Principal adverse sustainability impacts due diligence statement

Summary

Aviva Investors Luxembourg S.A. Legal Entity Identifier 549300JYCIQECRTGQR50, considers principal adverse impacts of its investment decisions on sustainability factors. This statement is the consolidated statement on principal adverse impacts on sustainability factors of Aviva Investors Luxembourg

This statement on principal adverse impacts on sustainability factors covers the reference period from 1st January 2022 until 31st December 2022.

Description of the principal adverse impacts to sustainability factors

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 be better positioned to deliver long-term risk adjusted 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 investments helps us to make better investment decisions, leading to better investment 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 a prescribed proportion of their revenue from the manufacture & maintenance of controversial weapons, 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 which are also described below.

In accordance with SFDR, Aviva Investors will disclose its consideration and exposure to these indicators across all its EU-domiciled funds and products that are managed by Aviva Investors Luxembourg S.A.

Indicators applicable to investments on sustainability factors

Mandatory indicators applicable to investments in investee companies relating to climate and other environmental matters						
Adverse sustainability indicator		**Metric**	**Impact 2022**	**Impact (year n-1)**	**Explanation**	**Actions taken, and actions planned and targets set for next reference period**
Greenhouse gas emissions	1. GHG Emissions	Scope 1 GHG emissions	1,207,981		Sum of portfolio companies' Carbon Emissions - Scope 1 (tCO2e) weighted by the portfolio's value of investment in a company and by the company's most recently available enterprise value including cash. Coverage: <60%	• We updated our exclusions policy to further limit investments in companies deriving substantial revenue from thermal coal, arctic oil and tar sands. • Our annual chair letter requested companies conduct a number of climate related actions, including but not limited to; develop climate transition plans, setting emission reduction targets, and integrating climate targets with executive and senior management remuneration. • We did not support management resolutions at a number of company AGMs as they fell short of our climate expectations.
		Scope 2 GHG emissions	309,530		Sum of portfolio companies' Carbon Emissions - Scope 2 (tCO2e) weighted by the portfolio's value of investment in a company and by the company's most recently available enterprise value including cash. Coverage: <60%	
		Scope 3 GHG emissions	9,114,091		Sum of portfolio companies' Scope 3 - Total Emission Estimated (tCO2e) weighted by the portfolio's value of investment in a company and by the company's most recently available enterprise value including cash. Coverage: <60%	

		Total GHG emissions	10,631,602		The total annual Scope 1, Scope 2, and estimated Scope 3 GHG emissions associated with the market value of the portfolio. Companies' carbon emissions are apportioned across all outstanding shares and bonds (based on the most recently available enterprise value including cash). Coverage: <60%	• We will expand our Climate Engagement Escalation Programme to include hard to abate sectors such as aviation. • We will continue to consider this theme in our integration and stewardship activity over the next reference period.
	2. Carbon Footprint	Carbon footprint	144		The total annual Scope 1, Scope 2, and estimated Scope 3 GHG emissions associated with 1 million EUR invested in the portfolio. Companies' carbon emissions are apportioned across all outstanding shares and bonds (based on the most recently available enterprise value including cash). Coverage: <60%	
	3. GHG Intensity of investee companies	GHG intensity of investee companies	985		The portfolio's weighted average of its holding issuers' GHG Intensity (Scope 1, Scope 2 and estimated Scope 3 GHG emissions/EUR million revenue). Coverage: <60%	
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	4.93%		The percentage of the portfolio's market value exposed to issuers with fossil fuels related activities, including extraction,	

					processing, storage and transportation of petroleum products, natural gas, and thermal and metallurgical coal. Coverage: <60%	
	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	71.73		The portfolio's weighted average of issuers' energy consumption and/or production from non-renewable sources as a percentage of total energy used and/or generated. Coverage: <50%	
	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	A – Agriculture, Forestry and Fishing: 0.59 GWH per €M revenue B – Mining and quarrying: 15.40 GWH per €M revenue C – Manufacturing: 2.17 GWH per €M revenue D – Electric, Gas, Steam, Electricity and Air Conditioning Supply: 6.11 GWH per €M revenue E – Water supply, Sewerage, Waste Management and Remediation Activities: 0.89 GWH per €M revenue		The portfolio's weighted average of Energy Consumption Intensity (GwH/million EUR revenue) for issuers classified within NACE Code A – NACE Code L). We have disclosed all the sectors (NACE Code A – NACE Code L) as one figure. Where there is a request from a client to focus on one of the sectors, we would aim to provide this separately. Coverage: <20%	

			F – Construction: 0.20 GWH per €M revenue G – Wholesale and retail Trade, repair of motor vehicles and motorcycles: 0.29 GWH per €M revenue H – Transportation and storage: 3.56 GWH per €M revenue L – Real estate activities: 0.46 GWH per €M revenue			
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	0.10%		The percentage of the portfolio's market value exposed to issuers' that reported having operations in or near biodiversity sensitive areas and have been implicated in controversies with severe or very severe impacts on the environment. Coverage: <60%	• Our annual chair letter requested companies conduct biodiversity impact assessments and set targets to reduce these impacts in line with the Science-Based Targets for Nature. • We continued our participation in the Financial Sector Deforestation Action Group (FSDA). The group identified priority companies to engage with on deforestation risks. • We did not support management resolutions
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	18.55		The total annual wastewater discharged (metric tons reported) into surface waters as a result of industrial or manufacturing activities associated with 1 million EUR invested in the portfolio. Companies' water emissions are apportioned across all outstanding shares	

					and bonds (based on the most recently available enterprise value including cash). Coverage: <5%	at a number of company AGMs as they fell short of our biodiversity expectations. • We attended COP15 in Montreal and participated in initiatives and working groups to advocate the Kunming-Montreal Global Biodiversity Framework. We advocated for large companies and financial institutions to monitor, assess, and disclose their risks dependencies and impacts on biodiversity. • We will seek to undertake a deforestation risk assessment, which will include consideration of 'PAI 7: Activities negatively affecting biodiversity sensitive areas.' • We will continue to consider this theme in our integration and stewardship activity over the next reference period.
Waste	9. Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average	0.73		The total annual hazardous waste (metric tons reported) associated with 1 million EUR invested in the portfolio. Companies' hazardous waste is apportioned across all outstanding shares and bonds (based on the most recently available enterprise value including cash). Coverage: <10%	

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**	**Impact 2022**	**Impact (year n-1)**	**Explanation**	
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	0.60%		The percentage of the portfolio's market value exposed to issuers with very severe controversies related to the company's operations and/or products. Coverage: <60%	• We support adherence to international standards and norms. As part of our firm-level exclusion policy, we conduct a qualitative assessment on companies' adherence to these norms. Through this assessment we may identify companies where engagement or voting action is required. However, in some cases we may seek to divest.
	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	23.74%		The percentage of the portfolio's market value exposed to issuers that are not signatories in the UN Global Compact. Coverage: <60%	
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	26.68		The portfolio holdings' weighted average of the difference between the average gross hourly earnings of male and female employees, as a percentage of male gross earnings. Coverage: <20%	• We engaged with a number of companies requesting that they support the Workforce Disclosure Initiative that requests greater transparency on gender pay. • We will continue to consider this theme in our integration and

						stewardship activity over the next reference period.
	13. Board Gender Diversity	Average ratio of female to male board members in investee companies	31.28		The portfolio holdings' weighted average of the ratio of female to male board members. Coverage: <60%	• Our voting policy was updated to hold boards to account for failing to make sufficient progress on gender diversity at senior management level. • We voted against a number of companies in 2022 due to insufficient gender diversity at board level. • We will continue to consider this theme in our integration and stewardship activity over the next reference period.
	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	0.00%		The percentage of the portfolio's market value exposed to issuers with an industry tie to landmines, cluster munitions, chemical weapons or biological weapons. Note: Industry ties includes ownership, manufacturing and investments. Ties to landmines do not include related safety products. Coverage: <60%	• As part of our firm-level exclusion policy, we seek to avoid investments in companies that are involved in the production of controversial weapons.

Adverse sustainability indicator		Metric	Impact 2022	Impact (year n-1)	Explanation	Actions taken, and actions planned and targets set for next reference period
Emissions	2. Emissions of air pollutants	Tonnes of air pollutants equivalent per million EUR invested, expressed as a weighted average			The total annual air pollutants (metric tons reported) released as a result of companies' operations associated with 1 million EUR invested in the portfolio. Companies' emissions of air pollutants are apportioned across all outstanding shares and bonds (based on the most recently available enterprise value including cash).	• Through our engagement activity we have requested companies to set targets to reduce their emissions. • We will continue to consider this theme in our engagements over the next reference period. • Our external data provider has recently improved coverage and quality of this PAI and we will explore how to better utilise this within our activities and reporting within the next reference period.

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**	**Impact 2022**	**Impact (year n-1)**	**Explanation**	**Actions taken, and actions planned and targets set for next reference period**
Social and employee matters	2. Rate of accidents	Rate of accidents in investee companies expressed as a weighted average	5.15		Sum of portfolio companies' recordable incident rate (fatalities, lost time injuries, restricted work injuries and medical treatment injuries) weighted by the portfolio's value of investment in a company and by the company's most recently available enterprise value including cash (EVIC). Coverage: <10%	• We may consider rate of accidents within our integration and stewardship activity if there any egregious controversies have been identified. • We will continue to consider this theme in our integration and stewardship activity over the next reference period.

Mandatory indicators applicable to investments in sovereigns and supranationals relating to climate and other environmental matters						
Adverse sustainability indicator		**Metric**	**Impact 2022**	**Impact (year n-1)**	**Explanation**	**Actions taken, and actions planned and targets set for next reference period**
Environmental	15. GHG intensity	GHG intensity of investee countries	539.99		The portfolio's weighted average of sovereign issuers' GHG Emissions Intensity (Scope 1, 2 and 3 emissions/EUR M GDP) Coverage: <100%	• Our annual CEO letter to key sovereign issuers raised priorities related to climate change and targets to reduce GHG emissions. • We joined the advisory committee of an industry initiative which aims to facilitate collaborative engagement amongst sovereign investors and countries • We published a report which called for reform of the international financial architecture to mandate greater consideration of climate risks and promote climate finance. The report was endorsed at COP27. • We will continue to consider this theme in our integration and stewardship activity over the next reference period.
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**	**Impact 2022**	**Impact (year n-1)**	**Explanation**	**Actions taken, and actions planned and targets set for next reference period**
Environmental	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	Absolute: 4 (Count of unique countries) Relative: 6.00% (Percentage of unique		The portfolio's number of unique sovereign issuers with European External Action Service (EEAS)	• Our annual CEO letter to key sovereign issuers raised priorities related to improving social standards and protections. • We integrate social factors into our sovereign ESG process. This can be achieved both quantitatively through

		principles and, where applicable, national law	countries with social violations)		restrictive measures (sanctions) on imports and exports Coverage: 100%	our sovereign ESG score, as well as through qualitative analysis conducted by our sovereign investment and ESG teams. • We will continue to consider this theme in our integration and stewardship activity over the next reference period.

Mandatory indicators applicable to investments in real estate assets						
Adverse sustainability indicator		**Metric**	**Impact 2022**	**Impact (year n-1)**	**Explanation**	**Actions taken, and actions planned and targets set for next reference period**
Fossil fuels	17. Exposure to fossil fuels through real estate assets	**Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels**	2% of in scope AUM Scope is comprised of all funds and segregated mandates managed by Aviva Investors Luxembourg. This includes four real estate funds and two infrastructure funds, as well as		Within the funds in scope, we have one asset where the occupier is involved in the extraction, storage, transport or manufacture of fossil fuels. The Eindhoven U1 asset in the Perpetual Capital fund has DHL as a tenant. All tenants across all funds were assessed against the guidance in the Regulatory Technical Standard and DHL were determined to be involved in the downstream and upstream production of oil and gas, through their energy logistics business. As this is not the principal activity of the asset or the tenant at this location, we do not consider this to be a material climate transition risk or fossil fuel exposure.	Any assets contravening our Baseline Exclusions Policy or fund specific exclusions are immediately screened out of our origination process. Concerning Indicator 17, any occupier who's primary activity is concerned with fossil fuels would trigger the potential acquisition to be screened out. We do however consider assets which use fossil fuels

			six private debt segregated mandates, with a net asset value/outstanding loan amount of £2.5 billion.			(e.g. gas boilers), as this is the dominant current technology and presents a transition opportunity. We do not hold any assets which contravene our policy and plan to continue to apply this policy in the next reference period.
Energy efficiency	18. Exposure to energy-inefficient real estate assets	**Share of investments in energy-inefficient real estate assets**	6% of in scope AUM. Scope is as above		The majority of the 6% of assets which are inefficient are within a client segregated mandate which is comprised of some 588 commercial mortgages, several of which have poor EPC ratings or poor equivalent energy performance where EPC data is not available. Outside this mandate the only other assets with exposure to this PAI are the Kristiansand school assets in our E-RELI fund.	Concerning commercial mortgage assets which are deemed to be inefficient we require our borrowers to refurbish their properties in line with legal compliance, and engage borrowers on an annual basis to challenge them and ensure they have adequate plans in place. As such we would consider the residual risk to be low but require ongoing engagement and focus to remain low. Concerning the Kristiansand school assets with lower EPC ratings, this can increase the cost of the assets being transitioned in line with policy expectations. However, as the assets are already planned for refurbishment over a long-dated lease, we consider this transition risk to be mitigated by our current strategy.

Description of policies to identify and prioritise principal adverse impacts on sustainability factors

Underpinning this Statement are a suite of Aviva Investors policies, procedures, governance structures and controls that disclose how we identify and prioritise principal adverse impacts on sustainability factors and describe the integration of responsible investment and ESG factors through the investment process.

This statement is owned by the Global Head of ESG Investments, who has approved its contents, including Aviva Investors' PAI priorities. The Statement and supporting Policies and Procedures 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.

The governing body of Luxembourg approved the PAI statement on the 06th of July 2023.

The owner is responsible for ensuring that the commitments made in this statement are embedded within organisational strategies and relevant procedures.

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 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 ambitions mentioned below. Where material to the investment/sector, these themes will be given increased focus in our investment research. Where appropriate, we will also report on these in relevant product periodic reports.

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[1].

[1] https://www.ohchr.org/en/issues/hrandclimatechange/pages/hrclimatechangeindex.aspx

Consistent with our ambitions to become a net zero carbon emissions asset manager by 2040[2,3], we have a low appetite for our investments to have a material adverse impact on Climate-related sustainability factors.

Accordingly, we shall prioritise mandatory corporate environmental PAI 3 pertaining to Greenhouse Gas ("GHG") intensity of investee companies and mandatory sovereign environmental PAI 15 GHG intensity of investee countries. Climate considerations, with respect to physical and transition risk, are embedded within our fundamental investment processes, active ownership approach and voting policies.

We 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'[4]. 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 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.

The Aviva Group signed the Finance for Biodiversity pledge and joined the Terra Carta Initiative in May 2021. Through the Aviva Group's Finance for Biodiversity pledge commitments, Aviva Investors aims to play its part in reversing the loss of nature by 2030.

We, therefore, prioritise biodiversity related PAI indicators pertaining to activities negatively affecting biodiversity-sensitive areas (mandatory corporate environmental PAI 7).

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 (mandatory corporate social PAI 13).

The selection of voluntary indicators has been influenced by our priority themes.

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

[2] https://www.avivainvestors.com/en-gb/responsibility/our-climate-approach/
[3] 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.
[4] https://www.avivainvestors.com/en-gb/about/company-news/2021/02/aviva-Investors-climate-transition-engagement-programme/

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 consider all mandatory and some voluntary sovereign indicators as a in our investment process, however, for the purposes of reporting our exposure to the PAIs on an annual basis, we will only be reporting against the mandatory sovereign indicators.

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 (which can be sourced from third party data providers) and qualitative assessments. Data relating to all mandatory and selected voluntary PAI indicators is made available to our investment teams to supplement the assessment of adverse sustainability impacts.

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

Margin of error with our methodologies

The accuracy of the data obtained during the course of the reference period is reliant on: (i) data provided by third party data providers and investee companies; and (ii) Aviva Investors and third party proprietary models. Data from third party data providers may be incomplete, inaccurate or unavailable. Where we seek to rely on proprietary models these may similarly rely on information which is incomplete, inaccurate or unavailable. As a result, there is a risk that Aviva Investors may, from time to time, incorrectly represent data in this statement. Aviva Investors does not warrant the fairness, accuracy or completeness of any data used, or assessment made, in connection with this template.

Due to the data constraints associated with our third party data provider, our PAI calculations are inclusive of Quarters 2-4 2022, and represented as an average of these three quarter ends.

We acknowledge the issues facing Aviva Investors and the wider industry on ESG data availability, methodologies, and we will seek to enhance our mandatory disclosure obligations under SFDR on a continuing basis, as and when the reliability and validity of ESG data evolves.

PAI Data Methodology

Methodologies and processes to identify and monitor PAIs have data availability and quality risks. We rely on the quality of data provided by investee companies and third-party data providers, including the methodologies and assumptions they use. In selecting third party data providers for PAI data, we assessed available offerings and approaches for alignment with requirements of the EU regulation. A data availability limitation is that look through data about indirect investments, e.g., fund-of-fund investments and certain derivatives, is not as accessible as for direct corporate and sovereign investments.

Sustainable finance Disclosure regulation data availability is evolving, both in terms of industry processes and pending future regulatory frameworks for enhanced corporate disclosures. Both AI and our data providers continue to monitor developments in the EU's ongoing implementation of its framework for sustainable finance and we will evolve our methodologies and related policies to improve our reporting over time.

As corporate reporting standards and/or regulatory guidance evolves PAI data availability and quality should improve, given current limitations to methodologies and data, we have made certain methodological assumptions to interpret some requirements associated with the entity PAI calculations. See "Limitations to Data" for further detail on the effects of these methodological assumptions.

ESG dataset limitations

The changing and improving disclosure standards, regulatory frameworks and industry practice are intended to improve data quality. Idiosyncratic limitations may apply to each PAI/ESG metric, data limitations include, but are not limited to:

• Lack of availability of certain PAI metrics due to differing reporting and disclosure standards impacting issuers, geographies, or sectors.

• Nascent statutory corporate reporting standards regarding sustainability leading to differences in the extent to which companies themselves can report against regulatory criteria and therefore some metric coverage levels may be low.

• Inconsistent use and levels of reported vs estimated PAI data across different data providers and sources, taken at varied time periods which makes comparability a challenge. Estimated data by its nature may vary from realised figures due to the assumptions or hypothesis employed by data providers.

• ESG data often lags relative to financial data, as most ESG data disclosures take place only on an annual basis. In addition, there may be a lag between the time when data is disclosed by companies and when it is incorporated into the dataset used.

• A significant proportion of the data used will be estimated. There is a dependency on third-party estimations and models involved in those estimations.

• Market values may increase or decrease based on volumes of assets under management which may give the appearance of PAIs improving or deteriorating.

Limitations to Asset under Management Coverage & Data Availability

For each of the indicators reported, we include information to describe Issuer Coverage for the in-scope asset classes we have data for. Coverage and applicability of data across asset classes and indicators will vary. Limited data availability will require additional subjective consideration if drawing any conclusions on the data disclosed and as data coverage improves in subsequent years it will for certain absolute metrics/indicators result in a significant increase in adverse impacts reported based purely on our coverage improvement ambitions.

How we mitigate adverse sustainability impacts

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.

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.

Exclusions

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 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 sets out those exclusions that we apply across all of our strategies. This policy results in consideration of the following corporate PAI indicators (with the associated sectors being excluded in accordance with the revenue thresholds set out in that policy):

- Social PAI 14 relating to controversial weapons

- Social PAI 10 relating to violations of UN Global Compact Principles and OECD Guidelines
- Environmental PAI 4 relating to companies active in the Fossil Fuel sector

Some products have additional exclusions which will be detailed in product-specific documentation.

ESG Integration

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

Understanding and performing due diligence on 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 the principal adverse impacts prioritised above) can be considered as part of investment decisions across our business.

For further detail please refer to our Responsible Investment and Sustainability Risk Policies.

We utilise a range of third-party data to inform our assessments of PAIs. This data may be sourced directly from company disclosure or from third-party assessments. ESG data is updated throughout the year and we seek to use the most recent data available. Data coverage varies across instrument types and to the extent possible we will prioritise our analysis and reporting of PAIs on listed equity, corporate bond, sovereign bond instruments and real estate assets. We engage with our data providers to promote improved coverage.

Engagement policies

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.

We may request companies or countries we engage with to take action to mitigate PAI risks. These requests are monitored, and progress measured over time. If we feel that insufficient progress is made against these asks, we may escalate the engagement, with divestment as a last resort.

For further detail please refer to the Global Voting Policy available on our website, and can be downloaded via this URL: https://static.aviva.io/content/dam/aviva-investors/main/assets/about/responsible-investment/our-approach-to-responsible-investment/downloads/2023-voting-policy.pdf

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.

We believe that where Principle Adverse Impacts are not, or not yet, financially material, this can be an indicator to governments that there is a misalignment between short-term incentives and long-term financial and sustainability interests. In other words, the presence of market failure. In such instances, there can be limits to what can be achieved by engaging as active owners with issuers on PAIs, as acting on our asks where the market is incentivising poor practices while failing to reward sustainable ones will hit their bottom line and therefore be a competitive disadvantage. The only way to correct such market failures is through policy action. But even though market participants are dependent on policymakers and regulators to make these changes, that does not absolve them of the responsibility to highlight issues where they arise and collaboratively engage with policymakers and regulators to promote well-informed and effective policy corrections. As such, and in addition to our micro stewardship engagement activity, part of the way we aim to mitigate PAIs is via our macro stewardship programme, whereby we take action to accelerate systemic change with the intention of correcting market failures and mitigating systemic sustainability risks.

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

Interpretation of the adherence to global norms and standards can be subjective. Where available, we will utilise third party data sets to assess adherence to these standards and norms alongside any qualitative judgements.

The climate crisis represents the greatest long-term threat to the planet, economies, and societies. We must be active, ambitious, and impactful in the face of climate change to shape a better future. That's why our ambition is to become a net-zero emissions asset manager by 2040.[5] To support this ambition we consider forward looking climate factors within our integration, stewardship and market reform activity. This may include using our own qualitative research which assesses transition plans of our investments, or may utilise third party data, such as science based targets or research from the Climate Disclosure Project.

[5] 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 portfolios. Investors in collective investment funds will be consulted in line with regulatory requirements. We will write to you if any of this applies to your fund.

Historical comparison

We intend to provide an annual comparison in future versions of this report when historical comparisons become available.

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