Principal adverse sustainability impacts statement – liquid markets

Introduction

Aviva Investors recognises and embraces its duty to act as a responsible long-term steward of our clients' assets and to help drive the changes required to build a more sustainable future and enable a transition to low carbon economy. We believe that being a responsible financial actor means our investment approach must support, and not undermine, the long-term sustainability of capital markets, economies and society.

Aviva Investors exercises its rights and responsibilities, as an active owner with scale and global reach, to influence the companies we invest in as well as the financial system as a whole. This includes engagement, voting and investment decisions to drive the transition to a sustainable future alongside seeking to positively influence market reforms to help shape a more sustainable capital market that can deliver better long-term financial and social outcomes for our clients.

In accordance with Article 4 of the EU Sustainable Finance Disclosure Regulation ("SFDR"), this statement describes how Aviva Investors considers the principal adverse impacts of its investment decisions on environmental, social and employee matters; respect for human rights; anti-corruption and anti-bribery matters (referred to in this statement as "sustainability factors"). It also sets out how we identify and seek to mitigate the adverse impacts of our activity on those sustainability factors and the principal adverse impacts and indicators that we prioritise in our investment process.

This statement applies to all operating entities within the Aviva Investors Holdings Group [including, Aviva Investors Global Services Limited, Aviva Investors Americas, Aviva Investors Canada & Aviva Investors Asia Pacific Limited] that are responsible for the discretionary investment management of assets on behalf of Aviva Investors and our clients. Whilst this Statement focusses on our liquid markets strategies, further detail of the approach within our real assets business will be set out in the Real Assets Responsible Investment & Sustainability Risk Policy.[1]

Adverse sustainability impacts

Economic activities may cause or contribute to negative effects on sustainability factors. In the context of SFDR, the most significant negative effects on sustainability factors that are material or likely to be material are referred to as principal adverse impacts ("PAI").

We believe that companies and sovereigns conducting themselves in a responsible manner with good governance practices, high standards of integrity and a sustainable business model should deliver better long-term returns to investors, while creating value for wider stakeholders and society. As such, adverse impacts on sustainability factors increase the risk to the long-term value (or volatility) of investments. Understanding the environmental, social and governance ("ESG") risks and opportunities, and the adverse sustainability impacts of our

[1] https://www.avivainvestors.com/en-gb/capabilities/sustainable-finance-disclosure-regulation/

investments helps us to make better investment decisions, leading to better investment returns and outcomes for our clients.

Our ESG philosophy is to invest in the transition to a more sustainable future and, in particular, promotes the relative merits of engagement over divestment. We often choose to invest in “transitioning” companies and sovereigns that are demonstrating positive change or where we see potential to influence their transition through our stewardship and engagement activities. We, therefore, do not choose to systematically screen out investments that may have caused adverse sustainability impacts. We do, however, exclude certain sectors and activities that we believe have significant adverse impacts on sustainability factors and have no place in a sustainable future. Currently, we will exclude companies deriving revenue from manufacture & maintenance of controversial weapons and are expanding our baseline exclusions to include thermal coal, unconventional fossil fuels and both the manufacture & distribution of tobacco. Our approach to exclusions and ESG integration are described in more detail below in the section ‘How we mitigate adverse sustainability impacts’.

SFDR provides 14 mandatory PAI indicators for corporate issuers and a smaller selection of mandatory indicators for government debt and real estate assets. These mandatory indicators range from carbon emissions, fossil fuel exposure and waste levels to gender diversity, due diligence on human rights and exposure to controversial weapons. In addition, SFDR also proposes a large number of “voluntary” environmental and social indicators from which asset managers must select two as a minimum. The SFDR PAI indicators and metrics are set out in Appendix A, including the voluntary SFDR indicators that have been selected by Aviva Investors and are described in the ‘Our priorities’ section below.

Aviva Investors has a longstanding approach of integrating qualitative and quantitative data on adverse sustainability impacts into our investment processes that consider many aspects of the specific requirements introduced by SFDR. Since the introduction of SFDR, we have sourced data relating to the PAI indicators and built analytical tools. Currently, as of July 2022, there will be a mandatory requirement under SFDR for our investment teams to consider all mandatory and our selected voluntary SFDR indicators as part of our approach to ESG integration, and to disclose our consideration of these indicators through a Principal Adverse Impact Statement in accordance with the template outlined in the SFDR Regulatory Technical standards (“RTS”). This is subject to the European Commission formally adopting the RTS.

In the event of any further delay to the RTS, Aviva Investors will publish a fully compliant Principal Adverse Impact Statement in line with any revised implementation date confirmed by the European Supervisory Authorities. This is to ensure our reporting periods on the use of the SFDR indicators remains consistent with the obligations in respect of reporting periods under the Regulation.

Our priorities

We list below our priority themes, as well as the specific PAI indicators that we prioritise in our investment process. These are aligned to the sustainability ambitions and stewardship goals of the Aviva Group and Aviva Investors and will be reviewed in light of any changes to these. Other themes or PAI indicators may however be prioritised (and/or additional voluntary PAIs considered) in products or strategies which promote particular environmental or social characteristics or have a specific sustainable investment objective.

These themes receive increased focus and greater emphasis in our stewardship and voting activities. They may also lead to specific actions through targets such as our net zero plans mentioned below. Where material to the investment/sector, these themes will be given increased focus in our investment research.

Climate

Climate change is the greatest systemic challenge facing society, global economies, and companies. It is the world's biggest market failure that is inextricably linked to other systemic issues. Rising temperatures exacerbate biodiversity loss and inequality is deepened by climate change because it disproportionately affects already marginalised people. Climate change also threatens the effective enjoyment of a range of human rights including those to life, water and sanitation, food, health and housing, amongst others[2].

Consistent with our plans to become a net zero carbon emissions asset manager by 2040[3,4], we have a low appetite for our investments to have a material adverse impact on Climate-related sustainability factors.

Accordingly, we shall prioritise climate related PAI indicators pertaining to Greenhouse Gas ("GHG") emissions. Climate considerations, with respect to physical and transition risk, are embedded within our fundamental investment processes, active ownership approach and voting policies and we shall ensure that all mandatory PAI indicators relating to GHG emissions are made available to investment staff and are actively considered in our investment and stewardship approach.

We will also use PAI indicator data to inform and guide the action we are taking against the 30 most systemically important carbon emitters through our 'climate engagement escalation programme'[5]. This programme includes companies from the oil and gas, metals and mining and utilities sectors that substantially contribute to total global carbon emissions. Companies that fail to make sufficient progress at the conclusion of the programme will

[2] https://www.ohchr.org/en/issues/hrandclimatechange/pages/hrclimatechangeindex.aspx
[3] https://www.avivainvestors.com/en-gb/responsibility/our-climate-approach/
[4] This will cover all asset classes and investment funds that we manage on behalf of Aviva. Third-party clients are invited to express a preference as to whether they would like the Aviva climate commitment to apply to their portfolio. Customers in collective investment funds will be consulted in line with regulatory requirements.
[5] https://www.avivainvestors.com/en-gb/about/company-news/2021/02/aviva-Investors-climate-transition-engagement-programme/

trigger full divestment across Aviva Investors' equity and credit portfolios. Climate is also one of our sovereign engagement priorities.

Biodiversity

Nature underpins our whole existence, and we cannot survive without the ecosystem services it provides. However, urgent action is needed to reverse the loss of biodiversity. Climate change is also closely linked to biodiversity loss and the success in tackling one of these issues fundamentally depends upon success in tackling the other.

Aviva Investors is part of the Aviva Group that signed the Finance for Biodiversity pledge and joined the Terra Carta Initiative in May 2021. As part of our Finance for Biodiversity pledge commitments, we aim to play our part in reversing the loss of nature by 2030.

We, therefore, prioritise biodiversity related PAI indicators pertaining to activities negatively affecting biodiversity-sensitive areas.

Diversity

We are strong proponents of the need for more women in senior management and on company boards. As such, we also prioritise PAI indicators relating to board gender diversity.

SFDR voluntary PAI indicators

For investee companies, Aviva Investors has selected voluntary environmental indicator (2) relating to emissions of air pollutants. With regards to social, we have selected voluntary indicator (2) relating to rate of accidents as this applies across a broad set of industries and is a strong indicator for corporate culture and employee welfare.

For sovereigns, we will look at all voluntary indicators.

Identifying adverse sustainability impacts

We draw on insight from investment professionals and analysts from across our business to identify adverse sustainability impacts. We describe below how we primarily identify adverse impacts through the in-depth analysis and research performed by our investment teams and our dedicated Sustainable Finance Centre for Excellence. We note, however, that as we invest globally in a variety of asset classes and jurisdictions and have a range of thematic strategies, our policies to identify adverse sustainability impacts will vary to some extent by asset class and by product.

Our investment teams and ESG analysts collaborate to understand a variety of sustainability factors relating to investments as part of the investment research process and ongoing monitoring. Adverse sustainability impacts are identified through investment research, incorporating macroeconomic, thematic, corporate, and sovereign research. In particular, the thematic corporate research of our Sustainable Outcomes Team is structured around what we see as the three key sustainability challenges of our time, namely, social justice, biodiversity loss and climate change.

We use a variety of techniques to identify the adverse sustainability impacts of our investments, including both quantitative metrics and qualitative assessments. We intend to supplement our assessment of adverse sustainability impacts by embedding the consideration of data relating to all mandatory and selected voluntary PAI indicators in our investment processes.

Our Sustainable Finance Centre for Excellence also conducts research identifying sustainability risks or principal adverse impacts that are systemic or representative of market failures.

<u>How we mitigate adverse sustainability impacts</u>

Aviva Investors has a long history of taking action to drive a sustainable future. Recent highlights of our approach to responsible investment can be seen in our Responsible Investment Annual Review.[6]

Aviva Investors considers and takes action to mitigate potential adverse sustainability impacts of our business and investment decisions. We do this through exclusions, ESG investment integration, active ownership, and macro stewardship (engaging with regulators, governments and civil society to "change the rules of the game"). Furthermore, we take action to mitigate potential adverse sustainability impacts as an organisation through our approach to corporate sustainability, including having adopted ambitious net-zero targets and a Group Biodiversity Policy.

<u>Exclusions</u>

Aviva Investors' ESG philosophy promotes the relative merits of engagement over divestment as the more effective mechanism of delivering positive outcomes for clients, the environment and society. There are however specific sectors and economic activities that have significant adverse impacts on sustainability factors that we believe do not form part of a sustainable future. We will therefore not finance or support these areas with our investment as this would be fundamentally misaligned with our Responsible Investment Philosophy[7] and corporate values. In these cases, we forgo the opportunity to engage, and actively exclude companies and industries from our investment universe.

Our Baseline Exclusions Policy[8] sets out those exclusions that we apply across all of our strategies. Some products have additional exclusions which will be detailed in product-specific documentation.

<u>ESG Integration</u>

We employ systematic and robust consideration of material sustainability factors in investment decisions. Our portfolio managers are empowered to manage sustainability risks and the adverse impact associated with our investments for the best client outcome,

[6] file:///C:/Users/cthorpe/Downloads/responsible-investment-annual-review-2020%20(1).pdf
7 Aviva Investors Responsible Investment Philosophy: https://www.avivainvestors.com/en-gb/about/responsible-investment/policies-and-documents/
[8] https://www.avivainvestors.com/en-gb/about/responsible-investment/policies-and-documents/

supported by our ESG capability that is integrated into our investment franchises via specialist teams.

Understanding the adverse sustainability impacts of investments through our research is a key component of assessing their sustainability risks and our portfolio construction process. Through our investment research and connectivity, we ensure that adverse impacts (and, in particular, the principal adverse impacts prioritised above) are considered as part of investment decisions across our business.

For further detail please refer to our Responsible Investment Policies.[9]

We describe below how we use our stewardship and engagement activity to support the transition to a more sustainable economy and the mitigation of adverse impacts.

Active ownership

Aviva Investors is committed to being long-term responsible stewards of our clients' assets. We actively exercise our rights as shareholders and utilise our voting power to promote responsible and sustainable practices in companies in which we invest, including ensuring that companies manage and mitigate adverse sustainability impacts. We also engage with issuers, borrowers, sovereigns, and counterparties to encourage the adoption of progressive ESG practices over time. We strongly support the ambition and objectives of the UN Sustainable Development Goals and expect all companies to contribute towards their successful delivery.

One of the key tools through which we seek to understand and, where relevant, mitigate sustainability risks and the principal adverse impacts that a company has on sustainability factors is through our stewardship and engagement activities. We promote sustainable business practices in global markets, encouraging companies towards greater transparency, improved corporate governance and more sustainable behaviours which reduces adverse sustainability impacts. This together with our conviction-led and long-term focus helps to reduce risk and can enhance the long-term value of portfolios and our clients' investments.

Once we identify adverse impacts of investments on sustainability factors, our ESG analysts work together with our investment teams on engagement cases and voting decisions. In particular, our Sustainable Outcomes Team deliver thematic engagement with the assets we invest in to drive positive change and reduce adverse sustainability impacts, working closely with our corporate research and stewardship team and the broader investment team (for example, with our climate engagement escalation programme as mentioned above).

The results of our ongoing engagement activities are used to inform our investment process and facilitate the integration of long-term sustainability factors into our investment decisions.

[9] https://www.avivainvestors.com/en-gb/capabilities/sustainable-finance-disclosure-regulation/

For further detail please refer to the Stewardship Statement and Global Voting Policy available on our website.[10]

Macro stewardship

As responsible investors, we take seriously our duty to act in the best interests of clients and the integrity of the market. In our position as market participants, it is incumbent upon us to look ahead to identify potential market-wide and systemic risks and seek to mitigate these risks through engagement.

In addition to our active ownership activities mentioned above, we seek to positively influence market reforms to help shape a more sustainable capital market with less adverse sustainability impacts. This involves us calling out such risks and supporting policymakers to bring about the necessary policy changes to transform our financial system, enabling it to serve the needs of the present without prejudicing those of generations to come.

Our market reform agenda represents a natural progression from our integration and active ownership work. Where we identify sustainability risks and principal adverse impacts that are systemic or representative of market failures, we will engage with policy makers and regulators to highlight these issues and support them in taking corrective action.

Corporate sustainability

Aviva Investors plans to become a net zero carbon emissions asset manager by 2040[11]. Our climate goals include:[12]

- Net zero carbon emissions company by 2040, covering Scope 1, 2 and 3 emissions, and from our own operations and supply chain by 2030
- Cut carbon intensity of our assets by 25% by 2025 and 60% by 2030
- Invest £2.5 billion in low carbon and renewable energy infrastructure buildings by 2025
- Deliver £1 billion of climate transition-focused sustainable loans by 2025
- Invest £100 million in nature-based carbon removals by 2030
- Divest coal (at 5% revenue threshold by the end of 2022) unless companies commit to Science-Based Targets
- Align to the Scient-Based Targets methodology (1.5 degrees) for investments, operations and supply chain

Aviva has also signed the Finance for Biodiversity pledge and joined the Terra Carta Initiative. As part of our Finance for Biodiversity pledge commitments, we aim to play our part in reversing the loss of nature by 2030.

[10] https://www.avivainvestors.com/en-gb/about/responsible-investment/policies-and-documents/
[11] This will cover all asset classes and investment funds that we manage on behalf of Aviva. Third-party clients are invited to express a preference as to whether they would like the Aviva climate commitment to apply to their portfolio. Customers in collective investment funds will be consulted in line with regulatory requirements.
[12] https://www.avivainvestors.com/en-gb/responsibility/our-climate-approach/

References to international standards

Aviva Investors strongly supports the ambition and objectives of the UN Sustainable Development Goals. The list below sets out the responsible investing and governance principles and best practices we adhere to and other organisations whose output we consider when assessing our investments, as well as collaborations we participate in, statements we have signed and other related standards.

- The Paris Agreement
- UN Principles for Responsible Investment
- UK Stewardship Code
- UN Global Compact Principles
- UN Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises
- Corporate Human Rights Benchmark
- World Benchmarking Alliance
- ICGN Global Corporate Governance Principles
- G20/OECD Principles of Corporate Governance

Governance and ownership

This statement is owned by the Chief Investment Officer, Liquid Markets of Aviva Investors which has approved its contents, including Aviva Investors' PAI priorities. It will be reviewed at least annually and in light of any changes to the sustainability ambitions and stewardship goals of the Aviva Group or Aviva Investors.

As a member of the Executive Committee the owner is responsible for ensuring that the statement is embedded within organisational strategies and implemented within procedures.

<u>Appendix A: Mandatory & Voluntary indicators that shall be considered as an integral and mandatory part of Aviva Investors' investment process.</u>

Mandatory indicators applicable to investments in investee companies relating to climate and other environmental matters		
Adverse sustainability indicator		**Metric**
Greenhouse gas emissions	1. GHG Emissions	Scope 1 GHG emissions
		Scope 2 GHG emissions
		From 1 January 2023, Scope 3 GHG emissions
		Total GHG emissions
	2. Carbon Footprint	Carbon footprint
	3. GHG Intensity of investee companies	GHG intensity of investee companies
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity sensitive areas where activities of those investee companies negatively affect those areas
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average
Waste	9. Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average

Mandatory indicators applicable to investments in investee companies relating to social and employee, respect for human rights, anti-corruption and anti-bribery matters		
Adverse sustainability indicator		**Metric**
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies
	13. Board Gender Diversity	Average ratio of female to male board members in investee companies
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons

Voluntary indicators applicable to investments in investee companies relating to climate and other environmental matters		
Adverse sustainability indicator		**Metric**
Emissions	2. Emissions of air pollutants	Tonnes of air pollutants equivalent per million EUR invested, expressed as a weighted average

Voluntary indicators applicable to investments in investee companies relating to social and employee, respect for human rights, anti-corruption and anti-bribery matters		
Adverse sustainability indicator		**Metric**
Social and employee matters	2. Rate of accidents	Rate of accidents in investee companies expressed as a weighted average

Mandatory indicators applicable to investments in sovereigns and supranationals relating to climate and other environmental matters		
Adverse sustainability indicator		**Metric**
Environmental	15. GHG intensity	GHG intensity of investee countries

Mandatory indicators applicable to investments in sovereigns and supranationals relating to social and employee, respect for human rights, anti-corruption and anti-bribery matters		
Adverse sustainability indicator		**Metric**
Social	16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law

Voluntary indicators applicable to investments in sovereigns relating to climate and other environmental matters		
Adverse sustainability indicator		**Metric**
Green securities	17. Share of bonds not certified as green under a future EU act setting up an EU Green Bond Standard	Share of bonds not certified as green

Voluntary indicators applicable to investments in sovereigns relating to social and employee, respect for human rights, anti-corruption and anti-bribery matters		
Adverse sustainability indicator		**Metric**
Social	18. Average income inequality score	The distribution of income and economic inequality among the participants in a particular economy including a quantitative indicator explained in the explanation column
	19. Average freedom of expression score	Measuring the extent to which political and civil society organisations can operate freely including a quantitative indicator explained in the explanation column
Human rights	20. Average human rights performance	Measure of the average human right performance of investee countries using a quantitative indicator explained in the explanation column
Governance	21. Average corruption score	Measure of the perceived level of public sector corruption using a quantitative indicator explained in the explanation column
	22. Non -cooperative tax jurisdictions	Investments in jurisdictions on the EU list of non - cooperative jurisdictions for tax purposes
	23. Average political stability score	Measure of the likelihood that the current regime will be overthrown by the use of force using a quantitative indicator explained in the explanation column
	24. Average rule of law score	Measure of the level of corruption, lack of fundamental rights, and the deficiencies in civil and criminal justice using a quantitative indicator explained in the explanation column