It takes Aviva Investors

STRATEGY IN BRIEF

Aviva Investors Social Transition Global Equity strategy

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We are failing to “leave no one behind”

“Now is the time to decide:

Will we succumb to chaos, division and inequality? Or will we right the wrongs of the past and move forward together, for the good of all?”

UN Secretary General, António Guterres

Source: 18th Nelson Mandela annual lecture “Tackling the Inequality Pandemic: A New Social Contract for a New Era”, New York, 18 July 2020

Social inequality, a significant challenge

The ‘S’ in ESG is multifaceted but can fundamentally be drawn back to the unequal distribution of human rights and resources – for instance, the right to a decent job and income, education, and access to healthcare.

2 billion
people have no access to essential medicine[1]

One third
of adults are still unbanked[2]

630 million
workers globally live in either extreme or moderate poverty[3]

A systemic risk to society and the wider economy

The macroeconomic implications of inequality have been widely acknowledged by various institutions. The World Economic Forum’s annual risks report states “erosion of social cohesion will be one of the biggest threats to societies”. It’s societies that help drive economies, and inequality can impede growth, increase the probabilities of financial crises and poor public policy decisions, as well as fuelling social unrest.[4] Consequently, we are seeing an increasing amount of government policy address social inequality.

[1]World Health Organisation (2017). [2]Global Findex database (2017). [3]ILO (2019).

[4]Adapted from Dabla-Norris (2015).

The investment case for addressing social inequality

The ‘S’ in ESG can be seen as intangible. In 1975 it was estimated that 17% of the S&P 500’s value was attributable to intangibles but in 2020 this was estimated to be 90%.[5] Hence intangibles are critically important in fundamental equity analysis as they fuel a company’s future cash flows, which drive value and ultimately their share price.

We firmly believe how companies treat people throughout their value chain creates risks and opportunities which feeds through to financial metrics, which ultimately drive share prices over the long-term. We outline these as follows:

Employee satisfaction, retention, well-being
Diversity and inclusion, Workplace safety

Compliance with labour standards
Sensitivity to disruption

Satisfaction
Trust

Social licence to operate
Regulatory risk

[5] https://www.oceantomo.com/intangible-asset-market-value-study/

Our approach to investing in the Social Transition

We invest in global equities of companies which are providing solutions to tackle inequality as well as companies transitioning their business models towards a more socially equitable economy.

Investment opportunities in the strategy are linked to the following investment themes and aligned with the principles of the following United Nations Sustainable Development Goals:

Aligned with the principles of the United Nations

SUSTAINABLE DEVELOPMENT GOALS

Transition sleeve

Respect human rights

Promote decent work

Responsible corporate behaviours

Solution sleeve

Access to education

Access to health

Access to finance

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Investing with purpose

We invest with an active, high-conviction approach to address the needs of investors seeking two objectives:

Long-term capital growth

Support the transition towards a more socially equitable economy

Portfolio details

- The Investment Manager seeks to outperform the MSCI All Country World Index by **+2% p.a.**
- Number of stocks: **35-50**
- Active share: **+90%**
- Portfolio tends to have **stronger social metrics** than the benchmark.

Key Strengths

Transition focus

A simple 'solutions only' approach can lead to overly narrow and highly skewed portfolios. Our proprietary transition risk model helps us identify companies leading their sector in managing their social impacts giving us a wider opportunity set, allowing for a more diversified portfolio across sectors, geographies and style factors.

Our approach aims to deliver more resilient performance over the long term, uncover more alpha opportunities, and more effectively support the social transition.

Bespoke engagement

We seek to engage with every single company in the portfolio on specific social-related asks. Our 3-year programme systematically tracks all companies from leader to laggard and has an escalation pathway with possible divestment.

We believe this structured, bespoke programme with teeth can more effectively support the transition to a more socially equitable economy.

Macro stewardship

We are leaders in actively engaging with policymakers to reform the market to correct what we perceive as material market failures.

We have a longstanding track record in actively engaging with policymakers on market reform to correct material market failures. We have specific market reform initiatives that can help deliver positive social outcomes.

Why now?

We believe markets will increasingly price in the cost and consequences of social inequality as well as the opportunities to address inequality. We see three specific catalysts that will drive further change:

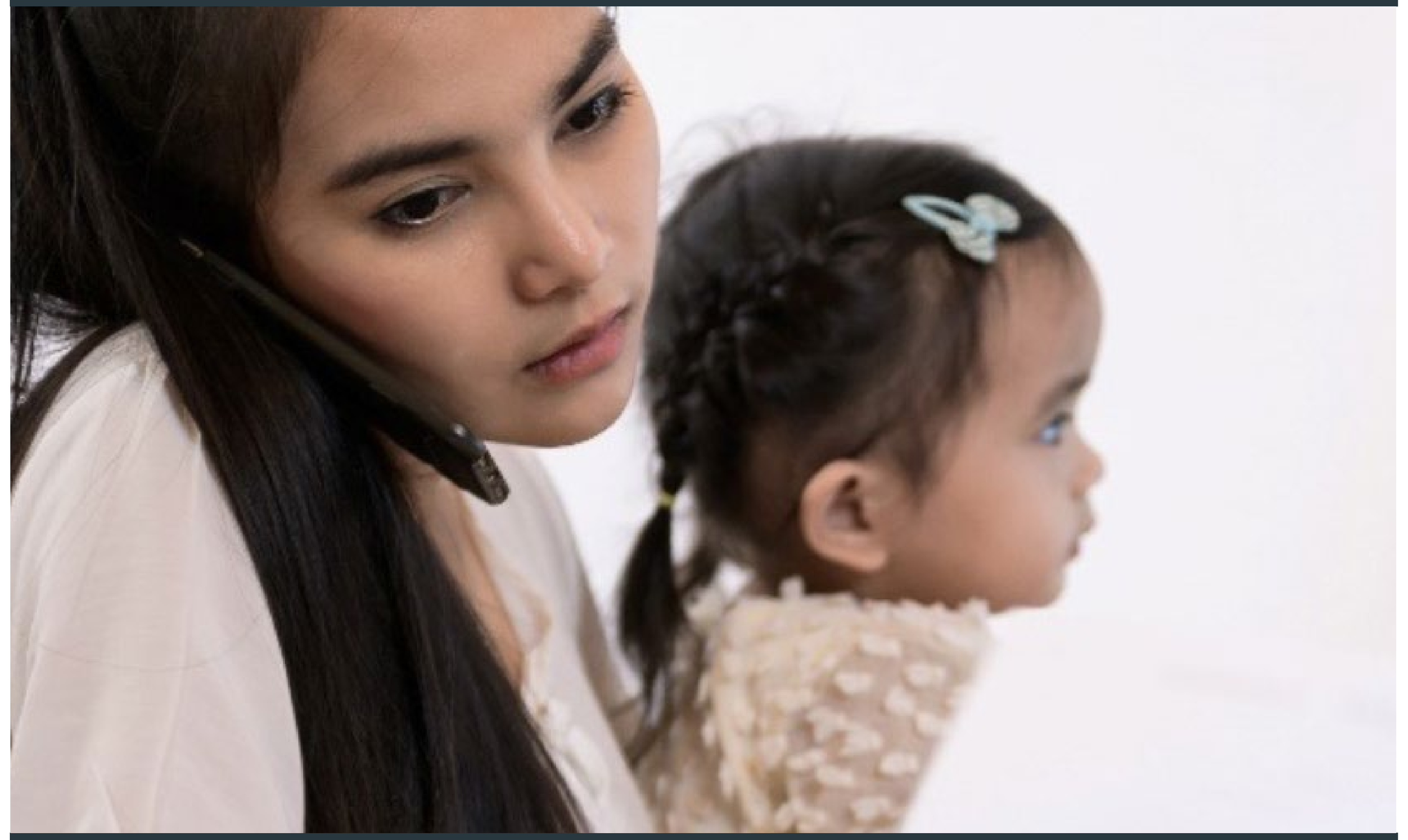
1 Changing regulatory landscape

There is now a tide of regulation emerging to mandate companies to either provide more information on their treatment of workers and communities, or to conduct a human rights due diligence to demonstrate they are managing their human rights risks and impacts effectively.

2 Growing consumer activism

Society and consumers are becoming more connected with social issues and movements, more aware of injustices, and increasingly want to spend money with companies that are aligned with their values.

3 Covid-19 – the fallout from the 'inequality virus'



The pandemic has shone a very bright light on social inequalities that already existed in society, as well as in the workplace. We believe those companies adapting successfully will see their performance positively follow. All things being equal, we believe those companies adapting successfully will perform better in the long run.

Leveraging strong in-house expertise

Social Transition Global Equity strategy team

Richard Saldanha

Lead Portfolio Manager

15+ years' experience in asset management

Richard is the lead Portfolio Manager for the Global Equity Income strategy and co-Manager for the GLobal Equity Endurance strategy and the Social Transition Global Equity strategy.

Richard joined Aviva Investors in 2006 and has been managing income mandates across a range of global portfolios since 2009. Before joining Aviva Investors, Richard worked for Punter Southall & Co in an actuarial internship role. Richard holds a Masters in Chemistry from the University of Oxford. He also holds the UKSIP Investment Management Certificate.

Matt Kirby

Co Portfolio Manager

6+ years' experience in asset management

Matt is the co-Manager of the Aviva Investors' Social Transition Global Equity strategy. He is also sector lead for the global healthcare sector, contributing investment ideas across global equity strategies.

Matt joined Aviva Investors in late 2016 and joined the Equities team in 2017 as an analyst covering the European healthcare sector. Matt has previous experience in managing a number of European Equity strategies.

Matt holds a BA (Hons) in Finance from the University of Tulsa. He holds the Investment Management Certificate ('IMC') and is a CFA® charterholder.

Prince Marapao-Gittings

Sustainable Outcomes Analyst

4+ years' experience in asset management

Prince is part of the Sustainable Outcomes team, and is focussed on supporting the Social Transition strategy through product and process development, thematic research and management of the engagement programmes. Prince is also responsible for maintaining Aviva Investors ESG negative screening capability, including policy and strategy specific exclusions. This is achieved by supporting the continued evolution and strengthening of the screening process across the business, by inputting as a subject matter expert into firm wide transformation projects.

Sonia Hierzig

Sustainable Outcomes Analyst

2+ years' experience in asset management

Sonia is an analyst within the Sustainable Outcomes team, and is focussed on supporting the Social Transition Strategy, through product and process development, thematic research and management of the engagement programmes. Sonia joined Aviva Investors after more than six years at ShareAction, the responsible investment charity, where she was Head of Financial Sector Research, leading a team of researchers analysing financial institutions' performance on environmental, social and governance issues.

40 ESG specialists

25 Equities team

Team information includes open headcount as of 15 May 2023.

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ESG & social credentials

CHRB Corporate Human Rights Benchmark

Founding member of the Corporate Human Rights Benchmark (CHRB)

2020 Investor Action on AMR

Leading on initiatives to combat antimicrobial resistance

World Benchmarking Alliance

Founding member of the World Benchmarking Alliance

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At the forefront of responsible investment

1992
AI CEO helps write world's first corporate governance code

2001
First asset manager to formally integrate corporate responsibility into voting policy

2006
Founding signatory of UN Principles for responsible investing

2013
Corporate Human Rights Benchmark launched

2015
UN Goals for Sustainable Development (SDGs) Target 12.6

2016
Member of European Commission High-Level Expert Group on Sustainable Finance andFSB TCFD

2018
World Benchmarking Alliance launched. Award from UN for sustainability work

2020
First meeting of the Coalition for an International Platform for Climate Finance

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Key risks

Investment/objective risk

The value of an investment and any income from it can go down as well as up and can fluctuate in response to changes in currency and exchange rates. Investors may not get back the original amount invested.

Currency risk

The fund is exposed to different currencies. Derivatives are used to minimise, but may not always eliminate, the impact of movements in currency exchange rates.

Emerging market risk

Investments can be made in emerging markets. These markets may be volatile and carry higher risk than developed markets.

Derivatives risk

Investments can be made in derivatives, which can be complex and highly volatile. Derivatives may not perform as expected, meaning significant losses may be incurred.

Derivatives are instruments that can be complex and highly volatile, have some degree of unpredictability (especially in unusual market conditions), and can create losses significantly greater than the cost of the derivative itself.

Illiquid securities risk

Some investments could be hard to value or to sell at a desired time, or at a price considered to be fair (especially in large quantities), and as a result their prices can be volatile.

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