Credit and Equities Responsible Investment and Sustainability Risk Policy

December 2021

For today's investor

AVIVA INVESTORS

Introduction

We recognise our duty as a trusted agent of our clients' assets to endeavour to protect, maintain and grow the long-term value of their investments. Consistent with those obligations, we maintain a deep conviction that environmental, social and governance (ESG) factors, including sustainability risks and adverse sustainability impacts, can have a material impact on investment returns. As well as affecting the outcomes that we achieve for our clients, our investment decisions have an impact on the environment and wider society. We seek to mitigate the principal adverse impacts of our investment decisions and disclose those impacts in line with regulatory requirements.

We integrate ESG factors into the investment decision-making process across the portfolios we manage and apply baseline exclusions in line with our firm policy requirements. We also exercise our rights as a shareholder to promote responsible and sustainable practices in the companies in which we invest, with the financial risks posed by climate change being a particular area of focus. This includes engagement with company management to influence changes in behaviours and practices (with progress being benchmarked against industry-specific criteria). Where systemic reform is required to deal with risks and market failures, we engage with policymakers to drive change to build a more sustainable financial system.

This Policy applies to the following entities within the Aviva Investors Group [AIGSL, AIA, AIC & AIAPL], (the "AI Entities") that are responsible for the discretionary investment management of equity and credit assets on behalf of Aviva Investors and our clients. It describes the measures taken to ensure ESG factors, including sustainability risks and adverse sustainability impacts, are identified and integrated into the investment process of each of the AI Entities and how we seek to mitigate sustainability risks and adverse sustainability impacts through responsible stewardship.

Please note: this policy will evolve continuously as regulatory obligations change and we update our processes accordingly.

1. Responsible stewardship

We are committed to the responsible stewardship of our clients' investments through our engagement, voting and public policy activities. Our primary purpose is to support long-term returns and to mitigate sustainability risks. We also believe that by encouraging the companies we own to manage sustainability risks better, and to manage and mitigate their adverse sustainability impacts, we can contribute to a more resilient global economy which will ultimately enhance our clients' long-term prosperity and security.

Voting and engagement

As responsible stewards of both our equity and credit holdings, we engage in regular dialogue with companies to share best practice and encourage responsible behaviours. We also utilise our voting rights as investors in equities to hold company boards to account on the extent to which they are protecting the long-term interests of shareholders and growing their businesses in a sustainable and responsible manner. We believe that over time, through our engagement and voting activities, we can help companies to mitigate sustainability risks and the adverse sustainability impacts associated with their activities.

Responsible stewardship also means we closely monitor where active engagement with companies fails to produce the right outcomes and improved responsible behaviour over time. This also allows us to identify adverse sustainability impacts of our investments. We factor this into the overall investment decision-making process, including where decisions to divest are taken.

In select circumstances, we engage with representatives of sovereign issuers to exchange perspectives on regulatory developments and ESG policies. As a respected long-term global investor, we can leverage our standing in the market to provide recommendations to government agencies on a range of topics, including sustainable finance and the economic merits of adopting progressive social and environmental policies.

Our priority themes (climate, people and earth, social and natural capital)[1] receive increased focus and greater emphasis in our engagement and voting activities.

For more information on our approach to stewardship and our adherence to the Financial Reporting Council's Stewardship Code please see our Stewardship Statement and Voting Policy on our website.[2]

2. Exclusions

We apply baseline ESG exclusions to investment in controversial weapons and civilian firearms. For further information on the exclusion thresholds and any exceptions please refer to the Policy on our website.[3] Please note, where additional exclusions to the baseline apply, these will be disclosed in the relevant fund documentation.

3. Assessing sustainability risk through ESG integration

In line with the approach set out in our Responsible Investment Philosophy,[4] we integrate analysis of ESG factors into our investment management process to ensure material sustainability risks are considered. We seek to identify and manage sustainability risks alongside other types of investment risks (such as credit, market and regulatory risks) and consider their impact on the financial returns of our clients' investments.

Adverse sustainability impacts are the negative environmental and social effects of economic activity. Understanding the adverse impacts of investments is a key component of assessing their sustainability risks and our portfolio construction process. We disclose how we identify and seek to mitigate adverse sustainability impacts in a Principal Adverse Impacts Due Diligence Statement.[5]

Analysis of ESG factors is undertaken by our investment teams, with support from our dedicated ESG function. The investment teams across Aviva Investors have access to a variety of ESG data and analytical tools to support their assessment of sustainability risks, including our proprietary ESG scoring tool. Our Analysts and Portfolio Managers use these tools and data to evaluate and provide further insights on the ESG characteristics of our portfolios.

We outline in further detail below how we integrate ESG factors into our processes (in particular sustainability risk and adverse sustainability impacts), the various roles involved and tools used.

What does it mean to assess sustainability risk?

Identifying and quantifying sustainability risks is not an exact science. It involves the consideration of a broad set of inputs (including both internally and externally sourced data and research) to inform an assessment of the sustainability risks inherent in investment decisions and portfolio construction. Evaluating this information involves the consideration of unknown future events or potential scenarios. Often this requires a subjective appraisal based on current data available. Furthermore, sustainability risks are identified and managed alongside other types of investment risks e.g. credit, market and regulatory risks.

The consideration of sustainability risks does not necessarily mean that we would not invest in companies with poor ESG scores/ratings. A poor ESG score for a specific investment may be outweighed by a variety of other factors (including the extent to which sustainability risks or adverse sustainability impacts are already reflected in the asset price). The final decision is therefore a balance of considerations as all investment involves some degree of risk.

[1] As defined in our PAI Due Diligence Statement

2 Aviva Investors Stewardship Statement, Voting Policy and the Responsible Investment Annual Review can be found on our website under 'policies and documents'

[3] Aviva Investors Baseline ESG Exclusions Policy on our website under 'policies and documents'

[4]The Responsible Investment Policy can be found on our website under 'policies and documents'

[5] Published on our website: PAI Due Diligence Statement

Role of the ESG Analysts

The ESG Analysts support the wider investment teams to understand and consider material sustainability risks. We set out in this section some of the key means through which this support is provided.

ESG Analysts in the ESG corporate research team produce both industry/sector reports and higher-level primer reports discussing key ESG themes and trends. ESG Analysts within the Sustainable Outcomes Team also produce thematic ESG research. This research supports company-level assessments and the education of the broader investment team on ESG issues, as well as engagement with companies and clients. Where possible, corporate research includes an ESG rating score quantifying the company's performance relative to peers on a broad range of ESG issues.

All ESG research is asset-class agnostic and published on the AI Internal Research Hub (IRH). All internal ESG research output is required to be distributed fairly and simultaneously to all investment professionals within the credit and equity teams so that they can integrate this into their decision-making process. Agreed templates determine the medium and format in which relevant ESG research content is internally distributed.

Analysis of adverse sustainability impacts is considered in the first instance through the research process. ESG Analysts (and the Investment Analysts) consider a variety of qualitative and quantitative data on adverse impacts to inform the assessment of material sustainability risks. Where relevant to the investment/sector, increased focus in research will be given to our priority themes (climate, people and earth, social and natural capital)[6].

ESG Analysts participate in all investment forums and contribute to portfolio reviews led by Portfolio Managers and asset class-specific Investment Analysts. They ensure relevant and material macro and thematic ESG considerations are embedded within the House View, the firm-wide outlook on macroeconomic and geopolitical issues on key regions and markets. The House View is reviewed on a quarterly basis in a cross-departmental investment forum and forms the base case investment outlook and influences both capital allocation and investment idea validation for all strategies.

Role of the Investment Analysts and Portfolio Managers (credit and equities)

The wider investment teams are responsible for considering ESG factors as part of the investment processes in order to ensure consideration of all material sustainability risks, including adverse sustainability impacts. All available ESG research reports, analysis and data must be considered by Portfolio Managers and Investment Analysts to support investment analysis and decisions (including analysis for potential investment, holdings tracking, and review for potential divestment). Evaluating risk is however subjective, as mentioned in section above 'What does it mean to assess sustainability risk?'.

Investment Analysts and Portfolio Managers are supported in their assessment of sustainability risks through a variety of ESG data and analytical tools made available to them, including our proprietary ESG scoring tool (see section below on 'ESG Data and Tools' for further details).

It is not possible for the ESG Analysts to produce corporate research for every company held in our portfolios or being considered for investment. In the case of companies not covered by ESG Analysts, the relevant asset class-specific Investment Analyst is responsible for incorporating the appropriate assessment of specific ESG criteria and material sustainability risks into their own research. As noted above, Investment Analysts consider adverse sustainability impacts as part of their research to inform the assessment of material sustainability risks.

We align remuneration to ensure that investment teams are motivated to integrate ESG into the investment process. Portfolio Managers will however ultimately retain discretion over any final investment choice, subject to the objectives set out in relevant fund documentation/investment management agreement and Baseline Exclusions Policy.

Approach for money market funds (liquidity funds)

Our liquidity funds have an approved list of issuers that is influenced by ESG criteria. As part of the counterparty assessment process, approval is required by an ESG Analyst alongside Compliance, the Portfolio Manager and Credit

[6] As defined in our PAI Due Diligence Statement

Analyst approval. The approved counterparty list is reviewed on a quarterly basis with key input from the ESG corporate analyst team.

Role of the Investment Risk Team

We have an independent investment risk team that forms part of our risk function. This team is responsible for providing oversight and challenge to the investment management teams. Their focus includes oversight of sustainability risk, providing a further layer of introspection to understand how ESG factors and sustainability risks are embedded in our investments.

4. ESG Data and Tools

The investment teams are supported by a variety ESG data (both quantitative and qualitative metrics) and analytical tools, including our proprietary ESG scoring tool. We obtain ESG data from a variety of sources including data providers, directly from the companies we invest in as well as from our brokers. We also use data from other operations such as NGOs, international organisations and governments.

Proprietary tool

Our proprietary ESG scoring tool is designed to examine the ESG factors we determine are most closely correlated to potential financial outperformance of a particular investment. The tool uses a combination of inputs from externally sourced data as well as our own voting data and is designed to support our portfolio construction process by providing a relative score for the companies within each sector. The tool is not designed to provide an ESG score on the sustainability of a company. It also does not provide an ESG score that is comparable across sectors nor for an entire portfolio.

Our proprietary ESG scoring tool provides an ESG metric for most companies we consider in our investment universe. However, it is not always possible to evaluate the detailed ESG credentials and sustainability risk associated with every investment in a portfolio.

Data reliability

There is varying quality of transparent, comparable and accurate ESG data covering sustainability risks and adverse impacts, as well as more general ESG-related factors. The regulatory environment and the reporting requirements for issuers are developing at different speeds and there is not always a consistent standard across jurisdictions, sectors and/or companies. Furthermore, the methodologies of data providers differ significantly and therefore there may be circumstances where portfolios or companies have drastically different ESG scores/ratings amongst providers.

We have access to a variety of data from different sources and constantly seek to improve its quality, consistency and sourcing. Our goal is to ensure we have broad and deep coverage of information to enable a sound consideration of sustainability factors. Any unavoidable gaps in data availability are mitigated by our side-by-side qualitative assessment of ESG factors.

Please note, where we seek to rely on our own proprietary models or third-party data providers these may rely on information which is incomplete, inaccurate or unavailable. As a result, there is a risk that we may, from time to time, incorrectly assess a security, issuer or index. There is also a risk that we, or the third-party data providers we depend on, may not interpret or apply the relevant ESG characteristics correctly. We do not warrant the fairness, accuracy or completeness of any data used, or assessment made, in connection with this policy.

5. Climate Engagement Escalation Programme

We consider climate change to be the greatest systemic challenge facing society, the global economy and individual companies. Failure to act will have catastrophic and pervasive consequences, including for capital markets and asset valuations. Consequently, climate considerations, with respect to physical and transition risk, are embedded within our fundamental investment processes, macroeconomic outlook, asset allocation, portfolio construction and active ownership approach.

We recognise that for our engagement approach to have impact, it must be accompanied by a robust escalation process. There are a number of escalation tools available to the strategies managed by us (which invest in companies) as investors including the ultimate sanction of divestment. The climate engagement escalation programme includes companies from the oil and gas, metals and mining and utilities sectors that substantially contribute to total global carbon emissions. Its stipulations include:

I. Adoption of a 2050 net zero goal (1.5-degree alignment)

II. Commitment to the Science Based Targets Initiative framework

III. Integration of climate goals into business strategy including capital expenditure framework

IV. Setting of short- and medium-term climate targets and milestones

V. Alignment of management incentives to climate goals

VI. Reporting on progress using the TCFD framework

VII. Prohibition of direct and indirect lobbying deemed contrary to the company's public climate commitments

The responsiveness of the companies in scope will be determined by a qualitative assessment of progress against our climate engagement framework and quantitative improvements against our proprietary climate transition risk model.

Progress will be monitored on a six-monthly basis, at which point we will determine the need for escalation. This may include votes against directors, the filing of shareholder proposals, and working with aligned stakeholder groups to apply further pressure. Companies that fail to make sufficient progress at the conclusion of the programme will trigger full divestment.

6. International standards

We advocate policy measures to support efficient and sustainable capital markets at national, EU and UN levels to improve outcomes for our clients. We also use our influence as a large institutional investor to advocate for policy reforms that address market failures and help build more sustainable capital markets. We consider responsible business conduct codes and internationally recognised standards for due diligence and reporting. These include the ICGN Global Corporate Governance Principles and the G20/OECD Principles of Corporate Governance. We support various initiatives to promote best practices in the market (demonstrated in the examples below):[7]

- **UNPRI – a founding signatory**
  We are a proud founding signatory of the UN Principles for Responsible Investment (UNPRI) and are committed to complying with these Principles across all asset classes.

- **The Corporate Human Rights Benchmark**
  In collaboration with NGOs, investors and research organisations, we helped launch the world's first wide-scale project to rank companies on human rights performance. The benchmark aims to use the competitive nature of markets to encourage companies to improve their human rights performance, inspiring action to tackle this important issue.

7. Conflicts of interest

Conflicts of interest may arise when engagement with companies to improve their adverse sustainability impacts or sustainability risk profile may negatively affect their short-term financial performance. Our engagement is aligned to our wider responsibilities as an asset manager; we believe that encouraging companies to take action to mitigate known sustainability risks should help to improve their long-term financial performance.

However, in circumstances where certain investee companies carry significant sustainability risks due to the fundamental nature of their business; we do not advocate wholesale changes to business models that are not financially

[7] Please note this list is not exhaustive: more examples of our participation in and support for various industry initiatives and best practices can be found in our Responsible Investment Annual Review on our website under 'policies and documents'

robust. In these cases, we encourage firms to adopt transition plans that mitigate sustainability risks and seek to minimise adverse impacts within their business model.

8. Governance and oversight

The implementation of this policy is overseen by the following stakeholders:

i. Aviva Investors Holdings Limited Board (AIHL Board), which sets the overarching ESG philosophy and approach. It approves the key ESG policies applicable across all asset classes, including our Global Voting Policy; and
ii. The Chief Investment Officer, Liquid Markets, who is responsible for ensuring that ESG policies are embedded within the investment teams and that ESG factors (including sustainability risks) are integrated into investment decision- making processes.

Appendix 1 – Glossary of terms

Adverse sustainability impacts	Negative effects on sustainability factors (environmental, social and employee matters; respect for human rights; anti-corruption and anti-bribery matters) caused, or contributed to, by economic activities
Aviva Investors (Entities)	Aviva Investors (AI). This policy document applies to AIGSL (Aviva Investors Global Services Limited) and its investment management affiliates: AIA (Aviva Investors Americas), AIC (Aviva Investors Canada) & AIAPL (Aviva Investors Asia Pte Ltd). Aviva Investors is a global asset management firm which is part of the Aviva Group. AIHL (Aviva Investors Holdings Limited) is the parent holding company for AIGSL.
Aviva Investors Internal Research Hub (IRH)	This is an internal collaboration site hosted on Bloomberg where ESG research and data tools which are asset-class agnostic are published.
Baseline ESG Exclusions	Baseline ESG Exclusions are prohibitions to investment set by AI. These are detailed in the Baseline ESG Exclusions Policy.
ESG	ESG stands for environmental, social and corporate governance criteria. ESG refers to the three central factors in measuring the sustainability and ethical impact of an investment in a company or business.
ESG integration	ESG integration is the consideration of financially material ESG factors in the course of investment analysis and decision making to gain a more comprehensive understanding of both the risks and the long-term opportunities arising from these factors. These factors vary by industry, corporate size, regulatory regime, and regional footprint.
Global Voting Policy	We actively exercise our rights as shareholders to promote responsible and sustainable practices in companies in which we invest. Our Global Voting Policy highlights areas of focus and priority that may lead to engagement and voting action.
House View	The Aviva Investors House View document is a comprehensive compilation of views and analysis from the major investment teams. The document is produced quarterly by our investment professionals and is overseen by the investment strategy team. We hold a House View forum biannually at which the main issues and arguments are introduced, discussed and debated. The process by which the House View is constructed is a collaborative one – all team members have the right to challenge and all are encouraged to do so. The aim is to ensure that all contributors are fully aware of the thoughts of everyone else and that a broad consensus can be reached across the teams on the main aspects of the report.
Industry and primer reports	Industry report: an industry group (sub-sector) level report focused on identifying best- and worst- in class players and general industry dynamics, published more frequently (e.g. annually) and including key metrics and summary statistics applicable to the industry. Primer report: a sector level reference report focused on education, published less frequently (e.g. every three years or upon structural sector change) focused on discussion of mega-trends, key ESG considerations, definition of metrics for tracking key ESG considerations, and potential data sources. This also includes standard engagement questions.
Passive funds	This is an investment vehicle which is not actively managed. It tracks a market index or specific market segment. The fund manager does not decide what securities to invest in or divest from.
Principal adverse impacts	Negative, material or likely to be material effects on sustainability factors that are caused, compounded by or directly linked to investment decisions and advice performed by the legal entity.[8]
Proprietary ESG scoring tool	AI's internal quantitative metric for a company's exposure to and management of ESG risks. It includes a range of material ESG data scores and analysis including our internal governance rating, which is based on historic voting records. A higher score reflects lower exposure to/better management of ESG risks and vice versa. It focuses on the ESG factors we determine are most closely correlated to potential financial outperformance and so should not be used as a comprehensive measure of the sustainability risks of a portfolio.
Stewardship	Stewardship is the responsibility to take care of something in one's keeping. In the context of investing, it involves the effort and activities undertaken by and on behalf of institutional shareholders 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 on such things as strategy, performance,

[8] https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Draft Technical Standards/2021/962778/JC 2021 03 - Joint ESAs Final Report on RTS under SFDR.pdf

	corporate governance, and environmental and social issues that may materially affect the future sustainability of companies and shareholder value.
Sustainability factors	Sustainability factors are environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.
Sustainability risk	The Sustainable Finance Disclosure Regulations define sustainability risk as "an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment".
Responsible Investment Policy	Our philosophy rests on strongly-held beliefs, and a long-term vision for the economy. We believe that companies that follow responsible business practices deliver better business performance over time – hence our desire at AI to embrace ambitious goals in this regard. We are continuously developing our approach to responsible investing, which seeks to engage companies both through constructive dialogue and voting at Annual General Meetings.
Responsible stewardship	The Financial Reporting Council defines Responsible Stewardship as 'the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society'.
Third-party managed products	A collective investment scheme or other pooled vehicle managed or operated by an investment firm which is not affiliated to Aviva.
UN Principles for Responsible Investment	The Principles for Responsible Investment (UNPRI or PRI) is a United Nations supported international network of investors working together as signatories to implement 6 aspirational principles that contribute towards the development of a more sustainable global financial system.

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