

Public Markets Responsible Investment and Sustainability Risk Policy

June 2024

For today's investor



Version control			
Date	Version	Changes	Author
6th September 2019	1.0	Approved by The ESG Governance Committee	Peter Fitzgerald, Al Denholm
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	Compliance Advisory Team
November 2021	V 3.0	<ul style="list-style-type: none"> AIF references removed. ESG Elements references removed. Caveat wording added re reliability of proprietary and 3rd party data sources for ESG scoring and analysis. Principle adverse impacts wording added to sign post the due diligence statement. ESG integration and sustainability risk sections consolidated to avoid repetition. Climate Escalation Programme added in line with wording in prospectus under new section. Sovereign engagement information added under new section. Sovereign tool information expanded. 	Compliance Advisory Team
August 2023	V 4.0	<ul style="list-style-type: none"> Combining Credit & Equities policy with Multi-Assets into one Liquid Markets policy document and integrating the sustainability risk tools and sovereign processes more seamlessly into the policy wording. 	Louise Piffaut, Compliance Advisory Team
May 2024	V 4.1	<ul style="list-style-type: none"> Policy reviewed in light of FCAs finalised guidance on Anti-greenwashing 	Louise Piffaut, Compliance Advisory Team

Policy Owner
Chief Sustainable Investing Officer

Next Review Date
June 2025

1. Scope

This Policy applies to:

- Aviva Investors Luxembourg S.A. (AILX) as a financial market participant in scope of the Sustainable Finance Disclosure Regulation (SFDR) with respect to its fund and portfolio management activities, specifically with respect to the following financial products:
 1. UCITS Funds managed by AILX;
 2. UCITS Funds including Money Market Funds (MMF) managed by AILX;
 3. Segregated mandates managed by AILX.
- Aviva Investors Global Services Limited (AIGSL) as a discretionary investment manager in scope of SFDR with respect to the following:
 1. the AILX financial products (detailed above) for which AIGSL is the sub-investment manager;
 2. the AILX UCITS sub funds that AIGSL co-manages as an investment manager;
 3. integration of sustainability risks in investment decisions for 1 and 2 (above).
- Aviva Investor Americas (AIA) LLC as a registered investment adviser in scope of SFDR with respect to AILX UCITS sub funds that AIA co-manages as an investment manager and the integration of sustainability risks in investment decisions for these sub-funds.
- Aviva Investors Canadian pooled funds

This document aims to provide an overview of our sustainability risk integration approach. This does not mean that all the investment products we manage are article 8 or article 9 under the SFDR regulation; these details can be found in the relevant product documentation on our website.

2. Introduction

As our clients' trusted agent, we recognise our duty 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 (sustainability factors) can have a material impact on investment returns. As well as affecting client outcomes, our investment decisions may have impacts on the environment and wider society. We seek to disclose adverse impacts of our investment decisions in line with regulatory requirements.

We integrate environmental, social and governance factors, including the consideration of sustainability risks, into the investment decision-making process across in scope portfolios. We manage and apply baseline exclusions¹ in line with our policy requirements.

Where our clients have entrusted us to do so, we exercise voting rights, in line with the Aviva Investors Voting Policy², to promote responsible and sustainable practices in companies and other issuers in which we invest. In line with our stewardship priorities, we engage with issuers to influence positive changes in behaviours. The engagement activity is captured and publicly disclosed on in our Annual Sustainability Review³. Where systemic reform is required to deal with risks and market failures, we endeavour to engage with policymakers to drive change to help build a more sustainable financial system.

¹ Baseline Exclusions Policy can be found at [Policies and documents - Aviva Investors](#)

² The Global Voting Policy can be found at [Policies and documents - Aviva Investors](#)

³ The Annual Sustainability Review can be found at [Responsible investment | About - Aviva Investors](#)

Please note: The available data, expertise and systems to identify, measure and mitigate sustainability risk will increase over time. Therefore, this policy will evolve continuously to recalibrate our processes in line with any enhancements as well as regulatory changes.

3. Sustainability risk

Sustainability factors – such as environmental, social, governance themes like employee matters, respect for human rights, anticorruption and anti-bribery matters – may have a positive or negative impact on the financial performance of our investments.

‘Sustainability risk’ means 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.

Sustainability risk relates to the potential financial impact on the investments, while principal adverse impact reflects the negative effect investments may have on society and the environment. Understanding the adverse impacts of investments, especially when an issuer is an outlier to its peers, is one of the factors considered in assessing their sustainability risks in our portfolio construction process. We disclose how we identify and seek to mitigate principal adverse sustainability impacts in our Principal Adverse Impacts Statement.⁴

We integrate analysis of sustainability factors into our investment management process in line with our conviction that environmental, social and governance (ESG) factors can have a material impact on investment returns and client outcomes. We seek to identify and manage sustainability risks alongside other types of investment risks (such as credit, market and regulatory risks).

Identifying and quantifying sustainability risks requires an understanding of a range of inputs and needs to be viewed in the context of past, present, and future performance and trends. The use of ESG scores, whether external or internal, can support an initial assessment of risk in the investment decision making process. However, ESG scores are not viewed in isolation and are considered alongside a broader assessment of investment risk, within the context of the investment strategy.

Assessing sustainability risks inherent to investments involves the consideration of a broad set of qualitative and quantitative inputs. We aim to use a combination of proprietary and external data and tools (detailed in section 5), as well as research, to identify and evaluate sustainability factors and related risks. Often this requires an appraisal based on currently available data. Investment decisions are made following a balance of considerations, as all investments involve some degree of risk.

4. Sustainability Risk Governance

4.1 Management board and committees

Aviva Investors Holdings Limited (AIHL) Board sets the overarching ESG philosophy and approach. The AIHL Board and the Executives appointed to manage Aviva Investors bear overall responsibility for monitoring the implementation of the business, risk strategy and governance arrangements.

The AIHL Board has delegated authority to Aviva Investors Chief Executive Officer (CEO) for the executive management of the business. The CEO is provided with support and advice by a personal Executive Committee comprising all the members of the Executive team.

⁴ Aviva Investors Principal adverse sustainability impacts due diligence statement published at [EU Sustainable Finance Disclosure Regulation \(SFDR\) - Aviva Investors](#)

The Chief Sustainable Investing Officer is responsible for proposing and implementing Aviva Investors ESG strategy, oversight and execution of ESG policies and commitments at a firm and product level and oversight of compliance with the internal ESG controls environment.

The ESG Business Oversight Committee (BOC) is a dedicated body that supports the smooth running of Aviva Investors ESG strategy. Specifically, the BOC ensures ESG policies, procedures and activities are being managed to align with firmwide policies and objectives, risk frameworks, operating environment, regulatory obligations, and client interests.

4.2 Internal control framework

Aviva Investors organisational structure is established around the ‘three lines of defence’ model to support and promote effective and prudent decision making around the integration of sustainability risk.

4.2.1 First Line of Defence

Role of the Investment Analysts and Portfolio Managers

The investment teams are responsible for considering sustainability factors, including sustainability risks and SFDR PAI indicators, as part of their investment processes and across the different public market asset classes, where applicable. This assessment can be informed by external data as well as internal research including analysis provided by investment or ESG Analysts. This includes ESG research reports, engagement insights, analysis and data. Portfolio Managers maintain ultimate discretion over any investment decision, subject to the objectives set out in relevant fund documentation/investment management agreement and Aviva Investors’ Baseline Exclusions⁵ (detailed in section 8). Material macro and ESG themes may also be considered within the House View, being the firm-wide outlook on macroeconomic and geopolitical issues on key regions and markets.

Role of the ESG Analysts

Our ESG teams are embedded within the investment function, which enables targeted insights and close collaboration among AI investment professionals. Insights from the ESG teams can support the identification of material sustainability risks and opportunities. As is the case for any investment risk, investment teams will consider subsequent actions to manage sustainability risk.

Research produced by the ESG teams are published on our research platforms, which are used by investment decision makers and analysts within the investment process. These may include issuer, sector, country or thematic level views, as well as any commentary from engagement and voting activities.

ESG Analysts also help conduct ESG reviews for various relevant strategies across the AI Entities. The reviews provide opportunity to review and identify ESG risks and opportunities within a fund. This can support the consideration of sustainability risk through identifying potential portfolio level investment action or engagement.

Approaches applicable to specific strategies/products

Whilst this policy describes our general approach to the consideration of sustainability risk, some products may be managed differently. Where another approach is adopted, the details are set out in the relevant product literature. This may include (but is not limited to) passive funds designed to replicate an index; products managed in accordance with specific client objectives; or where portfolio management is delegated to a third-party manager.

⁵ Baseline Exclusions Policy can be found at [Policies and documents - Aviva Investors](#)

4.2.2 Second Line of defence

Role of the Investment Risk Team

Aviva Investors' investment risk team is independent and 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 sustainability risks are considered in our investments.

Role of Compliance Function

Aviva Investors Compliance function contributes to the risk management framework and monitors the alignment of investment activities with regulatory requirements. This includes those regulations relating to sustainability and Aviva Investors sustainability policies.

4.2.3 Third Line of defence

Aviva Investor's Internal audit function addresses the appropriate handling of all Aviva Investors risks as part of its audit activities.

5. ESG Data and Tools

The investment teams are supported by a variety of ESG data and analytical tools, including our proprietary ESG scoring tools and a proprietary PAI tool. We acquire data from various sources depending on its purpose. These include traditional market data vendors, specialist companies, NGOs and other sources.

Proprietary ESG Scoring Tools

Aviva Investor's proprietary ESG scoring framework for corporate issuers uses a combination of inputs from externally sourced data (using MSCI as its primary data source) as well as our own voting data. It is designed to support our portfolio construction process. The score considers environmental, social and governance pillars. Scores of each pillar are weighted, combined and scaled to form the issuer 'Weighted Average Score'. The portfolio sustainability risk exposure is calculated by averaging the issuer 'weighted average score' in the portfolio. Coverage is dependent on availability of externally sourced data with the aggregated portfolio weighted average score adjusted to reflect coverage. The Sustainability Risk Assessment classifies the portfolio adjusted weighted average scores from 0 to 10, with pre-defined risk rating buckets.

Scores are not intended to encompass all ESG considerations of an issuer but provide a broad overview. Additional quantitative and qualitative research is utilised to substantiate outcomes. The quality of scores is directly related to the quality of the source data.

Our ESG Sovereign Monitor tool (also known as the ESG Country Model) is designed to generate a quantitative ESG profile of sovereigns. It assigns ESG scores on a scale from 0 to 10 to countries where we have sufficient data on environmental, social and governance topics. The scores are derived from a variety of indicators across E, S and G topics.

The score is available to portfolio managers and analysts via our portfolio management software and an interactive dashboard, enabling peer comparisons and trend analysis. Our score is complemented by other data points, including GDP-adjusted ESG scores and PAI. The scores enable ESG information to be integrated into the investment process and can be used to highlight potential areas of interest that can be further investigated within our qualitative process.

More information on our proprietary ESG scoring tools can be provided upon request.

Please note: The information in this section is expected to evolve with the finalisation and publication of the ESG rating regulation in Europe which is expected to prescribe additional disclosures with respect to ESG scores.

Proprietary PAI Framework

AI has developed a proprietary PAI Framework and visualisation tools that encapsulates the concept of double materiality. This tool highlights where an issuer's performance against an SFDR PAI Indicator potentially indicates a risk to the value, or volatility, of an investment and therefore may be material to an investment decision. Details of PAI indicators can be found in the Aviva Investors – Principle Adverse Sustainability Impacts Due Diligence Statement⁶.

Data reliability

There is varying quality of transparent, comparable and accurate 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, varying across jurisdictions, sectors and/or issuers. Furthermore, the methodologies of data providers differ significantly and therefore there may be circumstances where portfolios or issuers have drastically different ESG scores and 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.

Our proprietary ESG scoring tools use numerous external and internal data points. Components and weightings are subject to change as the model methodology adjusts to include advances in data availability, vendor model changes and qualitative oversight.

Margin of error with our methodologies

The reporting of ESG data for Benchmarks and Portfolios 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 these third-party providers or data used in our proprietary models 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 AI may, from time to time, incorrectly assess a security, issuer or index. There is also a possible risk that Aviva Investors, or the third-party data providers on which we may depend, may not interpret or apply the relevant ESG characteristics correctly. 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.

6. 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 issuers to manage sustainability risks better whilst managing and mitigating their adverse sustainability impacts, we can contribute to a more resilient global economy, which will ultimately enhance our clients' long-term financial performance, prosperity and security.

⁶ Aviva Investors Principal adverse sustainability impacts due diligence statement published on our website: at EU Sustainable Finance Disclosure Regulation (SFDR) - Aviva Investors

As responsible stewards of both our equity and credit holdings, we aim to engage in regular dialogue with investee companies and sovereign issuers, in line with our stewardship priorities, to share best practice, encourage responsible behaviours and monitor positive change. At Aviva Investors we use a range of stewardship tools to drive alignment with our clients' sustainability objectives and long-term returns.

More information on our approach to stewardship and Global Voting Policy can be found on the Aviva Investors website.⁷

7. Macro Stewardship

We also undertake macro stewardship, to advocate for policy measures to support efficient and sustainable capital markets at national, EU and UN levels, to improve outcomes for our clients. We also aim to 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 such as the ICGN Global Corporate Governance Principles and the G20/OECD Principles of Corporate Governance.

8. Exclusions

We apply baseline ESG exclusions to investment in controversial weapons/arms, thermal coal, arctic oil and oil sands, tobacco and in relation to the UN Global Compact principles. For further information on the exclusion thresholds and any exceptions please refer to the underlying fund literature, investment management agreement and Policy on our website.⁸ Please note, where different exclusions to the baseline apply to certain products⁹, these will be set out in client mandates or disclosed in the relevant fund documentation.

9. Conflicts of interest

Conflicts of interest may arise when engagement with issuers, 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 to achieve long-term financial performance for our clients; we believe encouraging issuers to take action to mitigate known sustainability risks should help to improve their long-term financial performance.

However, in circumstances where investments carry significant sustainability risks due to the fundamental nature of a company's business or a sovereign's policies; we may not always advocate for immediate wholesale changes that are not financially sustainable. In these cases, we encourage issuers to adopt gradual transition plans that mitigate sustainability risks and seek to minimise adverse impacts within their business model or country.

⁷ The Global Voting Policy can be found at [Policies and documents - Aviva Investors](#)
The Sustainable Investing Annual Review can be found at [Responsible investment | About - Aviva Investors](#)

⁸ Baseline Exclusions Policy can be found at [Policies and documents - Aviva Investors](#)

⁹ Thermal coal, arctic oil and oil sands exclusions do not apply to the Aviva Investors Canadian Core Fixed Income Pooled Fund and the Aviva Investors Canadian Core Plus Fixed Income Pooled Fund

Appendix 1 – Glossary of terms

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 sovereign, 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.
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.
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. ¹⁰
Principal adverse impact indicators	A list of indicators set out within the EU SFDR relating to principal adverse impacts, including for example, carbon intensity and board gender diversity.
Proprietary ESG scoring tools	AI's internal quantitative metrics for a company or sovereign's exposure to and management of ESG risks.
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 or sovereign bonds and the capital invested in them. This can encompass issues on such things as policy, strategy, performance, corporate governance, and environmental and social issues that may materially affect the future sustainability of issuers and investment value.
Sustainability factors	Sustainability factors are environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.
Sustainability risk	Sustainability risk means an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment.
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'.

¹⁰ [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](https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Draft%20Technical%20Standards/2021/962778/JC%2021%2003%20-%20Joint%20ESAs%20Final%20Report%20on%20RTS%20under%20SFDR.pdf)