Real Assets: Responsible Investment and Sustainability Risk Policy

December 2021

For today's investor

Our approach to responsible investment

Aviva Investors is the global asset management business of Aviva plc. Our real assets 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 create 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 that can impact investment returns and assessing investments for their potential to adversely impact our stakeholders.

This policy contains an explanation of how ESG factors, sustainability risks and adverse impacts are considered in our investment and 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. A detailed interpretation of key terms used in this policy can be found in the glossary.

Our responsible investment objectives

To deliver on our obligation to act as long-term stewards of our clients' assets, we prioritise investment and asset management decisions that deliver on both our fiduciary duty to our clients and on our three responsible investment pillars. Our responsible investment pillars are supported by nine underlying goals that guide our decision making. By delivering on these goals, we believe we will create and protect value for our clients and support the long-term sustainability of economies and society.

Finance the transition to a low-carbon economy	Reduce the impact of our clients' assets	Contribute to a healthy, fair and connected society
Invest £2.5 billion in low-carbon and renewable energy infrastructure and buildings by 2025	Deliver £1 billion of climate transition-focused loans by 2025	Deliver and finance £3 billion of social infrastructure by 2025
Increase low-carbon and renewable energy generation capacity to 1.5GW by 2025	Reduce carbon emissions from our real estate equity investments by 30 per cent by 2025	Support social mobility through investing in health, education, employment and access to technology
Create at least 50 per cent of new pooled strategies with sustainable or impact labels until 2025	Reduce energy intensity in our real estate equity investments by 10 per cent by 2025	Create healthy, safe, fair and accessible employment for our customers, suppliers and communities

Overlaying our nine responsible investment objectives is our commitment to achieving net zero emissions by 2040. This means we will support our clients to reduce greenhouse gas emissions from their directly owned and financed real asset investments in line with limiting warming to 1.5 degrees. By 2040, we will support our clients to balance any remaining emissions by offering financing or direct ownership of carbon removals, such as forestry or carbon credits. Our commitment extends to clients' assets across our entire real assets platform.

Our governance

Our governance structure and processes ensure our approach to ESG integration and active ownership is embedded throughout our business. The implementation of this Policy is overseen by Aviva Investors Holdings Limited Board, which sets the overarching ESG philosophy and approach and approves this policy. The Chief Investment Officers are responsible for ensuring ESG policies are embedded within their teams and that ESG factors (including sustainability risks) are integrated into their respective investment decision-making processes.

In real assets, governance and oversight of our responsible investment activity is led by our real assets stewardship forum, which is chaired by the chief investment officer and has membership from our senior leadership team as well as the chief responsible investment officer. The stewardship forum oversees the direction of our ESG and stewardship activities, as well as the delivery of our sustainability goals and external stakeholder matters. Our real assets investment oversight committee retains oversight of ESG integration in our investment activities and is supported by our origination forum, which guides ESG integration in our investment strategy.

We encourage a culture of team and individual accountability through integrating ESG in asset planning and review meetings. Our reporting on ESG metrics through these meetings allows us to hold our teams to account for delivering our responsible investment goals. 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.

The real assets responsible investment team

The real assets responsible investment team is responsible for ESG and sustainability strategy, execution and reporting throughout the real assets platform. 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 real assets, with each committee making a balanced decision using ESG and core financial and technical data. Where appropriate, the real assets 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 our company risk function. This team is responsible for providing oversight and challenge to the investment management teams, including 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.

Third parties and outsourcing

Our investment due diligence, asset management and reporting activities in real assets require specialist capabilities that we outsource to supplier partners. These providers create data and insights that support our investment and asset management decisions, as well as reporting outputs for our clients. Supplier partners are selected and managed carefully in line with company procurement processes. They use internationally recognised standards when creating materials to support investment decisions, with carbon emissions data created in line with the Greenhouse Gas Protocol and verified to ISO14064-3.

Our approach to risk and impact

Rigorous analysis of ESG and sustainability risk factors is embedded in our research, origination, investment asset management processes. How we do this is detailed below.

Research and strategy	We embed ESG factors in our sectoral and market research to understand how ESG and sustainability factors can impact investment performance. We embed this research into our strategy, which informs origination.
Origination	Our origination teams consider ESG, sustainability risk and potential positive and adverse impacts in their approach to sourcing potential investments.
Responsible investment objectives	Our origination teams prioritise investments that are aligned to our responsible investment goals of supporting the transition to a low-carbon economy and contributing to a healthy, fair and connected society.
Baseline exclusions	We apply our Baseline Exclusions Policy[1], which applies exclusions or exclusion thresholds to investments in controversial weapons and civilian firearms.
Due diligence and sustainability risk assessment	As the origination process develops, we enter due diligence to 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 sustainability risks or potential adverse impacts.

[1] Our Baseline Exclusions Policy can be found on our website under 'policies and documents': https://www.avivainvestors.com/en-gb/about/responsible-investment/policies-and-documents/

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”. The integration of various ESG factors into our processes ensures sustainability risks are considered as part of investment decision-making and form part of our wider responsibilities as asset managers.

Adverse impacts are the negative environmental and social effects of economic activity. This includes, but is not limited to, those in the table below. We use various techniques to identify adverse impacts in our investment research process. These include both indicative quantitative metrics and qualitative assessments. We will disclose how we source, collate and use this data in a Principal Adverse Impacts Policy to be published on our website shortly.

In real estate equity, we perform additional detailed analysis to assess the asset and planned asset management strategy against our net zero pathway.

Sustainability risk	**Potential adverse impacts**
Any activity or asset exposed to high climate transition risk	Greenhouse gas emissions
Coal mining and power generation	Air and water pollution
Hazardous chemicals	Water use and withdrawal
Harmful forestry and agro-commodities	Biodiversity and natural habitats
Adult entertainment	Workforce health and safety
Activities in high ESG risk jurisdictions	Diversity and inclusion
Animal cruelty	Stakeholder and community relations
Tobacco	Governance where applicable

Structuring and engagement	Where we see opportunities, we actively engage with counterparties to create covenants or incentives. This allows us to limit adverse environmental and social impacts over the lifetime of the transaction.
Additional ESG due diligence	Where a potential investment is deemed to be high risk by our in-house screening tool, the originator refers the investment details to the real assets ESG team who will provide a more detailed opinion.
Investment committee	Our investment committees balance financial, risk and ESG analysis and insight from the origination and ESG teams where necessary to form a balanced decision.
Asset Management	In real assets equity, including real estate and infrastructure, our supply chain partners take over management of the asset in accordance with our requirements.
Disposals	For real assets equity assets, where the asset has material ESG factors or sustainability risks that could negatively impact investment performance, we may choose to divest.
Structuring and engagement	Where we see opportunities, we actively engage with counterparties to create covenants or incentives. This allows us to limit adverse environmental and social impacts over the lifetime of the transaction.
Additional ESG due diligence	Where a potential investment is deemed to be high risk by our in-house screening tool, the originator refers the investment details to the real assets ESG team who will provide a more detailed opinion.

Engagement in real assets

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 real assets 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. Such engagements can be carried out as part of the transaction process or through ongoing asset management.

In private debt asset classes, we actively engage in transactions through creating covenants and incentives that mandate or encourage positive environmental and social impacts. 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.

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.

Sustainable and impact products

Whilst this policy describes our overall approach to responsible investment and assessing sustainability risks, some products may be managed differently to the overarching approach principles set out in this policy. This policy details the minimum standards for ESG integration in investment and asset management; any strategies diverging from this do so only through additional processes.

Conflicts of interest

We are committed to long-term investments that deliver on our fiduciary duty to clients, whilst avoiding or minimising 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.

This policy

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 will be updated throughout 2021 to reflect changing regulatory standards and our adoption of them into our processes and policies, and then annually thereafter.

This policy applies to the following entities within the Aviva Investors Group [AIGSL, AIA, AIC & AIAPL] (the “AI Entities”), which are responsible for the discretionary investment management of real assets on behalf of Aviva Investors and our clients. It describes the measures taken to ensure ESG factors and sustainability risks are identified and integrated into the investment process of each of the AI Entities and how we seek to mitigate those sustainability risks through our responsible investment activities.

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

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