Aviva Independent Governance Committee

2024 Annual Report for the year to 31 December 2023

Contents

An introduction from the Chair

Welcome to our report

This report assesses the value for money provided by Aviva for your workplace pension.
It covers the 12 months from 1 January 2023 to 31 December 2023, and looks forward to future developments.

The essential task of the Independent Governance Committee (IGC) is to assess value for money for your workplace pension with Aviva.

Receiving good value for money from your pension provider is vital. This means appropriate and good quality investment funds, competitive charges, good service, and the ability to engage with your provider. We look at these matters in our report, and we are particularly pleased to note that last year Aviva had agreed to reduce charges for 260,000 customers with older policies and that the charges were competitive for newer policies. We hope you find this report interesting and informative.

The Financial Conduct Authority (FCA) is shortly expected to change the process of assessing value for money for your pension. However, the remit of the IGC has not changed in the last year.

Costs and charges

We are pleased to note that costs and charges remain highly competitive for newer policies which are those held by over 90% of customers. We received detailed information from a study of costs and charges for the main UK workplace pension providers. This backs up Aviva's assertion of charges at or below average levels for all sizes of employers. Average charges are significantly below the charge cap.

Our challenges in previous years have concentrated on older arrangements (often referred to as legacy arrangements), which have higher charges. To place this in context, they represent less than 10% of policies.

Last year, we described that, having previously capped charges at 1% a year, Aviva had agreed to reduce charges to a maximum of 0.75% a year for most of these policies. Aviva is ahead of other similar pension providers in making such a change for older pension arrangements. Over 260,000 customers have benefitted from this reduction in charges, and you will see in the costs and charges section of our report that this could potentially have significant benefits for customers at retirement. We are pleased to note here that Aviva has completed this change slightly ahead of schedule.

There are some exceptions for a minority of policies with specific features such as With-Profits investments. If this applies to you, we have overseen communications to you about your policies. When this communication program, and any actions resulting from it, is complete near the end of 2024, Aviva will review with us the position of charges and features for these remaining policies. We will report on this next year.

Managing investment risk

Most investment markets gave strong positive performance in 2023, particularly equity markets, which form the majority of pension investments for those of you with over 10 years to go until your retirement date. This was welcome after difficult equity markets in 2022.

The investment section of the report describes how markets have performed, generally, for different asset classes, followed by the investment performance of the two main funds most of you are invested in – My Future and My Future Focus. The investment returns varied between these two funds, with My Future achieving returns greater than most main UK pension provider funds, and My Future Focus a little below the average of these funds. Both funds achieved significant positive returns over the year.

In late 2024, Aviva will make changes to My Future Focus designed to increase the growth potential - building on previous changes in 2022. We support these changes and the review process that led to them. We think these changes will increase the chance of delivering good performance in the future after mixed performance in the recent past.

Environmental, social and governance (ESG)

The FCA has given the IGC the task of commenting on “the adequacy and quality of Aviva’s policy in relation to both ESG financial and non-financial matters”, factors sometimes referred to as “sustainability”. We have also looked at how ESG feeds through into investment strategies, decision making and Aviva’s stewardship policy.

ESG areas such as climate change, societal health or governance issues may impact your investment funds’ performance and risk level, especially over the long-term. For example, if ESG problems persist, governments could introduce carbon regulations affecting energy companies or a sugar tax which could affect food companies. Where these companies are held in your investment funds, your performance would in turn be impacted. Therefore ESG factors are important.

Aviva remains one of the leaders within the financial world on ESG matters and its policies are strong. Aviva’s stated ambition to reach net-zero by 2040 and to reduce carbon emissions by 60% by 2030 compared to 2019 levels is amongst the most ambitious of pension providers. We are pleased to note good progress towards this, but both Aviva and the IGC acknowledge that, as time progresses, further reductions become increasingly difficult. The political and regulatory landscape will need to evolve more quickly if Aviva is to meet its ambition. Our report considers this in more detail.

We have discussed with Aviva whether the ESG integration for the Aviva default funds has reached, or is close to, a point where it may start to conflict with the investment return objectives. Aviva has confirmed this is not a conflict at present, but it is mindful of keeping a watch on this and has re-confirmed that the investment objectives are the primary objectives.

We rate Aviva highly in this area of our assessment; its policies and ambitions are strong and the IGC is supportive of this. If Aviva can deliver on those policies while ensuring good financial outcomes for its policyholders, it will continue to stand apart from and ahead of others.

Our remit from the Financial Conduct Authority

The Independent Governance Committee receives a remit from the FCA, which remains unchanged from last year. The FCA defines three specific areas of assessment of value for money:

- costs and charges
- investment performance, and
- servicing for customers

Each of the three headlines covers a number of points within them.

The FCA has also prescribed that the Independent Governance Committee (IGC) selects specific and appropriate comparator pension arrangements against which to compare value for money.

You can read more detailed commentary on individual areas in further sections of this report.

There is also a similar value-for-money assessment of investment pathways. These are four specific investment funds available to customers starting to draw benefits at retirement.

Servicing and communications

This year, we again received an independent research report to assess how Aviva's servicing compared against the other larger pension providers. This is in addition to information we receive directly from Aviva. Several members of the committee visited one of the main servicing sites in Norwich to meet administration team members and leaders to better understand the service provision.

This section of our report describes high absolute performance and positive comparators on most measures against other leading providers. There are a couple of areas of slight deterioration in terms of call answering times and complaints, but this is compared against a very strong starting comparator from 2022.

The IGC considers it important that servicing levels are consistent across all pension products whether older or newer and across different systems for administration. We are pleased to note good consistency.

Aviva runs a comprehensive suite of educational and support facilities, including online videos and seminars. We encourage all of you to look at these to see if any of the topics would be useful for your own circumstances. We recommend you explore what is available to help you with managing your pensions, making decisions and learning about your options. You can log in to the MyAviva website or app. Alternatively, you can contact Aviva to find out more.

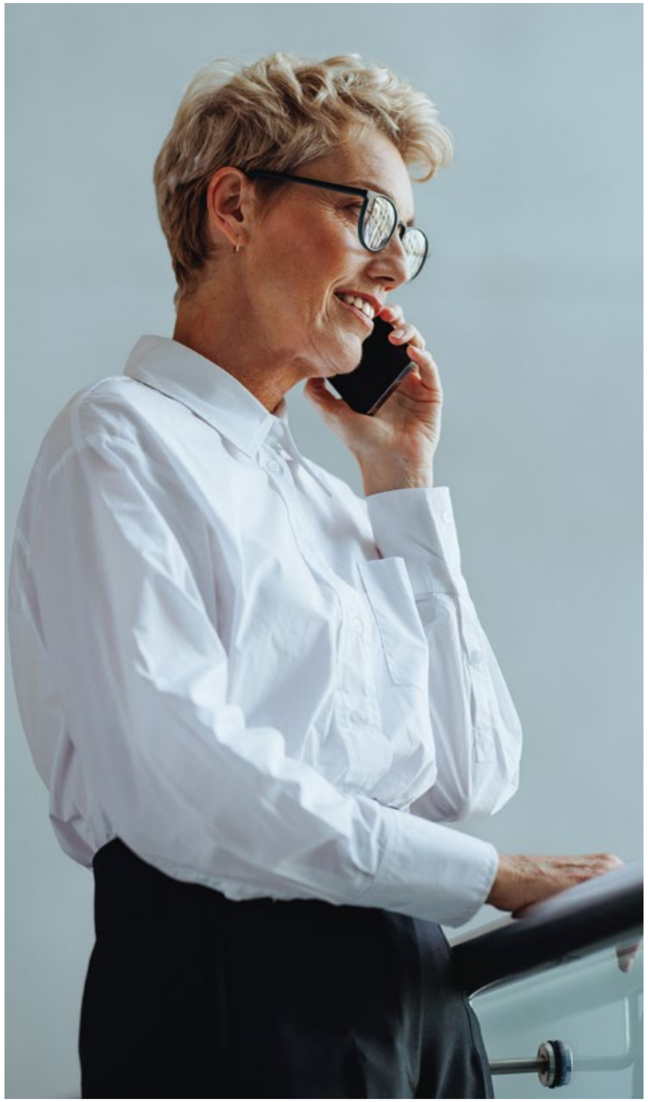
If you give Aviva your email address, it makes it easier for Aviva to contact you with helpful pension information and ideas.

We particularly encourage all of you to make sure you have told Aviva of your nominated beneficiary to receive your pension benefits upon your death. Every year, there are people who pass away without having made such a nomination.

Overall, the IGC considers the quality of servicing and engagement to be good value and compares well against other UK pension providers.

Investment Pathways

This is the fourth year that we have been required to report on the value for money received by customers who take out an Investment Pathway, but the take-up across the industry remains relatively low in relation to customers taking other retirement options. We are comfortable, however, that those customers who do opt for an Aviva Investment pathway receive a well-designed solution which provides good value.



To conclude

Finally, I would like to thank the whole IGC for their work this year, and also the Aviva team which has supported us with information, co-ordination and by responding to our considerable information requests.

During the last year, Marcia Campbell and Gurmukh Hayre left the committee having served for many years, and we thank them for their immense contribution.

Three new committee members have joined us during the year: Emma Douglas, Jenny Segal and Rene Poisson. We welcome them and their already considerable input into our assessments this year. You can find details of each IGC member on our website, **here**.

We will continue to assess the value for money you receive next year. Should you want to get in touch with us, please email us at IGC@aviva.com.

We welcome any feedback or questions you might have. Any questions or comments you raise will reach the IGC and not disappear into a black hole - and we will discuss them with Aviva.

I hope all readers stay safe and well through the year ahead.

Colin Richardson
Independent Chair – Aviva IGC

Costs and charges

Costs and charges

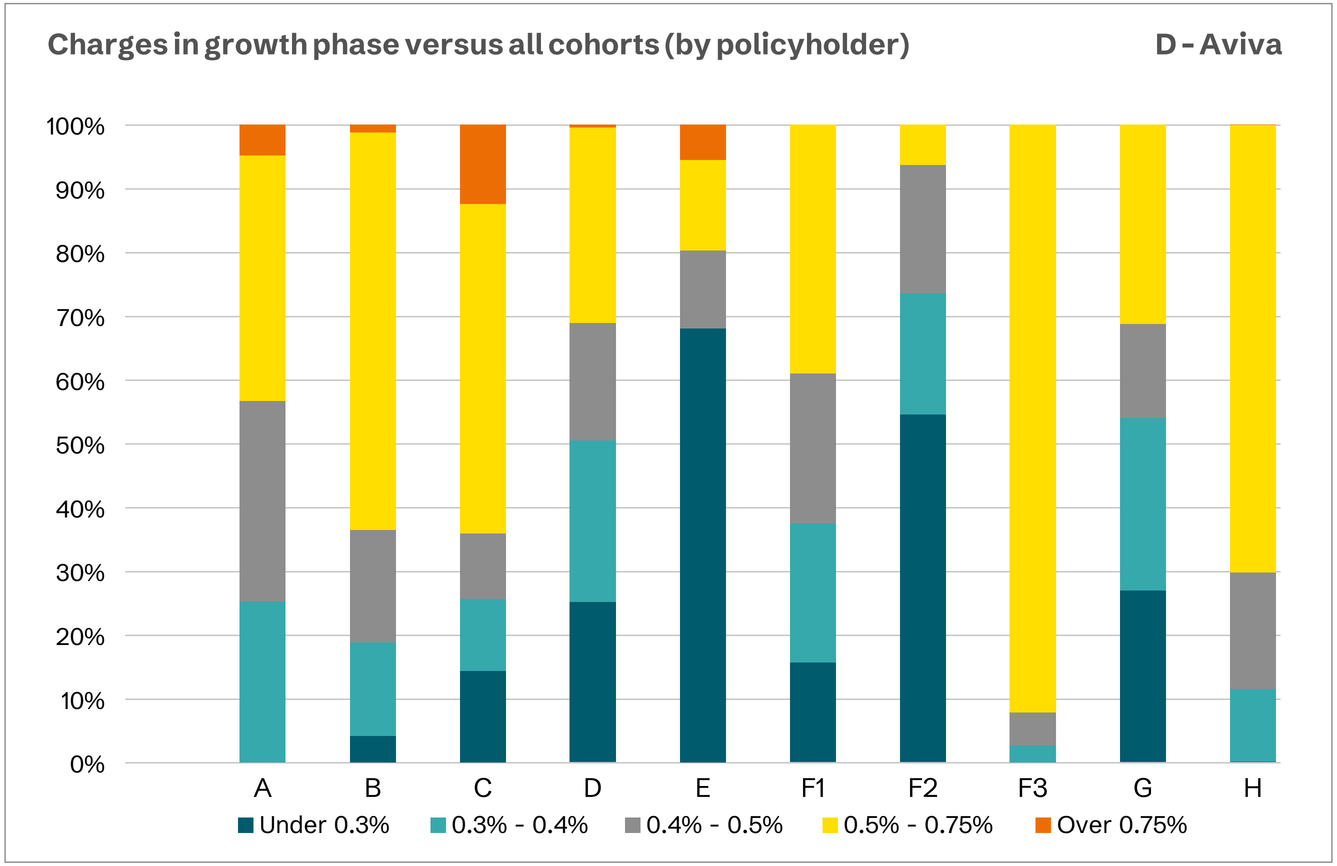
The costs and charges you pay for your workplace pension have a direct impact on the value of your retirement benefits. The higher the charges you pay, the more value you will lose from your pension.

Over the years, due to direct challenges made by the IGC, Aviva has removed many older, outdated charges. These include monthly or yearly policy fees, higher charging initial units and early surrender or exit penalties.

You pay a single overall direct charge to Aviva, which covers the administration of your pension and the cost of your investment. In addition, all investments carry a transaction cost, which is the cost of dealing in various investment markets. These transaction costs are reflected in the investment performance of your chosen fund.

The IGC considers all of these charges as part of their value for money assessment.

This year, we took part in the Redington study, which compares many aspects of policies between leading UK pension providers. This again showed Aviva in a good light when compared to its peers. For the active book of Aviva's workplace pension business (around 90% of you), charges are at or below the average charges in comparison with other main workplace providers for all sizes of employer schemes and sizes of funds. Aviva has a high proportion of customers in the lowest two charge bands.



Source – Redington Ltd.

You can see the charges applicable to all auto-enrolment schemes in our annual costs and charges report by clicking on the link below.

[Costs and charges report]

You can also find the charges applicable to your own workplace pension on your annual statement. By accessing the following link, you can also see the effect of those charges on your pension. You will need your plan number, which you can find at the top of your annual statement.

[Costs and charges website]

Update on our challenge to Aviva.

In 2022, we challenged Aviva on charges. We felt it was unfair that customers in older products not protected by the auto-enrolment charge cap introduced in 2015 were paying more than the 0.75% a year maximum. We are delighted that Aviva accepted this challenge, and put in place a project to identify, cap and remediate any customers - other than specific exemptions for the minority of customers with particular further benefits warranting a higher charge.

We are very pleased to be able to report that Aviva has completed the project ahead of schedule. This means over 260,000 of you will now benefit from a lower annual charge, improving your retirement outcome. Aviva reduced most charges from 1% a year to 0.75% a year. We believe Aviva is the first company to complete this exercise for older products. While it may not appear to be a significant reduction on the surface, the chart below shows how your pot sizes could grow over the years.

It is based on a current pot size of £50,000 for a customer contributing £200 a month, with 30 years until retirement. It assumes a 5% a year growth rate and a 2% annual rate of inflation.

Assumed current pension pot	**£50,000**
Assumed monthly contribution	**£200**

Duration (years)	Projected fund value assuming 1% a year charge	Projected fund value assuming 0.75% a year charge
5	**£67,100**	£67,900
10	**£84,900**	£86,700
15	**£103,400**	£106,600
20	**£122,900**	£127,800
25	**£143,500**	£150,700
30	**£165,400**	£175,500

Source: Aviva

There were three groups of customers excluded from the capping exercise. As a reminder, these are shown in the table below.

Exclusions	Policy count	Rationale for exclusion
Self-selected and external funds	**(c30,000)**	These customers have made a conscious decision to select funds that charge more than 0.75% annual management charge but may deliver higher returns. The customer's decision on which fund to select is out of Aviva's control.
With Profits	**(c40,000)**	This exclusion was recognised in the IGC challenge. Aviva's proposition reviews have historically concluded that investment in With Profits represents fair value and Aviva will continue to assess that position through the new Consumer Duty regulations applying to providers.
Investment choice and flexibility including access to With Profits	**(c120,000)**	All customers have access to a wider range of funds and greater flexibility compared to lower cost external benchmarks. Where customers also have access to With Profits, Aviva consider this range to be of sufficient value to follow an alternative approach of writing out to customers to highlight the With Profits feature. We will continue to review with Aviva the progress of this communication and the position of these customers.

Source: Aviva

Aviva agreed to write to around 93,000 customers with 120,000 policies who had access to With Profits. The letter reminds customers that With Profits are an investment option. Under financial promotions rules, Aviva was not permitted to give advice or to promote With Profits as a better or higher value option.

The letters led to increased engagement from customers, with requests to transfer money in or out of their policy, and questions about the policy value and what their retirement options might be. At the time of writing, no customers have asked to switch into With Profits.

This exercise is due to complete before the end of 2024, and we will be considering the next steps with Aviva. We will need to discuss whether these customers should also have a 0.75% cap applied. This could lead to the withdrawal of the option to invest in With Profits in the future. We will know more about the options available to Aviva once they have reported their final findings. We will, of course, update you in our report next year.

Transaction costs

This section applies for both newer and older products.

Aviva has provided the IGC with transaction costs for all funds - both default funds and self-selected funds.

We've shown the figures for the default funds and the more commonly used funds as at 31 December 2023 in the table. The costs are calculated using the methodology prescribed by the FCA for workplace pensions and are supplied to Aviva by the investment managers.

You will see from the table that in some instances, transaction costs are higher, and in others either the same or lower than in 2022. These costs vary greatly depending on market conditions and how frequently investment managers place trades.

We consider the costs shown in the table as quite low and consistent with the characteristics of the funds and the marketplace in 2023.

Fund	2023 % p.a.	2022 % p.a.
My Future Growth	0.06	0.12
My Future Consolidation	0.05	0.06
My Future Focus Growth	0.08	0.04
My Future Focus Consolidation	0.07	0.03
Aviva Pension BlackRock (50:50) Global Equity Index Tracker	0.07	0.04
Aviva Pension BlackRock (60:40) Global Equity Index Tracker	0.04	0.04
Aviva Pension BlackRock World ex UK Equity Index Tracker	0.02	0.04
Aviva Pension Global Equity	0.13	0.38
Aviva Pension Managed	0.11	0.02
Aviva Pension Mixed Investment (40-85% Shares)	0.06	0.05
Aviva Pension Multi-Asset Index Growth	0.06	0.08
Aviva Pension Stewardship Managed	0.20	0.16
Aviva Pension BlackRock Consensus	0.00	0.00
Aviva Pension Mixed Investment (0-35% Shares)	0.06	0.05

Source: Aviva

Our conclusion

It is clear that 90% of customers in newer products benefit from very competitive charges. While the charge cap for auto-enrolment schemes is 0.75% a year, the vast majority of you pay less. We are satisfied this represents good value for money.

A further 260,000 customers now benefit from a reduction in their annual charge. We are pleased Aviva implemented such a significant change, which improves value for customers and provides better outcomes in retirement.

We will work with Aviva over the next 12 months to understand if anything further needs to be done for those customers with access to With Profits who have not chosen to invest in With Profits funds.

Investments

The second area we consider in our value-for-money assessment is investment performance; in particular how default investments and larger funds have performed over the year in absolute terms and when compared to Aviva's competitors.

Pensions are long-term investments. While the FCA ask us to look at value for money on a year-on-year basis, we also consider longer-term performance and prospects for future returns.

Summary of investment markets and performance in 2023

Investment markets recovered in 2023 following challenging investment returns in 2022. For example, United States equity markets returned almost 20% in 2023; European equities over 15%; and UK equities around 8%.

Investment returns were more mixed for other asset categories with government bonds globally having a small negative return. In the UK, bond returns were positive, delivering between 3% and 4% for government bonds and between 8% and 9% for corporate bonds over the year. UK commercial property showed slight falls over the year.

Given that CPI inflation was 3.9% in the year to December 2023, equity investment returned above inflation while other assets classes had mixed results, mainly lower than inflation.

The chart below shows the investment return on various investment markets over one, three and five-year periods to December 2023. As inflation over the five-year period averaged around 4.3% a year, the five-year picture shows equity returns well above inflation and government and corporate bonds well below inflation, and in some cases negative. This is largely due to the significant fall in bonds values in 2022, which affects the five-year performance.

At a regional level, the performance of US equities stood out. The FTSE USA Index climbed 7.1% in sterling terms and 11.9% in US dollar terms in the period. As well as expectations of interest rate cuts in 2024, US equities also benefited from positive earnings growth and the strong performance once again of the technology sector.

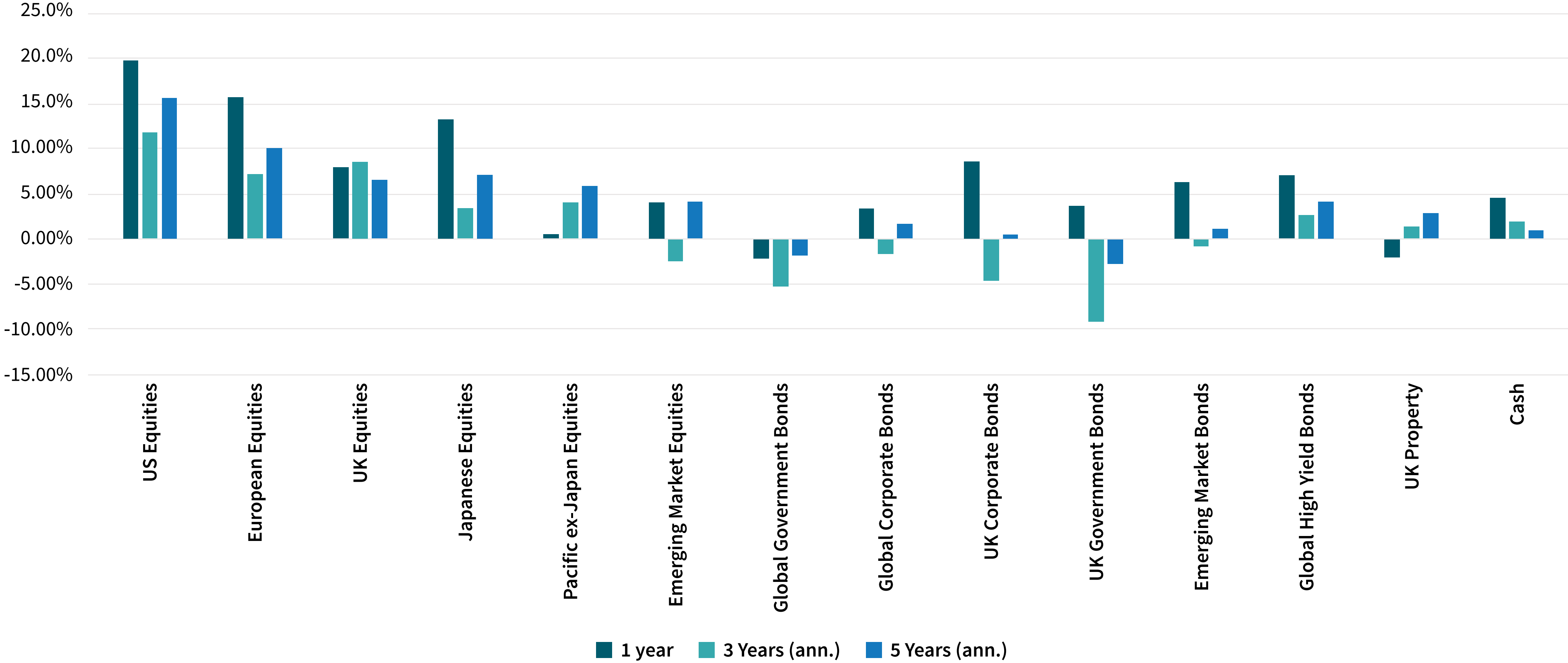
The FTSE All-Share Index and the FTSE Europe ex UK Index also made gains. However, the FTSE All-Share's focus on value stocks (including oil and gas stocks impacted by the fall in the oil price) and a lack of exposure to technology names meant it underperformed its overseas peers. Medium-sized UK companies performed much better than their larger counterparts thanks to the strong performance of domestically focused businesses. They were buoyed by the prospect of lower borrowing costs in 2024.

Emerging market equities achieved positive returns but once again underperformed their developed market peers. Chinese equities continued to struggle, held back both by problems at home in the real estate market and a switch in overseas consumer spending from goods to services. The unrest in the Middle East and the ongoing conflict in Ukraine served as a reminder of how much of a headwind geopolitical risk poses to the investment landscape. Despite the increase in global tensions, the oil price declined in the period.

Bonds enjoyed their strongest period since early 2020, benefiting from both pauses in interest rate rises and the real possibility of interest rate cuts in 2024. UK bonds were among the strongest thanks to investors believing the Bank of England would be the first developed central bank to cut rates in 2024 to help the economy. In the fourth quarter of 2023, the FTSE Actuaries UK Conventional Gilts All Stocks Index returned 8.1%.

The strength of sterling against the US dollar meant returns from US equities and bonds, while positive in sterling terms in Q4 2023, were better in local currency terms than in sterling. In comparison, both the Japanese yen and the euro increased in value against sterling and returns from these markets were better in sterling terms.

Asset class performance to 31 December 2023



Market indices used; FTSE USA, FTSE Europe Ex UK, FTSE All Share, FTSE Japan , MSCI Pacific ex Japan, JPM GBI EM Global Diversified Composite, ICE BofA Sterling Non Gilts, FTSE Actuaries UK Conventional Gilts All Stocks, MSCI Emerging Markets, ICE BofA Global Corporate, ICE BofA Global High Yield, ABI UK Property.

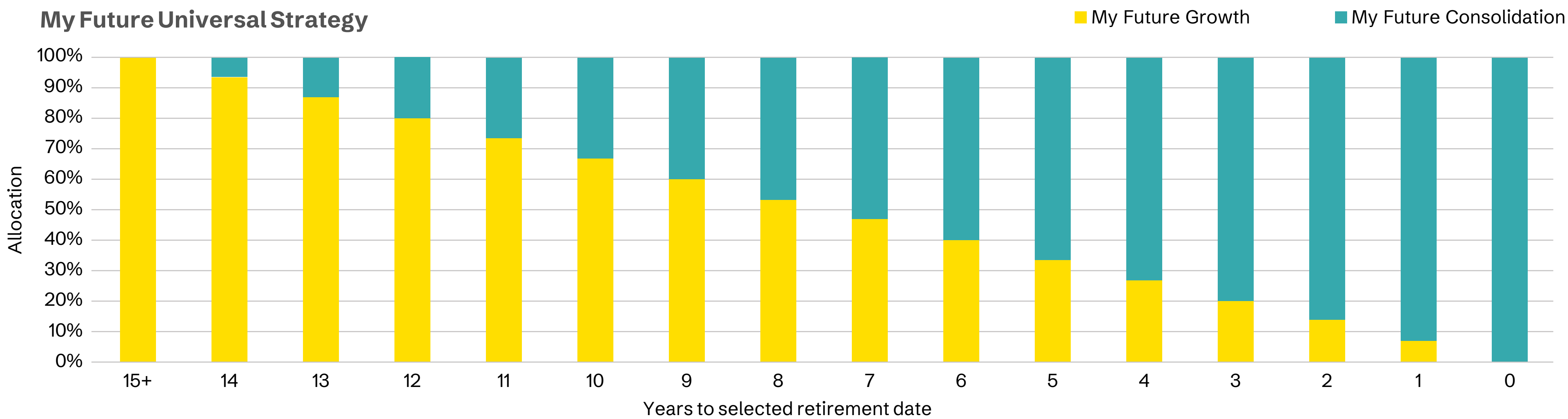
This information refers to the past. Past performance is not a guide to future performance. Source: FE.

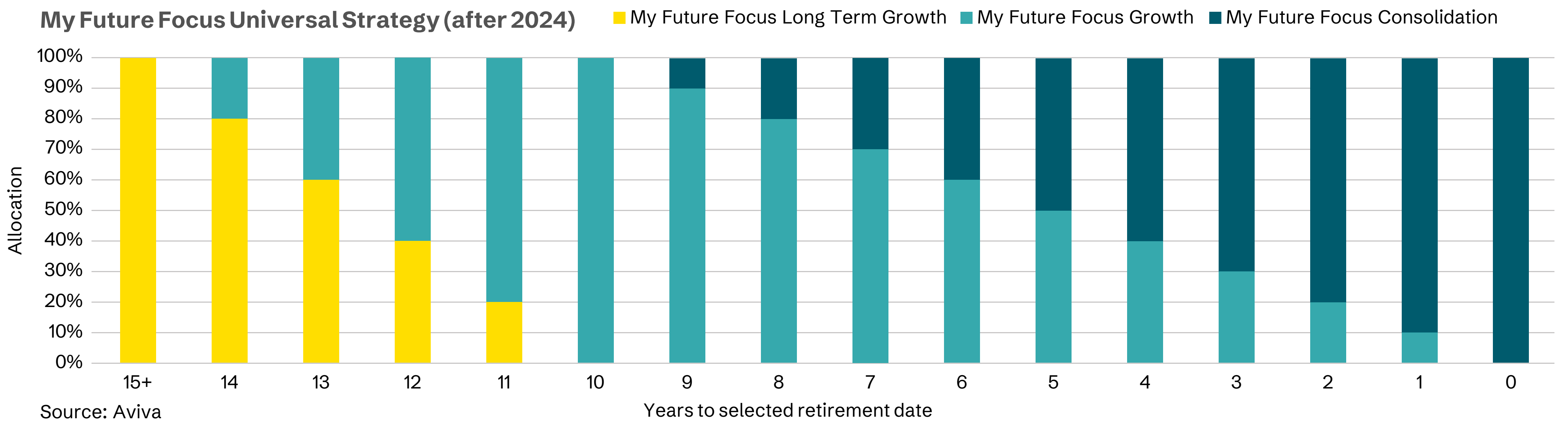
Performance of Aviva's main two default funds

Most customers don't make an active decision on how to invest their pension savings. Instead, they are automatically invested in one of Aviva's default funds, which are used when a customer doesn't make a specific choice. Although a small minority of employers use an employer specific default, around 95% of customers are invested in the **My Future** or **My Future Focus** default funds.

- **My Future** invests in passively managed funds. Blackrock Investment Management Limited determine the allocation between the different types of investments within parameters and limitations set by Aviva. However, Aviva Investors exercise the voting rights on the underlying shares.
- **My Future Focus** invests in both passively and actively managed funds, with Aviva Investors Multi-Asset investment team responsible for the allocation between the different types of investments. Again, Aviva Investors exercise the voting rights.

Both funds aim to achieve growth over the long term with a controlled level of volatility. They reduce risk in the period leading up to your nominated retirement date by switching increasing percentages of the assets to lower risk funds as shown by the next charts. This is known as lifestyling. As a reminder, you should check the nominated retirement date Aviva holds for you and make sure you keep it up to date because the lifestyling will be based around that. If your planned retirement age isn't accurate, it could unfavorably affect your investment outcome, so it's important to tell Aviva to adjust this on its systems.





Source: Aviva

So, for My Future the funds are My Future Growth until a transition to My Future Consolidation near to retirement. There is a similar pattern for My Future Focus, with the My Future Focus Long Term Growth, Growth and Consolidation Funds.

Structure and Performance of My Future and My Future Focus

In our last report, we commented on the 2021 review, which led to changes in the asset allocation of the My Future Focus fund in the second quarter of 2022. We discuss the impact of those changes below. Of note is Aviva's decision to review the default funds annually rather than every three years as previously. As we discuss, this has led Aviva to design further improvements to the default funds, which will be implemented by the end of 2024. While the 2022 changes have only had one year to impact investment performance, the IGC considers those changes and the further changes to be made in 2024 to be directionally appropriate. They should improve value received by customers in the future.

When outlining performance, which is important in our assessment of value for customers, we emphasise that investment value is delivered over the medium to long term and over economic cycles, and your pension is a long-term investment. Investment decisions are to be considered carefully and based over the longer term.

The investment performance of the growth funds for the two main default funds is shown in the following table/chart over one, three and five years to the end of 2023:

Fund, %	1 year	3 years (ann.)	5 years (ann.)
My Future Growth	14.2	7.2	10.0
Fixed weight comparator	13.7	7.3	10.4
ABI Mixed Investments 40-85% Shares sector	7.9	2.3	5.3
Bank Of England Base Rate + 4%	8.8	6.1	5.5
My Future Consolidation	8.3	1.0	3.1
Fixed weight comparator	3.2	-0.6	2.4
ABI Mixed Investments 0-35% Shares sector	5.5	-1.9	1.3
Bank Of England Base Rate + 2%	6.7	4.1	3.5
UK Consumer Price Index	3.9	6.6	4.3

Source: Aviva

My Future and My Future Focus do not have specific targets compared to indices, although we assess the growth funds with reference to achieving 4% above Bank of England base rates (which has generally been achieved over all periods). The IGC considers comparison against fixed weight comparators (broadly index performance in the same indices as the funds invest) and against inflation as more meaningful.

My Future achieved performance in excess of these comparators over the last five years while My Future Focus achieved less than the fixed weight comparator performance.

Fund, %	1 year	3 years (ann.)	5 years (ann.)
My Future Focus Long Term Growth	11.2	6.5	n/a
Strategic asset allocation benchmark	12.4	7.0	n/a
ABI Global Equities	12.8	8.8	n/a
Bank Of England Base Rate + 5%	9.8	6.5	n/a
My Future Focus Growth	9.8	4.4	7.0
Strategic asset allocation benchmark	11.1	4.7	n/a
ABI Mixed Investments 40-85% Shares sector	7.9	2.3	5.3
Bank Of England Base Rate + 4%	8.8	6.1	5.5
My Future Focus Consolidation	6.2	0.0	2.3
Strategic asset allocation benchmark	7.2	0.3	n/a
ABI Mixed Investments 0-35% Shares sector	5.5	-1.9	1.3
Bank Of England Base Rate + 2%	6.7	4.1	3.5
UK Consumer Price Index	3.9	6.6	4.3

Source: Aviva

Also of importance is a comparison against other leading UK workplace pension providers. This is shown for the same time periods in the following table – again for growth funds used until close to retirement age.

This table also shows the performance of the main Aviva Stewardship Default Lifestyle fund for those of you who have selected this fund. It also shows another Aviva growth fund – the Aviva My Future Focus Long Term Growth Fund – which will be introduced as part of the 2024 changes for the Aviva My Future Focus Default and is described later in this section.

End of December 2023	1 year	3 years (ann.)	5 years (ann.)
Aegon LifePath Flexi 2070-2072	17.25	7.41	10.66
Schroder Atlas Master Trust Multi-Asset Portfolio 1 Series 2	15.77	6.15	9.04
Aegon Aon Managed Core Retirement Pathway 2061-2063	15.51	9.49	12.84
Aviva My Future Growth	14.24	7.19	10.03
Fidelity Growth Fund Proxy*	13.97	6.43	9.16
Scottish Widows Pension Portfolio Two Pension Series 2	13.16	4.77	6.90
SMART- Smart Sustainable Growth fund (Series 1)	13.01	6.41	7.56
NEST 2040 Retirement	12.11	5.04	7.95
Standard Life - Sustainable Multi Asset Growth	11.76	4.61	-
Aviva Stewardship Default Lifestyle	11.62	4.02	10.31
Aviva My Future Focus Long Term Growth	11.18	6.51	-
Fidelity Diversified Markets*	10.96	1.4	2.93
The People's Pension Global Investments	10.81	3.63	6.79
L&G Pathway 2065-2070	10.48	4.22	6.62
Aegon Default Equity & Bond Lifestyle	9.89	4.76	7.21
Aviva My Future Focus Growth	9.80	4.42	7.01
L&G Multi Asset Fund	8.32	1.69	5.13
Royal London Governed Portfolio 4	8.17	5.83	6.44
Mercer Growth/Balanced Risk	7.46	3.00	6.38

Source: Aviva

Aviva do place emphasis on management of volatility and risk and it is helpful to see the comparisons between investment return and volatility for various pension providers, as shown on the next chart:

Source: Aviva

My Future Default Fund - developments

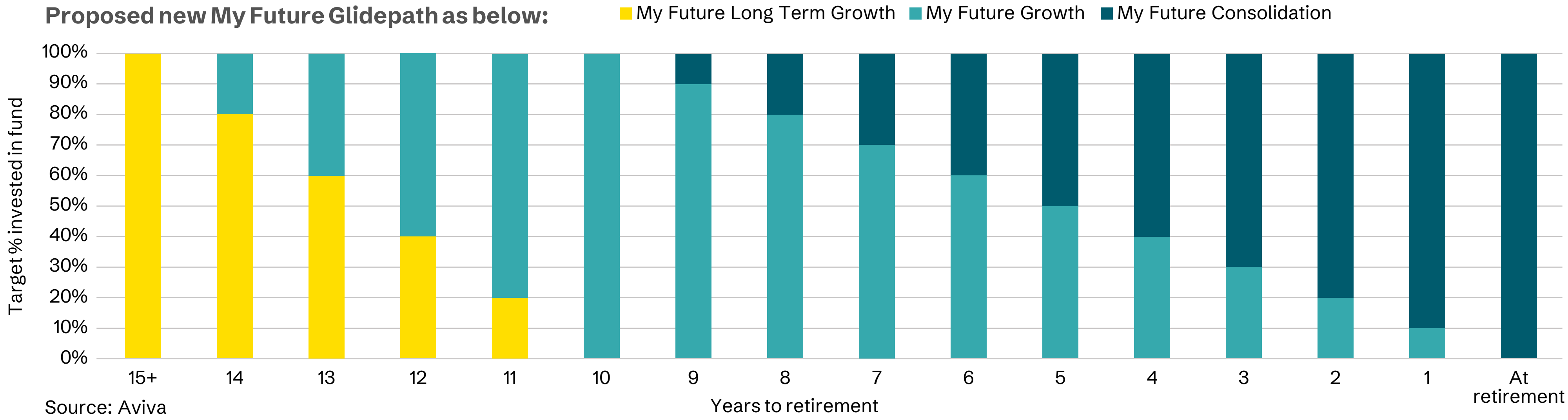
For the last two years, the IGC has challenged the level of environmental, social and governance (ESG) integration for the My Future default fund. We cover this in the ESG section of this report, but the IGC notes increased integration developments.

Aviva continues to review My Future. It will introduce a new growth fund, the My Future Long Term Growth Fund, in the accumulation phase and a new final lifestyle phase for the last 15 years before retirement.

The proposed changes to My Future are as follows:

- Retain the 15-year de-risking period but introduce a new fund, My Future Long Term Growth, as the accumulation fund.
- The My Future Growth fund is then introduced 15 years from retirement to start reducing risk while maintaining growth potential.
- In the final 10 years, money is moved from the My Future Growth fund into the newly created My Future Consolidation fund, which will have a 6% long term volatility target. The current My Future Consolidation fund targets 4% long term volatility.
- Moving to this glidepath delivers meaningful improvements to expected customer outcomes.
- It also aligns the designs of My Future and My Future Focus, so that Aviva employs a consistent 'One Aviva' approach across their investment propositions.

Proposed new My Future Glidepath as below:



Source: Aviva

IGC Comments – My Future default fund

My Future has delivered good investment performance in the recent time periods – relative to inflation and most other UK workplace pension providers. It has been helped by strong equity markets with its high equity allocations and efficient index tracking. The design has continually evolved and Blackrock provides detailed ESG integrated passive funds. The fund has provided good value.

My Future Focus default fund – IGC Comments on performance

The performance for the growth fund over the last one, three and five years has exceeded inflation and Bank of England base rates. However, it has been lower than the market index performance of its component investments and many other leading workplace pension providers' equivalent default investment funds.

The single largest reason for this is a lower percentage allocation to equity growth assets in the growth phase. The second largest reason is a lower allocation to United States equities within the allocation to equities. The United States index performed particularly strongly over the same periods.

Further to this, My Future Focus also has a greater allocation to emerging markets than My Future and those markets have not performed as well over recent periods.

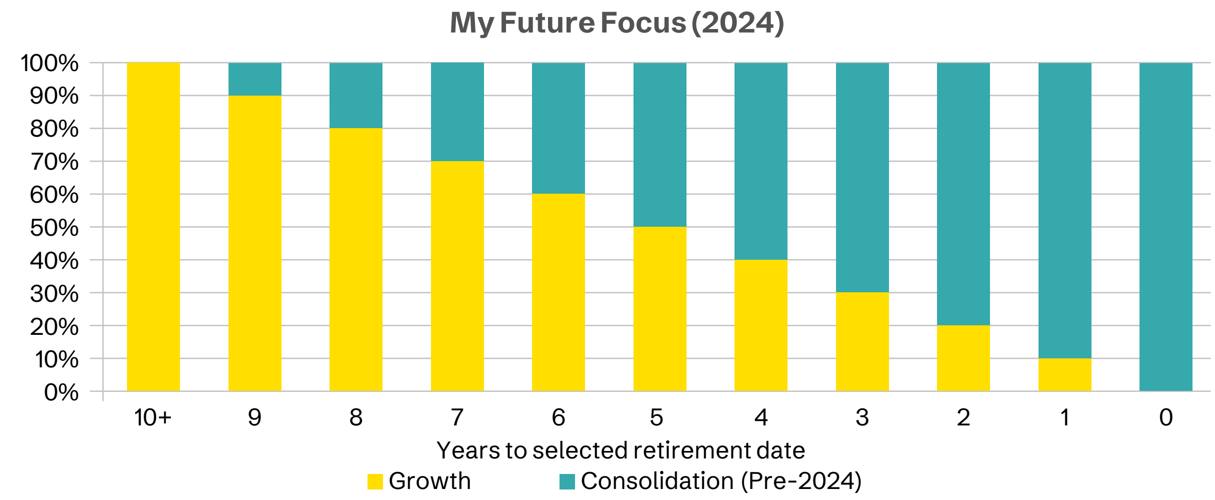
Other factors – such as the allocation to commercial property – have also negatively impacted performance and the extra value from strategic allocation between investment markets has been neutral rather than additive to performance.

In relation to this, the IGC notes:

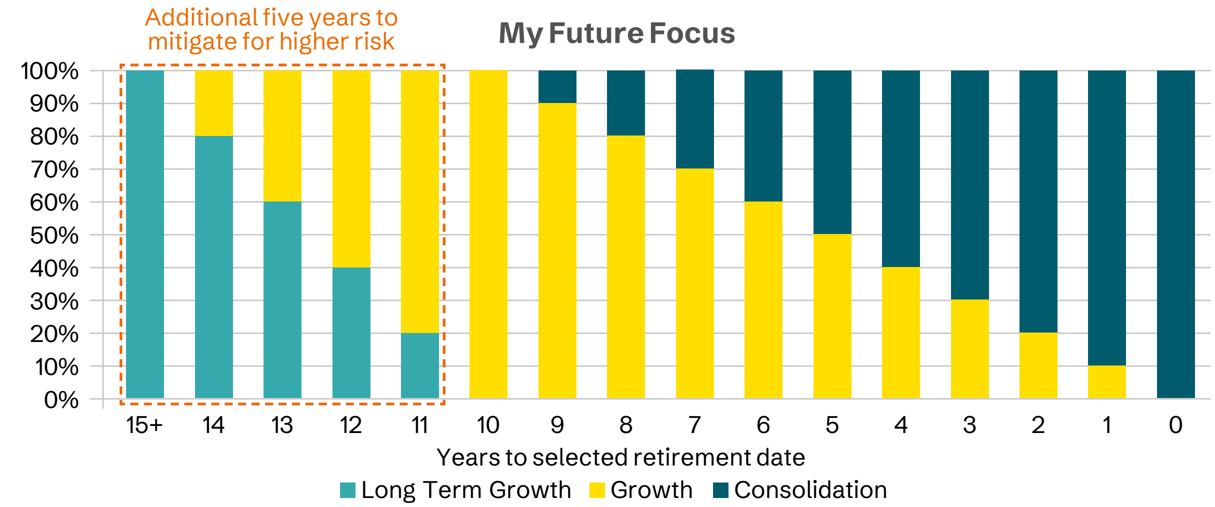
- The strong equity markets up to the end of 2023, especially the United States equity performance, have somewhat exaggerated the difference between My Future Focus's performance and other equivalent default funds. It has been a period where the fund's wider diversification has not been rewarded as, in comparative terms, the percentage in United States equities has dominated. Nonetheless, this does not negate the point that the growth allocation for My Future Focus has been lower than many other equivalent default funds.
- The changes Aviva implemented in 2023 to My Future Focus increased the growth allocation and reduced UK bias, amongst other changes, and these were moves in the right direction. They will have helped a little in 2023 but not over the five-year period.

As already discussed, Aviva has reviewed the My Future Focus Fund further and will shortly make further proposed changes, building on the 2023 changes. The IGC welcomes both the design changes and the move to a yearly review process.

Following the review, the My Future Focus allocations will follow a new pattern according to the following charts:



- **Up to 10 years from retirement:** Invests 100% in the My Future Focus Growth fund.
- **From 10 years to retirement:** Money gradually moves from the My Future Focus Growth fund to the My Future Focus Consolidation (Pre-2024) fund.
- **At retirement:** Invests 100% in the My Future Focus Consolidation (Pre-2024) fund.



- **Up to 15 years from retirement:** Invests 100% in the My Future Focus Long Term Growth fund.
- **From 15 years to 10 years to retirement:** Money gradually moves from the My Future Focus Long Term Growth fund to the My Future Focus Growth fund.
- **From 10 years to retirement:** Money gradually moves from the My Future Focus Growth fund to the My Future Focus Consolidation fund.
- **At retirement:** Invests 100% in the My Future Focus Consolidation fund.

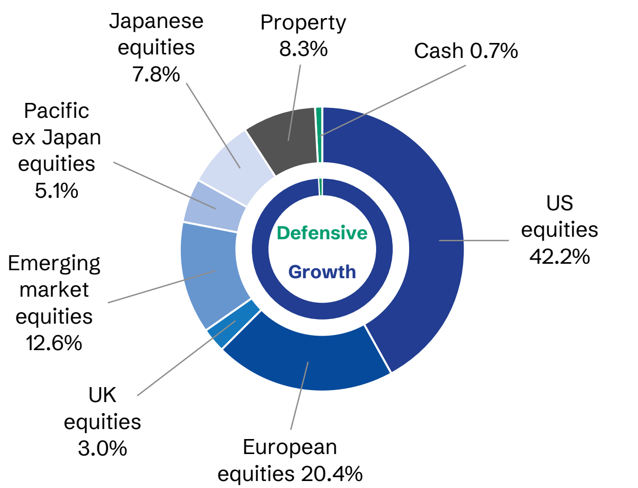
Source: Aviva

The new allocations introduce a further fund – the My Future Focus Long Term Growth Fund. This has a higher volatility target of 90% of equity market volatility over time. It is invested around 90% in equity markets and 10% in illiquid assets. This means it has a materially higher growth allocation and target compared to the previous target of 75% of equity market volatility for the period up to between 15 and 10 years before retirement age.

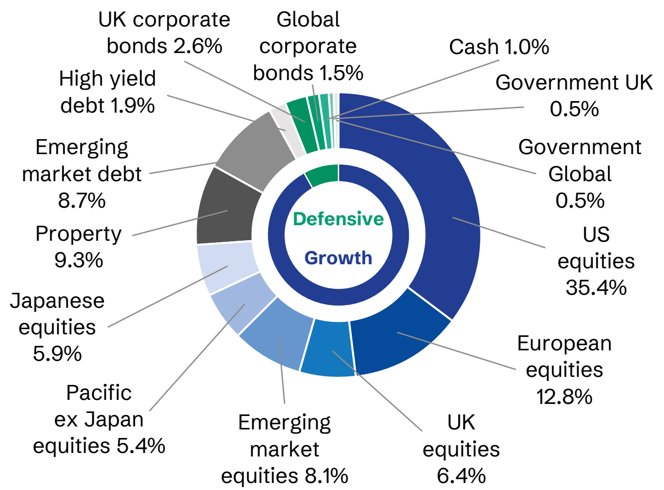
As part of this, the 10% existing allocation to commercial property is set to become the allocation to a range of illiquid assets. This gives positive diversification within this 10%. Overall, it means that the Long Term Growth Fund is effectively 100% in growth or quasi-growth assets.

Towards retirement age, the funds utilised move towards the updated My Future Focus consolidation fund. This consolidation fund will have itself increased growth asset allocation and will target volatility of 35% of equity market volatility. This is higher than the consolidation fund has been up to now. It remains more cautious than two funds used in more than 10 to 15 years before retirement age because the investment circumstances are vastly different for customers at or after retirement compared to those with more than 15 years before their likely retirement. The fund is a universal fund at retirement, allowing for different needs between those of you who draw pension funds over time, and those who take pension funds as cash at retirement. Nonetheless, the increased growth allocation at the time of retirement is an important change.

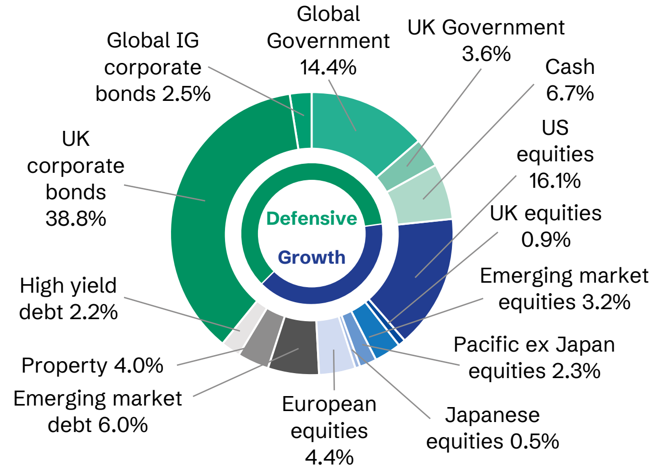
My Future Focus Long Term Growth
(Targets 90% of Equity Market Volatility)
Generate long term growth by investing in a broad range of equities and direct property



My Future Focus Growth
(Targets 75% of Equity Market Volatility)
Generate growth by investing in a diversified multi-asset portfolio



My Future Focus Consolidation
(Targets 35% of Equity Market Volatility)
Preserve the value of savings while providing steady investment growth



Source: Aviva Investors, as at 31 December 2023

Aviva commissioned external modelling on the new design for My Future Focus. The IGC understands that based on the economic models adopted, the future modelling showed good outcomes compared to current default funds of other major pension providers. While the outcomes will depend on how investment markets in the future compare to the economic model, this research gives some assurance to the IGC.

Aviva is due to enact the changes to My Future Focus towards the end of 2024 and will send you details of the changes before they occur.

The IGC is supportive of the changes to My Future Focus and welcomes the comprehensive review with Aviva recognizing the need to evolve this default fund further. The previous changes have been positive and these further changes enhance growth allocations at all stages.

The IGC notes that starting to de-risk allocations 15 years before retirement age is sooner than most default funds, even though the de-risking between 15 years and 10 years before retirement is quite gradual. We will review that further in 2025.

The IGC welcomes the plan to diversify the 10% allocation in My Future Focus Long Term growth fund. We also welcome a 2025 consideration of further specific benchmarks for My Future Focus and the move to a full annual review process for the fund.

IGC comments – My Future Focus default fund

Investment performance up to the end of 2023 over one, three and five years has been challenging and below most of the equivalent default funds of UK workplace pension providers. As noted, investment markets over that period exaggerated the differences and did not reward the diversification within the fund. Nonetheless, the review by Aviva has highlighted the need for change as performance has not been strong.

The IGC would describe the value received in 2023 and the last five years as reasonable.

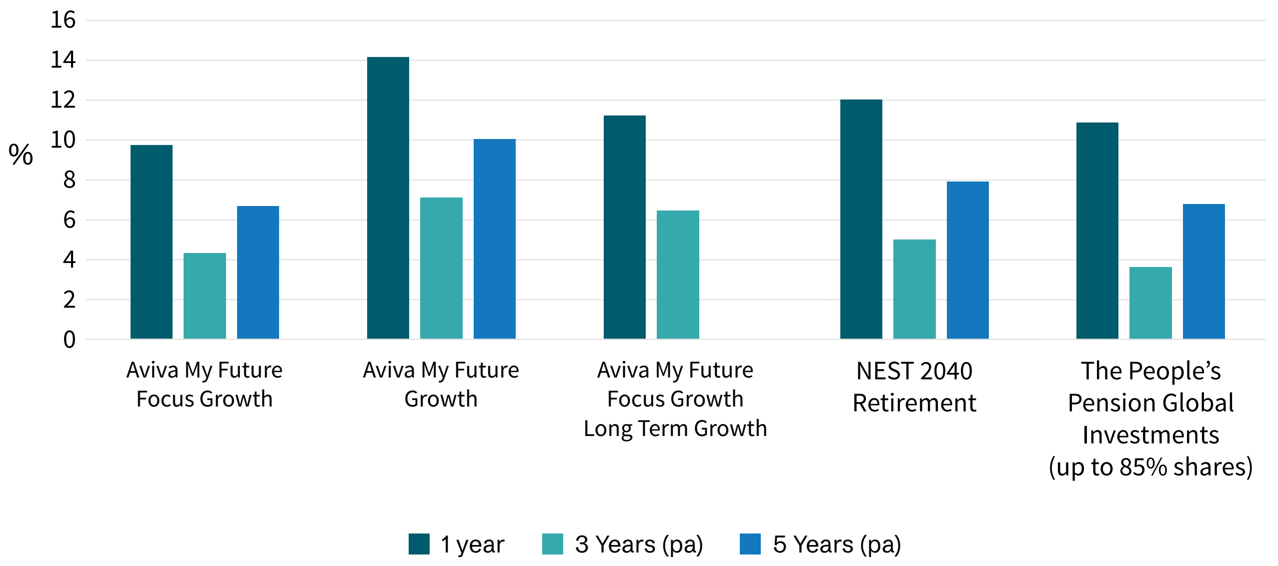
The IGC welcomes the changes Aviva is making in late 2024 and, as a result, there is an increased chance that My Future Focus may deliver good value in the future.

Performance of largest other 10 funds by asset size

Fund Name	1 year	3 years (ann.)	5 years (ann.)
Aviva Pension BlackRock (50:50) Global Equity Index Tracker FP	11.23	8.14	8.91
Aviva Pension BlackRock (60:40) Global Equity Index Tracker FP	10.54	8.29	8.44
Aviva Pension MyM BlackRock World ex UK Equity Index Tracker	17.76	10.13	13.67
Aviva Pension BlackRock (40:60) Global Equity Index Tracker FP	13.80	9.49	10.87
Aviva Pension Global Equity FP	17.46	9.64	14.93
ABI Global Equities	12.80	9.94	9.93
Bank of England Base Rate +4%	8.82	6.12	5.47
Aviva Pension Managed FP	7.52	2.11	5.70
Aviva Pension Multi-Asset Index Growth fund FP	14.38	7.16	9.65
Aviva Pension Sustainable Stewardship Managed FP	11.25	2.89	8.99
Aviva BR Consensus S6	9.93	5.10	7.07
Aviva Pension Mixed Investment (40-85% Shares)	7.54	3.24	5.16
ABI Mixed Investment 40-85% Shares	7.88	2.31	5.28
Bank of England Base Rate +4%	8.82	6.12	5.47

Source: FE Analytics, returns in % sterling

Specific VFM comparison - v NEST and People's Pension (1,3,5 years)



Our conclusion

As you can see from the chart, the My Future Focus Growth fund has delivered returns roughly equal to People's Pension. Both of these funds have had investment returns somewhat below NEST and NEST itself somewhat below My Future Growth. This reflects the pattern seen earlier in this investment section of our report and for the same reasons.

The My Future Focus Long Term Growth Fund (soon to be used in the higher growth phase up to 15 years before retirement) delivered returns close to the NEST retirement funds.

These comparisons support our earlier conclusions that My Future has delivered good value for money over recent periods and My Future Focus has delivered reasonable value, albeit with lower investment returns, and we will be monitoring how the changes to My Future Focus improve these.

Investment governance

Finally, FCA rules require IGCs to ensure that providers have a robust investment governance process in place. During 2023, one of the Committee members attended an investment governance meeting and reported back favourably on how the meeting was conducted, what topics were discussed, and how strong the investment committee team was.

There are two investment committees in operation which meet quarterly. One reviews the mandates of Aviva Investors, and the other which oversees third party external fund links.

Over the course of 2023, Aviva closed one fund because of poor governance by the fund manager. In addition, 23 funds were closed due to other reasons, such as low assets under management, or closure of the underlying funds by the managers.

Any new funds launched go through a thorough check by Aviva's investment governance teams. In 2023, 123 new funds were launched.

We are satisfied that Aviva's governance and controls in this area are robust.

Service and communications

Service and communications

In this section, we consider whether you have received value for money in the quality of service, communications and engagement you receive as an Aviva customer. This includes the suitability and clarity of the communications Aviva sends to you and the support it provides to help you understand and manage your pension.

Quality of service

Providing customers with a high level of service on a consistent basis continues to be our benchmark for Aviva. We have primarily used the information from the Redington review to see if Aviva has achieved this.

To help our understanding of the quality of administration and telephone services, some Committee members visited Aviva's Norwich office to see this for ourselves and to discuss the services with Aviva staff.

Performance against targets

Once again, we've looked at Aviva's performance against their service level agreements (SLAs) which require all transactions to be completed within five days. The table below shows the average Aviva completion times as a percentage against the SLA target for six common customer transactions and compares these with the other providers in the Redington review.

The key Redington findings are:

- Aviva's performance is high and comparable to previous years
- Aviva has the highest percentage of transactions meeting target timescales for death claims and is near the top for transfers out
- Aviva is towards the average for all other transactions

Transaction	No. of providers	Minimum	Maximum	Median	Aviva
Contribution processing	6	96.7%	100.0%	99.4%	-
Fund switches	7	84.2%	100.0%	99.4%	99.4%
Transfers in	7	81.2%	99.3%	89.4%	88.3%
Transfers out	7	86.3%	99.6%	97.7%	99.0%
Retirement payments	7	32.5%	98.8%	94.7%	95.6%
Death claims	6	13.3%	97.9%	92.4%	97.9%

Source: Aviva

Total Net Promoter Scores (TNPS)

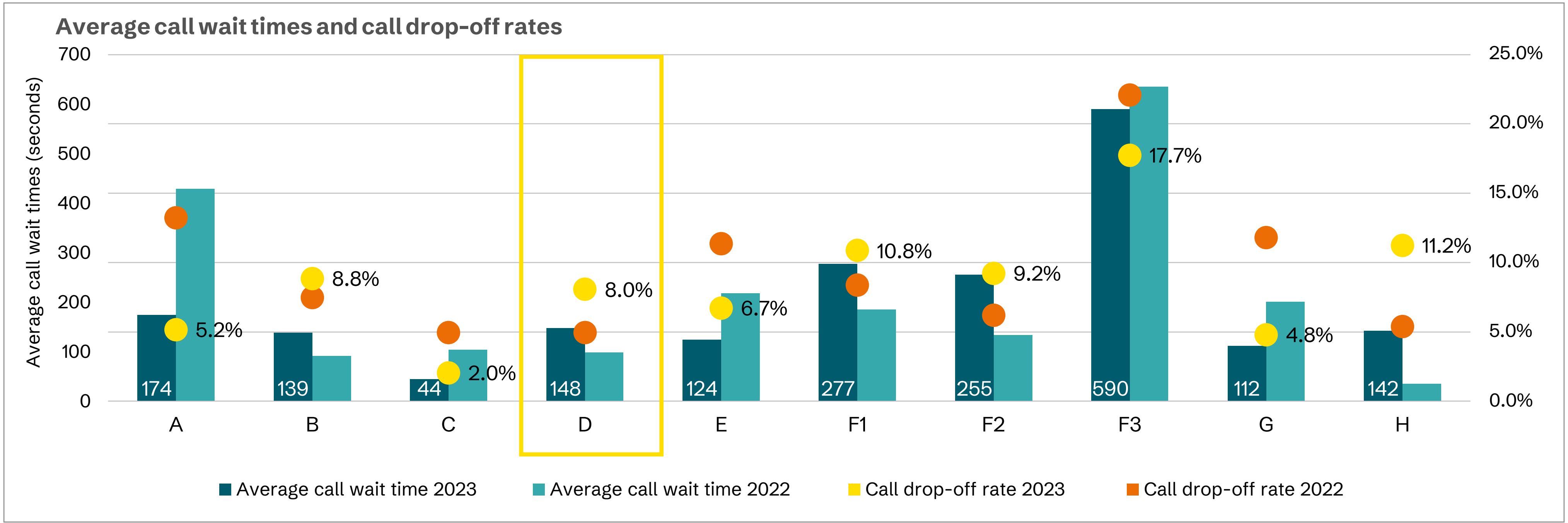
Customer feedback is a good indicator of how customers feel about the service they received. In 2022, Aviva achieved a TNPS score in the range 30-60 which the IGC previously set as a “very good” benchmark and challenged Aviva to keep this position. The key Redington findings are:

- Aviva has kept a score between 30-60
- Aviva compare favourably with other providers as only one other provider kept a score of 30-60 over the year

Telephony

No one likes waiting too long to have their call answered, so we have again looked at the average waiting times for customers who call Aviva and also the percentage of customers who end their call before it is answered. The key Redington findings are:

- Aviva is towards the typical level for average call wait times at 148 seconds which is an increase of around 50% from 98 seconds in 2022
- The Aviva call drop-off rate of 8% was towards the middle range



Source: Redington Ltd.

While we've seen an increase in call wait times against 2022, they remain within acceptable limits and Aviva's own targets.

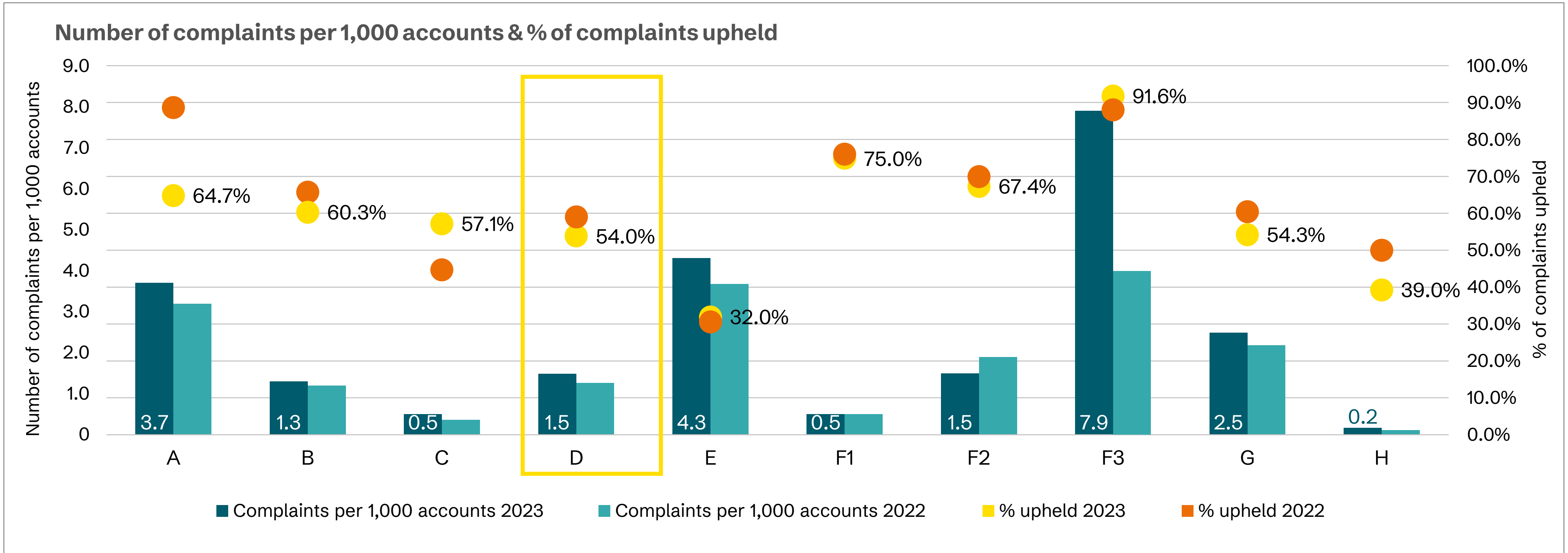
Aviva is constantly looking at the use of technology and, over the coming months will make use of AI to help customers and move some calls to digital channels. It will also increase the digital support it gives customers, which Aviva anticipates will reduce call wait times further.

Aviva also reviews its resourcing model every month to make sure it has the right number of people to meet the customer demand and reviews/updates staffing levels and recruitment accordingly if that's not the case.

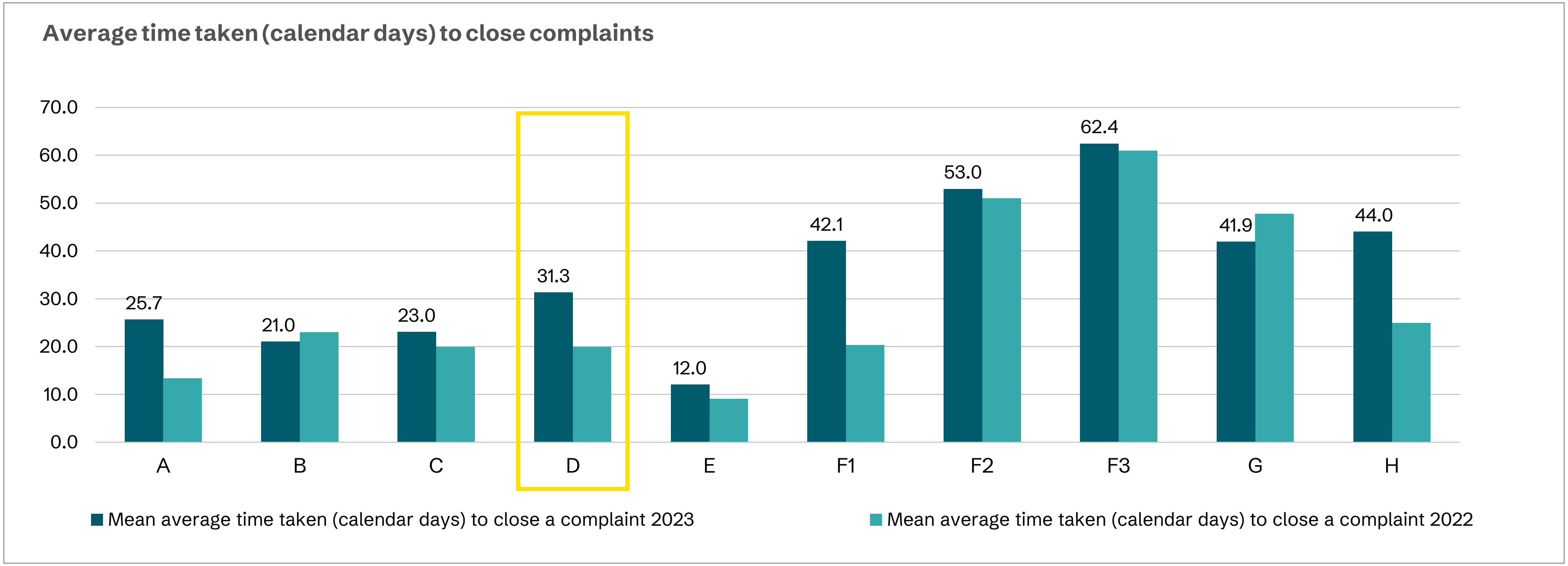
Complaints

When customers complain, Aviva looks to resolve their issue quickly and fairly. The key Redington findings are:

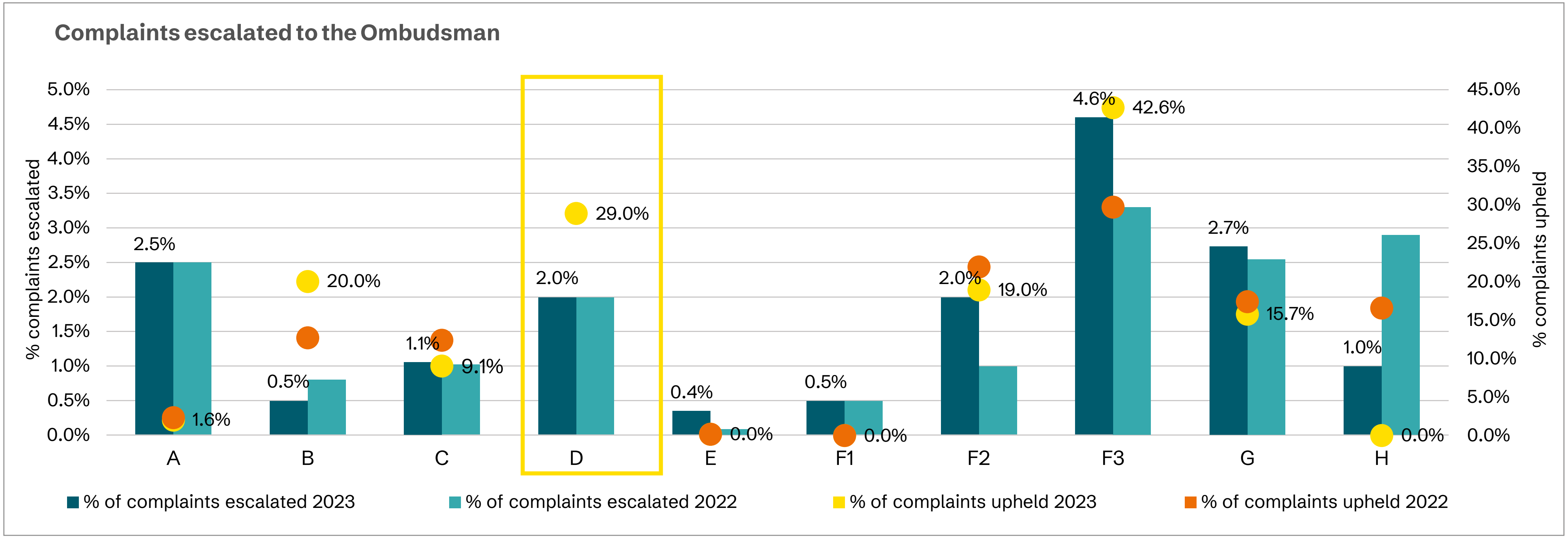
- Aviva was equal to the median for complaints at 1.5 per 1,000 customers, which is a slight increase from 1.3 in 2022
- On average, Aviva took 31.3 days to close complaints, which is faster than median but 20 days longer than in 2022
- Aviva had 2% of complaints escalated to the Ombudsman, which is the same as 2022 and slightly above the median. The Ombudsman upheld 28% of complaints against Aviva, which was the second highest.



Source: Redington Ltd.



Source: Redington Ltd.



Source: Redington Ltd.

During 2023, there was a significant increase in demand from customers to access their pension savings. This was driven partly by the cost-of-living crisis and customers wanting to draw on available savings.

Some customers don't appreciate that a pension doesn't work like a bank account. While you can pay money in like any savings account, you can't access that money until you are 55 years old. People sometimes get frustrated when they are told this, and Aviva treats those frustrations in line with the FCA definition of a complaint.

In addition, the significant increase in demand for withdrawals has led, on occasion, to requests for withdrawal taking longer. When a customer's complaint is upheld, Aviva will make sure the customer is not worse off because of the delay and pays the best price to make sure there's no financial impact on top of any redress for inconvenience or upset.

These complaints tend to be more technical in nature, and the IGC is satisfied Aviva has put in place measures to improve turnaround times and reduce complaint volumes.

We noted the increase in the percentage of complaints referred to the Ombudsman which were upheld in the customer's favour. We asked Aviva if there was any reason for this, and we understand that the Ombudsman felt the levels of compensation paid to reflect the "trouble and upset" caused were insufficient and should be increased slightly. Aviva has taken this feedback on board and provided further training to staff. We have asked Aviva to explain the method of calculating compensation and will look for a reduction in the cases upheld by the Ombudsman next year.

Site visit

Members of the IGC visited Aviva's offices in 2023 and again this year to meet the teams covering various servicing tasks to better understand the tasks they undertake, the improvements they have made and the challenges they face.

During the visit, we spent time listening to customer calls, which we always find an invaluable opportunity as it reminds of us of how customers talk and engage with their pension. It also evidences the skills needed by Aviva staff in using the various processes, IT platforms and protocols to make sure the customer has a good experience, receives the information or service they requested and gets what they need.

The visit also evidenced the proactive and caring approach Aviva staff have in meeting customer needs and the thoroughness of staff training. Aviva also talked us through their impressive manpower management tool and quality assurance testing. The evolution of Aviva's approach to identifying and managing the needs of vulnerable customers was also evidenced and we felt this was both credible and creditable.

Product governance and controls

Aviva has a well-developed and independently audited internal control structure, which identifies issues with the potential to cause customer detriment. Where this happens, it has dedicated resource to put things right and compensate customers to make sure they are no worse off than if the issue had not happened.

During 2023, Aviva identified six new risk events, all of which were of medium severity. Only one high-risk event was open at the end of 2023 and this was closed in January 2024. One very high-risk event remains open, and this relates to the payment of the With Profits final bonus. Aviva has confirmed the following:

- It has undertaken further analysis and identified and addressed the root cause of this issue, so if will not affect any more customers
- The total number of customers impacted is close to 92,000 and the total detriment is c£19m
- It completed remediation for 92% of the customers impacted by 30 June 2024
- It expects to complete remediation for the remaining 8% of impacted customers by 31 October 2024

The IGC is satisfied Aviva makes considerable efforts to identify any events or errors and then rectifies the situation for customers.

The IGC has reviewed Aviva's assurance report on internal controls (AAF 01/20 report). An independent external auditor tests the controls, and where it identifies any issues, Aviva needs to make sure it strengthens any control weaknesses.

The report did not identify any material concerns this year. Aviva is confident that none of the minor issues raised present a material risk to its ability to operate an effective administration service and to manage customer data securely. The report does not cover Aviva's third-party administrators, so we will discuss this with Aviva over the next year.

Modernising policy features

After the reporting period, the IGC became aware that certain policies did not permit payment of pension benefits to a long-standing unmarried partner in the absence of a completed Nomination of Beneficiaries form. We asked Aviva to look at what it could do to be more flexible in one specific case, but after further investigation, we were informed that no more could be done.

Aviva agrees a change is required on this point for the around 3 million customers involved, but unfortunately there is no quick fix. Aviva has confirmed it will introduce a change as part of a policy terms and conditions update when it issues customer annual statements over the next year.

This case highlights the importance of customers completing and maintaining an up-to-date nomination of beneficiary form. It also caused the IGC to question whether any other policy features exist which are inappropriate in the modern world. Aviva has a responsibility under the Consumer Duty legislation to put customers needs first and it has already undertaken a great deal of work on meeting this requirement. Aviva has shared this work relating to its newer “go to market” pension products with the IGC and we understand that this has not identified any other inappropriate policy features.

The IGC is in discussion with Aviva to understand the work it is doing to meet its Consumer Duty responsibilities for older pension products which are no longer marketed. We will advise you further on this in next year’s report.

Our conclusion

We continue to believe customers receive a good value service from Aviva.

The independent research from Redington confirms Aviva remains equal to or ahead of its peers in terms of the speed and quality of the service it provides. This is consistent with the research received last year from Willis Towers Watson and the consistency over the two benchmarking research reports paints a strong picture.

This is a position maintained over both newer and older policies although we will continue to be vigilant as to service levels across all types of policies. Customers’ feedback remains positive. Nevertheless, we will continue to challenge Aviva to keep improving its service offering.

Communication and engagement

Good communications should be fully integrated with service to support and nudge customers at key times with the aim of promoting a greater degree of engagement.

Aviva has continued to develop and roll out its MyWorkplace online offering over the last year, aiming for all workplace customers to have access by the end of 2024. This will mean customers will have more functionality and tools to help manage their pension, plus access to Aviva's wider financial wellbeing proposition.

MyWorkplace also has greater functionality for workplace employers, which will let them tailor the offering to their employees' needs, showcase other benefits, generate more helpful MI and issue targeted communications.

These are all positive developments and will hopefully generate greater customer engagement. We also like some of the smaller developments Aviva has introduced, which we feel customers will value and gain benefit from. This includes a "to do" list, which signposts key actions for customers to get the most out or their pension or sources of advice.

Aviva has also introduced a retirement preparation review offering, allowing customers to book a 20 to 30-minute free session with an Aviva financial adviser. During this session, the customer will not be given specific financial advice, but can discuss their retirement plans and raise any questions they may have. In this way, the Aviva adviser can guide the customer on actions they may want to consider, defuse any concerns or areas of confusion they may have, and signpost other sources of help or information. Aviva is gradually rolling this review out to customers, and we encourage those near to retirement to take advantage of this when it becomes available to them.

Financial education

As part of its communication and engagement support to customers, Aviva continues to provide educational seminars targeting employees at different stages in their pension savings journey, for example, joining the workplace, mid-career, and on the approach to retirement.

These are typically held online and include customers from different employers. The presenters cover pension basics, investments, managing your pension, and so on. In some cases, they also cover topics such as the gender pay gap and the cost-of-living crisis. Two members of the IGC joined two of these events during the year as observers and found the subject matter covered and the presenters to be excellent.

Aviva hosted 1,126 of these seminars in 2023 (1093 in 2022) and they were attended by 56,775 customers (60,361 in 2022). Customer feedback remains very positive and they result in higher engagement levels, for example, increased online registrations and beneficiary nominations following attendance.

We continue to feel that these seminars are important and provide an opportunity for customers to learn more about managing their pensions and preparing for retirement. They remain free to join and we would encourage more employees to attend if offered the opportunity and for more employers to make their employees aware of them.

Customer Feedback

"Brilliant session. Straightforward without a feeling of a sales pitch. The information just seemed really good and genuinely designed to help! Has made a great impression on me."

"This webinar was just what I needed at a time when I have been thinking about cashing in one or two of my smaller pension pots. I feel better equipped to make the decisions or where to seek help making the decisions. I have already recommended the webinar to a colleague. Very clearly explained and presented. Thank you."

"The presenter was excellent, very clear, concise and knowledgeable at this level of interaction. I left the presentation with my questions answered in the boundaries of the subject and felt like the presentation was pitched appropriately."

Financial advice

Aviva continues to provide customers with access to Aviva Financial Advice (AFA) and, following the integration of Succession Wealth into Aviva in 2023, customers have a second choice of adviser within the Aviva Group.

Both offer different services, with Succession Wealth being a much broader wealth management business offering independent advice where AFA advice is restricted to Aviva products. The services provided by both are separate to the core customer offering, with customers choosing their adviser and paying for these services separately as they would with an adviser outside of the Aviva Group as well as being able to access the wider market for financial advice.

The Redington review confirmed the Aviva Financial Adviser fee structure is similar to the median charged by other providers. Succession Wealth has a tiered charging structure to reflect the size of a customer's pension savings and wider wealth.

We continue to believe access to advice is important as long as it offers good value. Over the next year we will discuss with Aviva how it communicates these advice offerings to customers and whether it has any plans for further change.

Our conclusion

We believe Aviva's communications are good. We are supportive of the financial seminars Aviva run and the retirement preparation review offering. More information and support is available to customers digitally than ever before but we believe Aviva needs to do still more to promote customer engagement. We will challenge Aviva to evidence that the enhanced digital offering is driving up greater levels of engagement.

Environmental, social and governance (ESG) considerations

Environmental, social and governance (ESG) considerations

In addition to the three core elements of value covered elsewhere, the FCA asks the IGC to comment on:

- The adequacy and quality of Aviva's policies in relation to both ESG financial and non-financial matters
- The adequacy of Aviva's policy in relation to stewardship
- How these policies are taken into account and implemented by Aviva in investment strategy and decision making

The IGC expects Aviva and its fund managers, including Aviva Investors, to incorporate ESG factors, taking a long-term view. Long-term ESG risks are important because many customers will be saving into their pensions for decades, and using that money to provide an income for themselves for some time after that.

Adequacy of Aviva's policies

The IGC believes pension providers, like Aviva, have a responsibility to:

- understand their pension customers, and
- hold their selected fund managers accountable for driving towards outcomes (financial, social, environmental, governance, etc.) which meet those customers' needs.

To this end, Aviva has a suite of policies on environmental, social and governance (ESG) factors and stewardship. These policies apply to Aviva, its suppliers, and your pension funds, including how your fund managers should interact with the many companies held within the fund.

The IGC has reviewed: Aviva's 2023 Annual Report and Accounts; 2023 Climate-related Financial Disclosure Report; 2023 Modern Slavery Statement; and 2022 Sustainability Report.

We believe Aviva's policies are among the best in class across pension providers and we're pleased to see Aviva continuously reviewing and improving them. We discuss the practical implementation of these policies below.

ESG leadership

The Aviva ESG Investment Leadership Team co-ordinates Aviva's approach to ESG. This team brings together leaders from Aviva Investors and Aviva Life. Within Aviva Life, 23 sustainability professionals carry out policy and implementation, complimented by a further 50 ESG specialists within Aviva Investors. Both ESG teams have increased in size since our last report showing continued commitment.

Aviva's net zero ambition for your pension

In 2021, Aviva set the most challenging net zero ambition among its peers: to become net zero for its own operations and supply chain as well as shareholder and customer investments (including your pension) by 2040. This is a decade earlier than the industry average, which is 2050, while still ensuring the optimum financial outcome for your pension.

Within your pension, Aviva will deliver its net zero strategy through a combination of stewardship, ESG integration, selective divestment and new, nature-based investment solutions. Aviva has set milestones for carbon reduction in your pension: 25% by 2025 and 60% by 2030, compared against the 2019 carbon levels.

When Aviva set this ambition, it expected that changes to the global policy environment, such as forcing polluters to pay and encouraging investment in the UK's renewable infrastructure would be supportive. However, there's been insufficient policy progress despite Aviva's engagement with governments and other global institutions. As a result, Aviva admits it is incredibly challenging - and perhaps impossible - to achieve its 2040 net zero ambition while protecting your pension's financial outcome, which is Aviva's and the IGC's first priority.

Aviva believes the carbon reductions achieved so far haven't conflicted with the protection of financial outcomes and will not conflict in the near term. However, there's a continuing need to assess this, and the IGC will keep this issue under review.

The IGC is very supportive of all of Aviva's work in this area. We believe its ambitious net zero timeline will positively increase momentum in the policy space and across the industry.

ESG integration in your pension

Aviva's flagship pension fund is My Future Focus. Aviva Investors manages the majority of the investments, so they are guided by the ESG policies we describe above as best in class; for example, there is a good exclusions policy in place, which means your pension can't invest in tobacco or thermal coal where there is high risk of "stranded assets" which could fall to a much lower value due to future investor sentiment or government regulations. Aviva Investors also use ESG integration.

Put simply, this means My Future Focus invests more money in companies with strong ESG scores, and less in companies with poor ESG scores. Within developed equity, Aviva Investors uses tilting and screening to reduce the carbon intensity in line with Aviva's net zero ambitions and to minimize climate transition risk. The fund also invests in emerging markets for which the carbon intensity scores of underlying companies tend to be higher.

The My Future pension fund, managed by BlackRock, is also well aligned to Aviva Investors' own policies. In previous reports, the IGC has urged Aviva to continue its journey to increase the level of ESG integration in this fund, so we are pleased to say this work is well underway.

For example, Aviva has worked with BlackRock to:

- create Regional ESG Funds
- move the cash allocation to BlackRock's ESG-tilted cash fund (Leaf), and
- complete the move into the global credit ESG fund.

61% of all assets are now invested in ESG and carbon-optimised funds, and 71% for those in the growth phase more than ten years before retirement age.

The IGC continues to encourage Aviva to make progress in line with its stated net zero ambitions. For example, there is further to go on the corporate bond allocation.

Stewardship in your pension

Aviva's presence in the financial services industry – especially its role as a significant shareholder of many companies through its management of pension assets – allows it to influence the actions of large companies.

Aviva uses its voting rights at shareholder meetings to vote for or against issues relating to ESG and other matters. It also uses its access to company management throughout the rest of the year to engage on those same issues. For example, this year, Aviva Investors has engaged with the 30 most systemically important carbon emitters in its portfolio to work together on the challenges of transitioning to a low-carbon economy. Aviva has voting control for its own funds and for funds managed by BlackRock, leveraging the "Voting Choice" program.

Last year, the IGC reported that Aviva Investors was ranked 3rd out of 77 in Share Actions' Voting Matters Report. This year, they are ranked 31st out of 69. This is primarily due to a drop in their level of support for environmental and social shareholder proposals at companies. The committee has questioned Aviva Investors as to why this is the case.

Aviva Investors responded readily to the committee's questions. The reduction in support for shareholder proposals is due to a number of reasons. In some instances, they are seeking to acknowledge positive progress by the company in question following an engagement. In other instances, they may have decided the proposal itself was not worded well and could, if implemented, lead to negative investment outcomes for clients.

The committee notes that a reduction in support for environmental and social shareholder proposals is an industry-wide trend. The relative change in ranking may also be due to other fund managers improving their own policies and reducing Aviva Investors' lead in this regard. However, Aviva Investors still scored similarly to other prominent asset managers, including Schroders, Federated Hermes, and UBS.

While we recognise voting decisions are nuanced, especially for active managers, the IGC believes this is an area for Aviva to watch, especially as it has set such an ambitious net zero timeline. Naturally, we would expect Aviva's selected fund managers to reflect that same level of ambition in their voting decisions and for Aviva to deal with any misalignment.

We are pleased to report that this year Aviva was ranked in the top three asset managers globally for responsible investment by ShareAction. It was also rated as a leader on climate voting by Majority Action.

The quality of Aviva's annual Responsible Investment Report for 2023 has enabled it to secure signatory status to the UK Stewardship Code, which is operated by the Financial Reporting Council (FRC).

Aviva Group sustainability

As we mentioned above, the IGC has assessed Aviva's investment-related ESG policies, which affect your pension directly. We've also looked into Aviva's holistic sustainability activities, such as greening their offices, car fleet and supply chain. Again, throughout 2023, the IGC has been impressed by Aviva's continued, group-wide efforts. A selection of examples follows:

1. Aviva reduced their Scope 1 and Scope 2 operational emissions by 7%, taking their total reduction since 2019 to 50%, versus 43% in 2022. A key step in this journey was moving to new London Headquarters "80Fen", which meet the latest efficiency standards. This year Aviva achieved 100% renewable electricity for Aviva's operations.

2. Aviva invested 2.2% of Group adjusted operating profits into the community. It invested in projects such as restoration of woodland and peatland in the Yorkshire Dales, natural flood management in East Anglia and Leicestershire, and marine restoration in the Firth of Forth.

3. Aviva and developer Socius were chosen to deliver a world-leading cancer research and treatment facility at the London Cancer Hub, delivering social and economic benefits, including around 13,000 highly skilled jobs.

4. Aviva achieved 40.6% women in senior management positions against a target of 40%, up from 37% in 2022. They also achieved 10.8% ethnic diversity in senior leadership in the UK, just shy of their 12.5% target, due in part to market competition for the same talent. This is still up from 10.4% in 2022.

5. Aviva's people volunteered for 87,599 hours, more than double the hours in 2022.

6. 88% of employees would recommend Aviva as a great place to work, up from 86% in 2022.

7. It supported the installation of 190,000 on-street electric vehicle (EV) chargers across the UK by providing £110 million to Connected Kerb and €30 million to Erapid in Ireland.

8. Aviva continues to engage with its suppliers to align them on net zero. It aims for 70% of its suppliers (by spend) to set science-based targets by 2025; although they are currently at 35%. To bridge this gap, Aviva includes sustainability questions in procurement processes, supporting suppliers with sustainability guidance, and introducing incentives.

Related to point 8 above, last year, the committee challenged Aviva on its use of BlackRock as a manager, given its approach to ESG. We learnt that Aviva monitors BlackRock in terms of its sustainability. Aviva regularly challenges BlackRock on topics such as its level of corporate and policy engagement, such as through collaborative net zero initiatives.

The IGC recognises the new challenges international firms such as BlackRock now face, such as the diverging policy regimes between the US and UK. However, given the continued decline in BlackRock's relative engagement on ESG issues (it ranks 63/69 on the same Share Action report) and withdrawal from collaborative initiatives such as Climate Action 100 (though noting that the UK division of BlackRock is still a member) and Net Zero Asset Managers, the committee continues to have concerns and renews last year's challenge. While we continue to believe supplier alignment is important, we acknowledge and are comforted by Aviva's proactive decision to control the voting of BlackRock-managed funds.

Our conclusion

Aviva is under no illusion that a transition to a net zero carbon business will be easy. The IGC will work closely with Aviva's leadership and ESG team to understand how they are overcoming the challenges. However, we note that all providers have a long way to go if they are to protect beneficiary outcomes over the long-term.

The IGC considers the policies to be of high quality.

We rate Aviva highly in this area of our assessment; its policies and ambitions are strong and the IGC is supportive of this. If Aviva can deliver on those policies and ambitions while ensuring good financial outcomes for its policyholders, it will continue to stand apart from and ahead of others.

Investment pathways

Investment pathways

Since 2021, in our annual reports, we've outlined the introduction of investment pathways to customers who start to draw their pension benefits and commented on whether we felt Aviva pathways offer value for money to customers.

The FCA introduced pathways to help individuals who choose not to take financial advice on their pension options at retirement or who want simpler packaged solutions that fit their needs and circumstances. Many customers don't know the pros and cons of different retirement options and investment funds in retirement, so investment pathways simplify the process and give choices based on options available to customers in retirement.

The table on this page shows the four investment pathways solutions required by the FCA and available to Aviva policyholders. Each pathway is based on what policyholders may be looking to do.

In this section, we look at the Aviva investment pathways together with those provided by its partner Mercer Workplace Savings and compare these to the market more generally.

As outlined elsewhere in this report, this year we've taken part in an independent benchmarking review undertaken by Redington. This includes looking at the investment pathways solutions available across the major providers in the market. Aviva and Mercer are shown separately in the information and tables below. For confidentiality reasons, we are required to anonymise the names of other providers who participated in the review but can confirm that they are comparable major providers in the market.

The key comparison areas in the Redington benchmarking are:

- customer charges
- investment design and performance
- customer engagement and access to pathways, including communication support and customer take-up
- service to customers who opt for pathways solutions.

I have no plans to touch my money in the next five years	**Aviva Investment Pathway 1** (Blend of My Future Focus Drawdown & My Future Focus Consilidation)
I plan to use my money to set up a guaranteed income (annuity) within the next five years	**Aviva Investment Pathway 2** (Blend of My Future Focus Annuity)
I plan to start taking my money as a long-term income within the next five years	**Aviva Investment Pathway 3** (My Future Focus Drawdown)
I plan to take out all my money within the next five years	**Aviva Investment Pathway 4** (My Future Focus Cash Lump Sum)

Customer charges

The charges that apply to each investment pathway solution typically follow one of the following formats:

- a flat fee applied to the customers' fund (that is, assets under management), which is often determined by the workplace charges the customer incurred before drawdown
- a tiered fee applied to the customers' fund (that is, assets under management), where the size of the customers' fund determines the percentage applied

This means customers in the same pathway with similar fund sizes may incur different charges depending on their pre-drawdown charges (because of different workplace/employer charge structures) or because providers have different break points in their tiered fee structures.

Breaking down customer charges into platform, investment and other fees is not always possible as not all pathway providers will give this information. However, where this information is available, we feel it gives a better insight and we believe this level of information will be required as regulation evolves.

Aviva has a different charging structure depending on how and through which platform customers access pathways. The cost for the investment element, however, is the same for each pathway. This is a different approach to other pathway providers, who typically have a lower charge for pathway 4. We have asked Aviva to consider whether the investment cost for Pathway 4 remains appropriate and will report on this next year.

Although it continues to be difficult to compare pathway charges, the Redington study supports the Isio review findings of last year that Aviva's charges are well within the range of other providers. Because of this, we have again concluded that Aviva is competitive in the marketplace.

Investment design and performance

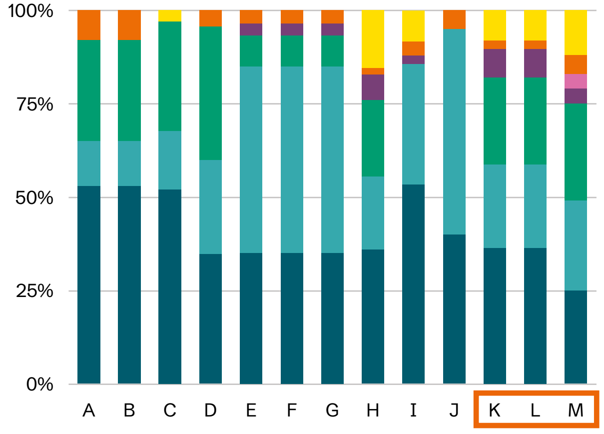
The investment objectives and design of each Aviva and Mercer pathway solution have not materially changed since they were introduced in 2021. The Redington review confirmed this is consistent with other providers. This means we can summarise the different strategies adopted by each provider in the bullets below and reflect them in the asset allocations in the table below:

- Pathway 1 – there is a mix of diversified strategies typically aiming for capital growth with moderate risk levels (equity content between 20% and 60%).
- Pathway 2 – the majority of providers target change in annuity rates and so invest in corporate bond/gilt assets.
- Pathway 3 – largely similar to Pathway 1 and for some providers the exact same allocation.
- Pathway 4 – most providers aim for capital preservation and so invest in low-risk assets, for example, fixed income and cash.

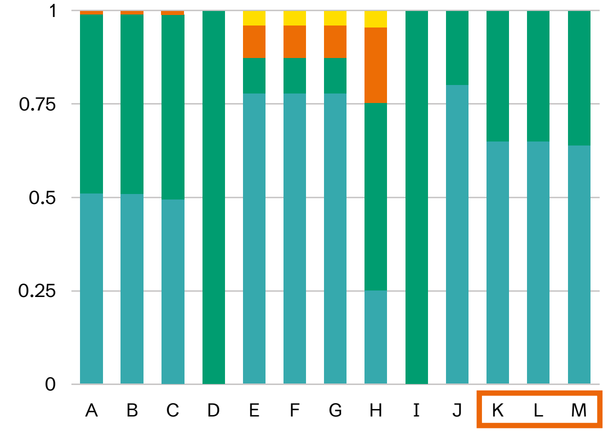
The differences in asset allocation adopted by providers stems from the fact that the descriptors of the pathways as defined by the FCA are not precise. These differences across all four pathways have led to a wide range of investment returns over the 12 months to 31 December 2023, but similar returns over the three-year period.

K Aviva **L** Aviva **M** Mercer

Pathway 1 asset allocation

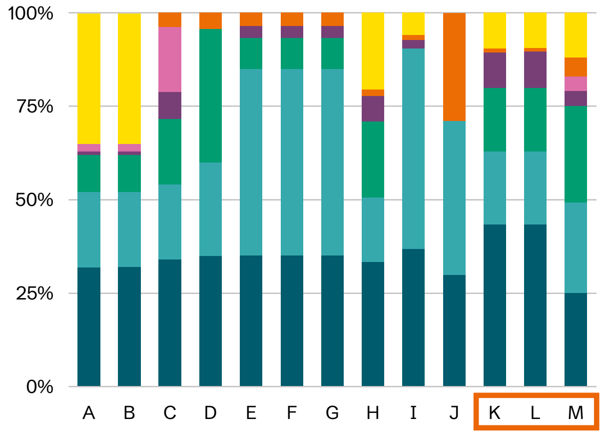


Pathway 2 asset allocation

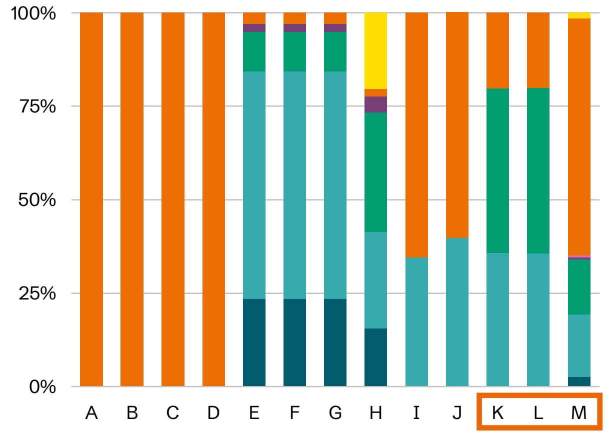


Other, Cash, Private Debt, Private Equity, Infrastructure, Property, Government bonds, Corporate bonds, Listed equities

Pathway 3 asset allocation



Pathway 4 asset allocation



Source: Redington Ltd.

The key findings for the year ending 31 December 2021 were as follows:

Pathway 1 -

both the Aviva and Mercer solutions have equity allocations towards the lower end of the providers in the benchmarking review. This affected past performance which, while positive, is around the average or lower compared to other providers over one and three years.

Pathway 2 -

both the Aviva and Mercer funds have around two-thirds in corporate bonds and the remainder in gilts. Both delivered positive returns over one year but the losses in 2022 mean the three-year return remains negative. However, as Pathway 2 is targeting buying an annuity, the investment returns are less relevant than the annuity purchasing power of the customer's fund. Accordingly, we have reviewed the investment performance over one and three years of the underlying fund used by Aviva in Pathway 2. This shows it closely tracking annuity rates, evidencing that it has achieved its objective to maintain its annuity purchasing power over both periods.

Pathway 3 -

Aviva's higher equity weighting meant positive returns over one and three years, but around the average or lower compared to other providers.

Pathway 4 -

both Aviva and Mercer have a diversified allocation, which achieved positive returns over one and three years, but around the average or lower compared to other providers.

Customer engagement and access to pathways

The number of customers in pathway solutions remains relatively small across the market and this is also true at Aviva. This may be because many customers don't need a packaged solution at retirement as they are confident making their own choices or they may have taken financial advice to help them structure their pension.

Aviva remains one of the largest pathways providers based on assets under management (c£1.5bn) and this covers c14,000 customers. Pathway 1 remains the most popular choice, with just under 43% (40% in 2022) of customers selecting this option.

During 2023, some 24,000 customers looked to start drawdown and about 5,600 (23%) took a pathway option. The Redington study showed a wide range of take-up rates across other providers – from 3% to 82% albeit the larger providers typically had the higher take-up rates. In addition, the study highlighted large differences in the pathway take-up rates and processes across the Aviva platforms. We will explore further with Aviva whether higher and more consistent take-up rates are appropriate and if so, how this can be achieved.

In addition, the Redington study looked at Aviva's pathways communications to customers (including websites) and felt they were comparable to other providers.

Given the five-year time horizon of pathway solutions and their introduction in 2021, we should start to see more behavioural evidence in the next few years on what customers actually choose to do with their pension savings. This will help clarify whether the pathway solutions they chose fit their needs. The FCA intends to work with the industry over the next year on behavioural field trials to test how best to engage with customers and the solutions they need as they approach retirement. We will discuss with Aviva what insights this work provides on pathway solutions, charges, processes and communications.

Service to customers who have opted for a pathway solution

The majority of providers still do not operate specific service level agreements (SLAs) for pathways on a standalone basis and this includes Aviva and Mercer. Most providers monitor service levels on a company-wide basis, aiming to process customer transaction requests within five working days.

Aviva benchmarked well in the Redington review on servicing pathway customers, and this included core processing times, complaint levels and call drop-off levels. However, Aviva adopts different processes for its different platforms and doesn't have specific SLAs for pathways. We will discuss both of these points with Aviva to see if it can be more consistent and provide specific SLA reporting.

Our conclusion

We continue to believe Aviva and Mercer Pathways are appropriately designed and well serviced and the charges paid by customers offer good value.

Investment returns have improved for all four pathways and each showed positive returns over 2023 and we feel this offers good value.

Thank you for reading

Aviva Independent Governance Committee (IGC) 2024

Contact us at IGC@aviva.com