

# Private Markets Responsible Investment and Sustainability Risk Policy

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May 2024

For today's investor



Version control			
Date	Version	Changes	Author
6th September 2019	V 1.0	Approved by The ESG Governance Committee	Mark Versey
3rd March 2021	V 2.0	ESG Executive Steering Committee approved changes to align with SFDR and reflect the restructuring of the ESG /GRI team	Ed Dixon/ Compliance Advisory Team
December 2021	V.30	Aviva Investors France removed.	Compliance Advisory Team
May 2022	V.4.0	Update to reflect AIRA PAI approach	Compliance Advisory Team / Ed Dixon
June 2023	V5.0	Periodic Review	Compliance Advisory Team/Ed Dixon
May 2024	V6.0	Periodic Review	Compliance Advisory Team/Ed Dixon

Policy Owner
Aviva Investors CIO

Next Review Date
May 2025

## Introduction

Aviva Investors is the global asset management business of Aviva plc. Aviva Investors Private Markets business ("AIRA Business") manages a range of strategies that invest in real estate debt and equity, infrastructure debt and equity, private corporate debt and structured finance. Our platform invests directly in and finances buildings and infrastructure that play a crucial role in shaping our evolving society and economy.

Our duty as long-term stewards of our clients' assets is the responsible allocation and management of capital. We do this to seek stable income and capital growth for our clients, contributing to long-term value creation. To create and protect value, we must balance the needs of our clients with the needs of our stakeholders: customers, partners, communities, and wider society. We do this by understanding material environmental, social and governance ("ESG") factors and Sustainability Risks, as defined in the glossary below, that can impact investment returns and assessing investments for their potential to adversely impact our stakeholders.

In accordance with Articles 3 and 4 of the EU Sustainable Finance Disclosure Regulation ("SFDR"), this Policy describes how Aviva Investors considers the principal adverse impacts of its investment decisions on sustainability factors across the Private Markets Business. 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 [and ongoing management of our real estate & infrastructure assets].

Furthermore, this policy contains an explanation of how Sustainability Risks are considered in our initial investment and ongoing asset management processes, ensuring balanced decision making that delivers for our clients and accounts for the impact on our stakeholders. This policy also contains statements of intent which describe how we intend to invest and manage our clients' assets, including our approach to engagement with relevant stakeholders. A more detailed interpretation of key terms used in this policy can be found in the glossary.

This Policy applies to all operating entities within the Aviva Investors Holdings Group (including, Aviva Investors Global Services Limited, Aviva Investors Luxembourg SA, 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. While we acknowledge that the responsibility for compliance with SFDR sits solely with Aviva Investors Luxembourg, we will be applying the regulatory requirements under SFDR on a global basis, across all Aviva Investors entities in relation to its Private Markets Business. As part of our obligations under SFDR, we will be reporting PAI data at an Entity level for all assets that are managed under the Aviva Investors Luxembourg Management Company only.

## Prioritising Principle Adverse 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"). PAIs outlined under SFDR can only be measured and disclosed for Real Estate Equity, as shown in the table below. This is due to PAIs covering real estate assets only, and our inability to source data for any debt related asset that we hold. We do monitor and report at a product level scope 1, 2 and 3 emissions as well as absolute emissions and carbon intensity for our infrastructure equity assets, but, at this stage, will not be including this data in the Aviva Investors Entity Level PAI statement due for publication in June 2024, as these are not listed as mandatory Principle Adverse Impacts, under which we are obliged under the SFDR to report. 4.

### Principal adverse indicators

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Total GHG emissions generated by real estate assets

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Scope 1 GHG emissions generated by real estate assets

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Scope 2 GHG emissions generated by real estate assets

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Scope 3 GHG emissions generated by real estate assets\*

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Share of investments in real estate assets involved in the extraction, storage, transport, or manufacture of fossil fuels\*\*

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Energy consumption in GWh of owned real estate assets per square meter

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Share of investments in energy-inefficient real estate assets\*\*

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\*Occupier emissions from rented demises within the properties we manage

\*\*Mandatory Principle Adverse Impact Indicators as defined under SFDR

In accordance with the ambitions set out above, the AIRA Business will be prioritising climate-related PAI indicators pertaining to exposure to fossil fuels through real estate assets and exposure to energy-inefficient real estate assets. These metrics will be reported at fund level as part of our annual reporting provided in June each year, and at entity level in a further annual PAI report.

Other themes or PAI indicators may 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.

It is important to note that at present we do not report mandatory or voluntary PAIs across the entirety of the investments which we manage. In terms of the mandatory indicators, these are collated on an annual basis and reported for all investments on an annual basis in fund level annual reporting and our annual PAI report.

### Identifying Principle Adverse Impacts and Sustainability Risks

During due diligence we undertake detailed technical analysis of every asset, activity, or company we are looking to invest in. This is guided by our in-house screening and due-diligence tool, which allows the originator to assess the asset or company's ESG factors that may result in potential adverse impacts on sustainability factors. The integration of various ESG factors into our processes also ensures Sustainability Risks are considered as part of investment decision-making and form part of our wider responsibilities as an asset manager.

We use various techniques to identify PAIs [which may indicate elevated Sustainability Risks] in our investment research process. These include both indicative quantitative metrics and qualitative assessments both at the origination of an asset and on an ongoing basis. The purpose of assessing these impacts is to avoid or limit their effects on our clients' investments, our stakeholders and wider society.

Sustainability Risk	Potential adverse impacts
<ul style="list-style-type: none"> <li>Climate transition risk: Policy, legal, technology, and market changes related to climate change which may pose varying levels of financial risk to organisations.</li> <li>Climate physical risk: event driven (acute) or longer-term shifts (chronic) in climate patterns which have financial implications for organisations.</li> <li>Stakeholder risk: The risk of an environmental, social or governance related incident or event caused by our assets which causes harm to a stakeholder.</li> </ul>	<ul style="list-style-type: none"> <li>Fossil fuels: Exposure to fossil fuel extraction, storage, transportation, or manufacturing</li> <li>Energy efficiency: Exposure to energy inefficient real estate assets</li> <li>GHG Emissions: Scope 1, 2 and 3 emissions generated by our assets.</li> <li>Energy consumption: The intensity of energy consumed by our assets.</li> <li>Waste production: The volume and type of waste produced by our assets.</li> <li>Raw material consumption: The type and volume of raw materials needed to construct or maintain our assets.</li> <li>Land artificialisation: The impact on land and biodiversity from construction or ongoing management of our assets</li> </ul>

The PAI data outlined above is obtained in different ways depending on the asset class in question. In our active equity asset classes of infrastructure equity, real estate equity and real estate long income, we obtain data from our suppliers who engage with our broader supply chain of property /infrastructure managers, developers, and contractors. In our cashflow matching asset classes of infrastructure debt, real estate debt, structured finance, and private corporate credit, we obtain data from intermediaries and from borrowers, or we calculate the potential emissions from the asset using the Partnership for Carbon Accounting Financials (PCAF) methodology. Where data concerning Sustainability Risks or PAIs is not immediately available from the asset or counterparty, we will enter into dialogue with that party in order to gain the information needed. In some cases where this is not available and the lack of information is insufficient to make an informed investment decision, we will not proceed further with the investment.

Our origination process is guided by our in-house screening and due-diligence tool, which allows the originator to assess the asset or company's ESG factors that may result in Sustainability Risks or potential adverse impacts. In real estate equity, we perform additional detailed analysis to assess the asset and planned asset management strategy against our [net zero pathway](#). Where a potential investment is deemed to be high risk by our in-house screening tool, the originator refers the investment details to the Private Markets ESG team who will provide a more detailed opinion.

Data limitations do not currently permit the Private Markets Business to assess, disclose and monitor a fund or product's exposure to sustainability risk on a quantitative basis. We do, however, assess sustainability risk at an asset level through our comprehensive due diligence undertaken on each asset, both at the outset and on an ongoing basis.

### **Mitigating Adverse Sustainability Impacts and Sustainability Risks**

There are specific sectors and economic activities that have significant adverse impacts on sustainability factors that we believe do not form part of a sustainable future. 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. Some products have additional exclusions which will be detailed in product specific documentation.

We believe being active owners of our assets through engagement with our stakeholders is critical to creating positive environmental and social outcomes for our clients and society. Engagement in Private Markets can be defined as structured interactions on environmental and social issues with our customers, including borrowers and occupiers, as well as suppliers and the communities we operate in.

Where we see opportunities to mitigate Sustainability Risks and avoid or limit adverse impacts, we can engage with counterparties. This may involve actively engaging with counterparties to create covenants or incentives, linked to the mitigation of Sustainability Risks and adverse impacts. This allows us to limit adverse environmental and social impacts over the lifetime of the transaction. Where covenants or incentives are integrated with a transaction, the delivery of those requirements is monitored over time as the asset matures.

In private debt asset classes, we actively engage in transactions through creating covenants and incentives that mandate or encourage positive environmental and social outcomes. In equity investments where we own assets directly, we focus asset management resources on engaging occupiers and suppliers to reduce building energy use, and engaging communities to create positive social impacts.

During the asset management stage in Private Markets equity, including real estate and infrastructure, our supply chain partners take over management of the asset in accordance with our requirements. Here there are further opportunities to address Sustainability Risks and adverse impacts, using our direct control of the asset and supply chain to undertake asset management initiatives which drive risk mitigation and minimise impact.

Unlike investing in liquid markets, private markets investing includes the identification, sourcing and, in some cases, construction of the Private Markets into which we invest our clients' capital. From start to finish we embed rigorous analysis of ESG and Sustainability Risk factors into our investment decision making process through our research, origination, and investment asset management stages. How we do this is detailed below.

### **Management and Oversight of Adverse Sustainability Impacts and Sustainability Risks**

#### **The AIRA Responsible Investment Team**

This team is responsible for ESG and sustainability strategy, execution and reporting throughout the [AIPM Business]. This includes overseeing the integration process through investment and asset management, as well as ESG where relevant in internal and external reporting.

The team is also responsible for providing opinions on investment or asset management decisions deemed to have significant ESG or Sustainability Risk factors. Investment decisions are taken by nominated investment committees in Private Markets, with each committee making a balanced decision using ESG and core financial and technical data. Where appropriate, the Private Markets responsible investment team attends the investment committee to represent its opinion, without being a voting member of the committee.

We have an independent investment risk team which is part of Aviva Investors' risk function. This team is responsible for providing oversight and challenge to the investment management teams, including the oversight of Sustainability Risk. This provides a further and valuable layer of analysis and thinking to understand how ESG factors and Sustainability Risks are embedded in our investments.

#### **Governance and Oversight**

Governance and oversight of our responsible investment activity is led by our investment oversight committee, which retains oversight of ESG integration in our investment activities and is supported by our origination forum, which (in turn) guides ESG integration in our investment strategy. At product level, portfolio review meetings are held annually or twice a year where portfolio specific risks and impacts are reviewed, and mitigating actions are agreed. In addition, we encourage a culture of team and individual accountability

through integrating ESG in asset planning and review meetings. Our reporting on ESG metrics (including the PAI data discussed above) through these meetings allows us to hold our teams to account for managing risks and impacts. The integration of ESG factors in investment decisions is part of the pay criteria of our main investment desk heads. In addition, through our global reward framework, all investment employees are expected to support our responsible investment activities and integrate ESG issues into their investment processes.

### Reporting Principle Adverse Impacts

As of January 2022, AIRA will be collating PAI data across our asset classes to allow for Aviva Investors to publish a Principal Adverse Impact Statement, in accordance with the SFDR Regulatory Technical Standards ("RTS") on an annual basis by the 30<sup>th</sup> June each year. As disclosed above, and where relevant, the mandatory real estate indicators covered under SFDR will also be reported at a fund level on an annual basis via the fund's periodic report, to be appended to the fund's annual report and accounts.

### Industry and market reform

We play an active role in reforming private markets and the built environment. This extends to collaboration with our peers, engagement with our extended network of supplier partners, and engagement with industry and government on material ESG and stakeholder matters. We hold a broad range of memberships in industry bodies and third sector groups and use these to drive positive change. Our current memberships include the UK Green Building Council, Better Buildings Partnership, and the Global Real Estate Sustainability Benchmark Infrastructure Advisory Council.

We advocate policy measures to support efficient and sustainable capital markets at national, EU and UN levels to improve outcomes for 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 private markets. 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.

### Conflicts of interest

We are committed to long-term investments that deliver on our fiduciary duty to clients, whilst avoiding or minimising principle adverse impacts on our stakeholders, wider society, or our planet's natural systems. This means we may not always prioritise investment returns in the short term to ensure the sustainability of a company or asset. This is consistent with our fiduciary duty to act as long-term stewards of our client assets.

### Adhering to International Standards across Private Markets

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.

<b>PCAF Global GHG Accounting and Reporting Standard for the Financial Industry</b>	Our PAI and carbon reporting for our infrastructure debt, real estate debt, private corporate debt and structured finance is aligned to the PCAF standard.
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<b>The 2015 GHG Protocol Corporate Accounting and Reporting Standard and ISO 14064-3</b>	Our PAI and carbon reporting for our infrastructure equity, real estate and real estate long income is aligned to GHG protocol.
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<b>INREV Sustainability Reporting Guidelines</b>	Our annual progress statement showing our progress towards net zero in our infrastructure equity, real estate and real estate long income is aligned to INREV.
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### Governance and Ownership

This policy is part of a broader framework of Aviva Investors policies, procedures, governance structures and controls. The policy is supported by an internal policy and procedures guide that describes the integration of responsible investment and ESG factors through the investment process.

This policy is owned by the Chief Investment Officer 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 regulatory changes or amendments 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.

## Glossary

<b>ESG</b>	<b>The term ESG is an acronym which stands for environmental, social, and governance - categories representing values that help drive investment at Aviva Investors</b>
<b>Sustainability Risk</b>	<b>An ESG event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment;</b>
<b>Sustainability Factors</b>	<b>Environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters.</b>
<b>Principle Adverse Impact Indicators (PAIs)</b>	<b>A set of common ESG indicators outlined under SFDR. Aviva Investors are required to disclose the manner in which these indicators form part of our investment process and report against these indicators in the form of a Principle Adverse Impact Statement in June 2023.</b>