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Fund governance at Aviva

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What is fund governance?

For us, fund governance is about being confident that the funds we offer our customers remain suitable at all times. This involves us having a structured approach in place for selecting and monitoring all of the funds on our investment platforms.

It includes...

- monitoring the performance of the funds we offer on a regular basis
- adding new funds
- removing existing funds
- assessing and carrying out any changes made to funds
- reviewing and agreeing all fund risk ratings
- ensuring a fund's approach to environmental, social and governance (ESG) factors is aligned with Aviva's Responsible Investment Policy.

It's about...

- only having funds where both the fund provider and the fund itself meet our criteria
- only having funds that perform in line with their respective benchmarks
- taking action where funds don't meet our expectations and/or aren't performing in line with their objectives
- offering a range of funds from leading fund management groups covering the key asset classes and risk appetites.

And...

- making sure that we assess the impact of any fund changes, including the closure of a fund, on our customers
- making sure that we evaluate and communicate the risks of each fund to our customers.

In other words, we see governance as a way to set the standards that we think customers have a right to expect from the funds that we make available.

If funds fail to meet our standards we take action; initially by engaging with the fund manager(s) and ultimately by

removing the fund from our offering and moving customers out of the respective fund, and providing a suitable alternative fund.

There is a dedicated inhouse team of fund governance analysts. This team is responsible for the fund range that we offer our customers - from selection to ongoing monitoring.

How do you govern adding new funds?

We work hard to make sure that we offer a range of funds from different fund managers and covering different investment styles and asset classes and across the risk spectrum so our customers, who want to select their own funds, have a wide range of funds to choose from.

At Aviva we believe that taking environmental, social and governance considerations into account can help us make better investment decisions. All of the asset managers whose funds we offer on our platforms are expected to comply with the principles set out in Aviva's Responsible Investment Policy. Please see the latest Aviva UK Life Responsible Investment Report for more information: [aviva.com/sustainability/reporting](https://www.aviva.com/sustainability/reporting)

If we spot a gap in our fund range, or if we get market feedback, we pull together a list of funds that fulfill our criteria, and which subject to analysis, we could add. The analysts in our inhouse governance team will then carry out both quantitative and qualitative analysis on the funds.

This analysis involves:

- screening of the fund management groups whose funds we offer on our platforms
- performance analysis looking at the consistency of metrics such as performance against benchmark and sector
- a review of the fund's position with the main fund rating providers
- a management group due diligence questionnaire
- a fund due diligence questionnaire asking questions such as "What is the investment philosophy and process?"
- face-to-face meetings with the investment team
- analysing the extent to which the fund incorporates environmental, social and governance considerations, and ensuring the funds we offer are aligned with Aviva's Responsible Investment Policy.

We then negotiate competitive commercial terms with fund providers and put in place the right legal and operational agreements to protect ourselves, and our customers, and to make sure that our process for offering external funds to our customers, and the processes we have in place for monitoring those funds, run smoothly.

How do you govern fund performance?

Internal funds

We manage the performance of our internal funds through the Aviva Customer Investment Forum, chaired by our Chief Investment Officer. The group meets quarterly to:

- review investment policy and strategy, taking into account changes in markets
- monitor and review investment benchmarks
- approve changes to fund objectives and risk controls
- review and evaluate investment performance
- look at any changes to the investment process
- make sure we're compliant with the relevant sections of the Financial Conduct Authority Handbook
- make sure we're compliant with Aviva Group investment policy (including derivative policy and counterparty risk exposure)
- question, and challenge, the fund manager(s).

External funds

The analysts in our inhouse governance team run all of the funds on our platforms through a quantitative investment screen on a regular basis. This focuses on the consistency of fund performance against both the relevant sector and benchmark. This allows the analysts to identify any outliers in performance and to assess whether any further analysis is required.

Any funds that fail the quantitative screen are placed on watch; this signals that the funds require further analysis. Our fund analysts will then carry out detailed qualitative fund analysis, using the 5P model.

The 5P model allows the analysts to formulate a round view of a fund and includes a review of:

Performance of the fund

Why is performance behind the peer group and/or benchmark? What is causing the underperformance? Can it be rectified? Is it due to a change in the team?

People - the team

Key decision-makers, experience of team members, team stability, remuneration, succession planning.

Parent company

Corporate overview & assessment, product diversity, overall assets under management, AUM, ownership structure.

Process

Is the process clear? Is it robust? Is it repeatable? How is risk managed?

Product

Capability/viability, fee structure, investor concentration, dilution/spread, construction. Is the objective appropriate?

ESG considerations are a standing item on the agenda for the review of all funds and are incorporated into the 5P process. The findings of the reviews carried out by the governance team will be presented to the Customer Investment Forum, as mentioned on page 2. The decision regarding the most appropriate action to take will then be made. This could include one of the actions below:

- placing the fund under review for a period, whilst engaging closely with the fund manager, setting out our concerns and seeking efforts that we believe will help the fund.
- removing the fund from our platforms.

We don't think that short-term underperformance alone is an adequate reason to remove a fund. We know that the current point in the market cycle may not always suit a fund's management style. So we'll keep a fund if we know it follows a robust and repeatable investment process.

We believe the key is to understand whether the fund is performing as customers could reasonably expect in the prevailing market conditions.

How do you govern the removal of funds?

Our decision to remove a fund from our platforms can be driven by a number of factors including:

- fund closure
- manager change
- corporate activity
- poor performance
- operational issues
- where we have concerns about a fund's approach to ESG.

We always start with the analysis outlined above when deciding whether to remove a fund.

Customer communication

Once we've agreed to remove a fund we write to all customers invested in the fund, giving them appropriate notice that the fund is closing. At the same time an alternative fund with similar objectives will be chosen, wherever possible, and we'll automatically switch any existing investments into that fund. We'll also redirect any regular payments they were making to the appropriate alternative. We always offer customers the option to make their own investment choice first. We'll only perform an automatic switch into our chosen alternative if we don't receive any customer instructions.

Changes to funds

The importance of monitoring change

We understand that, from time to time, the funds on our platforms will undergo change. For example, changes can be made to fund names and investment objectives or funds could merge. We also understand that it's important for us to find out about any changes as soon as possible. This enables us to keep our customers informed about any changes; so as you'd expect, we have processes in place to get the information, assess the potential impact and take the necessary action.

How do we do it?

We make sure we get timely information on fund changes/corporate actions by taking a two-fold approach:

Formal legal agreement - we have formal legal agreements with all fund managers. These set out the notice period that they have to give us for any fund changes.

Active engagement - we have good relationships with all of the fund providers whose funds are on our platforms. This helps make sure that we're aware of their strategy and plans to make any changes as early as possible which, in turn, helps us to assess the impact of the change on a fund and ultimately on our customers.

Corporate Action Tracker

As soon as we know a fund change/corporate action is going to happen we add it to our 'Corporate Action Tracker'. This is how we make sure that all changes are managed effectively. Once we've assessed the impact the change will have, we use the Corporate Action Tracker to record the decisions we've made and the Aviva platforms/business areas that will be affected. We then track the change until all systems have been updated and communications issued.

Where a material change is made to a fund we will inform all customers who are invested in that fund.

Fund risk ratings

We allocate risk ratings to each of the funds that we offer our customers. This is to ensure our customers are fully aware of the risks involved when investing in a particular fund.

We use our risk ratings to describe the relative risk of a fund compared to others in our range; the higher the rating, the greater the risk and range of potential returns.

Our risk rating system is based on an in-depth analytical process, which uses a combination of quantitative screening based on historic volatility, and qualitative assessment. We review the risk rating of each fund at least once a year and we do this with the same rigour as when we first gave the fund its rating. We can, and do, bring our reviews forward if, for example, there have been significant changes to individual funds or in market conditions which have caused increased volatility in certain asset classes.

Aviva's approach to sustainable investment

We take our duty as a sustainable investor and our track record in this space very seriously; we were the first operationally carbon-neutral international insurer in 2006; we were awarded a UN Momentum Award for Change Award in 2017 in recognition of our commitment to reducing our environmental impact, and we were the first major insurer to aim to be net zero by 2040.

We were also founding signatories to the UN Principles for Responsible Investment and in the vanguard of signatories to the UK Stewardship Code.

Aviva's commitment to corporate responsibility

Aviva's approach to corporate responsibility is a key pillar of our business strategy. We aim to be a trusted, respected and sustainable company, making a real contribution to society. This commitment to responsible business practices and responsible investment has contributed to Aviva's inclusion in the FTSE4Good index which assesses ESG performance.

We are responsible owners who, by encouraging greater transparency, more sustainable practices and better corporate governance, shape new corporate behaviours that help to reduce the risks for our clients. We aim to challenge accepted practices and promote fresh debate in every industry in which we invest. In doing so, we're helping to create greater shareholder value while building a genuine legacy for our customers, our communities and the planet that we all share.

ESG in fund selection and monitoring

The 5P process, which as mentioned on page 3 of this guide, covers Parent, Product, Process, People, and Performance, and is used to analyse funds on the watch-list, includes ESG considerations. All of the fund groups whose funds are selected for our platforms must show that they incorporate responsible investment into their investment process.

The monitoring process is equally robust - asking fund managers to justify stocks that perform poorly on ESG criteria and discussing their responsible investment approach, including voting and engagement activity.

Our Voting Policy and all our voting schedules (published three months after the AGM) are available on the Aviva Investors website ([avivainvestors.co.uk](https://www.avivainvestors.co.uk)). This includes how each vote was cast and the reason for any opposition votes. We were among the first financial institutions to adopt this practice, having had a formal and considered voting policy since 1994.

Summary

To the outside world, governance in the financial services industry is becoming more and more important. To us, operating with a structured governance model is essential for us a business and for our customers.

We continually review our governance procedures and evolve our approach to ensure it continues to be fit for purpose.

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