The Stewardship Funds Philosophy and Investment Policies

Sustainable Stewardship philosophy

Introduced in 1984, the Sustainable Stewardship Funds have a proud heritage as the UK's first ethical fund range.

The philosophy behind the Funds has always been, and remains, to guide capital allocation responsibly, and therefore to exclude or to include a company in the Funds based on what the company does and how it does it. This philosophy has been reviewed regularly since launch to ensure it remains suitable for the changing investment landscape.

We show the UN's 17 Sustainable Development Goals below.

When reviewing the philosophy in early 2023, we took the decision to use the UN's 17 Sustainable Development Goals, also referred to as the SDGs, as the framework for the investment team to select companies for the Sustainable Stewardship Funds. We believe that this will help us to demonstrate that the Funds' investment in companies with sustainable business practices and which are contributing to a more sustainable world, is equally as important as the exclusion of harmful companies from the Funds. The Funds' exclusion screens are shown on pages 3, 4 and 5 of this document.

The implementation of the UN's Sustainable Development Goals

We believe that the Sustainable Stewardship Funds have an important role to play in helping to achieve the UN's 2030 Sustainable Development Goal Agenda, hence our decision to align the Funds with the UN's SGDs. With under 10 years to deliver the 2030 agenda, progress on financing and delivering the global goals of the SDGs is needed. There is an estimated US2.5 trillion annual financing gap, which could be further exacerbated by the Covid-19 pandemic to a gap of US$4.2 trillion[2], according to the OECD. We believe that this calls for greater alignment of all forms of financing to support the UN's Sustainable Development Goals.

[2]Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet | en | OECD

The Sustainable Stewardship Investment Process

The Sustainable Stewardship Funds have a consistent investment process. This is made up of three layers as shown below:

Layer 1 - Investment selection. Allocate to companies where there is strong evidence that the company has an overall positive alignment to the Sustainable Development Goals.

Layer 2 - Stewardship. Engagement with investee companies on thematic issues, such as climate change, to encourage sustainable behaviours.

Layer 3 - Measurement. Monitor and report on alignment of the Sustainable Stewardship Funds to the SDGs, to ensure positive sustainable outcomes for investors in the funds.

We go through the process in more detail below.

Layer 1 – identifying companies for investment in the Sustainable Stewardship Funds

The Sustainable Stewardship Funds are actively managed. The investment process begins by the investment team identifying suitable companies for the Funds. The exclusions screens, as shown on pages 3, 4 and 5 of this document, are applied to remove unsuitable companies and sectors from the Sustainable Stewardship investment universe. The investment manager assesses the remaining companies to see whether they have an overall positive alignment to the SDGs. This could include a company being aligned to more than one SDG. The overall goal however is to avoid companies where there is no overall alignment to the SDGs.

Sustainability-related investment insights and research help the investment team and the fund manager in their decision-making process. These are provided by the analysts in the Aviva Investors' Sustainable Investment team. This team is based on three pillars of People, Earth and Climate which feed into, as well as inform, the team's research into the SDGs and consequently, the Sustainable Stewardship fund range. The Aviva Investors' Sustainable Investment team sits in the asset manager's wider ESG team, a central function which researches and helps to inform the business on ESG themes.

SDG alignment framework

The SDG alignment framework is an internal framework based on both Aviva Investors' data and research, and external data. The aim is for the framework to determine and categorise a company's level of alignment to the SDG themes. The team do this by looking at two key lenses:

A firm's operational effectiveness

This considers a firm's policies, practices and performance, also known as the 3Ps. It helps the team to assess the quality of sustainability practices within a company's operations and how aligned they are with the SDGs.

A firm's products and service provision

This looks at the firm's revenues and how they are generated through products and services and the different business segments and how aligned the products and services are to the SDGs.

The fund manager has ultimate responsibility for selecting securities for the funds but will work closely with their colleagues in the Sustainable Investment team to maintain the integrity of the Funds' sustainable objective, drawing on the research provided by the wider ESG team.

Layer 2 – Stewardship

We use our influence as a stakeholder to encourage companies to enact the best sustainability practices. The Sustainable Stewardship Funds benefit from both a firm-wide engagement programme, as well as targeted thematic engagements to support the SDGs. The aim of all engagements is to improve how a firm operates.

1. Firm-wide Stewardship activities

On an annual basis, Aviva Investors outlines a set of its sustainability priorities for the forthcoming 12 months, such as climate change and the transition to a low carbon economy, and therefore the themes that we expect investee companies to take into consideration over the coming year. These priorities are articulated in a letter that we send to all company chairs. In addition, the Corporate Governance team, which sits in the Aviva Investors ESG team proactively and reactively engages with businesses on salient ESG issues on an ongoing basis. This forms part of Aviva Investors' broader engagement efforts.

2. Thematic SDG Engagement

The Aviva Investors' Sustainable Investment team, which as mentioned, is based on the three pillars of People, Earth and Climate, is committed to pursuing specific thematic and engagement programmes to support the aims of the UN's Sustainable Development Goals. The engagement topics include but are not limited to, human rights disclosures, climate ambition and disclosure and biodiversity assessments. We have specific asks of all the companies we engage with. The team reviews and prioritises engagements to target underserved sustainable development goals.

Layer 3 – Outcomes and Measurement

Layer 3 focuses on measuring investor outcomes, primarily how much the Sustainable Stewardship Funds are aligned with the SDGs and also the outcomes of positive ownership.

We are committed to measuring and demonstrating the Funds' alignment to the SDGs and using a comprehensive set of metrics.

Internal monitoring of the Funds and their alignment to the SDGs is carried out regularly using our inhouse SDG alignment framework and also Key Performance Indicators (KPIs). Members of the Sustainable Investment team will meet members of the wider ESG team regularly to review fund performance against the Funds' sustainable objectives (these are included in the fund aims). Their role is to also ensure that the insights from the Sustainable Investment team are considered and taken into consideration for engagements and also integrated into investment decisions.

An external fund report covering the progress of the Funds against their stated sustainability objectives is published annually. The aim of this report is to ensure investors have a third-party view of the

Funds, and therefore an objective view based on data from the Funds and using the MSCI SDG Alignment Methodology. We chose MSCI as we believe that their approach to how well companies are aligned to the SDGs is the closest to the Sustainable Stewardship philosophy, and that it is therefore a suitable reflection of the Funds' approach to meeting their sustainable objectives.

This report provides data to show the allocation of the Funds to companies with positive and negative alignment to the UN Sustainable Development Goals, as well as the fund performance compared to the benchmark. Metrics showing how well the Funds are aligned with the SDGs, including against the MSCI SDG Alignment Methodology, are provided regularly.

The following exclusion screens are applied to the Sustainable Stewardship Funds as part of Layer 1 investment selection.

Applying these screens to the investment universe helps to ensure that the Sustainable Stewardship Funds do not invest in any companies that the investment team believes are not aligned with any of the SDGs.

Please note that the exclusion of tobacco from the Sustainable Stewardship Funds is covered by the Aviva Investors baseline exclusion policy: esg-baseline-exclusions-policy (5).pdf

Pillar	Exclusion Rationale	Issue	Negative Screening criteria
People Aligned to human capital stewardship UN SDGs, as well as widely accepted International Treaties, Conventions, Frameworks and Norms. Including (but not limited to); UN Disarmament; ILO (International Labour Organisation) Standards and UN Guiding Principles on Human Rights; WHO Public Health Frameworks.	Lethal Products – harmful when used as intended	Weapons	(i) Any involvement in the manufacture of system weapons, components or support systems (including conventional, biological-chemical, cluster munitions, depleted uranium and nuclear weapons). (ii) Any involvement in the manufacture or retail of civilian firearms.
	Addictive Products - harmful when abused	Adult Entertainment	10% of turnover from adult entertainment or pornography
		Alcohol	10% of turnover from the manufacture of alcoholic products. 25% of turnover from the distribution or sale of alcohol products (e.g., retail, hotels, restaurants and leisure industries).
		Gambling	10% of turnover from gambling related activities.
	Harmful corporate behaviour	Social controversies	Companies that are subject to very severe controversies related to a firm's impact on Customers, Human Rights & Community, and Labour Rights & Supply Chain.
Climate Aligned to UN SDG 13 and the goals of the UN Paris Agreement.	Carbon Intensive products – harmful negative externalities	Thermal Coal	(i) Any revenue from thermal coal mining or thermal coal fired power generation. (ii) Any thermal coal reserves.
		Oil & Gas	(i) Any revenue from Arctic oil and/or gas production (onshore and offshore). The definition of 'Arctic' is geographic and includes production activities north of the 66.5 latitude.

Pillar	Exclusion Rationale	Issue	Negative Screening criteria
		Oil & Gas (following on from page 3)	(ii) Equal to or more than 10% of revenue and conventional oil and/or gas extraction and production.* (iii) Equal to more than 15% of revenue from natural gas electricity generation**. (iv) Any revenue from unconventional oil and/or gas production (including oil sands, oil shale, tar sands, shale oil, shale gas, tight gas, coal bed methane, coal seam gas. (v) Equal to or more than 10% of revenue from liquid fuels power generation.* (vi) Any revenue from unconventional oil and/or gas reserves (including shale gas, shale oil, tar sands, tight gas, coal bed methane and coal seam gas. (vii) Equal to or more than 1000mmboe of oil and/or gas reserves. (viii) Equal to or more than 75% of revenue from oil and/or gas value chain activities, including distribution and retail, equipment and services, petrochemicals, pipelines and transportation, refining and trading***.
Earth Aligned to natural capital related to the UN SGDs, as well as widely accepted International and Regional Treaties and norms. Including (but not limited to): Stockholm Convention, Montreal Protocol, OSPAR Priority List; Animals Scientific Procedures Act (UK (United Kingdom)), Directive 2010/63/EU on the protection of animals used for scientific purposes (EU)), Animal Welfare Act (US).	High Risk Product - potentially harmful outcomes	Nuclear power generation	(i) >10% of turnover from nuclear power activities. (ii) Any company deriving revenue from the mining of uranium.
		Genetic modification	Companies that genetically modify organisms, where we consider the sustainability risk outside of tolerance.
	Polluting Products - harmful negative externalities	Chemicals of concern	Any involvement in production of chemicals restricted by international agreements Stockholm Convention, Montreal Protocol, OSPAR Priority List. Excludes lead.

Pillar	Exclusion Rationale	Issue	Negative Screening criteria
	Lethal Products/Services – harmful when used as intended	Animal testing	(i) Any involvement in the development and manufacture of non-medical related products (such as cosmetics, personal care, household cleaning products) where this has involved animal testing and where the company does not disclose an animal testing policy or statement. (ii)) Any involvement in providing animal testing services and where the company does not disclose an animal testing policy or statement.
		Fur	Any involvement in the production or design of fur pelt, raw materials and products containing fur or fur trim. It also includes companies that hunt, raise, trap animals for their fur.
		Endangered species	Involvement in the retail of threatened species, or components thereof, with insufficient action to prevent it.
	Harmful corporate behaviour	Environmental controversies	Companies that are subject to very severe controversies related to land use and biodiversity, toxic spills and releases, energy and climate change, water management, operational non-hazardous waste, environmental impact of products and service, and management of supply chain environmental impact.

*From 2025, the threshold will reduce by 1% a year to 0% by 2035.

** From 2025, the threshold will reduce by 1% a year to 0% by 2040.

** From 2025, the threshold will reduce by 5% a year to 0% by 2040.

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