rights abuses. This resulted in many companies along the palm oil supply chain facing legal action, fines, product boycotts and loss of clients.

In recent years, the issue has become even more 'burning' given the unprecedented haze across South East Asia. Aviva Investors has engaged on palm oil for many years, including conducting site visits to Malaysia, Indonesia and Singapore in both 2016 and 2017. The 2016 trip was part of a 25-strong investor delegation that met with companies, small-holders, government officials and non-governmental organisations. We also met with some of the region's leading banks to discuss the launch of a report providing guidance for lenders to the industry.

While many investors have become more familiar with the sector, its context and technicalities, we felt there was a need for a dedicated investor guide and upgraded ambition. In 2017, we built upon our partnership with the Zoological Society of London (ZSL), and membership of their palm oil technical advisory group, to publish a report highlighting current challenges in the palm oil industry and how investors can become agents of change.

Focusing on the palm oil investment case, the report outlines key questions that institutional investors should ask during their engagement with oil palm growers, traders and buyers, to help catalyse improvements in ESG practices along the value chain.



Collaborative initiative: Corporate human rights benchmark

Catalysing a race to the top

Aviva Investors is a founding member of, and a major contributor to, the Corporate Human Rights Benchmark (CHRB). The CHRB is a first of its kind project that assesses and ranks listed companies on their human rights performance. It aims to drive better corporate human rights performance by harnessing the competitive nature of the market through public benchmarking of corporations and is chaired by Steve Waygood, CRO Aviva Investors.

In March 2017, the pilot benchmark of 98 of the largest apparel, agricultural products and extractives industry companies was launched. While there were some leaders, the average performance was very low, indicating that many large companies are not adequately managing their human rights risks and impacts; the 'average performer' is a 'poor performer.'

Since the pilot, the CHRB has seen clear indications that companies are attempting to improve their approaches to human rights, in part to improve their score in the benchmark. This validation of the approach has encouraged Aviva Investors to continue supporting the CHRB and to also support the nascent World Benchmarking Alliance (WBA). In 2018, the CHRB will track changes in corporate human rights performance by repeating the pilot assessment and will additionally develop a new methodology to assess the ICT sector.

Aviva Investors have begun using the 2017 CHRB rankings and scores within our ESG integration and company engagement activities.

We were particularly pleased that the CHRB was recognised by the Chartered Financial Analyst (CFA) Society Sweden, who awarded CHRB the ESG award 'for raising awareness of the importance of ESG issues in the investment process' in March 2018.



“Since the launch of the CHRB methodology, our ERM consulting teams have seen increased interest from many leaders in the FTSE and other listed companies looking to improve their performance in respecting human rights... We believe CHRB's approach, particularly the emphasis on transparency, is helping drive progress and a race toward the top for sustainable and ethical business.”

**Environmental Resources
Management (ERM)**

Pillar 3: Shaping sustainable capital markets

Policy makers and regulators play a critical role in defining the framework within which companies and investors operate. In many cases, we witness market failures where the true cost of an activity, such as emitting carbon, is not adequately priced. Crucially for us and our clients, this erodes the long-term potential for sustainable companies to create value.

We therefore advocate policy measures and market corrections to tackle failures – such as a lack of accessible public data on corporate sustainability performance – with the aim of improving long-term outcomes. These should be coordinated at regional and global levels through inspirational and harmonising policy frameworks – such as a UN Resolution – with the objective of entire financial systems transformation. We have led and worked on multiple measures over the past year to encourage the global transition to sustainable financial markets.





Sustainable development goals – the World Benchmarking Alliance

The UN Sustainable Development Goals (SDGs), agreed in 2015, are the milestones marking the path towards the future we want. These goals cannot be achieved without the firm commitment of the private sector to work with government and civil society to deliver the solutions and investments needed to achieve the SDGs. Many of the world's leading companies are already aligning their business models with the SDGs. However, information and analysis of corporate sustainability performance remains hard to access or compare, making it challenging to credit leaders or hold laggards to account.

A powerful and potentially transformative way to address this challenge is the production of international league tables measuring and comparing corporate performance against the SDGs. The global need for such league tables is widely acknowledged, from the Business and Sustainable Development Commission (BSDC) to the EU High-Level Expert Group on Sustainable Finance. These league tables require sophisticated benchmarks that can provide financial institutions, companies, governments, and civil society with information they can use to allocate capital, increase transparency, track and compare corporate sustainability performance, and ultimately catalyse action and accelerate delivery of SDGs.

Aviva, the UN Foundation, BSDC, and the Index Initiative have proposed establishing a World Benchmarking Alliance (WBA)¹⁵. This would become an institution that will develop, fund, house, and safeguard publicly available, free to access, corporate sustainability benchmarks aligned with the SDGs. Enhanced transparency and understanding can fundamentally change the quality of multi-stakeholder engagement and align corporate performance with sustainability objectives.

During 2017 the WBA secured funding for a global consultation from governments of the UK, Denmark and the Netherlands and began to consult globally and regionally through a set of roundtables. In 2017 consultations were held in New York, London and Jakarta. In 2018 roundtables are taking place in various locations across Asia, the US, Latin America and Europe and an online consultation is also available. The results of the consultations will feed into the publication of a synthesis report and recommendations in May 2018.

The WBA invites organisations who support the concept of publicly available benchmarks to become an ally of the initiative – (www.worldbenchmarkingalliance.org).

“Enhanced transparency and understanding can fundamentally change the quality of multi-stakeholder engagement and align corporate performance with sustainability objectives.”

¹⁵ More details at www.worldbenchmarkingalliance.org



The EU High-Level Expert Group on Sustainable Finance

In 2017 Aviva Investors' Steve Waygood was invited to become a member of the European Union High-Level Expert Group on Sustainable Finance (HLEG). The HLEG comprised of 20 experts from civil society, the finance sector, academia and observers from European and international institutions. It was asked to provide advice to the European Commission on how to:

- Steer the flow of public and private capital towards sustainable investments;
- Identify the steps that financial institutions and supervisors should take to protect the stability of the financial system from risks related to the environment; and
- Deploy these policies on a pan-European scale.

The HLEG published an interim report in July 2017 and delivered its final report in January 2018.¹⁶

Delivering the HLEG recommendations is now a shared responsibility of government, business and civil society alike. Many key recommendations of the HLEG, including those relating to investor duties, climate-related disclosure and prudential regulation, now feature in an Action Plan on Sustainable Finance published by the European Commission in March 2018¹⁷. We are proud of the role we have played in pushing for a more sustainable EU financial system, and look forward to aiding the further development and promotion of agreed solutions in the markets and regions in which we operate.



¹⁶ All reports and further information at https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en#high-level-expert-group-on-sustainable-finance

¹⁷ https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en#commission-action-plan-on-sustainable-finance

Pushing for further global reform

Throughout 2017 we have continued to push for substantive global reform of capital markets. This has included significant work within the UN system and with other multilateral international institutions. For example, we have worked collaboratively with the UN Inter-Agency Task Force on Financing for Development and contributed to their recent report¹⁸ which outlined recommendations for national action plans and international cooperation to support poorer countries delivery of the SDGs.

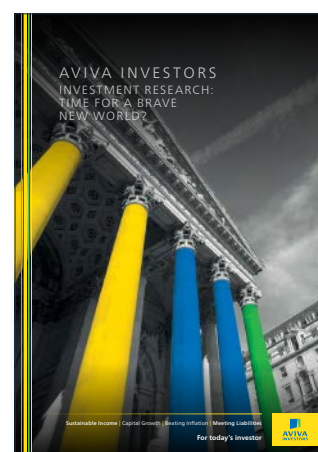
We have also taken part in many of the global forums, such as the spring and autumn meetings of the World Bank, the UN High Level Political Forum, Financing for Development Forum and General Assembly to promote responsible engagement and advocate for systems reform in capital markets.

Aviva Investors played a prominent role in helping to establish the Sustainable Stock Exchanges (SSE) Initiative¹⁹ in 2009. The SSE Initiative is a peer-to-peer learning platform for exploring how exchanges, in collaboration with investors, regulators, and companies, can enhance corporate transparency – and ultimately performance – on ESG issues. In 2017 we sponsored the publication of the 2017 Sustainable Stock Exchange report²⁰, which tracks corporate disclosure against seven sustainability indicators.

During the year we also published a number of documents promoting global market reform including:

- ‘Delivering the Sustainable Financial System the World Needs’²¹
- ‘Investment Research: Time for a Brave New World?’²²
- ‘From short-term to long-term thinking: creating sustainable capital markets’²³

We also commissioned the Economist Intelligence Unit report ‘The Road to Action: Financial Regulation Addressing Climate change’²⁴ which proposed how existing financial institutions could better take up the challenge to address climate change through better regulation.



18 <http://www.un.org/esa/ffd/ffd-follow-up/inter-agency-task-force.html>

19 <http://www.sseinitiative.org/>

20 <http://www.corporateknights.com/reports/2017-world-stock-exchanges/sustainable-stock-exchange-report-released-15064884/>

21 https://www.aviva.com/content/dam/aviva-corporate/documents/socialpurpose/pdfs/2363_8_Global_policy_report_v3.pdf

22 <https://www.avivainvestors.com/content/dam/aviva-investors/united-kingdom/documents/institutional/research-brave-new-world.pdf>

23 https://www.aviva.com/content/dam/aviva-corporate/documents/socialpurpose/pdfs/AVI_Responsible_Investment_DIGITAL_PDF_190717.pdf

24 <http://www.eiuperspectives.economist.com/financial-services/road-action-financial-regulation-addressing-climate-change>





Reflections on the challenges that lie ahead

In closing, it is worth thinking through what the consequences on our industry from this sustainable finance market reform work might be, and how it relates to integration and engagement.

Our financial services system should serve society and the real economy. But very few policy makers, politicians or civil society representatives understand how the many different financial services institutions work together to finance the world we live in today and will retire into tomorrow. In the absence of appropriate oversight, society and the real economy serve financial interests, rather than the other way around.

This is dangerous for a range of reasons, particularly because of the short-termism inherent within market valuation techniques. Discounted Cash Flow (DCF) valuation is important because it underpins every fundamental analysis in the global market today. But DCF ignores social capital as it is external to the corporate profit and loss statement. DCF ignores future generations with its discount rates. And it assumes away the need to preserve natural capital by assuming all investments can grow infinitely with its Terminal Value.

We are left with thousands of professional investors managing trillions of assets on our behalf, all of which largely ignore the one planet boundary condition. Until, that is, we are forced to think about them by governments correcting the market failures, properly pricing natural and social capital and ensuring corporations pay the full price for the goods and services they consume. This is why fiscal measures such as carbon taxes, market mechanisms like emissions trading schemes, and standards and regulations are vital to sustainable development. They help ensure that the market price reflects the full social and environmental costs, which drives corporate valuation.

The valuation of every company helps it to compete: a higher market price means a lower cost of capital; which is a competitive advantage. Sustainable companies should be able to raise capital more cheaply than unsustainable ones. This is why Aviva Investors spends so much of our time on market reform: in the presence of market failure, integration of ESG into investment analysis motivates the wrong behaviours, and engagement with companies is doomed to fail as one is essentially asking the company to go against the market incentives and lose money.

Given how important this is, and that all students aspire to become savers and investors, why isn't sustainable finance and financial citizenship part of the national curriculum?

We are left criticising corporate sustainability platitudes without realising that a fundamental part of the problem is all of us: how do we vote, spend, save and invest as individuals? And that doesn't just mean how we vote in local and national elections: how many of us with pensions have bothered to check whether shareholder votes cast on our behalf at the annual general meetings of the companies we own reflect values we agree with?

When does capitalism become sustainable? It will be when big business realises that its long-term survival is threatened by unsustainable business practices and stands up to challenge governments to correct these market failures.

As an insurer, many of the issues the United Nations' Sustainable Development Goals, such as climate change and antimicrobial resistance – represent existential risks to our sector. The market will only help to safeguard our future and promote genuinely sustainable corporate activity when prices and valuations reflect the true costs to society and the environment. Genuinely responsible investors have to challenge governments to correct market failures, not exploit them.

Learning how to undertake effective government engagement is the next frontier for the responsible investment industry.

Contact us

For more information,
visit www.avivainvestors.com

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