Aviva UK Life Responsible Investment Report

Effective Stewardship

CEO Foreword

The past year has been an uncertain one for many of our customers as they deal with a cost-of-living crisis and insecurity over what the future will hold. At Aviva, we are determined to lessen the anxiety our customers feel. We take our responsibility to impact and influence our customers' futures very seriously.

To act in the best interests of all our stakeholders, we put sustainability at the core of our strategy and what we do as a business. We have been a recognised leader for decades, evidenced by the fact that we are the first major UK financial services company to commit to target Net Zero carbon by 2040, a decade earlier than many other companies.

However, our commitments to sustainability, laid out in Aviva's Sustainability Ambition policy, are so much more than climate action – we are building stronger, more resilient communities, and embedding sustainability throughout our business.

Part of how we embed sustainability is through effective stewardship. We are proud to be one of the founding signatories of the Stewardship Code, and we continue to advocate it. Reporting on the impact that our responsible investment approach has had on our customers, and on the society we serve, gives us the opportunity to hold ourselves accountable, to identify any areas of improvement and to highlight the actions we got right and need to continue.

We hope this report makes clear how we are determined to become ever better stewards, living up to our purpose of being with people today, for a better tomorrow."

Amanda Blanc, Group Chief Executive Officer

We understand how important Aviva UK & Ireland Life is to the lives of our many customers. They rely on us and trust us to act in their best interests. We recognise the magnitude of this responsibility, which is why we take stewardship and sustainability so seriously.

We want to provide our customers with more than just an income for retirement; we want to build a strong, resilient community where future generations can also thrive. As responsible corporate citizens, the foundation to accomplishing this objective must be long-term thinking and sustainable behaviours. In line with this, we have focused more than ever on educating our customers and their financial advisers about how their pensions are being invested and why ESG matters. We have also developed award-winning tools for customers to navigate their investments. This gives them the ability to make clear, informed decisions about their pensions and their future.

We are proud of the progress we have achieved so far in this area. This report highlights the strides we took in 2022 towards being responsible, active asset owners, as well as the significant investments we have made in our customers and assets that support a better tomorrow. Our customers, and the stability of the wider economy, depend on us, and we are determined to live up to our commitments."

Doug Brown, Aviva UK & Ireland Life CEO

Message from UKL CIO

I am honoured to share with you the Aviva UK Life 2022 Responsible Investment Report, which I have reviewed and approved. Stewardship remains for us more than just a process or an item on a checklist of requirements; it is a core belief that embeds our way of investing. We take great pride in being strong stewards on behalf of our customers and shareholders.

This report has been put together as a representation of our view as an asset owner, against the FRC's Stewardship Code, and it is complementary to the asset manager view captured in the report prepared by Aviva Investors.* We were delighted to, once again, achieve signatory status last year, and to share this update covering the 2022 calendar year.

In this report, we highlight how the 'One Aviva' model works in practice, fostering innovative collaboration throughout the organisation, allowing us to have healthy internal challenges, but also to speak with one voice and bring our scale and influence to bear towards achieving our sustainability objectives. We work closely on these matters with our affiliates, our in-house colleagues and also our external asset managers and other strategic partners with whom we share a common vision of the future and of the best investment practices to get there.

During 2022, we continued to make progress on our Sustainability Ambition, taking bold strides and communicating these changes with our customers.

Some examples of the achievements in 2022 that we are proud to share include:

- Applying our Baseline Exclusion Policy to all actively managed funds
- Exceeding our 2022 goal of £10 billion of auto-enrolment assets placed into low carbon equities and climate transition strategies
- Playing an active role at COP27 and COP15, urging for reforms to manage the risks of climate change and to globally agree to biodiversity goals
- Partnering with UK financial support and debt advice charities to increase their capacity, especially during the cost-of-living crisis

We are proud of our heritage and strong current practices in the sustainability area, but we remain of the view that we – and the asset-owner community – need to make further progress and continue to evolve our practices in pursuit of integrating sustainability into all our investments.

We welcome the FRC's definition of stewardship as capital allocation, management and oversight of our investments to support long-term sustainable value creation. As we recount our achievements and the progress we have made on stewardship, we also remind ourselves that there are many more unanswered questions and future aspirations. This report is an important milestone in sharing our progress over 2022 and our direction of travel on this journey.

Please see the Appendix, which provides a regulatory map setting out how we believe we comply with the Code."

Ashish Dafria, Chief Investment Officer

*Aviva's responsible investment and stewardship policies are established, debated and monitored on a Group-wide basis, with the Group Executive Committee, Group sustainability team and Group CIO providing overall sponsorship and oversight, though please note that the entities in UK, Ireland and Canada are separate legal entities. Throughout this report we use the term 'Aviva UK Life' to refer to the various entities which form the Aviva life and savings businesses under Aviva Life Holdings UK Limited – the main statutory entity being Aviva Life & Pensions UK Limited. Where deemed necessary, we will make the distinction between Aviva UK Life, Aviva Investors (the Aviva asset manager) and Aviva Group, but in other instances we will simply use 'Aviva'.

Contents

Chapter 1

Our purpose, investment beliefs, culture and strategy 06
Our values and culture 08
Our Sustainability Ambition 09
Diversity, Equity and Inclusion 12
Our strategy 15
Our principles and investment beliefs 17
Our responsible investment principles 18
Our Baseline Exclusion Policy 19
Our customers and stakeholders 20

Chapter 2

Governance and organisation of stewardship 22
Resourcing stewardship 27
Incentives and training 29
Assurance 31
Managing conflicts 34

Chapter 3

How are we invested? 36
Who are our customers? 38
Communication and feedback with customers and advisers 40
An integrated approach to stewardship 44
ESG and stewardship in practice 46
ESG integration by asset class 48
An integrated approach to stewardship – case studies 50
Monitoring asset managers 56
Monitoring and holding service providers to account 61

Chapter 4

Engagement 63
Engagement with corporates 65
Engagement in real assets 76
External asset manager engagement 77
Exercising rights and responsibilities 82
Voting activity in 2022 83
Escalations 87

Chapter 5

Broader market initiatives – collaboration and systemic risks 91
Working with businesses and governments 92
Addressing market failures – Climate change 94
Collaborating with others in the industry 100
Collaboration, awards, and accreditations 102
Identifying and acting on risks in 2022 104
Direction of travel: looking forward 110

Appendix 111

Highlights of the year

Responsible investment is at the heart of what we do, with the consideration and management of ESG risks and opportunities embedded in our investment beliefs, decision-making and outcomes.

Low carbon solutions

Exceeded our £10 billion of auto-enrolment assets in low carbon equity strategies

See page 41 for more information

Coal exclusion divestment

Sold all holdings where more than 5% revenue is generated from coal in active and passive investments unless they have an externally verified science-based target

See page 10 for more information

Carbon intensity reduction

Achieved a 25% reduction in carbon intensity across customer credit and equity holdings and a 35% reduction in shareholder credit

See page 10 for more information

Baseline Exclusion Policy

Exclusion policy agreed and published on website for all active investments

See page 19 for more information

Climate engagement escalation programme

218 engagements across the CEEP focus group. 22 companies have announced or strengthened their ambition to achieve Net Zero by 2050 or sooner

See page 88 for more information

Sustainable assets

We continued to invest in sustainable assets in 2022, taking our total investment to £5.1bn as at 31 December 2022

See page 11 for more information

Climate transition funds

New investment into Schroders Climate Change Fund from With-Profits

See page 54 for more information

My Future default enhancements

Switched to a more sustainable cash fund (LEAF) and increased allocations to the ACS World ESG Insight Fund

See page 55 for more information

Chapter 1: Our purpose, investment beliefs, culture and strategy

Aviva is one of the UK's leading insurance, wealth and retirement businesses, with 18.7 million customers in the UK, Ireland and Canada.

Figure 1: Our purpose, strategy and values

Our purpose is to be: with you today, for a better tomorrow

We're there to protect the things that matter most to our customers: their homes and belongings, their health and wealth, their future and their families

To live up to that purpose, we have an ambition to be:

The leading UK provider and go-to customer brand for all insurance, wealth and retirement solutions, with strong franchises in Canada and Ireland

Watch our manifesto film to find out more: www.aviva.com/about-us/who-we-are-and-what-we-do/

We have a clear strategy and plan to achieve this vision:

Customer
Go-to customer brand for insurance, wealth and retirement

Growth
Targeted, disciplined and profitable growth

Efficiency
Top-quartile efficiency with technology at the core

Sustainability
Leading on climate action, stronger communities and sustainable business

Read more on our strategy

We are guided by our values:

Care
We care deeply about the positive difference we can make in our customers' lives

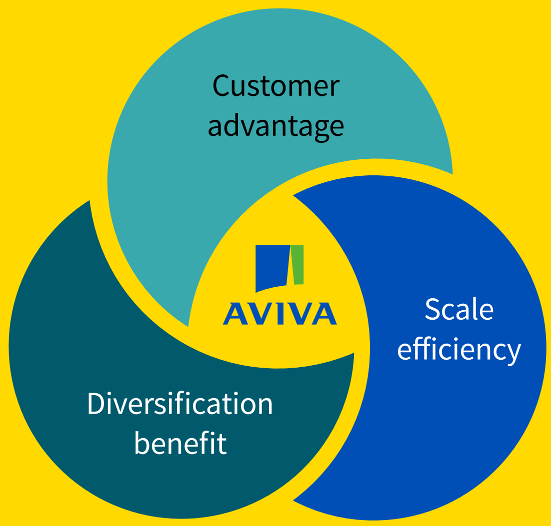
Commitment
We understand the impact we have on the world and take the responsibility that comes with it seriously

Community
We recognise the strength that comes from working as one team, built on trust and respect

Confidence
We believe the best is yet to come for our customers, our people and society

Read more on our people

Delivering our strategy will unlock our competitive advantage:



By doing so, we will create value for our stakeholders: our customers, colleagues, society and shareholders

Read more about our stakeholders

We are guided by our purpose – 'with you today, for a better tomorrow'. For Aviva UK Life this means providing our customers with a long-term income, and using their assets to build a sustainable society they want to retire into.

Aviva UK Life is in a unique position to help customer problems through each step of their lives as we are a trusted provider of a broad range of products to both individual and corporate customers covering their savings, retirement, insurance and health needs. We help individuals save and achieve financial peace of mind through their workplace, advisors or engaging directly with us, as well as managing their savings and income up to and through retirement. We also help our corporate customers with de-risking solutions for their pension schemes and promote wellbeing and health with their workforce.

Our values and culture

Care

We understand the positive difference we make in our customers' lives every day. We truly listen to see beyond the policyholder to a person with plans and dreams. We solve problems for our customers, and for each other we build relationships that no one else can.

Commitment

We stand up for what we believe in. We act with courage, keep our promises and take ownership of our work. We understand the impact we have on the world and take seriously the responsibility that brings with it. We will play our part in tackling the climate crisis.

Community

We recognise the strength that comes from working as one team, collaborating and winning together for Aviva, for each other and for our customers. Our strength comes from our connection – to each other, to our customers and partners and to the communities around us.

Confidence

We believe that the best is still to come – for our customers, our people and society. We're not just here for now; we're here to imagine and to innovate for the future. We are brave and passionate, setting new standards for ourselves and the competition.

Our culture is shaped by our clearly defined purpose – 'with you today, for a better tomorrow'. Aviva seeks to earn the trust of our customers by acting with integrity and a sense of responsibility at all times. We look to build relationships with all our stakeholders based on openness and transparency.

Our people are passionate about doing their best for our customers. Our values guide everything we do, from having the confidence to shape Aviva for today and tomorrow, to showing the commitment to deliver on our promises, to working together as a community to make Aviva better and more inclusive for everyone and taking the care to speak up if something is not right so we can build a better Aviva.

The Board continues to assess and monitor the Group's culture to ensure it remains effective in serving the best interests of clients and beneficiaries. A culture diagnostic has been developed along with associated action plans, which the Board reviews annually. The culture diagnostic combines employee sentiment with other employee and customer data and is in addition to our annual 'Voice of Aviva' employee engagement survey.

Our Sustainability Ambition

Our ambition is to lead the UK financial services sector in taking action on climate change, building stronger, more resilient communities and running ourselves as a sustainable business.

Stronger Communities

We have a goal to make 10 million people more resilient by 2025. Helping the building of financial and climate resilience has never been more relevant at a time of cost-of-living challenges. Helping our customers, communities and partners to be more secure today is a significant part of our Sustainability Ambition.

Climate Action

We have an ambitious plan to reduce our climate impact as part of our journey to Net Zero by 2040. We have to tackle the big issues, and the climate crisis is one of the greatest threats facing our planet. Working with our people, our customers and our partners, we will bring our influence to bear on tackling climate change.

Sustainable Business

We act to embed sustainability into every part of our business. This includes how we make decisions, act and communicate.

> "Acting sustainably is a cornerstone of Aviva's strategy for very good reasons. It matters to our customers, our people and our world. The future health of our business depends entirely on a sustainable future to be doing business in. We want to help set the standard."
>
> **Amanda Blanc, Group Chief Executive Officer**

Figure 2: Our Sustainability Ambition

Stronger Communities

In 2022, we helped 14% of the UK adult population save or retire.[1]

Aviva, and specifically our UK and Ireland Life businesses, are responsible for overseeing a significant amount of investment assets. For assets where we have investment decision-making control, we consider our sustainability ambitions part of the investment strategy and management.

For the remaining products, where customers have the ultimate discretion as to which investment strategy they select, we recognise that we still play a responsible role in creating the range of funds and default investments available. Over four million members are enrolled in an Aviva UK workplace pension.

By June 2022, we had exceeded our 2022 goal of £10 billion of auto-enrolment assets placed into low carbon equities and climate transition strategies.[2] The scale of Aviva's retirement business (£58.5 billion of assets under management at the end of 2022), gives us the ability to invest in community infrastructure and real estate, including healthcare, education, transport, housing, water and renewable energy.

Since 2019 Aviva UK Life has invested £4.5 billion in sustainable assets, including £1.2 billion in climate transition funds. As at the end of 2022, we had invested £7.4 billion in sustainable assets, of which £3.7 billion are green assets, £2.5 billion are sustainability and social assets, and £1.2 billion are climate transition funds.

Climate Action

We adopt an integrated approach to executing on our climate strategy through involving all our business units. In 2021, we announced our ambition to be a Net Zero company by 2040 and aligning all aspects of our business to the 1.5°C Paris target.

We have set ambitions to reduce the carbon intensity of our investments by 25% by 2025 and 60% by 2030 (from a 2019 baseline).[3] By the end of 2022, we had reduced the weighted average carbon intensity (WACI) of our credit and equity investments (shareholder and with-profits portfolio only) by 39% compared against a 2019 baseline.

For 2022, we have extended our disclosure from the WACI metric for corporate credit and equity asset classes for shareholder and with-profits portfolios to include policyholder corporate credit and equity portfolios. Absolute emissions (being the Scope 1 and 2 emissions from the investee companies) are now disclosed in addition to the intensity measures.

We are now disclosing an overall absolute and intensity carbon metric for sovereign holdings. For further details of our progress on our Scope 3 carbon emission reduction please see our Climate-related Financial Disclosure.

In 2023 we look to incorporate additional asset classes taking into account the latest methodology available. In Aviva's Climate Transition Plan, we outline how we calculate our portfolio emissions, and have set ambitions for how we will measure our portfolio transition.

We understand that the highest-emission fuels cannot be part of a low carbon future. In line with our commitment in last year's report, our long-term investment beliefs and our sustainability ambitions, we divested from all companies making more than 5% of their revenue from thermal coal, unless they have signed up to objective science-based transition plans across active and passive funds.

[1] Based on UK adult population only (18+ years)
[2] See: https://www.aviva.com/newsroom/news-releases/2022/12/aviva-achieves-validation-of-its-science-based-emission-targets/
[3] For more information, please see Taking Climate Action - Aviva plc

Sustainable Business
Creating a diverse, inclusive organisation is a fundamental part of living up to our purpose of building a sustainable society that our customers want to retire into. It means being there for all our people, serving all our customers well, and helping to contribute to fairer, more equal communities. Having a diverse and inclusive firm ensures we have the range of perspectives and insight that is so important for good decision-making, helping us deliver the outcomes that our shareholders and other stakeholders expect us to achieve.

Helping build the UK's electric-vehicle (EV) infrastructure
Aviva provided funding for Connected Kerb to support plans to create 190,000 on-street EV chargers by 2030 through our investment in Aviva Investors Climate Transition funds.

Renewable energy wind farms
Aviva provided £190 million through our annuity investment portfolio to finance the offshore transmission system linking the 714MW East Anglia offshore wind farm to the national electricity grid.

Helping develop sustainable education
Aviva provided financing towards building the first school created under the Welsh 21st century schools programme. The development of the Mynydd Isa campus in Flintshire is the first of its kind under the Welsh mutual investment model.

The campus will provide both primary and secondary education, and is expected to be operational from autumn 2024. The project aims to create a Net Zero carbon building. Both the construction and operational phases of work will also prioritise benefits and opportunities for the local community, with apprenticeships being provided to a number of young people as part of the programme.

Diversity, Equity and Inclusion

We celebrate being a diverse and inclusive organisation, so we can contribute to fairer, more equal communities.

Aviva's Executive's long-term incentive plans include two diversity and inclusion measures, in total worth 2.5% of their incentive.

By 2024 Aviva aim to achieve:

- 40% of senior management being women (by the end of 2022 we had achieved 37.3%);[4] and
- 12.5% of senior management to be ethnically diverse (by the end of 2022 we had achieved 9.4%).[5]

UK Life continue to contribute to these targets and track progress against them.

Focusing on diversity and inclusion improvements
Being accountable and open are key to progression. Aviva's latest UK Pay Gap Report highlights our current performance and sets out what we are doing to improve recruiting, retaining and developing our female and ethnically diverse employees.

Aviva's work has been recognised through numerous 2022 awards, such as being the highest-rated UK insurer on Stonewall's Workplace Equality Index, appearing on The Times Top 50 Employers for Women for the fifth consecutive year and coming 15th in the Social Mobility Index.

In 2022, a number of our people were also recognised on the HERoes, OUTstanding and EMpower role model lists.

Focusing on equality and equity
Aviva is a signatory of both the Women in Finance Charter and the 30% Club.

During 2022, we made changes in line with the Women in Finance charter audit:

- We now ask candidates their salary expectations, not current salary;
- We have simplified all job adverts, listing a maximum of five requirements;
- We publish more salary bands externally;
- We've extended our Returners Programme; and
- We aim for all shortlists to be balanced.

Since we made these changes, we have seen our share of female applications increase – by 6% for women overall and by 9% for leadership roles.

[4]Calculated as the percentage of colleagues in senior leadership roles in the UK, Ireland, Canada and Group functions who identify as female
[5]Calculated as the percentage of colleagues in senior leadership roles in the UK who identify their ethnicity as anything other than 'white'

Focusing on ethnicity
Aviva focuses on attracting, promoting and retaining more ethnically diverse employees – across all levels of the business.

Aviva is a signatory of the Race at Work charter, and has introduced a number of initiatives to support its five focus areas – from enabling career progression to capturing ethnicity data. We are also founding partners of Change the Race Ratio, setting goals for our ethnically diverse senior leadership.

Working with the Diversity Practice, we developed our own leadership programme for ethnically diverse employees in the UK.

Our work on ethnicity is underpinned by our ethnically diverse leadership and reverse mentoring programmes.

In 2022, inclusive behaviour was a required learning for all Aviva employees.

Understanding the data
At the end of 2022, 88% of our people had opted to complete their race or ethnicity data.

We now continue to work towards increasing completion rates across all data relating to characteristics, so we can better understand the make-up of our organisation. This, in turn, will enable us to make decisions and plans backed by data.

In the 2022 Voice of Aviva survey:

- 83% of employees responded that 'I feel I belong in Aviva'; and
- 86% of employees would recommend Aviva as a great place to work.

Strength through diversity

Creating a diverse, inclusive organisation is a fundamental part of living up to our purpose of being 'with you today, for a better tomorrow'.

We are determined to keep challenging ourselves to do more to build a workplace – and society – that works for all.

In 2022 we published our 'This is me' video, which celebrates just some of the diversity we represent across our inclusive organisation of over 21,636 employees.

Aviva Communities supporting inclusive focus
We have six global employee resource groups and call them our Aviva Communities.

They act as a 'conscience' for our organisation, and each is sponsored by a member of the Executive Committee. They challenge the company to think differently, and do more to ensure the inclusion of all at Aviva, by:

- Promoting change through building relationships with colleagues, leaders and partners;
- Celebrating the diversity of our people;
- Raising awareness about people's lived experiences and backgrounds;
- Educating the workforce on topics that are less-talked-about but vital to an individual's identity;
- Appreciating the value of intersectionality and the multifaceted identities we all hold; and
- Helping to make sure our policies are inclusive everywhere, giving our people opportunities to grow outside of their day jobs.

By the end of 2022, the Communities had established partnerships with multiple charities globally.

Our Communities have more than tripled their membership over the past five years, resulting in nearly 30% of Aviva global employees being actively engaged in wellbeing, diversity and inclusion.

Our strategy

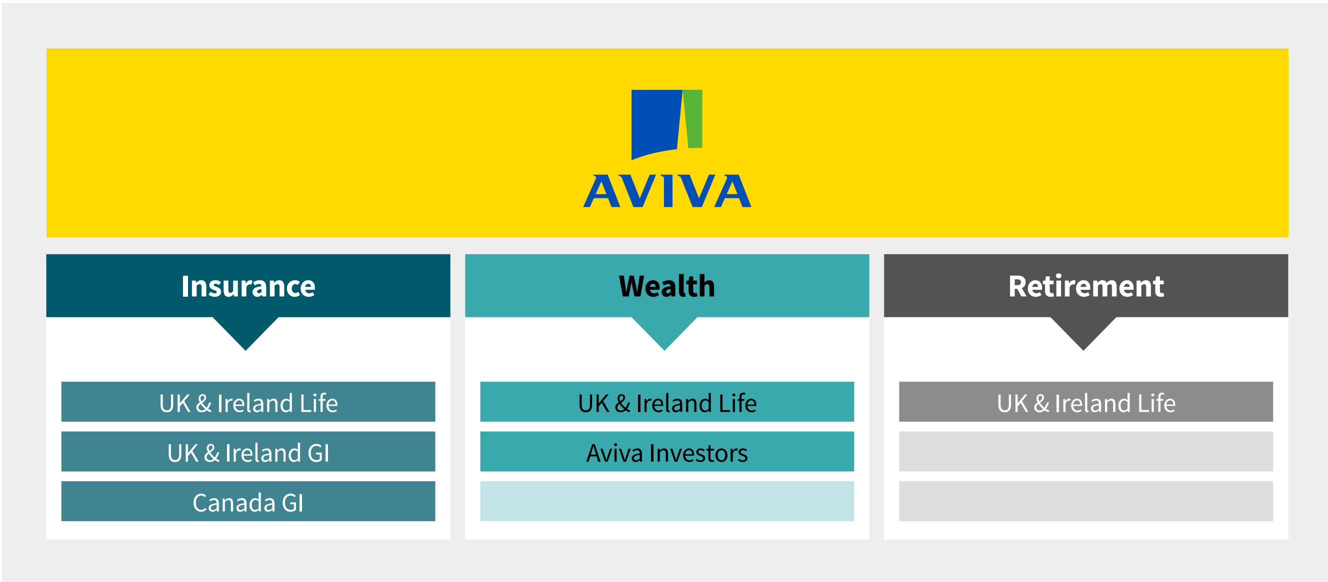
Our diversified model means we are well placed to capitalise on the structural growth opportunities in our markets. For example, around one in every four people in the UK will be over 65 by 2039.

Aviva is the leading UK provider of insurance, wealth and retirement solutions. Our businesses are of high quality, with strong positions across all of our segments. Our diversified 'One Aviva' model drives our competitive advantage. It allows us to serve customers across the full range of their needs, building lifetime relationships. On top of this, we can deploy our leading brand across multiple segments. The One Aviva model also provides us with synergies between our business lines. For example, Aviva Investors, our in-house and largest asset manager, sources real assets for our UK Life business.

How we're organised

We provide our customers with insurance, wealth and retirement solutions through four operating segments, each with high-quality businesses and strong market positions. We also have international investments in China, India and Singapore. Other group activities include our centralised functions, such as finance, people and IT, which help us to ensure consistent delivery across the four segments.

Aviva has a common approach to stewardship activities, with centres of excellence across the Group joined by a shared ambition. We provide diversity across markets, products and services, which gives us strong and lasting relationships with customers, as well as material capital benefits and cost efficiency. This common approach enables us to collaborate on research, innovation and broader sustainability ambitions.



We believe this approach allows us to integrate sustainability and stewardship seamlessly, while not inhibiting constructive challenge between asset owner and asset manager, holding each other to account where needed to further our stewardship priorities. We practise active ownership across the asset classes in which we invest, including exercising our shareholder right to vote, collaborating with our corporate counterparties. We explore this further in the description of our governance structure in Chapter 2, as well as how we apply this same approach to our other asset managers in Chapter 3.

Key priorities for 2023
We have come out of 2022 in a strong position, with many foundations now in place across Aviva's strategic priorities.

In 2023, we are continuing to focus on delivering what matters most to our customers while driving profitable growth and long-term efficiencies. We remain committed to deliver on our ambitions across climate, community and business sustainability.

We are leveraging the unique breadth of the Aviva Group to best meet the needs of our customers and clients in a compelling, cohesive way. We are continuing to develop customer-focused propositions and innovation across our Insurance, Wealth and Retirement businesses.

We are focusing on connecting our customers to our growing advice capability, with solutions across the full spectrum of face-to-face, digital and hybrid engagement.

We are promoting diversified growth by strengthening our Workplace, Retail, Health and Protection propositions, while continuing to apply rigorous selection and a high level of discipline in our BPA growth strategy and accelerating the development of our Wealth offering available to our customers through the direct channel.

Ongoing digitisation of customer journeys, automation of operations and simplification of our IT infrastructure remain a priority to succeed.

We are significantly investing in the digital experiences we bring to our customers, partners and clients.

Finally, we will continue to deliver on our promises to be a climate champion by leading the UK's financial services industry in sustainability.

Our principles and investment beliefs

We are primarily long-term investors. Taking a long-term approach is one of our core investment beliefs. We also believe that sustainability factors are material sources of both investment risk and outperformance opportunities for customers and shareholders. Therefore, integration and alignment of sustainability throughout the investment process is essential.

Our Responsible Investment Policy[6] governs our approach to investing. We classify responsible investment according to the United Nations Principles for Responsible Investment (UN PRI) definition as "investing that incorporates environmental, social and governance factors into investment decisions, to better manage risk and generate sustainability long-term returns". We believe that our Policy helps us practise active stewardship and ensures alignment with our long-term value culture.

We exercise our stewardship responsibilities across all of our assets, while being mindful of the type of assets, objectives of the beneficiaries (policyholder and shareholder) and the extent to which we can influence where the assets are invested.

We recognise that we have a fiduciary duty to invest all our assets in a responsible way and for policyholder funds to continue to invest in line with policyholders' expectations. For assets where we have investment decision-making power, such as our shareholder assets and policyholder assets associated with our managed unit-linked and with-profit products, we directly embed our stewardship ambitions into the investment strategy and day-to-day investment management.

For the remaining subset of products, where the customers have ultimate discretion as to the investment strategy and which funds they select, we recognise that we still play a critical role in shaping the range of funds made available to customers to ensure alignment with broader stewardship ambitions, and to identify default investment solutions for our customers which reflect our stewardship beliefs.

[6] https://www.aviva.co.uk/content/dam/aviva-public/gb/pdfs/personal/services-and-support/our-uk-business/products-and-services/gn22001c.pdf

Our responsible investment principles

The key principles of our responsible investment policy that drive our integrated investment approach are:

Environmental, Social and Governance (ESG) factors are material sources of both investment risk and outperformance opportunities and therefore should be integrated within all active investment decision-making processes as a core determinant of future performance expectations.

We (through our asset managers) should actively exert influence over the companies we invest in to improve their sustainable ESG performance.

We believe it is appropriate, where viable, to support customer choice by providing a range of funds with different degrees of responsible investment criteria.

Focused engagement is more effective in seeking to initiate ESG changes than divesting; however, it is appropriate to exclude companies from active investment mandates who are engaged in activities that inherently contradict sustainable ESG goals and are not actively progressing business change to remedy this.

We should apply a minimum level of responsible investment criteria on all actively managed investment products we offer, primarily through our Baseline Exclusion Policy.

It is important investors receive full and clear disclosure of the responsible investment positioning and performance of the funds they invest in.

Our Baseline Exclusion Policy

We believe it is generally more effective to use our influence to drive change rather than divest and walk away. However, there are specific sectors and economic activities where we consider the sustainability risks to the climate, planet and people are so severe that providing equity and debt funding is fundamentally misaligned with our responsible investment philosophy and corporate values. In these cases, we actively exclude companies and industries from our investment universe.

As such, we published the Aviva-wide Baseline Exclusion Policy in 2022. The policy applies to all actively managed portfolios, providing a consistent approach across our investments. We will be looking to widen the scope of the policy to include passive investments in 2023.

The policy prohibits investment in companies with activity exceeding the thresholds to the right.

Figure 3: Aviva's Baseline Exclusion Policy

Activity	Description	Revenue threshold*
Arctic oil	Companies that derive revenue from the production of Arctic oil.	≥10%
Civilian firearms	Companies that manufacture firearms and small arms ammunitions for civilian markets. Excludes products exclusively sold for the military, government and law enforcement markets.	≥5%
Cluster munitions and landmines	Companies involved in, among others, development, production, use, maintenance, offering for sale, distribution, import or export, storage or transportation of cluster munitions and landmines.	0%
Nuclear weapons	Companies that manufacture nuclear weapons and related systems and components.	≥5%
Biological and chemical weapons	Companies that manufacture chemical or biological weapons and related systems and components.	0%
Depleted uranium	Companies involved in the production of depleted uranium (DU) weapons, ammunition and armour, including companies that manufacture armour piercing, fin stabilised, discarding sabot tracing rounds (APFSDS-T); kinetic energy missiles made with DU penetrators; and DU-enhanced armour, including composite tank armour.	0%
Incendiary (white phosphorous)	Companies that manufacture incendiary weapons using white phosphorus.	0%
Laser blinding weapons	Companies that manufacture weapons utilising laser technology that causes permanent blindness to the target.	0%
Non-detectable fragments	Companies that manufacture weapons that use non-detectable fragments to inflict injury to targets.	0%
Oil sands	Companies that derive revenue from oil sands extraction for a set of companies that own oil sands reserves and disclose evidence of deriving revenue from oil sands extraction. This factor does not include revenue from non-extraction activities (e.g. exploration, surveying, processing, refining), ownership of oil sands reserves with no associated extraction revenues or revenue from intra-company sales.	≥10%
Thermal coal	Companies that derive revenue from mining or extraction of thermal coal and/or its sale to external parties or thermal coal-based power generation.	≥5%
Tobacco producer	Companies that manufacture tobacco products.	0%
Tobacco retailer or distributor	Companies that distribute and retail tobacco products. This exclusion does not include a manufacturer that distributes its own tobacco products unless it also provides logistics or distribution services to other tobacco companies.	≥25%
UN Global Compact	Companies that are not considered by AI to meet the standards of the UN Global Compact based on MSCI data. The overall analysis will be informed by MSCI data, but such exclusions are determined by the investment manager in its discretion rather than by reliance on third-party analysis.	

*Maximum estimated percentage of revenue

Our customers and stakeholders

Focusing on what matters: our communities, climate and the way we run our business.

Listening is vital as we focus on the most important current and emerging issues for our stakeholders and our business.

The most important issues for our stakeholders and business

As a business that's been around for over 325 years, we've learnt the importance of listening.

We last conducted an all-stakeholder materiality analysis in 2019, with 9,000 people. This informed Aviva's sustainability ambition.

We regularly carry out additional research to help us identify the economic, social and environmental topics that matter most to our stakeholders. Our recent research focused specifically on members of the public and what matters most to them – IPSOS researched over 2,000 consumers for us in early 2022.[7]

This helped us focus resources on priorities of financial resilience, climate action and employee wellbeing, and guided our reporting in line with supporting the United Nations Sustainable Development Goals.

In 2023, we will conduct the next all-stakeholder materiality analysis.

[7]IPSOS omnibus survey, 28 January to 30 January 2022, nationally representative of 2,241 UK adults aged 18-75

Figure 4: Aviva's stakeholder materiality

Pillar	Priority	Material issue	United Nations Sustainable Development Goals
Stronger Communities	Significant	Investing for good	9, 10, 11, 13
		Financial resilience	3, 8, 10, 11
	Major	Climate resilience	3, 10, 11, 13
	Moderate	Community investment	8, 10, 11, 13
		Employee volunteering	8, 10, 11, 13
Climate Action	Significant	Understanding the climate impact of investments	13
	Major	Carbon reduction / removal	11, 12, 13
	Moderate	Protecting and restoring biodiversity	14, 15
Sustainable Business	Significant	Employee health and wellbeing	3
	Major	Diversity, Equity and Inclusion	5, 10, 11

Key:
Significant: above 25% of people deem most important for a financial services business to focus upon.
Major: 15-25% of people deem most important for a financial services business to focus upon.
Moderate: 10-15% of people deem most important for a financial services business to focus upon.

The effectiveness of serving our customers and other stakeholders

Figure 5 to the right represents how Aviva engages with various stakeholders in line with our strategy and purpose. We believe that maintaining good relationships with all our stakeholders contributes to realising our purpose to provide our customers with a long-term, stable income, and investing responsibly to build a sustainable society they want to retire into.

We believe that by using the three pillars of our Sustainability Ambition – Climate Action, Stronger Communities and Sustainable Business – as an integral part of investing for the long term, we are able to deliver sustainable growth and help build a better world. We keep these pillars in mind in combination with our purpose, investment beliefs, culture and strategy to facilitate our approach to stewardship and help our clients build a better future for themselves and society.

In Chapter 3, we outline how we communicate with our clients to ensure that the outcomes we aspire to are aligned with their ambitions. We have included a range of case studies and examples which evidence this, alongside reflections on the challenges we face and our plans to address them.

Figure 5: Relationships with our stakeholders

Chapter 2: Governance and organisation of stewardship

Facilitating effective stewardship governance
The delivery of effective stewardship requires the advocacy and sponsorship of senior leadership, sufficient resourcing and oversight to make sure we deliver on our ambitions. The following section focuses on the approach we take to govern stewardship and highlights the enhancements we have made to build on our in-house capabilities. We are committed to continually improving our oversight and assurance across all our stewardship activities.

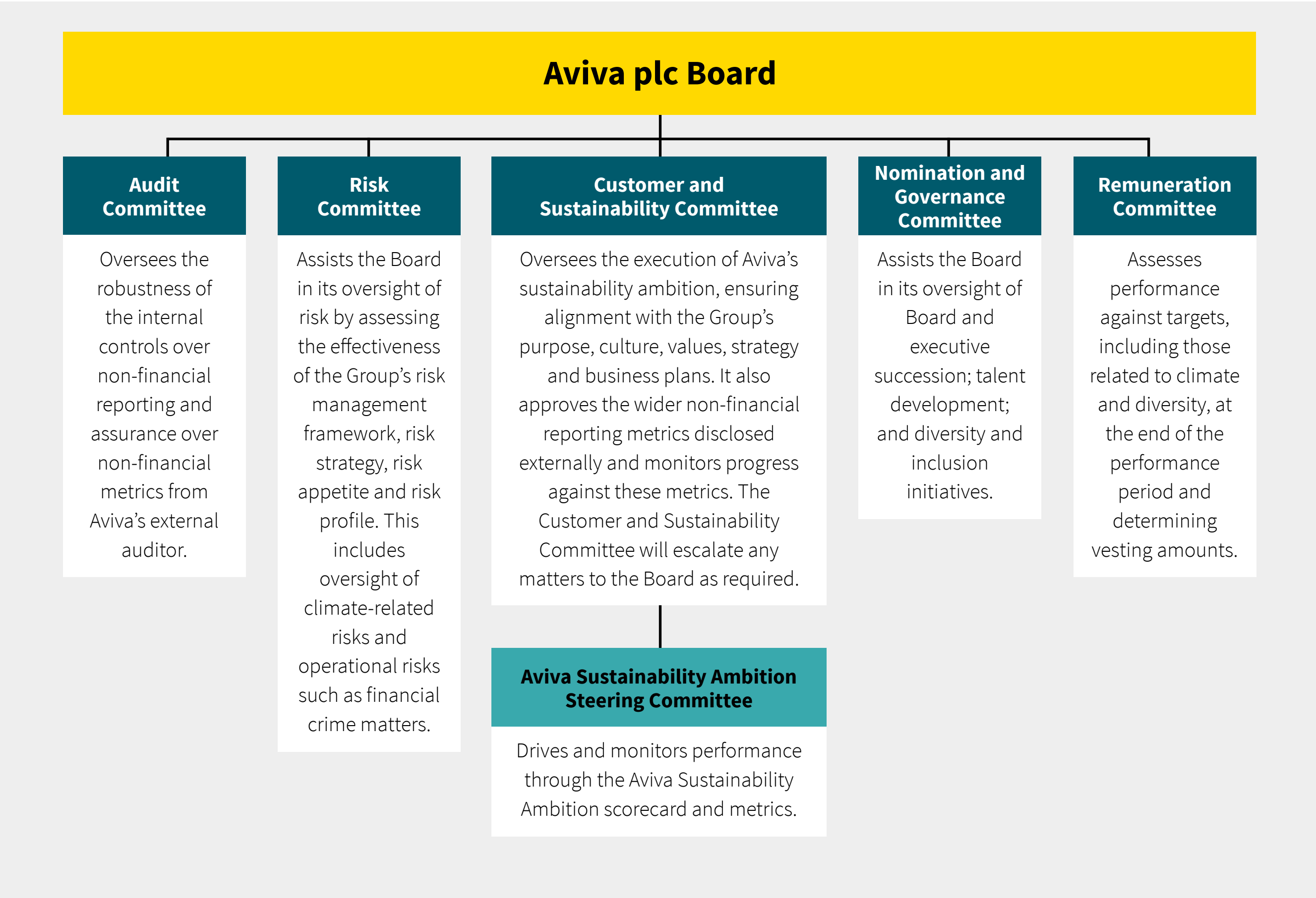
The Group's governance structure
Sustainability is one of Aviva's four key strategic priorities. As part of both our strategic decisions and day-to-day business activities, issues or opportunities relating to sustainability remain a core consideration. We continue to have a strong system of sustainability governance, with effective and robust controls in place which recognise the nature, scale and complexity of operations across Aviva Group. We work to embed stewardship activities across the business, collaborating with our colleagues at Aviva Investors in their capacity as asset managers, and with the wider Group more broadly. Figure 6 outlines our Group corporate structure, which facilitates this collaboration and enables all parts of the Group to work towards a common stewardship ambition.

Aviva's governance framework is based on the 2018 UK Corporate Governance Code, given that Aviva is a UK Premium Listed Company. We believe that by applying these principles we set the same standards for ourselves as we expect from others. Our Group-level Corporate Responsibility Team, which reports to the Aviva Executive Committee, is key in delivering against these principles. The Corporate Responsibility Team ensures the business focuses on material issues such as climate change, human rights and modern slavery, and financial and community resilience. It also co-ordinates local action across the markets in which Aviva operates. As such, it actions strategies and programmes on the identified issues with the support of senior leadership.

In 2022, the Aviva plc Board reviewed and approved the 2023-2025 business plan, which incorporates our climate and sustainability metrics, operating risk limits and tolerances. This allows climate-related risks and opportunities to be further embedded in our day-to-day decision-making in line with the agreed climate change risk appetite.

This year, Aviva plc evolved the climate and sustainability governance structure. This reflects the continued progression and importance of the management of sustainability-related matters and is aligned to Aviva's Sustainability Ambitions. The previous Customer, Conduct and Reputation Committee was refocused to become the Customer and Sustainability Committee, with a direct reporting pathway to the Board. Conduct matters are now considered by the Risk Committee, and there is a clear mapping of responsibilities related to sustainability and climate change between the Customer and Sustainability Committee, the Audit Committee and the Risk Committee. In 2022, the Aviva Sustainability Ambition Steering Committee continued to operate as the executive-level forum for sustainability challenges and opportunities, with representation from leadership across the business units and Group.

Figure 6: Sustainability-specific governance



In 2021, we established the executive-level Aviva Sustainability Ambition Steering Committee to drive and monitor the delivery of our plan. The Aviva Sustainability Ambition Steering Committee has delegated authority from the Group Executive Committee. The sustainability function, which reports to the Aviva Executive responsible for sustainability, provides sustainability expertise to enable delivery and co-ordination of local activity across Aviva's markets and functions. Crucially, there is clear individual executive accountability for all sustainability KPIs.

Sustainability factors are included in senior executive long-term incentive plans.

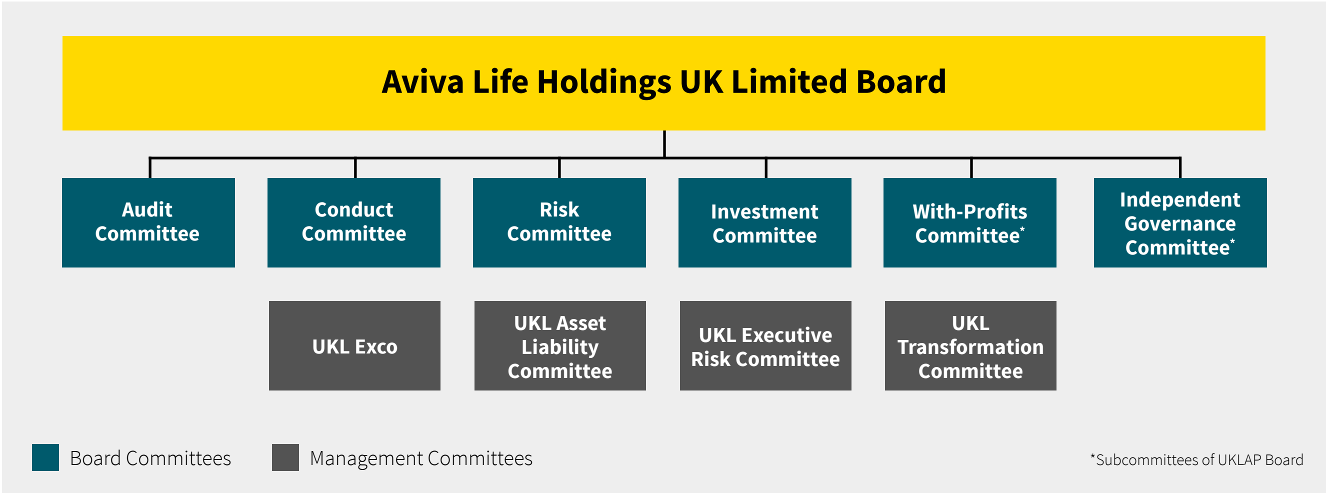
Our progress and key performance metrics are reviewed regularly and overseen by the Aviva Group's Customer and Sustainability Committee.

Aviva plc is subject to the UK Corporate Governance Code (the Code), which we comply with fully. Where appropriate, specific teams and committees exist to drive action on particular material issues, including climate change, data protection, and diversity and inclusion, among others.

The Aviva ESG Investment Leadership Team
The Aviva ESG Investment Leadership Team (ESG ILT), which is chaired by the Aviva Investors CEO, with the Aviva CIO and other senior management as members, was established to co-ordinate Aviva's approach to ESG investing. This includes how ESG considerations are integrated into investment processes across Aviva, the approval of ESG investment policies, and the monitoring of stewardship activities. The ESG ILT is also tasked with monitoring ESG developments in the market to ensure Aviva's ESG investment practices remain appropriate, and associated risks and opportunities for the brand are robustly managed. The ESG ILT members present recommendations to the Group Executive Committee and Aviva plc Board, plus business unit boards, on ESG investment policies and practices.

Alongside this, various working groups and steering committees are dedicated to actioning our climate transition plan and the wider ESG investment agenda. Many of these are joint groups across different parts of Aviva.

Figure 7: Aviva UK Life governance structure



Aviva UK Life governance structure

In addition to the overarching structure at the Group level, Aviva UK Life has its own complementary governance structure which enables sustainability matters to be integrated into our day-to-day business activities. Oversight of the relationship between UK Life and its investment managers (including Aviva Investors) is covered by our governance structure, so that matters such as responsible investment, voting rights and management of climate risks are closely monitored. The UK Life Board reports to the Aviva plc Board shown in Figure 6. UK Life's governance structure consists of Board, executive and senior management responsibilities as described in Figure 7.

Sustainability considerations are a standing agenda item on the UKLH Board Investment Committee, as part of the CIO's regular update to the committee to ensure they are kept up to date with current actions and future plans. We conduct strategic reviews of our management of climate risk across our portfolios and the integration of sustainability within our investment strategies, alongside regular management information, on a quarterly basis to the committees to inform the recommended course of action.

To enable our Board and the executives to carry out their roles and responsibilities including sustainability, we have established a governance structure which ensures effective and efficient decision-making. We explore a selection of these committees in further detail in Figure 9 and the role they play in embedding sustainability into the way we operate as a business.

Figure 8: Insights into a selection of Aviva UK Life committees

	Committee	Chair	Key sustainability function
Board	Investment Committee	Non-Exec	Responsible for assessing and approving ESG investment strategy and policy consistent with Aviva UK Life Board-approved investment beliefs and risk appetite; considering investment matters that require Aviva plc Board, Group management or UK Life Board approval; overseeing the relationship between UK Life and its investment managers and custodians, monitoring investment performance; and monitoring our investment management functions. ESG and climate risk is a standing agenda item.
Board	With-Profits Committee	Non-Exec	An independent committee with responsibility for oversight of ensuring that fairness to customers is embedded in all Aviva's with-profit funds decision-making. The committee monitors and advises on management decisions that impact customer outcomes, including ESG-related activity and broader investment matters, escalating any concerns to the Aviva UK Life Board.
Board	Independent Governance Committee	Non-Exec	Provides independent challenge in respect of the interests of relevant policyholders of workplace pensions and pathway investors. The committee considers the adequacy and quality of Aviva's policy in relation to ESG financial and non-financial considerations; how these are considered in the investment strategy or investment decision-making; and Aviva's adequacy and quality in relation to stewardship.
Executive	Asset Liability Committee	UKL CFO	In addition to monitoring the balance sheet and financial risk, the committee makes decisions to support the Chief Financial Officer in exercising their delegated authority. This ensures optimisation of opportunities and makes best use of capital across the Aviva UK Life business, while ensuring there is appropriate oversight of the financial risk exposure, risk appetite and solvency of regulated entities. It also serves to make decisions in relation to the management of (1) the balance sheet (2) financial risk exposure and (3) position against the risk appetites as set by the Boards, which includes climate and broader ESG-related risks and opportunities. Furthermore, it makes recommendations to the Board or Board Subcommittees.
Executive	Investment Credit Committee	UKL CIO	A committee to support the Aviva UK Life CIO in executing, implementing and overseeing UK Life's customer and shareholder investments, including investment strategy, responsible investments, asset manager relationships and stewardship practices, and monitoring the effectiveness of investment risk management, including climate risk.
Senior Management	Life Credit Committee	UKL CIO	A senior management committee was created to review and approve off-market investment transactions impacting on the shareholder funds where investment discretion is not passed to our asset managers. The committee reviews individual investment recommendations from our investment managers, including ESG considerations, as a mandatory part of the investment analysis and recommendation.

A number of sustainability-related papers go through the Aviva UK Life governance forums for noting, approval or discussion. The papers vary from standing management information and updates (for example on our progress against our Sustainability Ambition) to specific requests for approval.

Decisions are taken in line with the delegated authority framework, and the committees that they are presented at is driven by the decision-making authority of individuals. In most cases, these proposals are submitted to the Investment Credit Committee in the first instance and then, subject to the UK Life delegated authority framework, may be taken right up to the Board Investment Committee for final approval. Many of the proposals that are strategic or technical in nature will also be considered with the ESG ILT.

The UK Life 2023-2025 Business Plan continues to incorporate sustainability KPIs to allow management to effectively oversee the delivery of UK Life's Sustainability Ambitions. The climate risk appetite, its metrics and associated thresholds are set by the UK Life Board and are included in the regular management information dashboard produced as part of the Chief Risk Officer report to the UK Life Board and Board Risk Committee around five times a year. If the overall appetite is breached this will be reported to the Board Risk Committee, via the Asset Liability Committee or the Executive Risk Committee, identifying drivers of the position and proposed mitigation actions to return to 'green'.

On the next page we set out some specific examples of ESG or climate-related proposals in 2022:

Case studies

Deep Dive: ASA Investment Ambitions: an update on progress against our ambitions was provided to the UKLH Board Investment Committee. This included an overview of the key considerations in delivering the investment-related sustainability ambitions, and additional background reference information to support a deeper understanding of the metrics and drivers of the activity.

Proposed Group Exclusion Policy: the UKLH Board Investment Committee was asked to approve the incoming Aviva Baseline Exclusion Policy being considered for all UK Life discretionary and non-discretionary portfolios. Given the desire to adopt a consistent 'One Aviva' approach, the Baseline Exclusion Policy is to be applied across all entities for actively managed portfolios, with the intention to extend to passives in 2023. The policy was previously approved by ICC and ALCO within UK Life and Group Board Committee, with the ESG ILT agreeing the approach.

Equity Passive Funds Solution: the UKLH Board Investment Committee was asked to approve the transition of some unit-linked multi-asset and blended single-asset passive investments managed by Aviva Investors to an ESG and low carbon optimised solution over 2023. The passive equity building blocks for My Future Focus were successfully transitioned to the same solution in Q1 2022 and now apply the Aviva Investors Baseline Exclusion Policy and are aligned to Aviva's carbon reduction pathway. This followed approval of guiding principles in relation to Net Zero for passive investments in 2021. The remaining unit-linked passive exposures managed by Aviva Investors are due to transition in 2023.

Annuity Investment Strategy 2023-2025: the UKLH Board Investment Committee was asked to approve the Annuity Investment Strategy (2023-2025). The paper included the 2023 Annuity Origination Plan for New Business. The Annuity Investment Strategy allowed for climate change considerations using quantitative and qualitative information as appropriate.

In addition to the committee structure outlined above, the senior management committees benefit from the input of several forums, such as business review meetings and other investment forums that report into the Investment Credit Committee.

These forums consider stewardship issues including voting activity, updates on engagement and any conflicts of interest relating to engagement, ESG integration and mandate breaches. ESG issues and recommendations are escalated to Executive and Board Committees where appropriate.

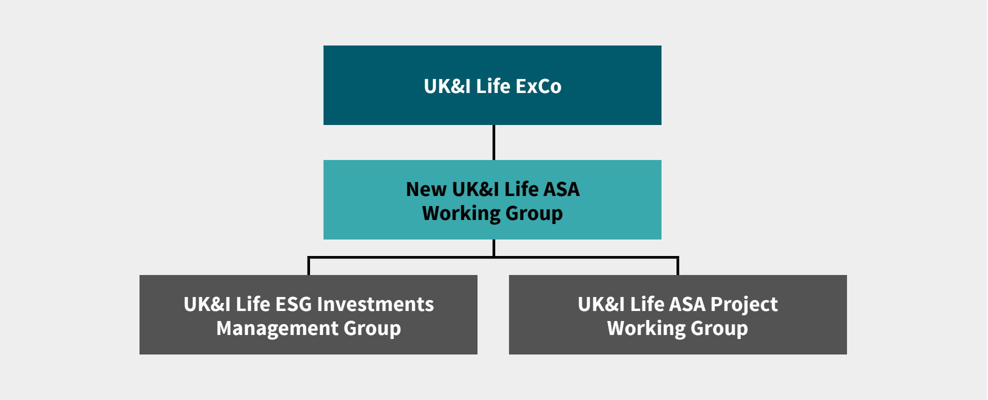
Our UK&I Life CEO attends the Aviva Sustainability Ambition Steering Committee, which drives and monitors the performance of each of the business entities in relation to their contributions to the overall performance of Aviva Group's Sustainability Ambition.

The UK&I Life ExCo meeting is chaired by our UK&I Life CEO and attended by all business unit Managing Directors along with supporting function representatives, with a focused sustainability agenda allowing for these topics to be incorporated within day-to-day business-as-usual activities and decision-making.

Figure 9 below outlines the wider UK&I Life ASA governance structure.

The UK&I Life ASA Working Group members represent all business units across UK&I Life. The Working Group supports and co-ordinates the delivery of UK&I Life's sustainability strategy and management of associated risks, further supporting the UK&I Life ExCo in discharging their oversight and accountability obligations.

Figure 9: UK&I Life ASA governance structure



Resourcing stewardship

In recognition of our belief that effective integration and management of ESG risks and opportunities goes hand-in-hand with long-standing investment management best practice, we have structured our team so that our sustainability management is driven by and centred around our investment teams. Led by UK Life CIO Ashish Dafria, sustainability considerations are integrated into investment processes across the organisation.

The CIO is responsible for defining the investment strategy, delivering Aviva's Sustainable Investments ambitions and ESG investment policies, and the monitoring of stewardship activities. With representatives from both Aviva UK Life and the wider Group, our stewardship activities benefit from access to a range of systems, processes, research and analysis from across the entire business to inform our approach and continue to evolve it effectively.

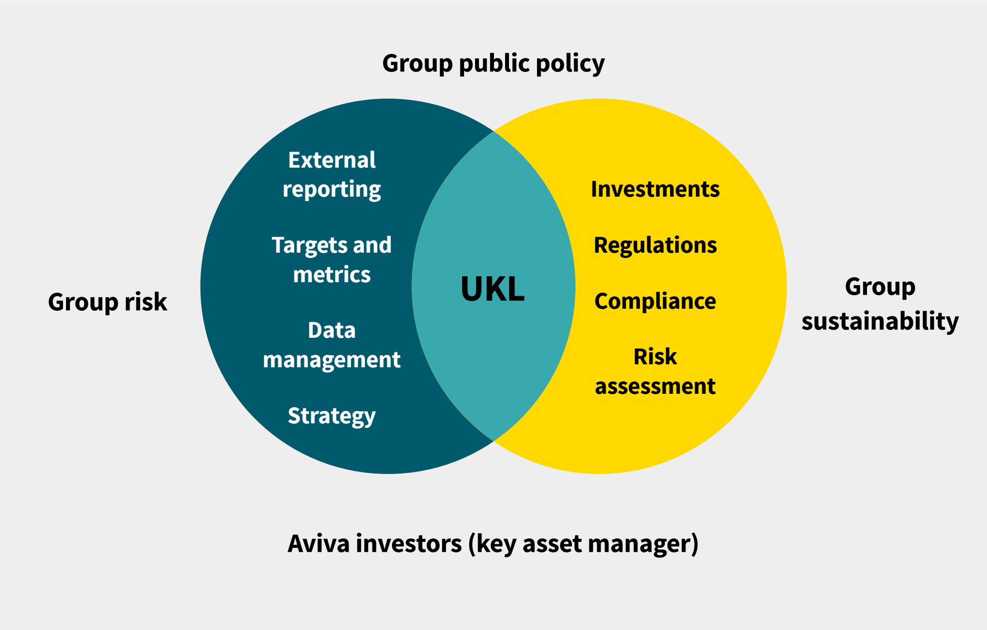
Our Sustainable Investments team

During 2022, we undertook a recruitment strategy to enhance the expertise across our Investments teams. The Sustainable Investments team has increased from 9 to 17, which has seen the introduction of a variety of specialist skills during the year including climate and nature investment risk management and modelling roles, and sustainable investment management and analyst roles.

The expansion of the team is in recognition of the need for additional subject matter experts to focus on driving forward our sustainability ambition in Aviva UK Life. This team complements the skills and expertise within our in-house asset manager, Aviva Investors, and our external asset managers.

While we have outlined the breadth of our Sustainable Investments team, it is also worth sharing the additional key subject matter experts within our wider business areas who collaborate extensively with this team to drive our Sustainability Ambition forward. This includes experts across our wider CIO team, Group Sustainability, Group Risk, Public Policy experts and ESG teams within Aviva Investors. These experienced professionals draw upon a diverse range of skill sets to deliver stewardship outcomes for our customers.

Figure 10: One Aviva in practice in sustainability



These experienced professionals are from, but not limited to, the following backgrounds, qualifications and professional associations:

Figure 11: Selection of qualifications and professional associations of key experts

Area	Qualification/professional associations	Awarding body
ESG and climate	Sustainability and Climate Risk (SCR) Certificate	GARP
ESG and climate	Certificate in ESG Investing	CFA Institute
Investments	Chartered Financial Analyst (CFA)	CFA Institute
Investments	Investment Management Certificate (IMC)	CFA UK
Investments	Associates of the Society of Investment Professionals (ASIP)	CFA UK
Banking, accountancy and finance	Master of Business Administration	Various awarding bodies
Banking, accountancy and finance	Fellow of the Institute and Faculty of Actuaries	Various awarding bodies
Banking, accountancy and finance	Masters International Finance	Various awarding bodies
Banking, accountancy and finance	Masters Applied Statistics	Various awarding bodies
Banking, accountancy and finance	PhD Mathematics	Various awarding bodies
Banking, accountancy and finance	Qualified Cost Management Accountant (CMA)	Various awarding bodies
Public policy and law	Masters Political Economy	Various awarding bodies

Looking ahead

As mentioned within the Committee section above, we recently introduced our new UK&I Life ASA Working Group. This supports our continuous focus on reviewing and refining our structure to deliver success, including how we further integrate sustainability into our existing governance framework, aligned to our philosophy of considering sustainability as an integral part of overall investment decision considerations. We recognise that this goes hand-in-hand with wider governance structures across the business units and functions to ensure it facilitates the most effective and efficient delivery of stewardship activities, streamlined across the UK&I Life business along with the broader organisation.

Incentives and training

As signalled in the commitments of our last report, during 2022 we carried out a range of training for our existing employees, which are detailed below, to support our stewardship activities and ambition as it continues to grow and evolve.

Incentivising our people to deliver positive stewardship outcomes

Incentivising positive stewardship outcomes and long-term value generation is embedded in the culture of our business. Each individual at Aviva is committed to linking a range of their work and personal objectives to sustainability outcomes as part of the annual performance process.

Our asset managers are also incentivised to incorporate sustainability outcomes in their long-term plans. Aviva Investors was one of the first asset managers to integrate ESG factors into pay criteria across the firm. Through its Global Reward Framework, ESG metrics and research are embedded in the investment processes by forming part of the investment scorecard and annual risk attestation. The Aviva Investors CIOs and investment desk heads consider how colleagues demonstrate their commitment to sustainable processes as part of the determination of performance and pay outcomes. We also invest for the long term (even upwards of 50 years), which makes sustainability an essential priority for our investment decisions.

Our senior management Long-Term Incentive Plan (LTIP) includes an incentive for reducing the carbon intensity of our credit and equity investments (shareholder and with-profits portfolio only). As mentioned in Chapter 1, there are also incentive plans related to diversity and inclusion.

Delivering the training our people require to achieve our stewardship ambition

Throughout 2022, Aviva continued to develop the skills of our Boards and of our people with respect to stewardship considerations; see below some grouped examples of this.

Bespoke internal training

- In April 2022, we provided a training session on green taxonomies as part of our training programme within the CIO team. The training focused on green definitions and types of green and sustainable finance taxonomies, covering the application guidelines within the bonds space.

Board- and Committee-specific training

- In May 2022, we provided climate change training to the Board, and to the relevant Group and local Committees. The training focused on an introduction to greenhouse gas accounting: Scope 1, 2 and 3 including measuring Scope 3 Category 15 (Investments). This equips our senior management to give appropriate direction to the company and ensures challenge, guidance and support are given to the executives.

- During October and November 2022, we provided a series of training sessions to ESG ILT members. The training focused on carbon metrics, specific to direct real estate and private assets.

- A commitment to support the continuing development of all employees is a central part of Aviva's culture. Our directors are highly supportive of this and are committed to their own ongoing professional development. During 2022, the Non-Executive Directors (NEDs) participated in internal training sessions on subjects including whistleblowing, climate change and sustainability, consumer duty regulation and IFRS 17. Further training sessions have been incorporated into the Board and Committee plans for 2023.

Firm-wide

- Annually since 2021, as part of our Essential Learning training, our employees have completed mandatory climate training to learn about its implications for our planet and our business. In 2022, all of our employees completed the climate training. We also continued to develop climate training available on request to all Aviva employees via Aviva University and provide access to United Nations Global Compact Academy learning. More in-depth training has been also deployed to those who hold direct responsibilities to identify, manage, measure and report climate-related risks and opportunities.

- All our people accessed Aviva University, our learning platform, at least once in 2022 with around 50% of colleagues accessing it each month. Our Learning at Work Week was focused on 'getting your dream job and supercharging your development', and over 4,500 colleagues participated in Skillsfest, focused on the capabilities our people need both now and in the future.
- To improve the knowledge and awareness of our employees, we have partnered with the WWF to provide learning experiences for our employees about climate science and climate solutions and to develop their skills around climate science communication. During 2022, all of our employees completed the training and are increasingly seeking to apply this learning to their area of the business, from the risk surveyors to the workplace pension sales team. To help empower our employees to take positive climate action within the business, we have deliberately taken steps to integrate climate considerations into the day-to-day decisions we all make, from insurance through to procurement.

Assessment of effectiveness and looking ahead

We believe our chosen governance structures and processes remain effective in supporting stewardship, but we identify a need to continue our efforts in order to deliver on our sustainability ambition.

Having reviewed the effectiveness of our climate modules discussed earlier under firm-wide training, we have plans to enhance the modules for the year ahead into a Sustainability Academy covering generic content for all and more role-specific and specialist learning that keeps our customers and ultimate beneficiaries in mind.

The Sustainable Investments team is creating a bespoke internal training and development programme for wider stakeholders and business units across Aviva to offer informal educational sessions focusing on all aspects of sustainability to further enhance the training available.

In addition to the above, we are developing a formal training programme which will incorporate externally recognised professional qualifications for key colleagues. We believe that investing in continuous learning equips our employees with the necessary knowledge and tools to deliver against our Sustainability Ambitions.

These programmes will be delivered throughout 2023 and evolve in line with market requirements.

Assurance

We recognise that obtaining reviews and assurance of our policies and processes ensures our reporting is fair, balanced, understandable and continues to improve. We are committed to obtaining internal and external assurance over our market-facing reporting where applicable, and seeking support from third-party advisors to ensure our outputs are of the highest quality and coverage.

External assurance

We understand that the provision of external assurance on stewardship reporting is an evolving area, and we have considered the need to include an independent assurance review as part of our annual stewardship reporting cycle. We commissioned an independent external consultant review of our 2022 report and incorporated feedback into our submission.

External review of default solution

There is a case study within Chapter 3, on page 53, which outlines the work undertaken within UK Life Investments to develop an auto-enrolment default solution in 2022. As part of the approval to adopt the solution, an independent review was carried out to provide some assurance on our approach and benchmark the product across the industry. Our external partner shared their findings and recommendations for improvement to remain a market leader with the Board Investment Committee in Q1 2023. The recommendations will be considered over 2023 as we look to continually enhance our sustainability integration with default solutions.

Aviva's Audit Committee regularly receives reports from the External Auditor on the progress of its audit activities and its review of the content of the financial statements. The committee reviews the contents of these reports and the level of professional scepticism and challenge of management assumptions demonstrated by the External Auditor, and, where appropriate, requests that management responds to that challenge and tracks management response to ensure a satisfactory outcome to the challenges raised.

The 2022 External Audit Effectiveness review was undertaken to assess the quality of audit services provided to the Group through completion of a questionnaire by the committee, subsidiary company audit committees, senior management and members of the Group's finance teams. The review focused on the effectiveness of the audit team, expertise and resources, and interaction with audit committee meetings. Overall feedback was positive, and where opportunities for improvement were identified, PwC was asked to take account of that feedback in the planning for future audit activity. The committee was provided with the FRC Audit Quality Review (AQR) report on the PwC audit of the 2021 Annual Report and Accounts, and discussed the findings with PwC. No specific actions were required as a result of the AQR. The AQR provided further evidence to the committee of the robustness and quality of the external audit. The committee concluded that the auditor continued to perform effectively and is recommended to shareholders for reappointment at the 2023 AGM.

PwC have been Aviva's external auditor since 2012, and subject to continued satisfactory performance, it is anticipated that PwC will continue in its role until completion of the full-year 2023 audit when, in line with the outcomes of last year's competitive tender process, EY will be appointed as the External Auditor. The company has complied with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year ended 31 December 2022.

As part of our commitment to transparent reporting on our performance, PwC has provided reasonable assurance over selected sustainability KPIs.

Aviva UKL's Risk Committee also conducts an annual review of the Internal Audit function to assess its independence and effectiveness, and to satisfy itself that the quality, experience and expertise of the Internal Audit function is appropriate for the business. This is carried out by reviewing reports issued by Internal Audit, and by the output of an annual stakeholder effectiveness survey. This formal process is supplemented by regular private discussions with executive management, the Internal Auditor and the External Auditor. During the year, an External Quality Assessment (EQA) of the Internal Audit function was completed by Deloitte. The outcome of the EQA was built into an action plan to further enhance the effectiveness of the Internal Audit function. The committee concluded that for 2022 the function performed well and remained effective.

Internal assurance
As part of our three-lines-of-defence model, the UKL investment team use our '5 P' process for the research, selection and oversight of our asset managers, covered in detail in Chapter 3. This also allows us to monitor the reporting information that they provide us with. The process results in a level of internal assurance that our asset managers are servicing our stewardship needs effectively.

Our Internal Audit team together with first- and second-line control functions provide independent assurance over our control environment related to sustainability including, on a risk-prioritised basis, the robustness of our stewardship reporting.

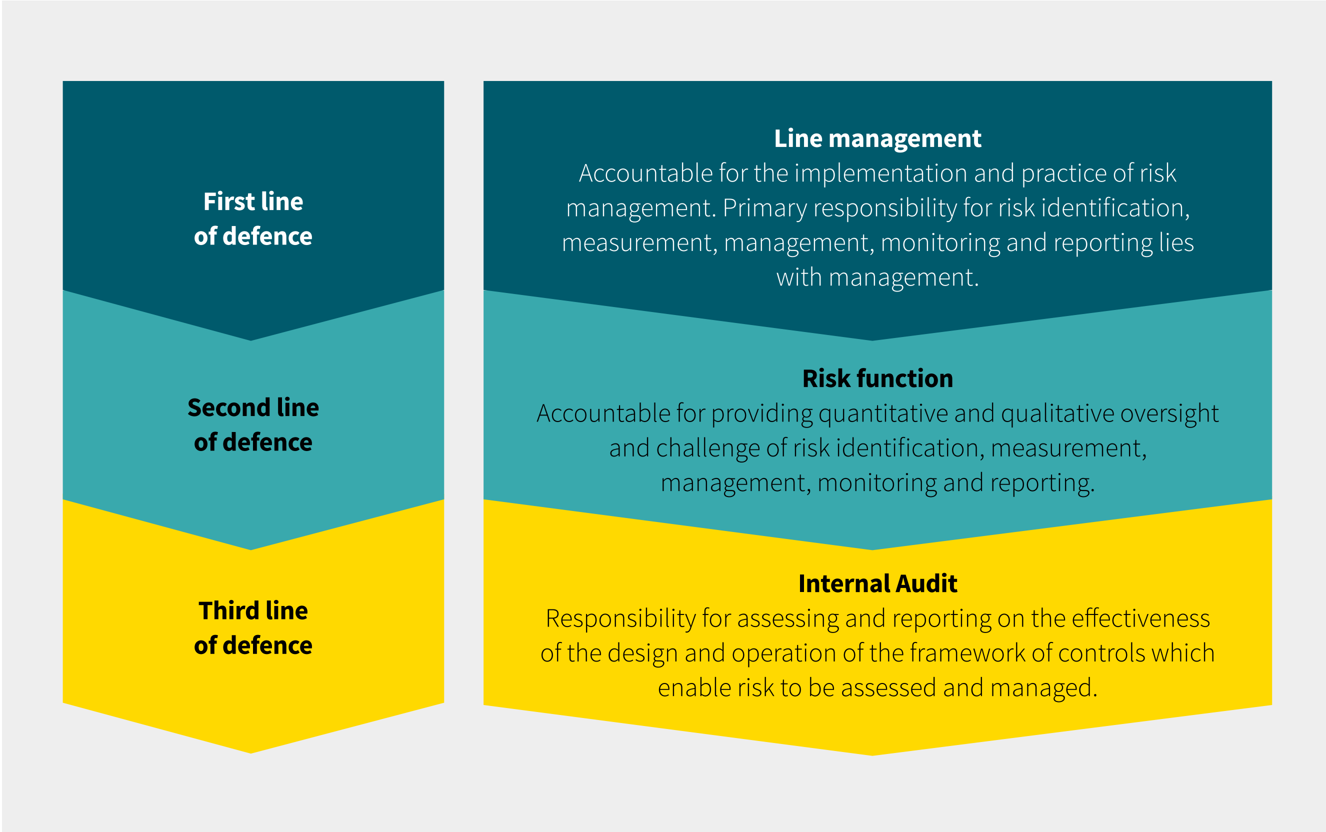
In 2022, Internal Audit completed two risk-based reviews relating to Aviva's Sustainability Ambition (ASA), focusing on:

1. compliance with the SS3/19 reporting requirements; and
2. the effectiveness of governance and plans to support the execution of ASA initiatives.

Internal Audit confirmed that both these reviews provided assurance that the business has made significant progress in implementing the requirements of SS3/19 and agreeing business cases for key ASA initiatives.

Action plans were agreed by management and are being progressed for the findings raised within these reviews. The second area of focus, the effectiveness of governance and plans to support the execution of ASA initiatives, was of particular importance and there was agreement for the need to enhance the governance by establishing an appropriate UK&I Life ASA governance model and decision-making processes.

Figure 12: Our risk framework



Review of policies to enable effective stewardship
Our governance processes, outlined earlier in this section, allow us to provide input to the review of Aviva's stewardship policies and processes. Stewardship policies that are specific to Aviva UK Life, such as our Responsible Investment Policy and Engagement and Voting Policy, are reviewed and signed off by the policy owner on an annual basis to ensure they remain relevant and up-to-date. Formal reviews and updates are done on a three-year cycle given the long-term focus of sustainability, or can be amended on an ad-hoc basis if deemed necessary. This is scheduled to be conducted in 2023 for the UKL Responsible Investment Policy and Voting and Engagement Policy.

Managing conflicts

Aviva takes its fiduciary duties to customers and beneficiaries seriously. Our Group Conflicts of Interest Policy covers the main areas of risk strategy, risk appetite, governance, modifications and exceptions, and non-compliance. It aims to protect Aviva, its customers and its employees and ensure that all conflicts of interest, whether perceived or actual, are appropriately identified and managed effectively. It sets out the obligation on all staff to:

- identify and where possible avoid situations that could result in apparent, potential or actual conflicts;
- notify their line manager and other relevant parties;
- register the conflict in the conflicts of interest register;
- undertake relevant training;
- use the policy with other applicable policies and procedures; and
- update the status of the conflict if and when it changes.

As signalled in our report last year, the policy includes specific wording and guidance on voting and engagement. Our principal objectives when considering matters such as engagement and voting are always to act in the interests of our clients and underlying beneficiaries, and to treat all clients and beneficiaries fairly. No direct self-investment is permitted in an Aviva plc equity, bond or money market issue by any Aviva Group company or associate. Collective investment schemes (excluding Tax Transparent Funds) and investment trusts managed by Aviva Investors are not prohibited from investing in Aviva plc equities; however, where Aviva Investors is responsible for voting rights over Aviva plc shares held or managed on behalf of external clients, given the potential for a conflict of interest, Aviva Investors will exercise no discretion over those voting rights and its default position will, therefore, be to refrain from exercising those voting rights. The Conflict of Interest Policy is reviewed annually by the Aviva plc Board. Although only published internally to all employees on our intranet at present, we will look to make the full policy available externally going forward.

We endeavour to robustly manage potential conflicts in our stewardship activities and therefore exercise formalised segregation of duties within Aviva UK Life, such that proposition or underwriting teams are not involved in investment stewardship processes and activities, and in turn those executing stewardship responsibilities have a limited view of Aviva's business clients. We also maintain an arm's-length relationship with Aviva Investors, who engage on our behalf. Being another step removed from Aviva's business relationships, the asset manager can engage from an unconflicted position.

This arm's-length relationship is also important in managing the conflict that could arise from having an in-house asset manager. Our '5 P' process detailed in Chapter 3 is applied equally to our internal and external managers and ensures a level of independent assessment, as do the segregation of functions and governance structures described earlier in the chapter.

In accordance with the Companies Act 2006, the Company's Articles of Association allow the Board to authorise potential conflicts of interest that may arise and to impose such limits or conditions as are deemed necessary. The decision to authorise a conflict of interest can only be made by non-conflicted directors (those who have no interest in the matter being considered) and in making such a decision the directors must act in a way they consider, in good faith, will be most likely to promote the success of the company for the benefit of its shareholders as a whole. The Board continues to monitor and note any potential conflicts of interest that each director may have, and recommends to the Board whether these should be authorised and whether conditions should be attached to any such authorisation.

The directors are regularly reminded of their continuing obligations in relation to potential or actual conflicts of interest and are required to bi-annually review and confirm their external interests, which helps to determine whether they can continue to be considered independent.

Case studies of managing conflicts

The Board carefully considered any potential conflicts of interest in relation to the appointment of Amanda Blanc as an Independent Non-Executive Director of BP plc and Mike Craston as Non-Executive Chair of ThomasLloyd plc. It determined that no actual conflicts existed at the time of the appointments, and that any conflicts that may later arise would be managed in accordance with the Group Conflicts of Interest Policy.

Conflicts of interest are addressed as a standing agenda item during quarterly business review meetings with our asset managers. They are presented and discussed to agree an appropriate course of action, if deemed necessary. Some of the possible actions could be to continue monitoring the conflict, to withhold a vote, to vote against a resolution or to support a resolution. Below is a selection of some of the actual or potential conflicts that were logged in 2022.

- In April 2022, we identified a potential AGM conflict in relation to a commercial relationship we hold. Aviva Investors abstained on one resolution. After investigation, we confirmed that there was no requirement for us to notify the third party and all voting records were made available on our website for full transparency.
- In May 2022, we identified a conflict with an Aviva director in relation to an AGM vote. Specifically, this related to an Aviva director sitting on the board of the company whose AGM we would be voting at. Aviva Investors abstained from voting on one resolution and overrode another which was a vote against, in line with its custom policy. The conflict was alerted to the Aviva company secretary, who was then tasked with letting the Aviva director know.
- Also in May 2022, a conflict arose in relation to an Emergency General Meeting (EGM) vote. We identified that parent company of a client had a conflict in this case. We decided that only one external fund was voted following a voting instruction from the external client.

Chapter 3: How are we invested?

As of 31 December 2022, we are responsible for overseeing approximately £250 billion of assets held across customer and shareholder portfolios. Our shareholder funds are managed almost entirely by our in-house asset manager, Aviva Investors, along with c.80% of customer funds. As such, our approach to stewardship leverages Aviva Investors' resources and expertise to develop and deliver an investment approach which considers stewardship at its core across all asset classes.

We set out our stewardship expectations for all asset managers and continue to monitor asset manager activity to ensure those expectations are being met. More details on our approach to monitoring managers can be found on later in this chapter from page 56.

We invest our customers' assets across several asset classes, the majority of which are in multi-asset solutions, utilising credit, equity, sovereign and real assets such as property and infrastructure. Figures 13, 14, 15, 16 and 17 provide further information on the composition of our assets; this includes customer assets and shareholder assets (which back up annuities, capital and reserves, and non-profit funds).

Figure 13: Split of investment assets (as at 31 December 2022)

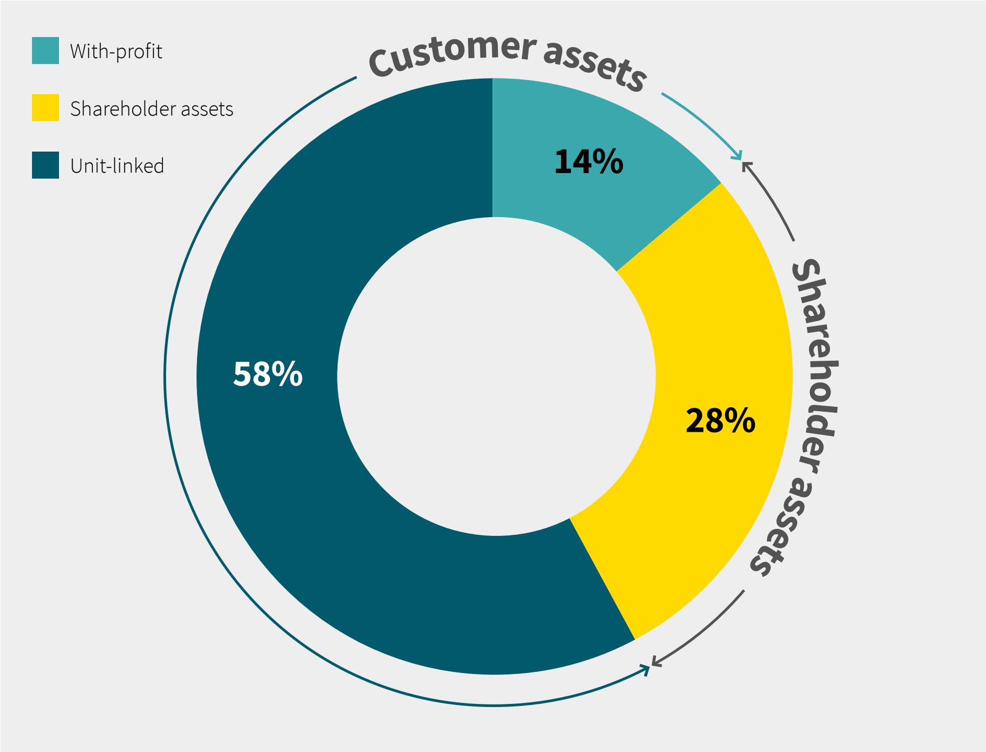


Figure 14: Shareholder assets by geography (as at 31 December 2022)

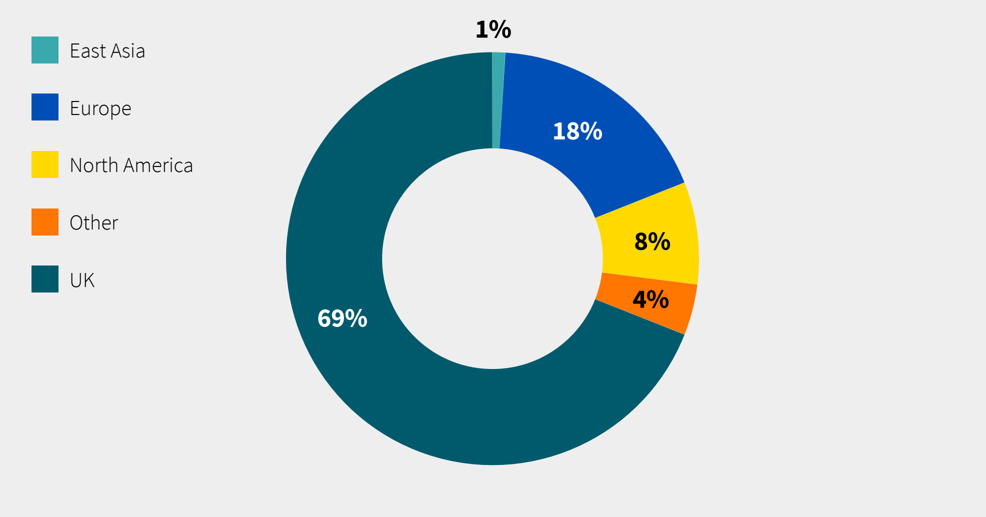


Figure 15: Shareholder assets by asset class (as at 31 December 2022)

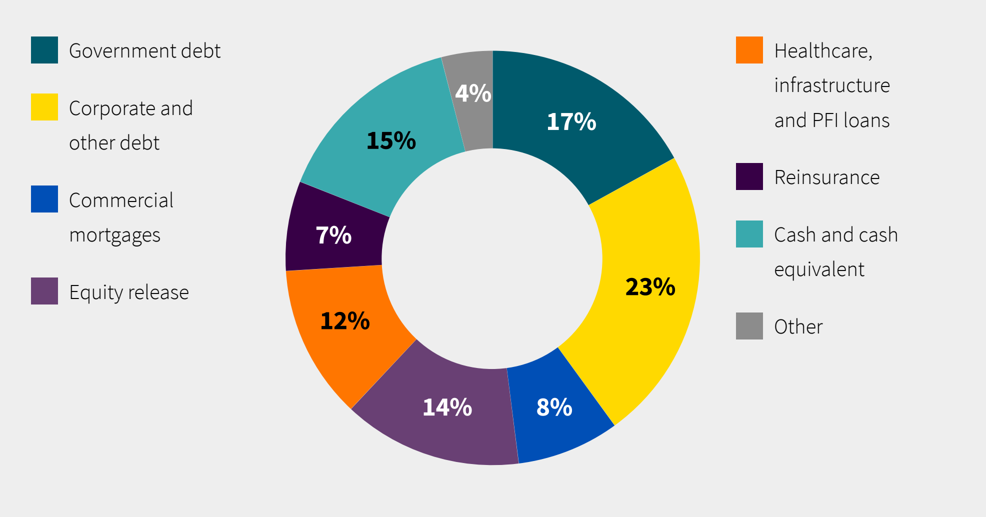


Figure 16: Unit-linked customer assets by geography (as at 31 December 2022)

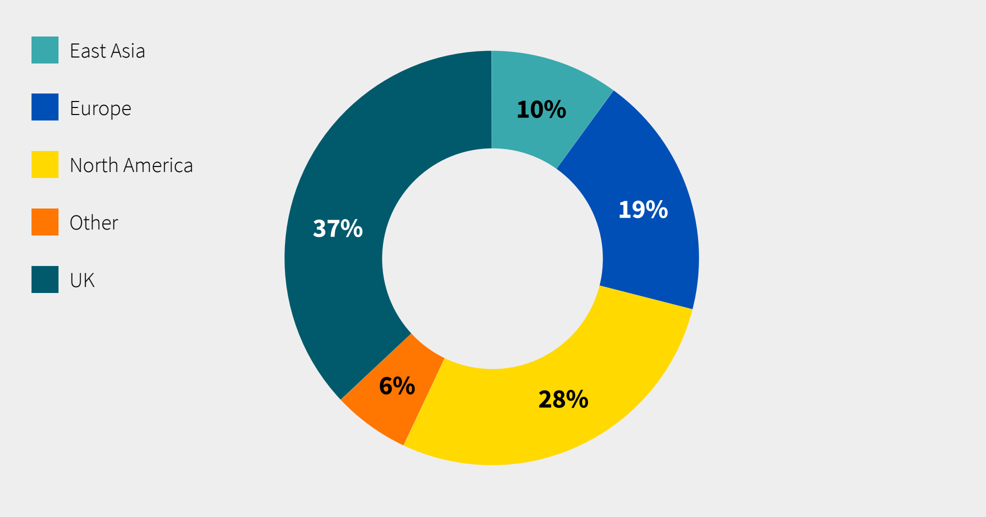
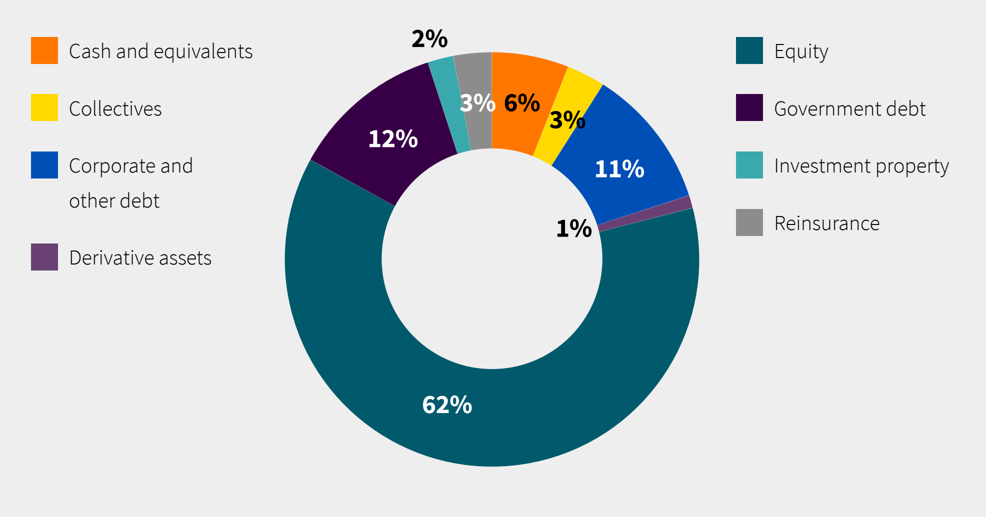


Figure 17: Unit-linked customer assets by asset class (as at 31 December 2022)



Who are our customers?

Understanding our customers is critical to our stewardship approach. We need to understand the time horizon over which they are invested, how they perceive risk and how we can deliver on our fiduciary duty to protect the long-term value of their assets. Although we consider a long-term time horizon, we offer our clients solutions with varying risk profiles and asset mixes to reflect their appetite to risk and their own time horizons. This will vary from growth-orientated strategies that mainly invest in equities to consolidation and drawdown strategies that have a more balanced asset mix, more heavily weighted to sovereign and cash-like investments.

Insurance
We are the UK's only provider of scale, offering protection and health for both individuals and corporate clients. Through individual protection, we support customers and their families in the event of loss of income, critical illness or bereavement. Group protection helps employers keep their workforce healthy and supports them in adverse circumstances.

Our digitally led wellness proposition, DigiCare+, provides both individual and group protection customers with a holistic wellbeing solution, including health checks, access to digital General Practitioners (GPs), second medical opinions, mental health support and bereavement support.

Our health proposition gives 1.1 million people seamless access to private medical services and treatment. In 2022, we have continued to see increased demand for private health insurance. We have paid over £485 million in claims and supported our customers with access to digital GPs.

Wealth
We are the UK's largest bundled workplace provider, with over 26,000 corporate clients and four million members. Our success has been built on strong relationships with intermediaries and innovative workplace propositions. Our commitment to ESG and members' financial wellbeing has been recognised, winning "Best Default ESG Strategy" at the 2022 Corporate Adviser Awards and five Gold awards from Benefits Guru.

The shift to defined contribution (DC) pensions means that individuals are

increasingly having to take responsibility for their financial futures. Many of those individuals, individually or through their workplace schemes, place their trust in us to manage their money in a way that supports their financial wellbeing in retirement, with over 90% of contributions to a workplace pension now invested in the default investment solution following the introduction of auto-enrolment.

Reflecting the length of time an individual may be invested in a workplace pension, with the average age of our members being 44, our approach when considering stewardship in our investment decision-making sits over a long-term horizon.

We offer two main default investment solutions, My Future and My Future Focus, both of which have been designed taking into account the flexibility available and needs of the workplace pension members in how they can access their pension savings. Both solutions have a default strategy that can be considered 'universal', reflecting this flexibility available to members, while offering strategies that specifically target the different retirement options available (purchasing annuity; full cash withdrawal; or moving into a drawdown arrangement).

All of these strategies can be broadly categorised into two stages:

- **Growth** – Further away from retirement, with higher allocation to equities to generate above-inflation returns in the value of the members' contributions.
- **Consolidation** – Approaching retirement, with greater focus on reducing the level of investment risk to which the members' accumulated pension savings are exposed and, for those strategies targeting the different retirement options, aligning the investments to these strategies.

For those members who wish to make their own investment selections it is necessary for us to provide them with a range of options from which they can choose, and to meet the different preferences and risk profiles of these members. Alongside access to a broad range of fund options they need the information on these options to be clear and readily available to support their investment selection-making; our case studies reflect how we have facilitated this.

In 2022, we continued to deliver capability in support of our sustainability ambitions and enhanced our ability to support adviser-client conversations regarding sustainable investing. We remain committed to our heritage customers, enabling 28,000 of them to approach retirement with the benefit of a new Aviva policy. Following our acquisition of Succession Wealth, we have firmly established our position in the wealth market and grown our advice capability to help customers secure their financial future. We have also enhanced the capabilities and customer journeys for our direct-to-consumer platform as part of building our integrated proposition for wealth.

Retirement

Our retirement business consists of bulk purchase annuities, individual annuities and equity release. We work hand-in-hand with Aviva Investors to leverage the investments to support the UK economy, with over £25 billion invested in UK infrastructure and commercial mortgages over the last ten years.

Bulk purchase annuities allow pension trustees to secure future obligations to defined benefit scheme members by de-risking their pension schemes. We are the third largest provider in one of the largest growth areas in the UK insurance market. We manage exposure to longevity risk and maximise the capital efficiency of new business by partnering with reinsurance counterparties.

Individual annuities give customers secure lifetime retirement income. We are the UK's largest provider and provide an income to over one million customers. Equity release supplements retirement income in a tax-efficient way by unlocking housing equity. We manage the UK's largest book of equity release mortgages and lent over £800 million to customers in 2022.

Communication and feedback with customers and advisers

Understanding customer needs and preferences.

In November 2022, Ipsos-MORI published the results of their fourth annual opinion study of the concerns of the public.[8] Every year, concerns about the environment, and climate change specifically, are consistently high among the British public. In 2022, the study found that the UK population feel they have been confronted with the effects of climate change more this year than in previous years.

Communication with our customers is an essential part of our role in understanding their concerns, guiding them to tackle these concerns and letting them know what we are doing on issues that are important to them.

Our communication approach focuses on the following key areas:

- investing in high-quality research to provide our customers with leading solutions;
- consulting with customers and advisers on their preferences and target outcomes;
- reporting back on how investments made are contributing to achieving these outcomes;
- wider education on ESG matters with customers to inform their thinking.

Results of customer communications flow into our client relationship system, which then feeds into the development of products and reporting. While we understand the key characteristics of our customer groups, we recognise that each customer will have individual needs and that ongoing communication with customers and other stakeholders plays an important role in understanding and providing for our customers' evolving needs. We also believe that the role of communication in effective stewardship goes beyond individual customers and their assets, to wider education on ESG matters to support customers in understanding how our products align with their preferences.

Direct-to-customer research: market research on Aviva's direct market proposition, Future Money

Aviva UK Life conducted a research project during 2022, focused on the psychographic differences in the pension and investment market. This research interviewed random members of the UK public aged 25-64 that fitted Aviva's screening criteria. Six distinct personas were identified, based mostly on their personality and less strongly on their age and income factors. Each persona showed different investment financing behaviour. Through the research, we were able to get a sense for the investment preferences of each person, which included how important ESG/sustainability is to each group.

Of the six different personas, the research helped to identify three, which make up 60% of the UK public, that are likely to be customers for Aviva's direct market proposition Future Money.

The research impacted and defined the target market for the Future Money product. This information was used to redesign the product ahead of its expected launch in 2023.

[8]Sources:
https://www.ipsos.com/en-uk/concern-about-climate-change-overshadowed-cost-living-pressures
https://www.ipsos.com/en/obscop-2022
https://www.edf.fr/en/the-edf-group/climate-and-public-opinions-international-observatory/learnings

We help many people save for retirement through products we make available in the workplace through employers. Aviva's Working Lives Report 2022: The Big Squeeze[9] has found four out of five (80%) employers and 65% of employees think it is important that pension funds are invested responsibly. However, over half (55%) of employees do not know if their workplace pension fund is invested this way.

Almost two-thirds (61%) of employers think there is room for pension providers to improve their ESG[10] investment options. We took this feedback onboard, alongside similar direct feedback from the Aviva Master Trust and their advisers, and took steps to enhance our auto-enrolment default solutions in 2022. Changes to our My Future Focus investment solution resulted in us being recognised as the Best Default ESG Strategy 2022.[11] Making these changes also meant that, by June 2022, we had exceeded our 2022 goal of £10 billion of auto-enrolment assets placed into low carbon equities and climate transition strategies.[12]

Further details on these changes can be found later in the chapter (page 53).

[9] 1,002 private sector or charity employees (full-time and part-time) and 203 private sector employers were interviewed in April 2022 as part of the 2022 Working Lives report which launched June 2022
[10] 1,002 private sector or charity employees (full-time and part-time) and 203 private sector employers were interviewed in April 2022 as part of the 2022 Working Lives report which launched June 2022
[11] Corporate Adviser Awards | 01 July 2022
[12] See https://www.aviva.com/newsroom/news-releases/2022/12/aviva-achieves-validation-of-its-science-based-emission-targets/

Consulting with customers

Tumelo

As part of Aviva's commitments on ESG, we have spent the past two years researching, piloting and testing the impacts on member engagement. This is through continued monitoring of investment behaviour, customer research, testing of communications and working with the Department for Work and Pensions (DWP) and Tumelo.

Since March 2021, Aviva has worked closely with fintech start-up Tumelo to pilot their investor opinion tool with a selection of workplace pension clients. We have learned a lot about how our workplace pension members can play an active part in the engagement and voting approach to investing.

We ran this pilot with 16 employers, and while registration rates varied across schemes, they averaged 4% against an initial target of 10%. We found greater member registration to the Tumelo platform in employers where there was already a high level of pension engagement and more self-selectors. This is aligned to what we have previously understood, that many members require more education on pensions and investments before being engaged and feeling confident to interact with ESG aspects of their pension.

The current pilot ends in June 2023 but we will continue to work closely with Tumelo to share learnings and understand their route map as we build stronger member ESG confidence. We look forward to continuing our relationship through their inspirational CEO, Georgia Stewart, who was appointed to Aviva's Independent Governance Committee (IGC) last year.

We are committed to investing responsibly, with ESG considerations a central pillar of our investment process. We believe that being a responsible investor can lead to better overall investment performance and therefore member outcomes. Aviva is the first major UK financial services company with a Net Zero by 2040 ambition. We believe the biggest power we have to effect change is by engaging with investee companies in the default funds where so many of our members are invested. Aviva UK Life enhanced its My Future Focus investment solution this year and it has, as a result, been recognised as the Corporate Adviser Awards Best Default ESG Strategy 2022, and Aviva Investors have been recognised as Corporate Adviser Awards Best ESG Asset Manager in 2021 and 2022. Aviva prides itself on the transparency of its ESG reporting where it openly challenges its progress against its own targets and benchmarks, and those of its peers.

We will continue to research and learn how best to engage members with their pensions and ESG.

Bud's Money Insights Dashboard

We help members of workplace pension schemes take control of their finances. We did this by working with a new partner in 2022 – Bud (an open banking provider). By giving our members free access to Bud's Money Insights Dashboard they get clear, easy-to-view information about their finances. This will help them make better decisions about their money. Using the dashboard, members can understand the carbon footprint associated with their spending and receive actionable tips on how to reduce it.

Consulting with advisers

ESG Profiler tool on the adviser platform

We provide an Environmental, Social and Governance (ESG) Profiler tool on our adviser platform. This supports financial advisers when reviewing customers' investments from an ESG perspective, taking into account climate change, women in leadership, water security, waste, deforestation, human rights, recycling, corporate governance and air pollution. In addition, there are exclusionary filters for adult entertainment, alcohol, controversial weapons, gambling, tobacco and fossil fuels, to ensure clients avoid investments in these areas according to their wishes. The tool improves the transparency of funds, enabling customers to understand if a fund meets their investment appetite and ESG objectives.

It also produces a report based on client ESG preferences, such as the total carbon footprint within a product. This supports advisers in their conversations with clients on ESG, allowing them to show the scale and quantifiable impact of investments – in terms they understand.

This year, the use of ESG Profiler increased up to the end of 2022, with around 4,450 unique users accessing the tool multiple times. This indicates that a good number of adviser/client conversations now include ESG factors.

In September 2022, we won the Impact Award for "Digital Reporting 2022 – Sustainable Investing Impact Reporting – Europe" in the Third Annual Aite-Novarica Group Digital Wealth Management Impact Awards. The ESG Profiler was described as "an exemplar of how the global sustainable and impact investment reporting model might look. The platform translates disparate data into actionable investment opportunities".

Wider education on ESG matters with customers to inform their thinking

Trial with the Department for Work and Pensions (DWP)

Aviva was one of three providers that participated in a trial with the Department for Work and Pensions (DWP) in 2022. This trial involved emailing three groups of Aviva Master Trust active members in different ways to test their level of engagement with communications about responsible investment, whether it prompts members to engage more with their pensions, and whether members want to learn more about the environmental impact of their pensions. As of December 2022, the trial is awaiting publication by DWP, which restricts the amount we can disclose at this time about the results. The trial did impact Aviva, however, by shaping our strategy.

ESG Member Hub

The ESG Member Hub is a centralised platform for members to access resources on the topic of ESG. As requested by PwC, one of our largest clients, we organised a trial campaign for the ESG Member Hub. The campaign was launched to PwC employees in July 2022 and the results have supported the optimisation of our campaign strategy moving forward, adding greater segmentation and further educational content around how a pension is invested.

An integrated approach to stewardship

As outlined in Chapter 1, we believe the integration of responsible investing considerations into the investment process enables better understanding of the opportunities and challenges faced and can enhance returns on a risk-adjusted basis. We apply the mandate that our customers give us to invest in a way that meets their current and future needs, reflecting financial and non-financial considerations. Our customers' welfare will be determined not only by the size of their savings, but also by the future state of our world and society.

Our Responsible Investment Policy
Aviva UK Life has a Responsible Investment Policy[13] which applies to all Aviva UK Life investment funds, whether beneficially owned by customers or by shareholders, and whether managed on an active or passive basis or internally or externally managed. Our responsible investment strategy was approved by the board of Aviva UK Life, which also provides oversight for the execution of the policy and its integration into investment strategy and product design. The investment team is responsible for monitoring the performance of UK Life and pension funds against the policy, and ensuring that our principles are embedded into our internal control environment.

The policy dictates that when designing and overseeing investment strategies we will ensure that any active mandate, underlying active fund or any team recommending deals to Aviva fully integrates the sustainability requirements into the decision-making process.

As such, in 2022, we updated our Investment Management Agreement with Aviva Investors to explicitly reference our expectations in relation to ESG integration and the delivery of our Net Zero ambition. This includes the expectation that, as a minimum, they are a signatory to the Financial Reporting Council UK Stewardship Code and the United Nations Principles of Responsible Investment.

It stipulates that they must ensure relevant sustainability factors and sustainability risks are identified, considered and integrated within the investment decision-making process and in the management of all of our discretionary, asset origination and management and non-discretionary portfolios; and assist in transitioning all our portfolios to meet our Net Zero by 2040 ambitions in line with the Aviva Sustainability Ambition. We will continue to discuss similar updates with our external asset managers over the course of 2023.

[13] https://www.aviva.co.uk/content/dam/aviva-public/gb/pdfs/personal/services-and-support/our-uk-business/products-and-services/gn22001c.pdf

Aviva Investors has a Responsible Investment Philosophy which explains their approach to ESG integration. In summary, this covers the following commitments.

- Integration of material ESG factors into the investment approach for all asset classes and regions where we operate
- Exercising rights and obligations as shareholders and utilising voting power to ensure that companies are being run for those that own them – not simply those that run them
- Being responsible stewards of assets and engaging with issuers, borrowers and counterparties to encourage the adoption of progressive ESG practices over time
- Identifying clients' ESG preferences and seeking to provide them with suitable investment solutions to meet their ethical and sustainability needs
- Seeking to positively influence market reforms to help shape a more sustainable capital market that can deliver better long-term financial and social outcomes for our clients
- Endeavouring to hold ourselves to the same governance and ethical standards we expect of others

The Aviva Investors Principle Adverse Sustainability Impacts Statement[14] also details the consideration of priority themes, aligned to the Group's Sustainability Ambition. A summary of these is included below.

Climate

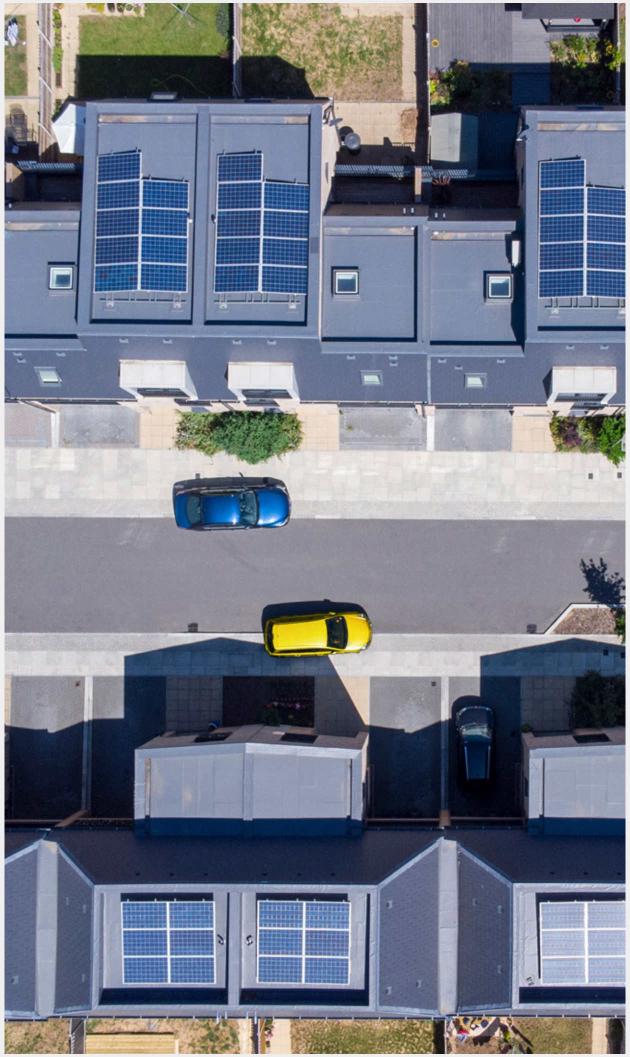
Consistent with our Sustainability Ambition, we engage to help ensure that our investments do not have a material adverse impact on climate-related sustainability factors. Accordingly, we prioritise engagement relating to greenhouse gas emissions. Climate considerations, with respect to physical and transition risk, are embedded within our fundamental investment processes, active ownership approach and voting policies and we ensure that all mandatory issues relating to greenhouse emissions are made available to investment staff and are actively considered in our investment and stewardship approach.

Biodiversity

Urgent action is needed to reverse the loss of biodiversity. Climate change is also closely linked to biodiversity loss and the success in tackling one of these issues fundamentally depends upon success in tackling the other. Aviva Group signed the Finance for Biodiversity pledge and joined the Terra Carta Initiative in May 2021. As part of our Finance for Biodiversity pledge commitments, we aim to play our part in reversing the loss of nature by 2030. We, therefore, prioritise biodiversity-related issues pertaining to activities negatively affecting biodiversity-sensitive areas.

Diversity

We are strong proponents of the need for more women in senior management and on company boards. As such, we also prioritise issues relating to board gender diversity.



[14] https://static.aviva.io/content/dam/aviva-investors/main/assets/capabilities/sfdr/downloads/principle-adverse-sustainability-impacts-due-diligence-statement-liquid-markets-en.pdf

ESG and stewardship in practice

As long-term responsible investors, ESG factors are considered in every investment decision presented to the UK Life credit committee and, ultimately, every approval. It is a mandatory part of the assessment. ESG considerations are also taken into account when considering and ultimately approving new asset classes.

When an asset manager considers investments on our behalf, they will consider ESG factors as part of the investment recommendation. For long-term non-traded investments, such as real estate, infrastructure or structured finance lending, ESG factors are a critical part of investment rationale. Appropriate guidance is sought from the subject matter experts, including the Aviva Investors global responsible investment team and/or the Group public policy and/or Group sustainability team. Investments can and have in the past been declined during this process on ESG grounds (see later example on declining deals with misalignment to our ESG considerations), ensuring ESG is at the heart of the investment process.

Through our in-house asset manager, analysis of ESG factors is undertaken by investment teams, with support from the dedicated ESG function. The investment teams across Aviva Investors have access to a variety of ESG data and analytical tools to support their assessment of sustainability risks, including the proprietary ESG scoring tool. Analysts and portfolio managers use these tools and data to evaluate and provide further insights on the ESG characteristics of portfolios.

Aviva Investors has individual Responsible Investment and Sustainable Risk Policies available on its website which set out how the ESG integration process can differ according to the asset class. However, the systematic integration of ESG into their investment processes is underpinned by a four-pillar framework that is embedded and tailored to reflect the nuances of asset classes and strategies.

1. Research
Investment teams use quantitative and qualitative research to ensure a systematic approach to investment decisions. Data is a critical starting point, providing the broadest possible base-level coverage of ESG issues, and we draw on a variety of best-in-class scores and analytical tools (please see page 64). However, data is static, backward-looking and can be subject to quality and coverage issues.

Aviva Investors combine this with qualitative insights to overcome these challenges. Their investment and ESG research teams collaborate to generate targeted, relevant and timely analysis into themes, sectors, companies and countries. This holistic approach enables fully informed investment decisions.

2. Connectivity
For ESG integration to be effective, there needs to be extensive collaboration between ESG-focused and investment teams. Aviva Investors' ESG analysts work closely with investment desks and actively participate in a variety of forums. Additionally, each investment desk has a dedicated 'partner' from the ESG team, who ensures ESG insights are available and tailored to their needs. The aim is to help portfolio managers exploit ESG market inefficiencies relevant to their strategy, enhancing returns.

This collaboration supports our ambition to be active and responsible stewards of capital across all asset classes and funds, ensuring we use our voting and engagement influence effectively. Insights from tailored engagements with issuers on sustainability are fed into investment views.

3. Portfolio construction
Research and connectivity flow into the third pillar, focused on portfolio managers translating ESG insights into stock selection, idea generation and portfolio construction. To ensure timely insights, the ESG team delivers training regularly to the investment teams to update them on market themes and developments, internal projects and regulatory updates. This enables investment teams to better understand material ESG risks and opportunities for sectors and countries, which they can price into valuations. The ESG team is also a key component in determining our 'house view' and ensuring material ESG factors are considered when determining the firm-wide macro outlook.

These fit alongside the Aviva Baseline Exclusion Policy (BEP),[15] which generates an investable universe.

[15]https://static.aviva.io/content/dam/aviva-investors/main/assets/about/responsible-investment/downloads/esg-baseline-exclusions-policy.pdf

4. Evaluate and monitor
Portfolios, trade ideas and holdings are subject to ongoing review, including via agreed ESG watchpoints. In addition, ESG partners hold quarterly reviews with portfolio managers and analysts for each strategy. The reviews highlight the ESG characteristics of the funds, ensure ESG views are reflected in positions, and provide the basis for challenge. ESG characteristics include portfolio ESG scores, emissions profiles as well as stewardship insights. Portfolio case studies are developed periodically to demonstrate how ESG integration has affected investment decisions, with asset class investment directors providing quality assurance.

Respective asset class and desk-specific investment processes underpin the delivery of this framework. A summary of a range of these is included on the next page.

ESG integration by asset class

ESG integration in equities

Within Aviva Investors equity investment functions, ESG insights are used to help drive better investment decision-making. The Aviva Investors investment teams are supported by a variety of ESG data and analytical tools, including their proprietary ESG scoring tool, Elements, and Principle Adverse Indicator (PAI) framework underpinned by their PAI Notation Tool (PAINT).

Equity research notes incorporate ESG, evaluating quantitative metrics as well a qualitative judgement on material ESG issues that impact their fundamental view. The equity team also incorporates sustainability topics within their meetings with company management. The ESG team collaborates closely with equity analysts to enable bottom-up research, as well as gain insights on sector ESG trends, themes and corporate engagements. The ESG corporate research analysts, through attending the relevant sector hubs, generate thematic research that helps shape sector views as well as generate ideas.

To supplement the qualitative ESG input into the investment process, the sustainable outcomes team produces top-down thematic research on the three sustainable outcomes we seek to deliver – people (social justice), Earth (nature-positive) and climate (Net Zero).

This research provides a foundational platform to inform how to best engage, with the research results forming an important input for evaluating the long-term investment case.

Aviva Investors' ESG analysis process is circular with a continuous feedback loop, where each pillar informs the other and ultimately their investment views. This empowers portfolio managers with the ESG insights they need to integrate ESG into their investment process.

ESG integration in credit

The Aviva Investors' credit teams (investment-grade, high-yield, emerging-market debt, buy-and-maintain, liquidity, LDI) incorporate ESG considerations throughout their processes. These teams primarily invest in corporate bonds, cash instruments and securitised instruments. While they apply ESG at a functional level, and within research available throughout credit, we recognise each desk may consider and apply ESG factors differently based on credit quality, country and time horizon.

Research

Their credit analysts consider ESG factors in their analysis. The research is supported by qualitative insights from the ESG team, company engagements, ESG data and third-party research. In 2022 Aviva Investors established a credit research ESG committee, containing the heads of credit research, sector leads and ESG analysts. Within this forum, they monitor ESG within the research process, conducting deep dives on individual names or issues should certain risks be identified.

Integration

Collaboration between portfolio managers, credit research analysts and ESG analysts is key to Aviva Investors' investment process. Sector-level meetings are conducted bi-weekly within their key strategies. This provides opportunities for open discussion, challenge and debate on sector, thematic and company views. ESG factors are also discussed within daily meetings conducted across global teams. Where ESG integration is concerned, portfolio managers do not view ESG as a binary yes-or-no consideration. Portfolio managers will consider these factors when determining portfolio positioning and risk exposure.

ESG integration in multi-asset

There are four key elements in terms of integrating ESG in multi-asset mandates:

1. **Firm-wide Baseline Exclusion Policy**
   Certain companies and sectors are excluded or limited from investment as per our Baseline Exclusion Policy: for example, companies operating in coal, tobacco and controversial weapons sectors.

2. **ESG approach of underlying investments (passive strategies)**
   Some of our passive strategies seek to invest in companies and countries with a stronger ESG score than the underlying markets (see My Future Focus case study).

3. **ESG approach of underlying investments (active strategies)**
   Aviva Investors' active single-strategy funds take ESG considerations into account when selecting securities (these considerations are non-binding). In some multi-asset mandates, there are also allocations to strategies with specific sustainable transition themes. For example: climate, natural capital and social transition funds.

4. **Voting and engagement**
   Aviva Investors are committed to the responsible stewardship of their clients' investments through our engagement, voting and public policy activities. They believe that by encouraging the companies they own to manage sustainability risk better, they can contribute to a more resilient global economy, which will ultimately enhance their clients' long-term prosperity and security.

ESG is integrated throughout Aviva Investors' multi-strategy investment process. Within the idea generation process, considerations include not only traditional fundamental and technical drivers, but also ESG risks and opportunities. This includes a forward-looking assessment of positive and negative ESG factors that may determine the success of an idea. In many respects, this has been done historically (for instance in regard to poor corporate governance practices or corruption risk in a country), but having it formalised within the investment process ensures consistency and discipline in the evaluation of all ideas. It is now a standard and essential part of their strategic and risk management process, aligned with their four-pillar ESG integration framework.

Real assets[16]

During due diligence, Aviva Investors undertake detailed technical analysis of every asset, activity or company they look to invest in. This is guided by their in-house screening and due-diligence tool, which allows the originator to assess the asset or company's ESG factors that may result in potential adverse impacts on sustainability factors. The integration of ESG factors into the processes ensures sustainability risks are considered as part of investment decision-making and form part of their wider responsibilities as an asset manager.

There are three principal types of risk they consider:

- Climate transition risk: policy, legal, technology and market changes related to climate change that may pose varying levels of financial risk to organisations.
- Climate physical risk: event-driven (acute) or longer-term shifts (chronic) in climate patterns with financial implications for organisations.
- Stakeholder risk: the risk of an ESG-related incident or event caused by our assets that causes harm to a stakeholder.

In their active real assets equity asset classes, which include infrastructure equity, real estate equity and real estate long income, Aviva Investors obtain data from suppliers, who engage with our broader supply chain of property managers, developers and contractors. In their cashflow-matching asset classes of infrastructure debt, real estate debt, structured finance and private corporate debt, they obtain data from intermediaries and borrowers. Where data concerning sustainability risks or PAIs is not immediately available from the asset or counterparty, they will enter into dialogue with that party to secure the information needed. In cases where this is not available and the lack of information is insufficient to make an informed decision, Aviva Investors will not proceed with the investment.

Aviva Investors' origination process is guided by their in-house screening and due-diligence tool, which allows the originator to assess the asset or company's ESG factors that may result in sustainability risks or potential adverse impacts. In real estate equity, they perform additional analysis to assess the asset and planned asset management strategy against their Net Zero pathway. Where a potential investment is deemed high-risk by our screening tool, the originator refers the investment details to the real assets ESG team to provide a more detailed opinion.

[16] https://static.aviva.io/content/dam/aviva-investors/main/assets/capabilities/sfdr/downloads/real-assets-ri-sustainability-risk-policy-en.pdf

An integrated approach to stewardship – case studies

Set out below are cases studies from across a spectrum of asset classes that demonstrate our integrated approach to stewardship. These should be read in conjunction with Chapter 4, which focuses on engagement and has additional relevant case study examples.

Industrial business park leasing

In 2022 we agreed sustainability clauses in a lease at an industrial business park in Watford. This new lease is aligned with the Green Leasing Framework developed by the Better Buildings Partnership. The lease agreement includes an obligation for the tenant to install EV charging units and solar PV panels on the unit as part of the requirements for their fit-out. This will help the asset to use more renewable energy resources from their solar panels, while providing amenities for the employees to charge their electric vehicles at work.

Adapting to pests

Climate

Issue
As climate changes, the range of pests will extend into previously inhospitable areas, from the poles to the tropics and more temperate regions. Furthermore, climate change is causing shorter and milder winters in the northern hemisphere, which enables a longer season for pests and hence it is likely that there will be more of them. Research suggests that rising temperatures shorten insect lifecycles and cause their numbers to increase.

Action
These changing weather patterns and the impact on pests led Aviva Investors' ESG analysts to conduct thematic research. They found Rentokil Initial plc generates over 65% (on 2021 disclosures) of its revenues from pest control and is the world's largest pest control company. In December 2021, Rentokil purchased Terminix, which generated 32% of its revenues from termite control. Through the acquisition, Rentokil has material revenue exposure to pest control.

Outcome
The research paper provided strong conviction of Rentokil as an adaptation company. As a result of its revenue exposure to pest control and evidence of a need for increased pest management due to climate change, investment teams feel reassured in the company's potential for growth. Rentokil is included within the solution sleeve of Aviva Investors' Climate Transition Franchise held across multiple UKL portfolios and held directly in all Aviva Investors' managed UKL global equity portfolios.

Bank of America

Governance

Issue
Research from ESG rating providers is a supportive input into Aviva Investors' investment process. It can quickly highlight ESG risks across the thousands of issuers we hold. While we recognise the role of such providers, it is critical that asset managers develop their own ESG view to assess risks and investment opportunities.

Action
Aviva Investors have a more constructive view on Bank of America than general market consensus from an ESG and credit fundamentals perspective. The bank has historically derived lower scores from external ESG rating providers, with one assigning a low score of BB from 2018-2020 (with AAA being the highest). Aviva Investors viewed the bank more positively, given its improved governance and exposure to financial inclusion opportunities. They also identified an improving momentum following successful engagement on its climate strategy.

Outcome
Over time, the market's ESG view has become more aligned to Aviva Investors' view. The bank's response to prior engagement asks were reflected in the ESG rating provider increasing its rating from BB to A in 2022. Bank of America continues to make improvements, last year setting financed emissions profiles for high-carbon-intensive sectors to start the journey to meet its 2050 Net Zero target. It also features prominently in league tables for ESG debt issuance, factors that further support Aviva Investors' internal view and positioning.

Indofood

Earth

Issue
Indofood is the largest instant noodles and snack producer in Indonesia. It produces many raw ingredients used within its products, including palm oil, a high-yielding crop with many benefits for the food industry. However, cultivation of palm oil is exposed to significant risks. High demand has contributed to increased deforestation, particularly in Southeast Asia where much of Indofood's supply chain is based. Producers of palm oil also face allegations of poor labour rights and working conditions. Indofood is exposed to these risks. In 2019, Indofood's palm oil subsidiary withdrew and had its membership terminated from the Roundtable of Sustainable Palm Oil, an industry certification scheme, due to allegations of worker exploitation.

Action
During the year, Indofood was highlighted as a potential investment opportunity by the Aviva Investors Emerging Market Debt (EMD) team, on the basis of its market position and valuation. Conversations were held between the credit, sector ESG and biodiversity analysts to better understand ESG risks and opportunities related to Indofood. Their discussions also considered previous failed engagements they conducted with the company on environmental and labour standards issues.

Outcome
As a result, the EMD team felt ESG risks, particularly an anticipated tightening policy environment on supply chain due diligence in the EU and US, which could affect palm oil producers, were not sufficiently priced into the bond valuation. Therefore, a decision was made not to buy Indofood bonds.

South Africa

Governance

Issue
The Aviva Investors EMD team was actively considering raising its exposure to South Africa based on favourable fundamentals relative to peers, including benign inflation dynamics, credible monetary policy, improving fiscal metrics and low external risks. Selected valuation metrics were also supportive.

The Aviva Investors sovereign ESG score rated South Africa as roughly in line with peers, despite highlighting notable weakness on social metrics such as inequality. The ESG component of the most recent country review had assigned neutral momentum.

Action
To inform the discussions, the Aviva Investors ESG analyst covering South Africa presented a summary of material factors, including progress on reforms designed to alleviate worsening power supply issues ('loadshedding') and systemic corruption. Splits within the governing party were identified as a barrier to the implementation of these reforms ahead of elections in 2024.

At subsequent morning investment calls, Aviva Investors' ESG analyst provided brief updates on a series of unfolding scandals, flagging they further increased political instability and risked undermining the president's authority within his party.

Outcome
Taking a holistic view and accounting for the evolving ESG dynamics, the portfolio manager took the view that pricing did not provide adequate compensation for the risks at that time. Accordingly, the team did not increase exposure to South Africa at that stage, a decision that contributed to stronger performance over the year.

Enhancing our workplace defined contribution default fund

Challenge

My Future Focus is a core default proposition for Aviva, aiming to provide our customers with a diversified and sustainable solution on their retirement journey. ESG continues to be a core pillar of the investment process for the active elements of the solution. We also took steps in 2019 to tilt the developed equity components away from companies that score poorly on ESG. However, to continually evolve the solution, we decided to enhance the approach within the regional developed equities components of the solution.

Activity

During 2022, we evolved the developed equity sleeves to ensure they adopted the Aviva Baseline Exclusion Policy, which resulted in the sale of tobacco producers and companies with more than 5% revenue exposure to coal, unless they had an externally validated science-based target. The funds were also optimised for an improved ESG score and a lower carbon intensity than their respective benchmarks, with a year-on-year decarbonisation objective towards our Net Zero by 2040 ambition.

Outcomes and looking ahead

Aviva enhanced its My Future Focus investment solution this year and it has, as a result, been recognised as the Corporate Adviser Awards Best Default ESG Strategy 2022 and Aviva Investors have been recognised as Corporate Adviser Awards Best ESG Asset Manager in 2021 and 2022. Aviva prides itself on the transparency of its ESG reporting.

We regularly consider proposals and tenders from new and existing managers around new ESG-aware funds. Here we firstly consider the investment benefit of customers as a priority, as well as the positive impact the funds may have on ESG issues. A recent example of this can be found in the With-Profits Allocation to the Schroders Global Climate Change Fund case study on the next page.

With-profits allocation to the Schroders Global Climate Change Fund

Challenge

One particular with-profits fund contains c.£3.1bn of customer assets. The target asset allocation of these funds is reviewed every three years, with a view to implementing changes that lead to better customer outcomes. The focus of the 2022 review was to investigate the benefits of reducing exposure to UK equity in favour of global markets to further increase returns for investors and better integrate ESG activities into the portfolios.

Action

As part of the review, three global strategies were considered with a range of investment style biases and ESG credentials. As part of the process the team evaluated all strategies using our '5 P' process to rate the fund's Parent, Product, Process, People and Performance, as well as their impact and contribution to ESG and climate activities. Following the review, a recommendation was put forward to rebalance c.5% of the equity allocation from UK equity into the Schroders Global Climate Change Fund.

Outcomes and looking ahead

The Schroders Global Climate Change Fund is a well-established strategy that has been successfully running since 2007 and was among the first in its field. The fund's principle is that climate change will be one of the most significant investment themes over the next 20 years and companies, across a broad range of industries, that recognise the threats and embrace the challenges early, or that form part of the solution, will outperform the broader market. This theory has so far proved successful, as over a 10-year period the fund outpaced the MSCI ACWI Index by 80bps on an annualised basis.

Rather than simply investing in low carbon companies, the fund seeks to invest in solution providers to some of the world's most critical issues, including clean energy, energy efficiency, environmental resources and low carbon leaders. Aviva's Sustainability Ambition has a clear mandate to help the markets we operate in become climate-ready. The transition of assets to strategies such as this helps this ambition, while also providing customers with strong expected investment outcomes.

Enhancing our workplace defined contribution default fund with BlackRock

Challenge

As mentioned last year, we had already taken steps to enhance the level of ESG integration in our workplace defined contribution default fund (My Future) by allocating to the BlackRock World ESG Insights Equity Fund that Aviva worked with BlackRock to launch. The fund aims to explicitly incorporate ESG and carbon reduction considerations in alignment with our customer needs. Supported by client feedback, we decided to take further steps to integrate sustainability factors across the solution.

Activity

Accelerated allocation to The BlackRock World ESG Insights Equity Fund

Allocation to the BlackRock World ESG Insights Fund was accelerated towards the target allocation of 50% of equity exposure across the My Future proposition (where equities are held). This increase in allocation accelerated the transition of the solution.

Allocation to LEAF

The current BlackRock ISC Liquidity Fund was replaced with the BlackRock ISC Liquid Environmentally Aware Funds (LEAF). The funds have similar investment objectives, however LEAF funds have enhanced ESG characteristics and aim to ensure that at least 80% of fund assets have above-average environmental practices as determined by an external ESG research provider (such as MSCI). The enhanced ESG characteristics also screen out exposure to fossil fuels and nuclear energy.

Consideration of credit

BlackRock have also recently launched a Global Corporate ESG Insights Fund with a single seed investor. We conducted an initial due diligence visit in September to review the fund, and further work is underway to determine if it is fit for purpose to be included in the My Future proposition.

Consideration on regional versions

We are also considering BlackRock's climate-aware ACS ESG Insights regional equity funds. There are several considerations within this workstream, which is currently expected to run into the second half of 2023.

Outcomes and looking ahead

We show below how the funds' allocation to the BlackRock World ESG Insights Equity Fund increased over the course of 2022, as well as the target allocation, which works out as 50% of each fund's equity allocation.

Figure 18: Fund allocations to BlackRock World ESG Insights Equity Fund

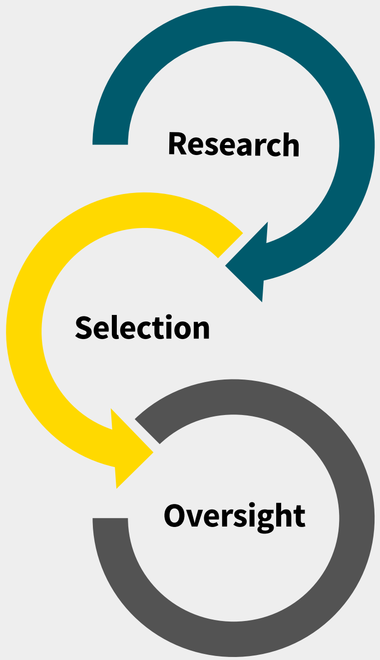
	% in BlackRock World ESG Insights Equity Fund 31 December 2021	% in BlackRock World ESG Insights Equity Fund 31 December 2022	Target allocation %
MyM My Future Growth	10.31%	32.12%	40.5%
MyM My Future Consolidation	8.80%	25.91%	52.6%
MyM My Future Drawdown	9.15%	11.76%	12.5%

We will continue to monitor this solution to ensure it remains effective in delivering our needs and consider other development opportunities utilising the same framework, including regional equity and credit versions.

Monitoring asset managers

As part of our manager research and selection process, we consider the extent to which their values and stewardship policies and commitments align with our own. Maintaining oversight and ensuring our asset managers are investing in line with our values, purpose and long-term investment beliefs are crucial to our climate and stewardship ambitions.

Figure 19: Manager research, selection and oversight



- Sustainability considerations are incorporated in the selection and oversight process for all managers
- The selection of managers includes an assessment of their approach to sustainability and alignment with Aviva UK Life's Responsible Investment Policy
- In any manager tender process the CIO team will include detailed sustainability considerations in requests for proposals
- We then perform thorough due diligence on shortlisted candidates using our '5 P' process (see below), including the review of sustainability considerations in investment decisions and ongoing monitoring of their commitment to sustainability
- There will be a minimum threshold of sustainability integration needed before any new mandate is awarded or for our work with that asset manager to continue.

We apply that oversight to our in-house asset manager who manages the majority of our assets, although we benefit from a common purpose and approach. However, we also seek like-minded external asset managers.

Ongoing monitoring and oversight

We regularly receive and review ESG reporting in a variety of forms. At a high level, the total carbon intensity of with-profits and unit-linked portfolios are discussed at UK Life's quarterly Customer Investment Forum (CIF), and the shareholder assets are reported at the Shareholder Investment Review Forum (SIRF). We also hold regular discussions with our managers around portfolio ESG metrics and the ESG engagement that has taken place with the companies held in customer portfolios. This includes bi-annual meetings with the sustainability teams to discuss actions within our portfolios and sustainability trends within the industry.

Portfolio sustainability and climate metrics, including carbon intensity trends and aggregate ESG scores, are also provided by our managers at the annual desk reviews. This often highlights potential areas for discussion and further review but, for our actively managed mandates, does not provide the full picture on integration of sustainability factors. We place a large emphasis on the qualitative review of the strategy.

The '5 P' process

Here we outline how an assessment of an asset manager comes together, using each element of the '5 P' process to perform due diligence with examples of typical questions we ask to inform this assessment. This process is used both to assess shortlisted candidates and to monitor our existing managers, including Aviva Investors, as we continue to hold them to account against our Responsible Investment Policy.

Figure 20: Aviva's '5 P' process

Parent

An assessment of the ability of the manager's employing entity to provide a steady and well-resourced platform from which to execute the investment strategy. It will encompass financial solidity and capital buffer, commitment of the business to the particular strategy, market reputation and capacity to recruit high-quality staff, commitment to the investment manager, and strategic stability.

Questions asked to inform our assessment:

- What is the firm's culture?
- Are they signatories to the PRI Stewardship Code? What is their rating?
- Is the firm committed to sustainability?
- Does the company follow corporate governance best practice?
- Is there demonstration of senior decision-maker/management buy-in to sustainability?
- How does sustainability manifest in the corporate culture?
- What are the firm-wide voting policy and restrictions?

Product

The purpose of this part is to evaluate the fund as a product and identify any undesirable restriction applied to the management of the fund. Consideration is also given to the price, the level of assets under management and flows, commitment of the firm to the strategy, and its overall competitiveness.

Questions asked to inform our assessment:

- What exclusions are applied to portfolios?
- Are there any ESG or climate-related targets?
- What level of reporting is provided on ESG and climate metrics?
- How well are green credentials promoted?

People

An assessment of the quality of key investment personnel and their capacity to contribute positively to the performance characteristics of the portfolio. The rating will encompass the manager's assessed level of insight, motivation, integrity and experience.

Questions asked to inform our assessment:
- Is there a dedicated and well-resourced sustainability team?
- Is there a clear dialogue between the sustainability team and portfolio managers?
- Are portfolio managers able to articulate sustainability considerations for individual holdings?
- Are portfolio managers committed to sustainability issues?

Process

An assessment of the overall philosophy and the steps taken by the manager to implement their analytical capacity into an investable product. It will capture the adherence to a process that makes use of the manager's strengths, the appropriate use of information and fair-value targets, the conviction and risk elements of the final portfolio, and awareness of liquidity. Performance needs to be repeatable.

Questions asked to inform our assessment:
- Is there evidence of ESG factors in analyst research and stock recommendations?
- Is there use of in-house proprietary ESG ratings or external research agencies?
- Is there evidence of engagement on ESG-related issues?
- What does their reporting and monitoring look like?
- How well are green credentials promoted?

Performance

The performance record will be commented on from the perspective of the manager's ability to outperform through a hypothetical business cycle, and from the perspective of the trend effects of the manager's investment style. This criterion is not rated.

Questions asked to inform our assessment:
- Is there ESG performance reporting and evidence of recent engagement work?
- Can the manager provide voting statistics linked to ESG?
- What is the ESG score relative to the benchmark?

ESG rating outcome

Our '5 P' assessment, used alongside our quantitative assessment, provides a framework to consider ESG factors which we aggregate into a standalone ESG rating between 1-5, which Figure 21 summarises.

We consider a minimum ESG rating of 3 to be required for investment. If an asset manager is subsequently assessed to be below 3 as part of our ongoing oversight, we will place that strategy on watch.

If our monitoring continues to identify significant concerns with our expectations of future long-term performance, we will look to make changes such as changing the underlying manager, closing funds or reducing our allocation to managers.

Where appropriate, we incentivise long-term performance of asset managers through performance fees, which are deferred. This means an element of the fee we pay asset managers is aligned to the long-term performance of our customers' funds.

Figure 21: Our ESG rating system

5 Superior	• Manager clearly articulates ambitions and approach • Manager is well resourced and responsible investment is fully integrated in investment decision-making and stewardship
4 Good	• Manager satisfactorily articulates ambitions and approach • Manager is sufficiently resourced and has senior responsibility • Responsible investment is sufficiently integrated in investment decision-making and stewardship
3 Fair	• Manager somewhat articulates ambitions and approach • Manager is rudimentarily resourced and has manager responsibility • Responsible investment is considered in investment decision-making and stewardship on a case-by-case basis
2 Poor	• Manager articulates limited ambitions and approach • Manager is insufficiently resourced and has limited manager responsibility • Responsible investment is rarely considered in investment decision-making
1 Impaired	• Manager does not articulate ambitions and approach • Manager has no resourcing nor manager responsibility • Responsible investment is not integrated in investment decision-making and stewardship

Climate risk and carbon intensity

Challenge
Where an ongoing upward trend in carbon intensity is identified within a fund, portfolio managers are required to provide an explanation for the increase. A recent example of this would be with one of our Asia Pacific ex-Japan funds. The investment team had recently undergone a change in investment process, migrating from a quantitative-based model to a more fundamental approach. As a result, carbon intensity within the fund had shown an upward trend.

Action
The manager was challenged on how ESG factors were considered during investment decisions. While their answers were understandable, they were informed that we expect the carbon intensity trend to reverse, and that action would be taken if we considered the fund to not be sufficiently considering and managing climate transition risk.

Outcome
The manager has committed to ensure the carbon intensity trend of the portfolio is in line with our risk management expectations. Further actions that can be taken if we believe the manager is not actively implementing measures for change include placing the desk on watch, preventing further investments to the fund and, in extreme cases, moving the assets to a new manager.

Credit mandate

Challenge
UK Life requires carbon metrics to be reported by our asset managers in each annual asset class review. The format of the data must be on an absolute and relative basis versus benchmark and include trends against a predetermined baseline. Where managers do not comply with this reporting, action is taken. During one desk review in 2022 the manager did provide carbon metrics, however it did not match the agreed format and we did not gain comfort from our discussions that climate risk was being appropriately considered.

Action
Both the sustainability team and customer investment teams within UK Life challenged the investment manager around this lack of data. Consequently, we requested a revised pack in the agreed format and an additional call with the portfolio managers and their ESG team to talk through how ESG is factored into the investment process and to better understand the carbon intensity profile of the portfolios.

Outcome
During the meeting we challenged the level of ESG integration within the portfolios. The manager walked us through the portfolio emissions review process and provided sound examples of engagement activity and objectives set for underlying holdings within the funds. The review highlighted holdings in the fund not meeting the requirements of our Baseline Exclusion Policy. However, they were due to be sold before year-end. Since the review, several holdings have been sold, resulting in a significant reduction in the carbon intensity of the portfolio. We will continue to monitor the fund closely and request further evidence that climate risk is being integrated into the investment process.

Monitoring and holding service providers to account

In addition to our asset managers, Aviva UK Life adheres to the requirements set out by the Group in order to select, manage and oversee our suppliers, including service providers that may play a role in effective stewardship. We have regular communication with our service providers, with an operational and controls focus to ensure alignment with our expectations.

We work hard to make sure our supply chain is responsible and sustainable. We do thorough checks of suppliers before we begin working with them and ask that they sign our Supplier Code of Behaviour.

We continue to engage them around sustainability issues over time. We also help to influence our suppliers to act now around the big issues like climate change.

Influencing suppliers

We aim to become Net Zero carbon in our supply chain (Scope 3) and operations by 2030. We have been focusing our efforts on talking to our key suppliers and aligning them to our Net Zero ambitions. Our near-term ambition is for 70% of our suppliers (by spend) to set science-based targets by 2025. We have improved our tendering process and strengthened our contracts to ensure suppliers commit to plans to measure and reduce their carbon footprint. We have provided suppliers and employees with guidance and training to improve their knowledge and understanding of sustainable procurement.

Operational oversight monitoring review

Context
Aviva UK Life conducted an operational oversight monitoring review of one of our external providers, as part of the wider annual monitoring plan for external asset managers, custodians and related third parties.

Activity
The governance team held review meetings with operational SMEs from across the external provider to understand and test operational processes, risk management models, personnel policies, IT systems and infrastructure, and data control practices. The review consisted of detailed discussions and the provision, and subsequent review, of sample data and policies relevant to the subjects covered.

Outcome
Our team were satisfied that the systems, processes and controls that are in place at the external provider are appropriate and functioning in a manner that does not create undue risk for Aviva UK Life.

There were no specific follow-up actions or changes to the existing oversight framework recommended as a result of this monitoring review.

Monitoring a data provider

Context
Aviva has been sourcing climate-related data from a data provider since 2012 to support ESG reporting and disclosures. In 2022, we undertook an assessment of that data provider based on TCFD reporting requirements. The objectives of this assessment were:

- To determine whether the data provider meets all key current and future Aviva climate reporting data requirements
- To provide a qualitative assessment of the key alternative data providers of climate-related data in the market
- To perform market benchmarking analysis based on publicly available information to understand which data providers are used within the FS peer group
- To inform FY22 reporting disclosures regarding the data quality and data coverage of the climate-related metrics and scores
- To capture next steps.

Activity
As part of the assessment, interviews with key internal stakeholders were conducted to understand their current and future climate-related data requirements and user experience with the data provider. Following this, the data provider was compared to other market-leading data providers, with all technical and functional data capabilities and methodology researched and documented. The offerings and capabilities were compared across four areas: data coverage, data quality, methodology and customer service.

Outcomes
From the interviews conducted, the views of the key internal stakeholders were that the current data provider offers sufficient coverage of climate-related data for credit and equity asset classes and across all climate metrics currently reported. For FY22 reporting, about 90% of Aviva's credit and equity asset types were based on reported emission data from this data provider. The assessment also found that the data provided is refreshed on a monthly basis and enables Aviva to receive data quality scores from them for the data they provide, which enables Aviva to disclose PCAF quality scores.

However, the assessment uncovered some limitations, such as the limited information available for some asset classes, e.g. sovereigns.

The key findings of the assessment will be shared with the broader stakeholder group. Considerations, such as whether the data provider can make any additional improvements to address the limitations or if the data should be supplemented with other data sources, will inform our data strategy review in 2023.

Chapter 4: Engagement

Aviva UK Life delegates its engagement activity, which applies equally to actively and passively managed holdings, to its asset managers under the provisions of the respective investment management agreements. We expect engagement behaviour to be consistent with the Aviva Sustainability Ambition as well as the Aviva UK Life Responsible Investment Policy and Voting and Engagement Policy.

We signalled in last year's report that the next voting season review was likely to result in further changes to our voting policy and engagement priorities. At the start of 2022, our in-house asset manager set out Aviva's annual stewardship priorities for the year to more than 1,500 companies across 30 countries with a concerted focus on:

- climate change;
- biodiversity;
- human rights; and
- executive pay.

Although executed by our asset manager engagement, we maintain accountability for the framework for engagement with investee companies on our behalf. Having the robust processes in place to monitor our asset managers, as we described earlier, allows us to leverage their expertise and resources to deliver the desired engagement outcomes. Our external asset managers also take these policies and our sustainability objectives into consideration when engaging on our behalf.

We continued to intensify our oversight of our asset manager's engagement activity through quarterly updates on key initiatives and deep-dive sessions on a bi-annual basis where our managers provide insights into engagement and voting activity related to our investment mandates. This includes details on engagement successes as well as updates on where engagement has failed and some form of escalation has been required.

For 2022, this oversight has become more tailored and focussed on the key priority themes highlighted, with reporting from our external managers reflecting the need to update on how engagement has been prioritised according to our expectations by theme, and how they are consistent with their respective voting and engagement policies.

We are aware that, as an industry, asset owners need to engage asset managers more on their stewardship efforts. We have been active participants in the NZAOA Engagement Track to collaborate with like-minded asset owners and have actively contributed to this work.

We intend to leverage the collaborative efforts of the NZAOA and the existing guides on engagement assessments to further enhance our own assessments in 2023.

Approach

For listed companies, Figure 22 below displays how engagement targets are identified, and Figure 23 demonstrates how engagement activity is then delivered at Aviva. This defines our engagement approach for both equities and corporate debt, which captures most assets invested in our customer funds. Engagement routinely takes the form of meetings or calls with the Board or senior sustainability executives.

Figure 22: Identifying companies for engagement

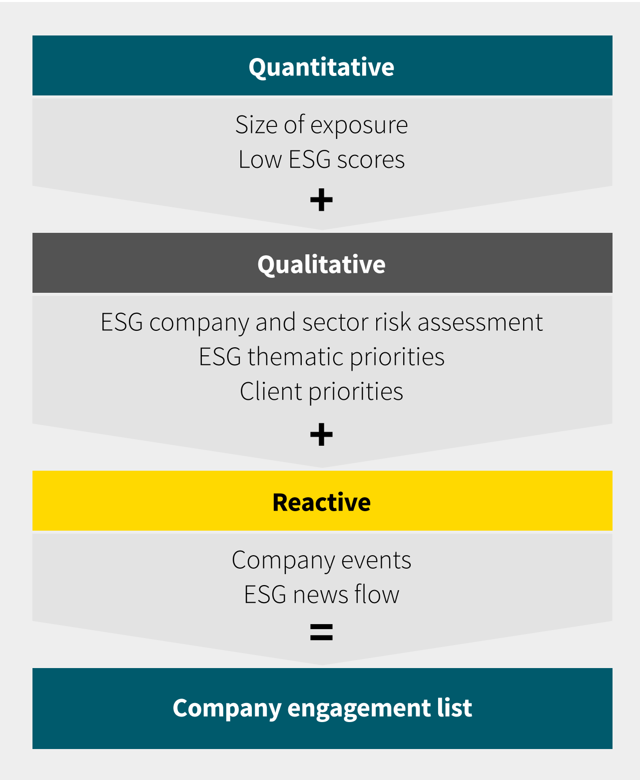
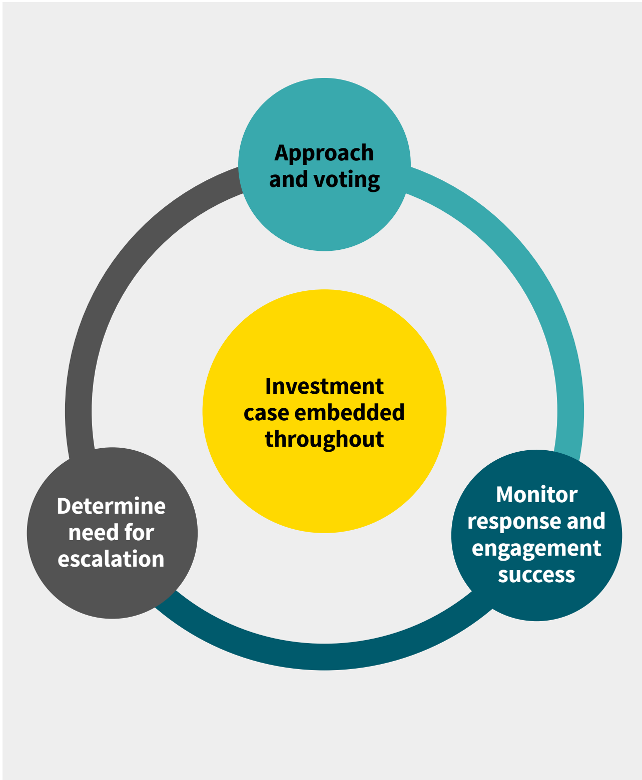


Figure 23: Engagement execution



We also have exposure to other asset classes across both customer and shareholder funds, including property and infrastructure, and will engage across other asset classes on an ad-hoc basis.

How our approach to ESG integration differs according to different asset classes

We believe being active owners of real assets through engagement with our stakeholders is critical to creating environmental and social outcomes for our clients and society. We define engagement in real assets as structured interaction on ESG issues with our customers, including borrowers and occupiers, suppliers and the communities we operate in.

The vast majority of engagement is carried out via Aviva Investors during the initial transaction process or through ongoing asset management. We also engage with the borrowers in creating covenants and incentives that mandate or encourage environmental and social impacts. Case studies related to this are in Chapter 3. In equity investments where we own assets directly, Aviva Investors will engage with occupiers and our suppliers to reduce building energy use and engage communities to create positive social impacts.

Engagement with corporates

The following data and examples are reflective of Aviva UK Life mandates only.

In-house engagement

In 2022, Aviva Investors (AI), who manage the majority of our assets, recorded 366 engagement successes where changes in corporate behaviours were recorded in line with the engagement ask. In addition, AI carried out 2,444 engagements throughout the year, which included 2,361 collaborative letter-based engagements and 1,425 substantial interactions with companies.

Figure 24: Engagements by region

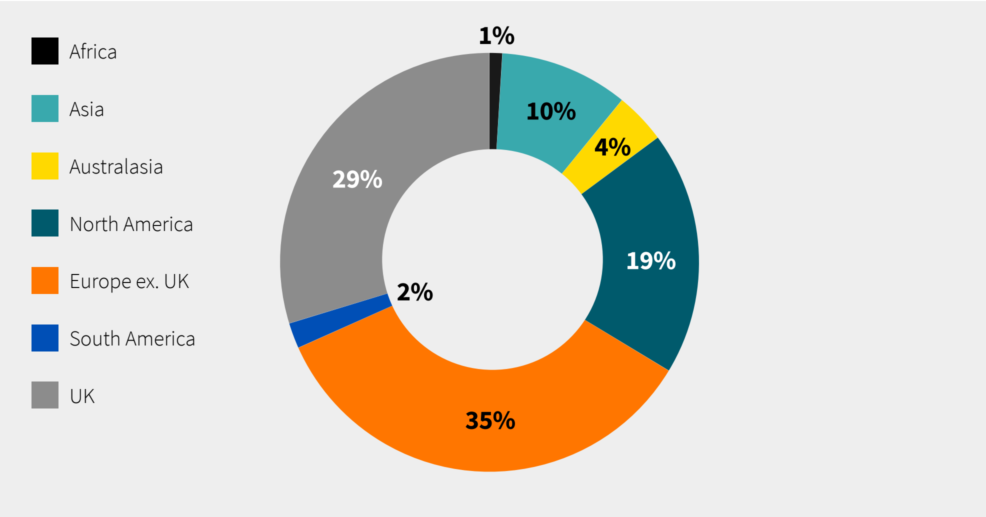
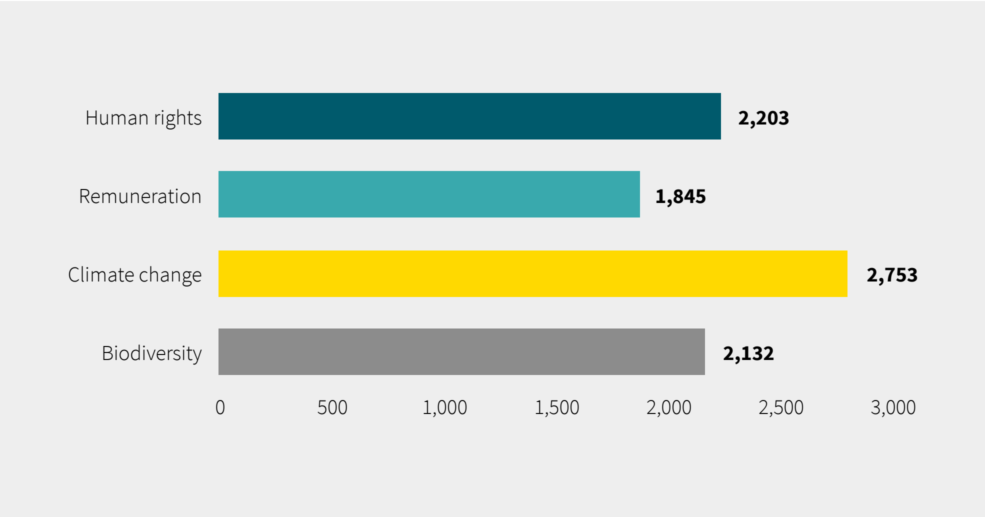


Figure 25: Number of times key themes were raised



The following are a selection of case studies carried out on our behalf on our focus-area topics, outlined earlier in this section, along with other ESG topics of importance to us and our customers.

A multifaceted approach to deforestation

Escalation

Earth

Issue
Ending deforestation and implementing natural climate solutions could make a significant contribution to achieving the Paris climate target, as well as slowing biodiversity loss and supporting human rights. With most deforestation driven by demand for palm oil, soy, cattle products, and pulp and paper, the need for action is urgent.

Cattle ranching is the biggest driver of deforestation in Brazil, home to one of the largest carbon sinks globally. Cattle ranching is primarily driven by demand from the meatpacking industry, but other co-products such as cattle hides (leather) play a role in the continued destruction. Auto manufacturers are key buyers: 80% of Brazilian leather is exported, with leather car seats estimated to account for half of these exports.

In 2009, major Brazilian meatpacking companies committed to end the purchase of cattle linked to Amazon deforestation. Twelve years on, these companies have made minimal progress, and still cannot attest to the extent they are buying cattle raised on deforested land. Meanwhile, deforestation in the Amazon has reached a 16-year high, with warnings the rainforest is approaching a tipping point at which damage will be irreversible.

Action
Aviva Investors' deforestation engagement covers several industries and different value chains. One example is the auto industry, where they joined an investor engagement initiative aimed at enhancing the due diligence and traceability of the leather used by auto manufacturers such as Mercedes-Benz and General Motors (GM). Another example is outlined on later in this chapter regarding boreal forest degradation.

Regarding cattle, Aviva Investors escalated their engagement with a Brazilian beef exporter that began in 2020, given the rate of deforestation in Brazil. They requested the company bring forward and expand deforestation targets to include legal deforestation, and issue a public call to the government to facilitate a full traceability programme and a tagging programme.

Aviva Investors were also one of 30 investors globally to sign a commitment to eliminate agricultural commodity-driven deforestation from their portfolios by 2025, known as the Financial Sector Deforestation Action (FSDA), and this year carried out a deforestation risk assessment of their holdings.

Outcome
Aviva Investors' engagement on leather has resulted in the identification of good practices on supply chain due diligence. For instance, Aviva Investors were pleased to find GM is engaging with its leather suppliers and has achieved significant traceability to slaughterhouses. It is also the only company in the sector participating in the CDP's forest questionnaire. While Aviva Investors made asks for traceability to farms and for alternative materials to be used in auto interiors with GM, these efforts can serve as a blueprint for others to follow. This year, Aviva Investors will also start engaging on the rubber supply chain.

Regarding Aviva Investors' engagement with the Brazilian beef exporter, they were disappointed in the company's response. Given Aviva Investors' belief the company was not moving fast enough, alongside the negative headwinds of changing customer demand (such as certain UK supermarkets ceasing to buy some types of beef from Brazil), and increasing regulation on supply chain deforestation, Aviva Investors sold their holding.

As part of their work on FSDA, Aviva Investors will be introducing a more comprehensive deforestation engagement plan in 2023, based on the results of their deforestation risk assessment.

Forest degradation – Procter & Gamble

Earth

More than half of global GDP – around $44 trillion – is reliant on biodiversity and our ecosystems. Protecting and enhancing the planet's precious biodiversity is an integral part of Aviva's long-standing commitment to sustainability. Aviva's Biodiversity Policy complements our Aviva Sustainability Ambition and outlines our commitment to take action on tackling biodiversity loss. We expect all companies to develop biodiversity action plans, taking into account emerging best practice guidance frameworks. We are pleased with the progress Aviva Investors has made in the following example with Procter & Gamble (P&G), a company Aviva UKL holds investments in across both shareholder and customer assets.

Issue

The Canadian boreal forest is one of the last remaining intact forests globally and an important biodiversity hub. It is, however, under increasing threat of degradation due to exploitation for timber used in construction and pulp destined for consumer products such as toilet paper.

P&G, a market leader in the toilet paper segment in the US, sources pulp from Canadian forests. Despite the inherent supply chain risks, we found limited disclosure on sourcing standards and impact on forest degradation. Furthermore, the company was not mitigating these impacts by using other materials such as bamboo or recycled paper.

Action

Aviva Investors met with P&G on three occasions in 2022 to share best practices regarding forest degradation. They collaborated with the Natural Resources Defence Council, which helped outline the best way forward on the boreal exposure. In addition to measuring and disclosing how much pulp is sourced from intact forest land, Aviva Investors asked for a time-bound commitment for no deforestation. Their discussions also included the implementation of free, prior and informed consent of local and indigenous communities, as well as an increase in the use of alternative/recycled materials.

Outcome

In August 2022, P&G announced steps to reduce its impact on forests. While the company has demonstrated some progress against Aviva Investors' asks, their view remains that these new developments can be enhanced further, especially regarding the net reduction of its virgin pulp footprint. To escalate their concerns, Aviva Investors voted against three board members at the 2022 AGM, as P&G failed to provide the leadership needed to align P&G's pulp sourcing with the urgency of the climate and biodiversity crises, exposing the company to significant risk.

Aviva Investors will continue to engage with P&G and are exploring engagements with Canadian provincial governments.

Decarbonisation of airlines

Climate

Issue

The aviation sector currently accounts for around 2.5% of global carbon dioxide (CO_2) emissions from fossil fuels, and is behind in preparing for a Net Zero future. Demand is set to double to over eight billion passengers by 2050, which must be matched by a significant reduction in emissions. For that reason, driving faster action in the sector is a key focus of Aviva Investors' expanded Climate Engagement Escalation Programme.

Action

In 2022, Aviva Investors engaged with eight global airlines to push for more ambitious targets on climate change and a credible strategy to achieve carbon reduction. Points of discussion included sourcing a sustainable airline fuel (SAF) feedstock base, following a high-conviction research paper by Aviva Investors' ESG research team, which they view as the most feasible way to decrease aviation emissions. Regarding offsets, Aviva Investors requested companies disclose the proportion of overall current/planned emissions reductions coming from them and set targets to phase out usage to focus on actual emissions reduction. Recommendations were also made on strengthening scenario analysis and existing governance systems.

Outcome

Aviva Investors were pleased with the quality of engagement on the airlines' decarbonisation challenges. American Airlines has aligned its sustainability disclosures with the Task Force on Climate-related Financial Disclosures (TCFD), undertaken scenario analysis and set climate targets. Delta Airlines disclosed its first TCFD report and adopted science-based targets. EasyJet released its Net Zero roadmap in September, with a focus on transitioning away from offsetting, raising the bar for the industry. IAG also set specific 2030 SAF targets, a promising development for the company and industry.

Aviva Investors will continue to encourage further improvements in 2023 and collaborate with their macro stewardship team to accelerate the policy intervention needed.

Pemex

Climate Engagement Escalation Programme

Climate, People

Aviva expects all companies to be committed to taking action to reduce the impact of climate change. Aviva UKL invests in Petróleos Mexicanos (Pemex) through both shareholders' and customers' assets and takes a keen interest in the engagement Aviva Investors undertakes on its behalf, as part of CEEP, to monitor Pemex's progress on climate-related matters and ensure that its climate ambitions align with the Paris Agreement.

Issue

Pemex is a state-owned petroleum company that is an indispensable part of the Mexican economy, providing substantial revenues and foreign exchange receipts for the government. Unfortunately, underinvestment has contributed to a chequered ESG track record, marked by frequent safety incidents and environmental disasters. These events have led some areas of the investment community to flag Pemex for failing to meet global norms such as the UN Global Compact (UNGC). Additional disclosures from Pemex could help investors and markets complement external UNGC assessments and provide a fuller picture of the company's efforts to remediate past controversies and indicate future intent to address areas like climate change.

Action

Pemex was included in Aviva Investors' Climate Engagement Escalation Programme (CEEP). This allows Pemex's climate progress to be evaluated utilising our rigorous assessment methodology. Additionally, Aviva Investors participate in the collaborative investor initiative Climate Action 100+, supporting structured engagement objectives covering methane flaring, short-term emissions goals and, importantly, UNGC compliance.

Outcome

Pemex has made significant strides since the engagement with Aviva Investors began, with a major focus on disclosure. Notable improvements include the launch of Pemex's ESG page. Aviva Investors believe Pemex could reach its short-term target (up to 2025) of 95% coverage of Scope 1 and 2 emissions. As a result, they believe Pemex has positive momentum with building its sustainability agenda and continue to hold it in the EMD funds.

Role of quasi-sovereign issuers in enabling climate transition

Climate

Issue
Quasi-sovereign issuers are companies with full or partial government control. The entities are often unlisted but are large issuers of debt and constituents in fixed-income markets. Such companies are significant operators in oil and gas and power generation, with over 70% and 50%, respectively, of global assets in these sectors state-owned. Their close links to governments and custodianship of natural resources, especially in developing economies/emerging markets (EM), make them key for countries' sustainability policies. Therefore, they can play an important role in solving some of the world's ESG challenges, including climate change. Bond investors have a significant opportunity to engage with quasi-sovereigns on integrating ESG within their strategy and delivering on targets.

Action
During 2022, the Aviva Investors EMD and ESG teams engaged with over 20 quasi-sovereign issuers. These engagements included one-to-one interactions by investment teams with company management, dedicated climate engagement as part of Aviva Investors' Climate Engagement Escalation Programme, and collaborative initiatives with other investors such as Climate Action 100+. The domicile and sectors varied, but examples include Abu Dhabi projects, Indonesian utilities, Latin American energy companies, Moroccan minerals and Turkish chemicals.

Outcome
Progress on ESG by these companies is ongoing. For some EM quasi-sovereigns ESG is a relatively new concept, while for others it is well-established but hasn't been disclosed. But for all, there is impetus to strengthen ESG in practice. Aviva Investors saw some successes throughout the year. As an example, Saudi Aramco adopted 2050 Net Zero Scope 1 and 2 GHG emissions targets and published its first sustainability report. However, there is still work to do. Aviva Investors will continue to use their influence to raise awareness of ESG best practice and identify investment opportunities.

HSBC and Credit Suisse

Escalation

Climate

This is an example of two banks that Aviva Investors engaged with on climate issues throughout the year, in conjunction with ShareAction, a UK-based charity that promotes shareholder advocacy. In one case, the engagement led to significant change in the bank, while in the other instance, Aviva Investors exercised their voting rights when the bank had not made progress in improving their climate strategy.

Issue
Company AGMs within the banking sector have become a key battleground in the fight against climate change. Increasingly, some banks are proactively putting their climate strategies to a vote. Conversely, banks that demonstrate insufficient progress are targeted by shareholders filing their own resolutions. Two banks facing the latter included HSBC and Credit Suisse. Both resolutions led to two different outcomes.

Action
After pressure from a resolution filed by ShareAction, HSBC announced its intention to publish an updated climate strategy. Following dialogue, the resolution was subsequently withdrawn. In response, Aviva Investors engaged with HSBC during the year sharing their expectations on a robust climate strategy.

ShareAction similarly filed a resolution on Credit Suisse, although in this case the bank was less co-operative, and appeared to lag behind European peers. As a result, Aviva Investors pre-declared their intention to support the resolution.

Outcome
In December 2022, HSBC issued an updated climate policy featuring an ask Aviva Investors had to require its oil and gas clients to provide credible transition plans. Additionally, HSBC committed to cease any direct financing of new oil and gas fields. Meanwhile, nearly a quarter of Credit Suisse's shareholders voted against management on the climate resolution filed by ShareAction. Despite the resolution failing to pass, Credit Suisse responded by showing incremental improvements in its climate strategy, introducing financed emissions targets for high-risk sectors.

Marathon Petroleum

Climate Engagement Escalation Programme

Climate

Issue
The United Nations Environment Programme report ‘The Emissions Gap’ illustrated the window to address the climate crisis is closing. Urgent action is needed, particularly in high-emission sectors like oil and gas, yet company transition plans continue to fall short.

Action
Marathon Petroleum is included in Aviva Investors’ Climate Engagement Escalation Programme (CEEP); its combined Scope 1, 2 and 3 emissions make it systemically important for the global transition to Net Zero. Aviva Investors expect all high-impact companies to fully demonstrate a strategy, with targets, in line with the Paris Agreement. Over 2022, Aviva Investors continued to engage with the company to strengthen its decarbonisation strategy.

Outcome
Marathon has since improved the quality of its climate-related disclosure, publicly supporting the Task Force on Climate-Related Financial Disclosures (TCFD) and strengthening board oversight over its strategy. It has also improved its emissions reduction targets related to Scope 3 and methane emission intensity, and scaled spending on low carbon, enabling the transition from traditional to renewable refineries. Marathon is demonstrating leadership as one of the first companies in its sector to publish a dedicated just transition report, in March 2022, which outlines its approach in alignment with the International Labour Organization’s guidance.

In 2023, Aviva Investors will continue to work with Marathon towards a Net Zero ambition, pressing for a better understanding of its Scope 3 strategy and approach to addressing misaligned climate lobbying.

Rio Tinto

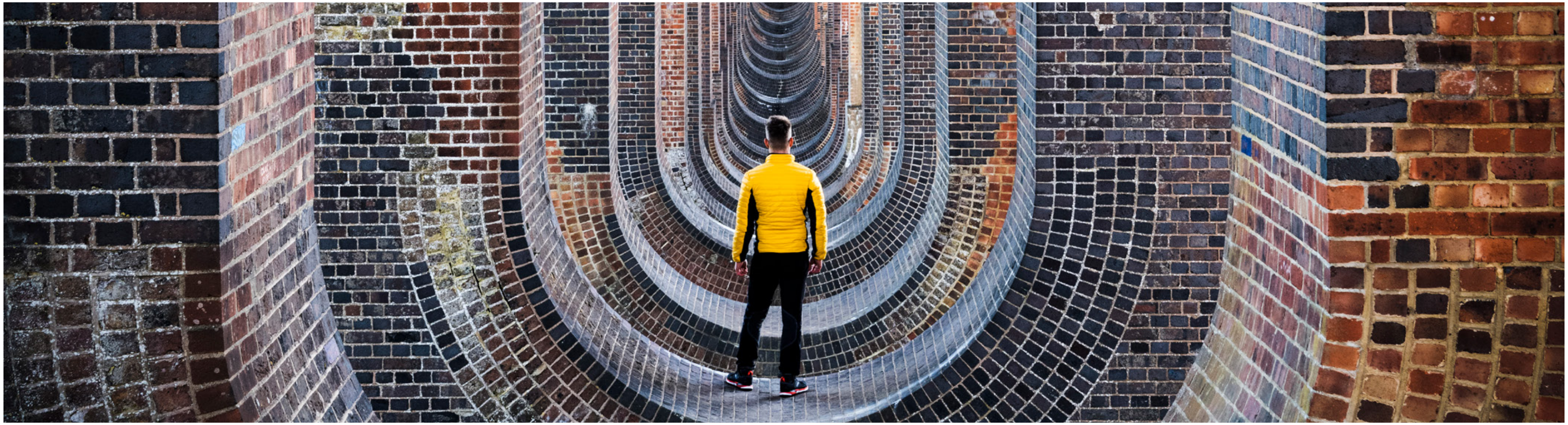
Climate Engagement Escalation Programme

Climate

Issue
Aviva Investors have engaged with Rio Tinto for several years to address its Scope 3 emissions (95% of its total carbon footprint) created by assets it does not own or control. These are dominated by the processing of iron ore into steel. Aviva Investors' views have also manifested in voting action at its AGMs, supporting various shareholder proposals on climate accounting and lobbying.

Action
In 2022, Aviva Investors met with the company to discuss the commitments made in 2021 to reduce operational emissions and scale low carbon capital allocation, and request a clearer quantifiable roadmap to decarbonise its customers' emissions. To provide markets with greater visibility over its Scope 3 strategy, Aviva Investors see greater detail on technology roadmaps underpinning its 'value chain' partnerships – including objectives, interim milestones and expected emission reductions. Aviva Investors also pressed for more robust action to address industry associations lobbying against climate action.

Outcome
Rio Tinto has continued to progress plans to decarbonise its largest Scope 1 and 2 emission sources, electricity consumption, aluminium smelting and alumina refining; Aviva Investors were pleased to see its withdrawal from the Queensland Resources Council (QRC) in April 2022. Queensland Resources Council has proven a consistent roadblock to climate action for two decades. Aviva Investors will continue to work jointly towards Net Zero alignment, with a focus on scaling advocacy for policies required to achieve its targets. For mining companies, the absence of economy-wide, Paris-aligned carbon pricing remains an obstacle to accelerating the low carbon transition.



Executive pay – incentives to change

Governance

Last year, Aviva Investors wrote that in 2022 they would be looking for structural change regarding executive pay to ensure it is more clearly aligned with sustainability objectives. Strategically achieving environmental and social goals requires all empowered stakeholders to be fully aligned and committed to their delivery. Aviva Investors' annual letter to board chairs in 2022[17] set our expectations, including:

- Variable compensation plans include robust, stretching and externally validated sustainability targets that are clearly linked to the commercial strategy
- Existing bonus and long-term targets that are fundamentally at odds with sustainability commitments should be retired
- Total expected pay outcomes should not be inflated due to the inclusion of additional sustainability performance metrics.

During 2022, Aviva Investors engaged directly with several companies on these issues and are pleased to see a large number introduced ESG targets in their variable pay plans.

However, implementation varies greatly, and it is too soon to determine whether the introduction of ESG goals in executive pay will have the desired effect.

This is because a number of companies introduced ESG targets in the annual bonus for FY2022, therefore Aviva Investors will assess the pay outcomes against specific targets in 2023. Their views will depend on both the disclosures and appropriateness of targets and whether such bonuses are justified. Essentially this aspect of the bonus should only be paid out if management have moved the dial on the most material ESG challenges facing the company. If we have concerns (including where ESG targets have not been introduced), Aviva Investors are likely to vote against the remuneration report on our behalf, just as they would for similar concerns on bonuses in relation to financial metrics.

Some of the companies Aviva Investors have engaged with on this are Headlam, Ocado and Severn Trent.

In Q2 2022, Headlam consulted Aviva Investors on its remuneration plans for the 2022 financial year. They responded with their feedback, including the need to address the lack of ESG targets in variable pay. The company communicated it would incorporate sustainability targets within its bonus framework for FY22. Aviva Investors are pleased to see progress given the company's size, sector and complexity of operations. However, specific targets have not yet been disclosed due to commercial sensitivity and Aviva Investors will review these ahead of the 2023 AGM.

Aviva Investors made a similar request to Ocado. They note that Ocado's remuneration committee will take into consideration ESG factors, among other factors, when determining whether the formulaic vesting levels under the value creation plan (VCP) are appropriate in the context of business and individual performance. However, they think it is important to incentivise management (through bonuses and/or VCP) to focus on the delivery of key ESG metrics to ensure the company is well-positioned for the long-term.

Regarding Severn Trent, at the company's 2022 AGM, Aviva Investors abstained on the remuneration report, as, while there was no material misalignment between pay and performance for the year under review, bonuses were 81% of the maximum (representing 97% of salary). Aviva Investors felt the remuneration committee should have used discretion to reduce bonuses due to the sewage issues experienced.[18] While the company claimed this had already been reflected in the outcomes (because bonus targets include customer and environmental aspects), it was not clear to what extent this had taken place. Aviva Investors welcome that for 2022/2023, a portion of the bonus will relate to river health criteria. This is in keeping with the company's stated priority of preserving river quality and river pledges, as announced in March 2022.

[17] Annual letter to company chairpersons – Aviva Investors
[18] Severn Trent Water fined £1.5m for sewage discharge – BBC News

Meta Platforms (formerly Facebook Inc)

Escalation

Governance

Aviva UKL holds assets in Meta platforms. During 2022, Meta engaged in practices that were not in line with Aviva's Sustainability Ambition. The occasion highlighted below is an example of Aviva Investors' escalation process, which is detailed further in this chapter on page 87, in practice.

Issue

Facebook changed its name to Meta Platforms in October 2021, signalling a strategic shift to the metaverse. We have had concerns with its corporate governance for several years. These include its board composition and dual share-class structure, which gives the founder, CEO and board chair Mark Zuckerberg control of the company. Aviva believes the lack of an independent board chair has contributed to a pattern of governance failings, including mishandlings of controversies, increasing risk and costs to investors. Regulatory pressure continues to mount on technology firms. This contributes to a high-risk environment, combined with Meta's potential impact on society from the metaverse.

Action

Working with the Treasurer of Illinois and other investors, Aviva Investors escalated concerns and co-filed a shareholder resolution at the 2022 AGM, recommending Meta's board adopts an independent board chair structure. Although the resolution was unsuccessful, Meta acknowledged investors' concerns. Aviva Investors met with Meta's lead independent director in 2022 with the other co-filing investors. Their engagement focused on the combined CEO/board chair roles, the role of the lead independent director, the board's definition of independence, the company's dual share-class structure and lack of equal voting rights.

Outcome

These governance concerns, alongside regulatory risks to the advertising market, contribute to an overall negative ESG view on the company. Through insights gained from cross-asset collaboration between Aviva Investors' equity, ESG and credit teams, they identified material concerns on antitrust litigation and regulatory risks to its credit profile compared to peers. As a result, Aviva Investors did not buy the new bond issue from Meta. As at 31 December 2022, the bonds have underperformed since they came to market.

EcoPro BM

Escalation

Governance

This is an example of an escalation in engagement, where Aviva Investors felt that the engagement activity with the company was not leading to sufficient progress.

Issue

Green transport is essential to meet global climate goals. The transport sector roughly contributes 20-25% of global CO_2 emissions. Greater use of electric vehicles (EVs) can reduce this, with this market set to benefit from structural growth. Aviva Investors have exposure to this theme within their funds through well-positioned car manufacturers and material suppliers. One company held by UKL through the Aviva Investors Emerging Markets fund was EcoPro BM – a Korean manufacturer of EV battery materials. In January 2022, one of EcoPro BM's key production facilities halted production after a major fire, with the company facing allegations of poor governance and insider dealing.

Action

The Aviva Investors Emerging Markets (EM) equity team engaged with the company on these issues but was unsatisfied with the company's response. Details provided by the management team in the immediate aftermath were vague, especially regarding insider dealing. EcoPro confirmed senior executives were under investigation by the authorities. They evaluated the potential medium-term impact of Aviva Investors' ESG concerns on the company's prospects and were concerned these could become significant. They believed these events would negatively impact EcoPro BM's customer relationships – given its own sensitivity to ESG risks within its supply chain.

Outcome

As a result of the scandals and subsequent research and engagement activity, the team decided to exit the position and monitor corrective actions. In the interim, the fund has continued to gain exposure to the structural theme of EVs through other names that present less ESG risk.

Exercising rights with Toshiba

Governance

Transparency and disclosure of information is an important part of engaging with a company; it helps Aviva Investors, as our asset manager, understand the companies' strategies and leads to more effective engagement. This case study demonstrates this.

Issue

In March 2022, Toshiba sought shareholder approval to proceed with the examination of a strategic reorganisation through a two-way split of the company. Aviva Investors had concerns over the proposed plan because the company had not disclosed sufficient information to justify the risks. Furthermore, Aviva Investors had concerns in current management's ability to implement the plan, given the interim CEO was yet to receive a vote of confidence from stakeholders.

Action

Aviva Investors informed Toshiba of their concerns and their intended vote decisions ahead of the General Meeting. Aviva Investors engaged, hoping it could provide context around the sudden departure of former management members and elaborate on the benefits of the strategic reorganisation.

Outcome

Toshiba did not provide sufficient detail to Aviva Investors' requests. The proposal to proceed with the strategic reorganisation did not receive sufficient shareholder support. Toshiba is exploring multiple options in terms of continuing as a firm. Subsequent to the General Meeting, two directors were appointed to the Toshiba board, alongside a new independent board chair. Aviva Investors supported these appointments. Given Toshiba's poor track record on corporate governance, the appointment of an independent chair will help the company evaluate the pros and cons of strategic alternatives and should improve transparency of the evaluation process. The other appointments should strengthen the alignment of interests between shareholders and management, and they too will be valuable in the evaluation of the various strategic alternatives.

Human rights and inclusion engagement with Novartis

People

The COVID-19 pandemic made us all rethink the responsibilities businesses have to society and the way they treat their employees. As a result, more focus has been given to human rights and how to create a fairer and more inclusive society. We expect that all companies we are invested in publicly state their commitment to human rights and respect internationally agreed principles, such as the United Nations Guiding Principles on Business and Human Rights.

Aviva UKL is invested in Novartis through both customer and shareholder assets. During 2022, Aviva Investors engaged with them on our behalf on issues related to human rights and inclusivity.

Issue

Improving access to healthcare is a key theme. This includes raising awareness and addressing issues of racial discrimination within the health sector. Many studies used to develop health treatments do not fully represent the needs of all patients. Studies have found responses to treatments can differ among racial and ethnic minorities, and some minorities may experience worse health outcomes from specific diagnoses. According to US Census data, Black or African American individuals make up 13.4% of the population but only 5% of clinical trial participants. Similarly, the Hispanic or Latino population makes up 18.1% of the population but only 1% of participants. This means that we do not know if treatments are equally effective for all populations.

Action

Aviva Investors' ESG team decided to engage on this issue with pharmaceutical company Novartis (a holding within their Social Transition Global Equity strategy) through the company's access to health and corporate sustainability teams.

Outcome

Novartis informed Aviva Investors it had invested $17.7 million to set up clinical trial centres at historically Black medical schools as part of a ten-year plan. They also increased contributions to the Beacon of Hope initiative to $50 million. This initiative was launched in collaboration with Black colleges, universities and medical schools with the goal of reducing health disparities through collective action. It also published its first commitment to diversity in clinical trials. Short-term goals include evaluating diversity and inclusion principles for phase III studies in the US. In the longer term, Novartis expects to expand this commitment to all global trials, leveraging data science to track diversity data across its drug development programmes.

Engagement in real assets

Being active owners of real assets through engagement with stakeholders is critical to creating positive environmental and social outcomes.

Case studies related to engagements in real assets are detailed below and in Chapter 3.

Net Zero due-diligence audits

Climate

Issue

The unconstrained delivery of buildings and infrastructure has been a major contributor to the climate crisis. Direct emissions from buildings, power and transport are responsible for 60% of UK emissions, with those from supporting industries exacerbating the problem. In their commitment to achieving Net Zero for one of their real estate strategies, Aviva Investors analysed the assets in detail to inform asset management plans.

Action

Aviva Investors undertook 30 Net Zero due-diligence audits within a two-month timeframe. The audits include a short summary about the asset and current status of energy efficiency and carbon emissions before introducing measures that can be taken to get the asset to Net Zero, or nearly Net Zero, along with estimated costs for these measures.

A further 31 audits were undertaken across real estate and Real Estate Long Income (RELI) in the remainder of the year, bringing the total for standing assets to 61, giving Aviva Investors significant coverage of their portfolio and informing business planning for 2023.

Outcome

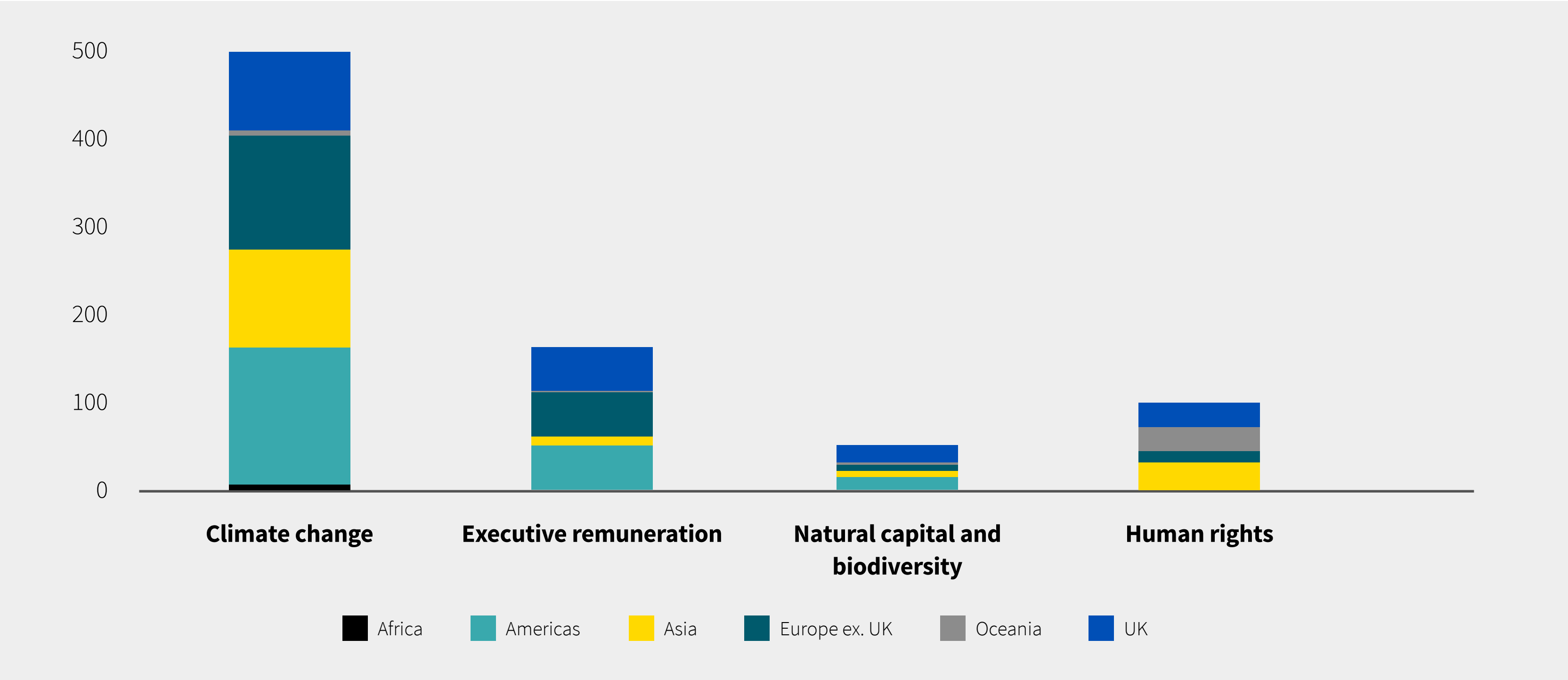
As a result of the success of the Net Zero audits, five social audits were also undertaken to form a baseline for the assets and inform the delivery plan for the social impact element of the strategy. Additionally, for assets that had a Net Zero audit but were not selected for the strategy, our asset managers were able to use these as a feasibility study to assist with business planning to improve the green credentials of these assets.

External asset manager engagement

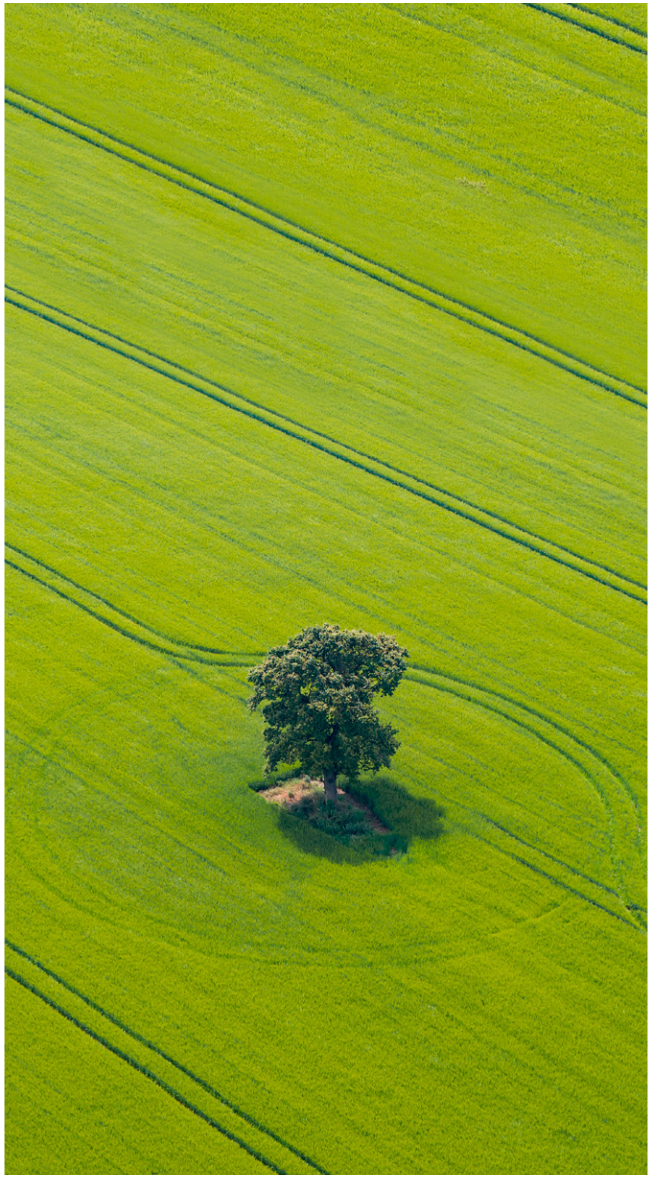
The following data and examples are reflective of Aviva UK Life mandates managed by our second largest asset manager, Schroders. The disclosure and provision of this data is line with our '5 P' process for assessing our asset managers.

In 2022 Schroders undertook 722 engagements on our behalf. Figure 26 below demonstrates these engagements according to region on Aviva's key engagement topics in 2022.

Figure 26: Schroders engagement on key engagement themes by region in 2022



The following case studies on engagement were carried out on our behalf by Schroders, on companies which we have an equity holding in, on our focus area topics outlined earlier in this section along with other ESG topics of importance to us and our customers.



Engagement with Siemens AG

Climate

Issue

Schroders makes climate commitments based on the belief that climate is an investment risk which they have the duty to mitigate in order to protect and enhance the value of their clients' investments.[19] Schroders engage with investee companies on their sustainability and emissions targets and expect these companies to make progress towards the goal of mitigating climate risk.

During 2022, Schroders identified Siemens as a company with climate goals that did not fully meet Schroders' expectations for a company that is a leader in its sector. Siemens already had ambitious near-term emission reduction targets in line with a 1.5-degree pathway and validated by SBTI in 2021. This is in line with Schroders' firm-wide SBTI target, which is also aligned to the 1.5-degree pathway in the near term. They had also committed to setting a science-based Net Zero pathway. However, Schroders identified that Siemens did not have an 'avoided emission' measure in their DEGREE sustainability framework.

Action

Schroders reached out to Siemens Investor Relations setting out their expectations on their climate targets. The aim of the engagement was to introduce a formalised 'avoided emission' or 'energy efficiency products sold' target to Siemens' sustainability reporting.

Outcome

Although Siemens still does not yet include 'avoided emissions' or 'energy efficiency products sold' as part of their DEGREE framework, in December 2022 they announced new targets in their 2022 Sustainability Report. In that report, Siemens reported their new 'avoided emissions' number in line with the GHG Protocol Reporting Standard.

Siemens' updated targets follow a best-practice approach of setting an intermediate goal. Additionally, Siemens has committed to reducing physical CO_2 emissions in their own operations by 55% vs. 2019 by the end of 2025. In terms of their pre-existing goals, Siemens made their 2030 target more aggressive and moved from targeting a 50% reduction in physical CO_2 by 2030 vs. a 2019 baseline to now targeting a 90% reduction. To meet their new targets, they're investing €650 million in their decarbonisation by 2030, particularly in their own technology.

[19] Annual Sustainability Report 2022 (schroders.com)

Pay consultation engagement with Kingspan Group PLC

Escalation

Governance

Kingspan Group PLC is a building materials company which has come under scrutiny in recent years due to the Grenfell tragedy and the subsequent inquiry. Despite Kingspan achieving its Net Zero energy target in 2020,[20] and making progress with its other climate-related ambitions, Schroders had some concerns about other issues, such as the details of executive pay. This is particularly important given the cost-of-living crisis that has been impacting our customers in recent years.

Issue

During the 2022 AGM, Kingspan had proposed a renewed remuneration policy. UK-listed companies are required to renew their remuneration policy every three years, which is approved by a binding shareholder vote. The FY2023 policy proposed a material increase to the long-term incentive opportunity and, therefore, to total quantum.

Given the broader context of the Grenfell Inquiry, shareholders raised questions around the appropriateness of significantly increasing executive pay this time.

Action

Schroders wrote to Kingspan articulating their feedback on the proposed changes to the remuneration policy. The main points of concern they raised were related to the increased long-term incentive plan (LTIP) opportunity to a maximum of 300%, which was ill-timed, expectations for more stretching targets, concerns about 100% of the bonus weighted on earnings per share (EPS), and duplication of the metrics used, given that EPS is also used in the LTIP. For these reasons and more, Schroders voted against the proposed remuneration policy.

Outcome

The vote did pass through shareholder approval. However, there was about 20% dissent, including from Schroders, acting on Aviva UKL's behalf. This prompted the company to reach out to their shareholders and further explain the rationale behind their policy. Schroders responded to Kingspan's letter by further explaining their concerns and why they voted against the policy. These concerns were predominantly around the increase to the long-term incentive award. Additionally, Schroders once again flagged some wider issues with the performance metrics.

Schroders will continue to monitor and engage with the company on this issue before deciding how to vote at the 2023 AGM.

[20] Kingspan Launches First Planet Passionate Sustainability Report (kingspangroup.com)

Engagement with Unilever

Escalation

Governance

Issue
Schroders engaged with Unilever on various issues, particularly regarding reforming the governance structure and improving returns.

Action
Schroders had two meetings with the chair of Unilever in 2022 as well as the regular meetings with the executive team. In the first of those Schroders discussed the fallout from the attempted bid for GSK's consumer healthcare business. The second was once the dust had settled to discuss the way forward, and the chair was certainly in listening mode. They said they had taken on board Schroders' criticisms from the earlier meeting, which was clear from the way they have responded.

Outcome
After engagement, Unilever made changes, such as focusing on delivering stronger returns from the existing assets, improving management accountability with a new structure and being more open to external ideas.

Schroders' overall impression is that the Board really feel the pressure from investors such as Schroders to improve returns, but by self-help rather than doing major mergers and acquisitions. Schroders is encouraged by the appointment of Hein Schumacher, an external candidate (he has spent a short time on the board as a non-executive director) to replace outgoing CEO Alana Jope. He has a strong track record in delivering organisational change and generating organic growth. Schroders will be meeting him in due course to give their views on the company and to discuss his initial thoughts on the way forward.

Engagement with Nestlé

Human rights

Issue
In 2022, a criminal investigation (manslaughter) was launched in France alleging Nestlé products were connected with a number of children contracting E. coli. Two of these children died. This was exacerbated by images released of the factory in question by a whistleblower, who also claimed to have raised concerns before.

Action
Schroders engaged with Nestlé to understand whether the products were a danger to the public and whether there was a breach of food safety regulations.

Outcome
Schroders discussed the case in the GSG Committee meeting the following month. They felt that on the call with the company there was clear evidence that all efforts are made to meet safety requirements and it is a cultural focus on Nestlé. The quality of their testing labs are best in class and there is good evidence of the efficacy of the whistleblowing/internal audit approach. It was particularly encouraging to hear anecdotes of suppliers being delisted or managers being fired when standards were not met. This overall conclusion was pending any revelations in the criminal case (none as yet as the case is ongoing). With over 1bn servings a day, it is an unfortunate reality that not all products will be perfect, making how the company responds to such issues vital. Overall, Schroders were happy with the evidence they provided but remain vigilant for any news flow that may counter that. Schroders also note Nestlé's assertion that the issue did not originate in Nestlé facilities.

Escalating engagement with National Grid PLC

Escalation

Governance

The case study below demonstrates diversity of thought in the AGMs and the ability to challenge the consensus view. Schroders analysed the details of the National Grid remuneration report thoroughly even though this goes against the majority of other investors. We look forward to seeing further progress on this issue.

Issue

Schroders has been engaging with National Grid on their executive remuneration structure. In National Grid's LTIP, there was a lack of total shareholder return (TSR) and a significant proportion of pay dependent on non-financial/returns measures. Schroders was particularly sceptical with National Grid's decision to include separate sustainability, personal and strategic objectives in executive remuneration schemes, as there is an increased risk of rewarding executives for what is often already part of their business-as-usual jobs.

Additionally, there can also be an element of double or triple counting in such awards. In this case, the National Grid CEO was paid a bonus for, among other things: a new operating model design, selling a business, executing on a portfolio repositioning, and streamlining and progressing the modernisation of the group. These tasks all seem to be similar and, given that they should all be expressed in financial performance and returns to shareholders (i.e. if shareholders think that these changes are adding value and the changes are making the business more profitable, then the financial and returns metrics will pay out), it appears the CEO is being paid multiple times for the same thing.

Action

Schroders wrote to the company to express their continued disquiet about the lack of TSR in the LTIP and the significant proportion of pay dependent on non-financial/returns measures. Schroders noted that they planned to vote against the remuneration report proposal and the chair of the remuneration committee as this was the second successive year they had voted against the remuneration report.

Outcome

At the 2022 AGM only 5.5% of shareholders voted against the remuneration report and fewer, 2.3%, supported Schroders' vote against the re-election of the remuneration committee chair. Despite this escalation not leading to an ideal outcome, Schroders will continue to monitor this topic at the company and challenge other topics as they arise.

Exercising rights and responsibilities

Another key method in which we engage with investee companies is by exercising our shareholder voting rights. While voting rights are delegated to our asset managers, we expect voting behaviour to be consistent with our Global Voting Policy, managed by our in-house asset manager, Aviva Investors. This policy is reviewed on an annual basis and updated subject to board approval, as mentioned in Chapter 2. It is in alignment with our Aviva UK Life RI Policy and Voting and Engagement Policy.

Our Global Voting Policy highlights areas of focus and priority that may lead to engagement and voting action to promote responsible and sustainable practices. These areas, at a high level, include: sustainable outcomes; board leadership and effectiveness; controls and audit; share capital authorities; shareholder rights; data security; remuneration; investment trusts; and our process and remuneration principles. These feed back into driving progress on our engagement focus areas introduced in Chapter 3. In 2022, the policy was strengthened by making deforestation a more formal element. Aviva Investors now vote against targeted management resolutions at companies with significant exposure to commodity-driven deforestation risk over their lack of robust policies and targets on reducing deforestation.

Although we do not have voting rights in connection with fixed-income instruments, we have considered the ways in which we can influence borrowers as fixed-income investors. To that end, the Aviva Investors Sustainable Transition Loans Framework embeds measurable ESG commitments into our lending programme. Examples of loans made under this framework are provided in Chapter 3.

Quarterly reporting is requested of our in-house asset manager on all voting and engagement activity that has been conducted on our behalf and from our other asset managers on a regular basis. We seek justifications for the voting positions taken by managers and challenge those we believe are inconsistent with our expectations.

We expect our asset managers to consider all voting opportunities as a means to influence companies to adopt sustainable business models. This does not mean that we require asset managers to vote whenever they are able to, however they should assess voting options and make conscious decisions on whether, and how, to vote. We do not require all our managers to have exactly the same votes, however we do expect voting behaviour to be consistent with our sustainability expectations, which we expect to result in consistent voting behaviour. We also expect our asset managers to co-operate and collaborate with other shareholders, where appropriate, to increase their influence on companies we invest in. Voting records for all beneficial holdings across portfolios are made publicly available via our website.

The annual proxy voting reports for our two largest asset managers include voting records for each vote and the rationale for the votes, where appropriate. This can be found here:

Aviva Investors Voting History
Schroders Proxy Voting Dashboard

Voting activity in 2022

The following data and examples are reflective of Aviva UK Life mandates only.

In-house voting
The following is a summary of votes undertaken by Aviva Investors, who manage the majority of our assets:

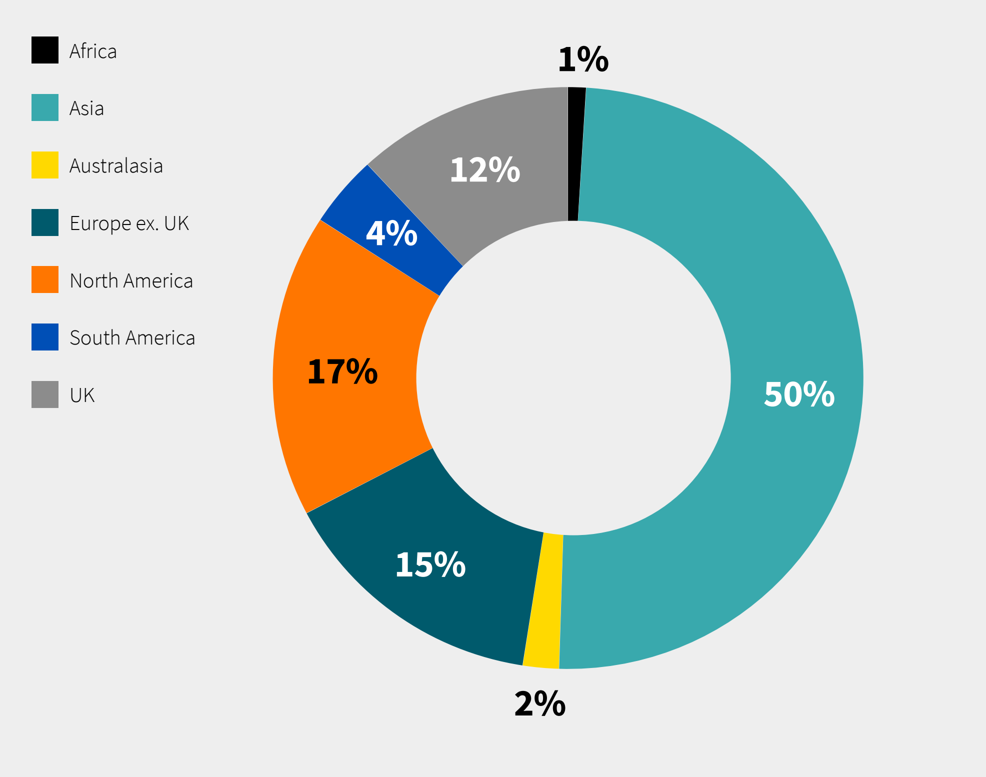
- Voted on 73,438 resolutions at 6,732 meetings
- Voted against 27% of management resolutions, including 49.1% of pay proposals
- Voted in favour of 78% of climate shareholder proposals and 83% of social shareholder proposals

The annual proxy voting reports for Aviva Investors, detailing votes cast and the rationale, can be found here: [Aviva Investors Voting History]

Figure 27: 2022 voting activity by issue

	Total number of resolutions	% non-support
Anti-takeover measures	81	13.6%
Auditors	5,322	23.1%
Climate-related (resolution proposed by management)	47	42.6%
Directors	30,103	31.1%
Other	9,684	17.7%
Related-party transactions	3,206	20.5%
Remuneration	8,111	49.1%
Report and accounts	5,067	7.6%
Share issues/capital-related	8,905	16.9%
Shareholder resolutions (ESG issues)	863	63.0%
Shareholder resolutions (supported by management)	1,120	19.4%
Takeovers/mergers/reorganisation	929	19.6%

Figure 28: 2022 voting activity by region



Examples of how Aviva Investors voted in 2022 and the rationale behind the votes can be found in the preceding case studies relating to HSBC and Credit Suisse, and Toshiba.

External manager voting

The following is a summary of votes undertaken by Schroders, our second largest asset manager.

- Voted on 1,617 ballots at 772 shareholder meetings
- Voted against management on 11.18% of all proposals

The annual voting proxy voting reports for Schroders, detailing votes cast and the rationale, can be found here: Schroders Proxy Voting Dashboard

Figure 29: 2022 voting activity by region

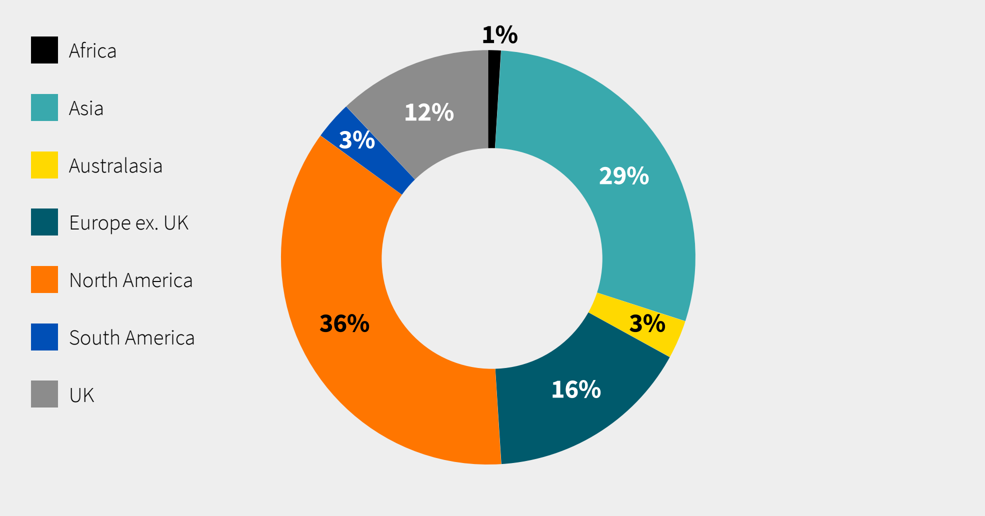


Figure 30: Schroders' 2022 voting activity by topic

	Total number of proposals	% votes against management
Audit-related	635	24.9%
Capitalisation	734	6.9%
Company articles	233	4.3%
Compensation	1,095	24.2%
Corporate governance	41	82.9%
Director election	4,959	6.3%
Director-related	727	8.4%
E&S blended	36	27.8%
Environmental	89	52.8%
Miscellaneous	63	6.3%
No research	14	0.0%
Non-routine business	61	13.1%
Routine business	863	2.4%
Social	219	54.3%
Strategic transactions	67	13.4%
Takeover-related	103	1.0%
Total	9,939	11.2%

Examples of how Schroders voted in 2022 and the rationale behind the votes can be found in the preceding case studies relating to Kingspan Group PLC and National Grid PLC.

Escalations

Earlier in this chapter we described how we engage with investee companies and with the asset managers who engage on our behalf. All our engagement and voting activity is outcomes-focused and we set high standards for those we and our asset managers engage with. The '5 P' process covered in Chapter 3 detailed how this framework enables us to escalate stewardship activities where our expectations are not met.

We believe we should use our position as a large asset owner to encourage companies towards improving the way they operate. We also believe it is important to use our influence to try to drive behavioural change, rather than walk away and lose any influence to change things for the better. However, if engagement does not lead to positive change, we reserve the right to divest.

Where engagement with companies, whether on strategic, performance, general ESG or specific voting issues, is undertaken, the effectiveness of such engagements will be measured and evaluated on a regular basis.

There will be times when, despite engagement with companies, our concerns have not been adequately addressed. Under these circumstances, the matter may be escalated into a more focused project of intervention, aimed at securing changes to the board, management, practices or strategy.

We expect our managers to use all engagement tools available, which may include:

- additional meetings with company management and/or non-executive directors
- expressing concerns via company brokers and advisers
- withholding support or voting against management and the non-executive directors
- circulation of a statement of issues at an AGM
- requisitioning resolutions at an AGM
- requisitioning a general meeting
- collaboration with other investors on shareholder resolutions, engagement meeting and voting
- raising concerns with appropriate regulatory authorities
- considered public statements and press comment
- divestment of holdings.

Where engagement ultimately fails, the company is added to Aviva's Investment Stop List, which is maintained and issued centrally. We may choose to make no further investments and/or divest our existing holdings. Where we decide to divest, we will divest any equity holdings within 90 business days. We expect to run off existing fixed-income investments where we believe it may have a detrimental financial impact of immediate disposal.

For discretionary portfolios, we allow the asset manager to manage the escalation and divestment process, with appropriate notification to Aviva UK Life.

In-house manager escalation

Case studies of these escalation tools in practice from our internal asset manager, Aviva Investors, are mentioned earlier in this chapter and include selling their holdings in a Brazilian beef exporter, divesting from EcoPro BM, co-filing a shareholder resolution recommending Meta's board adopt an independent board chair structure, and supporting a shareholder resolution proposed by ShareAction recommending that Credit Suisse publish an updated climate strategy.

Climate Engagement Escalation Programme (CEEP)

Climate, governance

Issue

The United Nations Environment Programme's (UNEP) recent report 'The Emissions Gap' showed the window of opportunity to address the climate crisis is closing. Urgent action is needed, particularly in high-emission sectors, yet company transition plans continue to fall short. Aviva Investors' three-year climate engagement escalation programme (CEEP) was established to make a difference in encouraging deeper, faster action.

Action

CEEP applies across Aviva equity and credit portfolios and is focused on 30 of the most systemically important carbon emitters from the oil and gas, mining, steel and utilities sectors that contribute approximately a third of all global emissions, considering their Scope 3 footprint.

Phase 1 launched in January 2021, when letters were sent to all board chairs on Aviva Investors' expectations of what constitutes a robust climate strategy and approach.

Aviva are willing to use all the tools and power available to ensure their impact is on a scale commensurate with the climate crisis. Companies have been given notice that if certain expectations regarding the management of climate risk are not met within acceptable timeframes, Aviva will fully divest their holdings in those companies.

Outcome

At the time of writing, Aviva Investors have undertaken 218 engagements across the CEEP focus group. These include one-on-one meetings, conference calls and participation in industry events and workshops.

While not yet convinced of any company's full Paris alignment, they are pleased with the quality of conversations and progress across a challenging set of asks. Companies across geographies have been very receptive to our feedback. With 200 engagement 'wins',[21] their progress will be kept under review.

22 companies have announced or strengthened their ambition to achieve Net Zero by 2050 or sooner. All companies have taken steps to strengthen ESG governance structures at the board and management level and provide greater transparency over existing structures and processes, in line with TCFD recommendations.

Escalation

Where progress/responsiveness has fallen short of their expectations, Aviva Investors have taken action to amplify pressure on companies. In 2022, they co-ordinated with various investor and stakeholder networks and attended company AGMs to drive public accountability and scrutiny of company practices.

Summary of key expectations:

- **Climate lobbying:** transparency over Paris alignment for all lobbying activities
- **Climate disclosures:** high-quality TCFD disclosures, including scenario analysis
- **Management incentives:** effective board oversight and meaningful climate targets in variable pay plans for senior leadership and wider business
- **Transition plans:** integrate decarbonisation roadmap into corporate strategy, include near-term targets
- **Climate targets:** 2050 Net Zero Scope 3 targets for entire business operations, validated by SBTi

They have also taken voting action at company AGMs. During the 2022 proxy season, Aviva Investors sanctioned 18 companies. Example resolutions include the discharge or approval of company accounts, director elections, climate-related shareholder proposals and 'Say on Climate' votes.

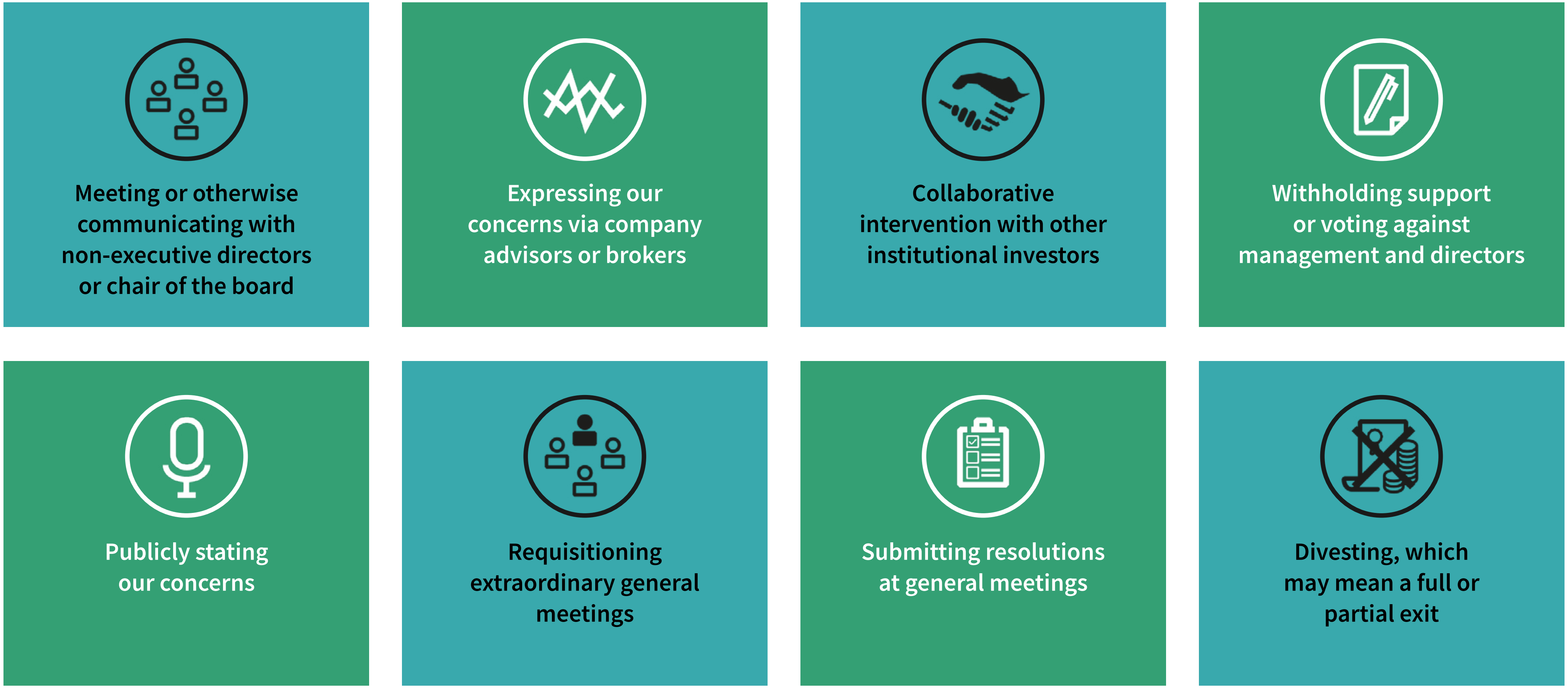
See earlier examples on Pemex, Marathon and Rio Tinto.

[21] Where Aviva Investors have seen progress in behaviour in line with their requests for change

External manager escalation

Each of our external managers also has their own framework for escalating engagements that fall within our expectations. Schroders' escalation toolkit is demonstrated below. Examples of the escalation methods are featured in the case studies above, such as voting against Kingspan's proposed remuneration policy, meeting with the chair of Unilever and voting against the remuneration report proposal and the chair of the remuneration committee of National Grid.

Figure 31: Schroders' methods of escalation



The following case studies demonstrate Schroders' escalation toolkit in action. In both cases, Schroders publicly stated their concerns.

Amazon: Schroders' seven-year active ownership history

Amazon has come under intense scrutiny for the way it treats its staff and the conditions under which they work. Schroders has engaged with Amazon for seven years to improve the firm's workers' rights, and at the 2022 AGM Schroders pre-declared that they would vote in support of three shareholder resolutions on the issue.

Out of a total 18 shareholder resolutions, three were related to workers' rights. The resolutions requested a report on worker health and safety differences, additional reporting on freedom of association and for a report on warehouse working conditions. Schroders believed it was important to support these proposals, which align with their own engagement with the company, call for greater disclosure and promote stronger workers' rights.

Since then, Schroders have had 23 meetings with Amazon and many of these engagements have focused on worker issues, specifically health and safety and worker voice.

In 2022, through further engagements with Amazon, Schroders have sought to understand how the company extends its safety provisions to contractors (for example delivery drivers), and also why its safety performance is still below its sector peers and what it is doing to address this.

Schroders have also sought to understand why the company is concerned about its US workers becoming unionised and why its relations with the unions still appear fraught. Schroders have also pushed Amazon to disclose its worker turnover figures.

Shell, Chevron, ExxonMobil: how Schroders is voting at oil and gas AGMs

Schroders pre-declared its voting intentions for three oil and gas majors – Chevron, ExxonMobil and Shell – in May 2022 to encourage a faster shift towards Net Zero. Schroders had already supported similar resolutions at BP, ConocoPhillips, Occidental Petroleum and Phillips 66. This follows an earlier commitment to supporting workers' and digital rights ahead of tech companies' annual general meetings of Amazon, Meta and Alphabet.

Schroders' decision to vote for these shareholder resolutions reflects their aspiration for these companies to show more ambition and transparency in their transition to Net Zero.

Chapter 5: Broader market initiatives – collaboration and systemic risks

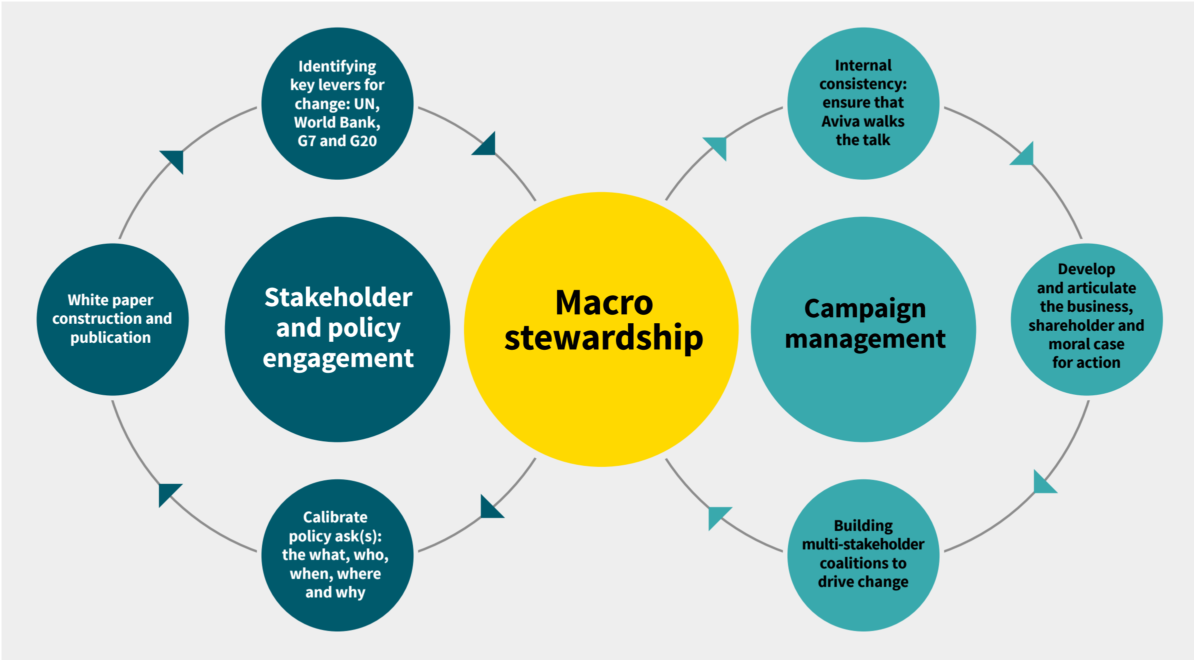
We are helping to reshape financial services to support the green and fair transition of economies.

We see the duties of financial market participants, and the concept of macro stewardship, as crucial to harnessing the power of markets to deliver the transition to a financial system that embeds sustainability and also finances a sustainable real economy. We see it as the most important and influential tool to deliver on our Net Zero ambition as we try to pivot the world towards a low carbon economy.

We believe true leadership is necessary for progress that is not only right for us as a business – and which will protect value for our clients and broader stakeholders – but is right for society. We know we cannot do this alone: we must all work together to create powerful change – governments, markets, the financial system and broader society. Aviva will continue to lead from the front.

Our work to promote well-functioning markets and bring about a sustainable financial system is embedded across Aviva. Through the Aviva Sustainable Finance Centre for Excellence, we target risks and failures that are the most material in both financial and non-financial terms where we have agency, opportunity and expertise to act and positively influence the response of policymakers, regulators and peers. We harness insights from our investment activities to ensure that our engagement with those who shape the rules of the game is robust and well-informed. Figure 32 demonstrates how we use macro stewardship to correct market failures.

Figure 32: Correcting market failures through macro stewardship



Our responsible and proactive leadership brings together all of our capabilities and strengths to seek to correct the financial system. Aviva UK Life frequently participate in consultations to help shape and create smart policy and regulation to assist customers and support the business voice pushing governments to transition faster.

Working with businesses and governments

As a business that aims to lead on sustainability, we advocate for systemic change to the financial system, so collectively we can achieve the goals of the Paris Agreement. We have a broad network of relationships with our peers and other influencers within industry, and we will leverage our influence to embed best practice, such as science-based Net Zero principles, into standard practice throughout the financial system and those who interact with it commercially, for example through:

Calling for change from governments
Governments, regulators and other public bodies hold multiple levers which enable them to set the national economies on the path to Net Zero. Currently, we don't see all of these bodies acting in harmony to deliver the best results. To address this, we recommend that governments should:

- Set economy-wide Net Zero targets for 2050 or (ideally) earlier;
- Commit to putting a price on carbon emissions; and
- Create incentives to help people, businesses and communities to go green as countries recover from the pandemic (read more on pages 41-43 of our Climate Transition Plan).

Advocating for reform of the international financial architecture
We believe it is essential to influence the multilateral bodies that establish the global rules and norms for the financial system to better address climate change. We are calling for reform of the international financial architecture, including the creation of an International Platform on Climate Finance or 'IPCF'.

Partnering with WWF to advocate for a sustainable financial system
We are partnering with WWF to conduct joint advocacy on climate change, biodiversity and other issues of shared interest (for more information see our shared position papers: Unlocking finance for nature: learning from experience in driving climate action, A UK Net Zero Investment Plan for Green Growth, Aligning the UK Financial System to Net Zero and Transition Plans for a Net Zero Future).

Joining and/or leading relevant sectoral initiatives
We were a founding member of the UN-convened Net Zero Insurance Alliance, and we are members of the UN-convened Net Zero Asset Owner Alliance and Net Zero Asset Managers Initiative. We are also a member of the Glasgow Financial Alliance for Net Zero (GFANZ) and co-lead their transition plans and policy workstreams. Recent publications include a Framework for Financial Institution Net Zero Transition Planning and a Call to Action to G20 governments. We are also a part of the UK Government Net Zero Transition Plan Taskforce, co-chaired by Aviva CEO Amanda Blanc, and contributed to their recently launched standard for private sector climate transition plans.

Bringing together networks of actors across the financial system to address targeted issues
For example, our CEO leads the Women in Finance Climate Action Group, a group of women leaders from across the private finance system – business leaders, policymakers, regulators, NGOs and industry groups – who are seeking to improve gender equality when designing, delivering and accessing climate finance.

Contribution to consultations

UK Life has contributed to Aviva feedback on various consultations conducted in the course of the year, including but not limited to the exposure drafts of International Sustainability Standards Board (ISSB) sustainability standards (S1 – general recommendations, and S2 – climate disclosure), the Taskforce on Nature-related Financial Disclosure (TNFD) proposed disclosure framework, recommendations and assessment approach, Partnership for Carbon Accounting Financials (PCAF) standard consultations on Financed Emissions and Insurance-Related Emissions, FCA consultations (see example on product labelling below), and Science-Based Targets initiative (SBTi) consultations.

Sustainable disclosure requirements and investment labels

Towards the end of 2022, the Financial Conduct Authority (FCA) released a consultation paper seeking to introduce a package of measures aimed at clamping down on greenwashing. This includes sustainable investment labels, disclosure requirements and restrictions on the use of sustainability-related terms in product naming and marketing.

UK Life contributed to the Aviva-wide response and we welcome the FCA's efforts to create a sustainable funds regime in the UK that increases transparency on the sustainability profile of products and firms, reducing the risk of harm arising from greenwashing. We too believe in the importance of shoring up trust in sustainable investing, in protecting investors from the threat of greenwashing and in supporting investors to identify products that align to their preferences, including in relation to sustainability. Acting on the findings of these reviews helps to support the delivery of an approach that can continue to be fit for purpose for investors, as the market and broader policy environments evolve over time.

Assessment of effectiveness

We believe that the aforementioned details outline the strength of our processes to promote well-functioning markets and bring about a sustainable financial system, in combination with collaborating effectively across the industry to do this. In particular, we leverage the strength of a common purpose and approach through our in-house asset manager.

Our case studies in Chapters 3 and 4 demonstrate our efforts to reduce risks in issuers, particularly on market-wide risk such as climate change. We feel that the case studies provide a balanced view since they consist of context, actions taken, outcomes and our next steps. Reflecting on some of the actions taken (please see Figure 33), we have managed to increase our resilience since we hold substantial capital to deal with shocks. We have used a variety of hedging strategies which have allowed us to reduce exposure to risks such as inflation.

The following pages take a more in-depth look at what we believe to be successful examples of our actions taken in 2022 to improve the overall functioning of markets, involving exercising our rights and responsibilities over assets, calling out risks and supporting policymakers to bring about necessary changes.

Addressing market failures
Climate change: one of the world's biggest market failures

Last year marked 30 years since the Rio Earth Summit, which led to the creation of the United Nations Framework Convention on Climate Change (or UNFCCC).

The United Nations oversees the COP or 'conference of the parties' process, the 27th iteration of which was held in Sharm el-Sheikh, Egypt, in November. Yet more than half of greenhouse gas emissions since 1751 have been created since 1992, and 2022 is set to continue a trend that has seen the past seven years as the hottest on record. Currently, the true cost of unsustainable activity is not reflected in market prices. Therefore companies can behave unsustainably, in a way that has negative outcomes for society, without material consequences.

Other systemic issues are inextricably linked to climate change. Greater biodiversity and protection of nature supports climate mitigation and adaptation, but rising temperatures exacerbate biodiversity loss and vice versa. Actions driving climate change, like deforestation, soil degradation and destruction of carbon sinks, are not only causing rising temperatures and destroying habitats and animal and plant life, but also undermining the ability of Earth to mitigate the effects of warming we are causing.

The 17th Global Carbon Budget found the effects of climate change have reduced the CO_2 uptake of the ocean sink by around 4% and the land sink by 17%.[22] Inequalities and human rights breaches are deepened by climate change because it disproportionately affects marginalised people and is disproportionately caused by those better off. The richest 1% of the global population are responsible for more than twice as much of the utilisation of the global carbon budget as the poorest 50%.[23]

[22] https://essd.copernicus.org/articles/14/4811/2022/
[23] https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621052/mb-confronting-carbon-inequality-210920-en.pdf

Continued on the next page

Delaying action has devastating consequences. As at COP26 in Glasgow, participants at COP27 in Sharm el-Sheikh reiterated the goal of the 2015 Paris Agreement to prevent the most catastrophic impacts of climate change by restricting warming to two degrees Celsius or below, but re-emphasised the many magnitudes less severe those consequences will be if warming is limited to 1.5 degrees, and reaffirmed efforts to achieve that goal.

However, the reality remains that despite more than 90% of global GDP being covered by some form of Net Zero target, emissions continue to rise. 2022 saw a record high of emissions from fossil fuels and cement.[24] The scientific consensus of the Intergovernmental Panel on Climate Change is that to have a greater than 50% chance of limiting long-term warming to no more than 1.5 degrees, a 45% cut in global emissions versus 2010 levels is needed by 2030. After Glasgow, we had 98 months to halve global emissions; all that has happened since is that the challenge has become greater with less time to address it.

Collaboration

It is no use single actors or groups achieving Net Zero if we do not do so as a global average – the race to Net Zero is one we win or lose together. We are committed to playing our part. We are a member of the Net Zero Asset Owners Alliance, with ambition to reach Net Zero across our investments by 2040 (in line with Aviva plc). Aviva is also a member of the Glasgow Financial Alliance for Net Zero (or GFANZ), with CEO Amanda Blanc on the CEO Principals Group. We have also put our experience in macro stewardship with politicians, policymakers and stakeholders into action, often in collaboration with others, to strengthen our voice.

Industry collaboration is an important, if not essential, requirement for being able to exercise appropriate influence and improve the markets we operate in, and ultimately society. Collaboration allows for information-sharing on existing and emerging stewardship issues and enables aligned stakeholders to utilise their collective influence to bring about change. We are connected to stakeholders through various national, regional and global forums that facilitate collective discussions and action.

We collaborate with our industry through global alliances such as the Net Zero Asset Owner Alliance (NZAOA) and Net Zero Insurance Alliance (NZIA) – both backed by the United Nations – as well as the Glasgow Financial Alliance for Net Zero (GFANZ). All our mandated asset managers are also members of the Net Zero Asset Managers Initiative (NZAMI). In addition, throughout 2022, Amanda Blanc (Group CEO) co-chaired the Steering Group of the UK Government's Transition Plan Taskforce, established to support the Government in developing the requirements for Net Zero transition plans – including developing a transition plan template and guidance that can be incorporated into UK regulatory frameworks.

Through these initiatives, we contributed to many of the key financial-sector initiatives launched at and ahead of COP27, including the GFANZ Framework for Financial Institution Net-Zero Transition Planning, a Call to Action to G20 governments, and the UK Transition Plan Taskforce standard for private-sector climate-transition plans.

Throughout the year, we have conducted joint advocacy on climate change, biodiversity and other issues of shared interest with WWF. See our shared position papers: Unlocking finance for nature: learning from experience in driving climate action, A UK Net Zero Investment Plan for Green Growth, Aligning the UK Financial System to Net Zero and Transition Plans for a Net Zero Future.

[24]https://www.weforum.org/agenda/2022/11/global-co2-emissions-fossil-fuels-hit-record-2022/

Climate-ready campaign
During 2022, we launched a campaign aimed at the UK becoming the most climate-ready large economy.

The campaign began by releasing our first Climate-Ready Index – a framework to measure how influential countries (G7 nations + Ireland) are progressing with climate mitigation, resilience and adaptation.

It revealed that in 2022 the UK was third most climate-ready, with Germany taking top spot, closely followed by France.

The index called on the UK Government and financial institutions to help the UK and the world become more climate-ready by:

- Ensuring countries have binding Net Zero ambitions and plans;
- Ensuring regulators incorporate climate risks;
- Building climate resilience and developing national and regional climate resilience plans;
- Protecting nature and biodiversity; and
- Enhancing international co-operation.

COP conferences
During 2022, we attended the climate and biodiversity conferences COP27 and COP15 respectively.

Ahead of COP27, the Women in Finance Climate Action Group, led by Amanda Blanc, with GenderSmart and the 2X Collaborative, wrote an open letter calling for urgent action to improve gender equality when designing, providing and accessing climate finance.

At COP27, Aviva Investors' CEO Mark Versey called for reform of the international financial architecture to put consideration of systemic risks, particularly those stemming from climate change, at the heart of the work of the institutions that regulate and supervise global finance. He called for each institution to produce its own Net Zero transition plan and for the institutions collectively to create and implement a Global Financial Transition Plan for an orderly and just transition to Net Zero by or before 2050.

These reforms are needed to support the long-term viability of the global financial system, and to ensure we manage and act upon climate risks, while providing finance efficiently to support the goals of the Paris Agreement and Glasgow Climate Pact.

These ideas were highlighted within Aviva Investors' new report released ahead of COP27: 'Act Now: A climate emergency roadmap for the international financial architecture' (see the next page).

Additionally, when we attended the Montreal COP15 on biodiversity in December 2022, our Aviva CEO Amanda Blanc chaired the Finance Ministers breakfast, and we supported the '30 by 30' call for effective conservation of at least 30% of the world's land, water and oceans by 2030. As co-chairs of the Finance for Biodiversity delegation, we lobbied for the aligning of private and public financial flows with the goals and targets of the Global Biodiversity Framework, to ensure governments provide an enabling policy environment to support action by financial institutions. This was finalised in Target 14.

We also supported Target 15, which requires businesses and financial institutions to assess and disclose impact and dependencies on nature, which has implications for reporting on impacts on water and oceans.

In early 2022, we supported the call for a global treaty on plastic pollution. We were delighted to see UN member states agree on a mandate to negotiate a legally binding global instrument to end plastic pollution in March 2022.

Advocacy for the transformation of the financial system to finance the transition to a low carbon economy

Climate, People

Issue

We are currently way off track to limit warming to 1.5 degrees Celsius above pre-industrial levels by the end of the century. This is despite 198 countries committing to the United Nations Framework Convention on Climate Change and the outcomes of the Paris Agreement, as reiterated in the Glasgow Climate Pact from COP26. To finance a just transition to a Net Zero economy, finance must align with the temperature and sustainable development goals of the Paris Agreement.

The international financial architecture (IFA) describes the international institutional governance arrangements that seek to uphold the effective functioning of the global monetary and financial systems. The IFA was not designed with the climate crisis in mind. In fact, it was not designed at all, but has evolved over time in response to successive financial crises. The bodies within the IFA are taking some actions in respect to climate risks, most notably in increased disclosure by financial market participants through initiatives like the TCFD (the recommendations of the Taskforce on Climate-related Financial Disclosures). They are also increasingly considering climate risks, principally transition risks, through their financial stability mandates.

However, the work to date is insufficient to address the systemic risks and market failures linked to the climate crisis. The Sustainable Finance Roadmap of the G20 Sustainable Finance Working Group and publications like the Financial Stability Board's Roadmap for Addressing Climate-related Financial Risks provide a starting point. But the world lacks a comprehensive plan for the orderly and just transition of the financial system to Net Zero by or before 2050 and the realisation of the aim of Article 2.1.c of the Paris Agreement to make sure that "…finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."

Continued on the next page

Action

Building on the proposals for reform of the IFA published in April 2021, and the ongoing work of the Aviva Investors-convened Coalition for an International Platform for Climate Finance, in November 2022 we published Act Now – A climate emergency roadmap for the international financial architecture. This was published just before COP27 in Sharm el-Sheikh and formed the focus of our advocacy efforts at the conference.

The report outlines risks to the integrity and stability of the financial system posed by the long-term physical impacts the current three-degrees-plus trajectory will produce by the end of the century. The financial system as we know it and the economic and development benefits its growth have delivered are at risk if extreme consequences of the warming planet are not avoided by actions taken now. The tragedy of the horizon means that once climate change threatens financial stability, it will already be too late to take actions to avoid it.

In 'Act Now', we set out five clear policy asks for each of the institutions within the IFA:

1. Create a roadmap or transition plan to place the supervision of the just transition to Net Zero on or before 2050 on a science-based pathway at the centre of its purpose and work programmes.

2. Review its mandate and constitution and request stakeholders to implement changes to support the reorienting of the institution towards putting climate at its heart.

3. Report annually on the progress of the institution and those it supervises, regulates, co-ordinates and oversees, towards delivery of the Net Zero ambition.

4. Collaborate with other elements of the architecture to create and collectively steward a global Net Zero transition plan for finance, reporting annually on progress and making recommendations to governments for the policies needed for the successful transition of the global finance system.

5. Convene a summit or summits to agree and implement necessary reforms; for example, marking 80 years since the Bretton Woods conference by plotting a pathway for the financial system to be harnessed to tackle the biggest challenge of the next 80 years – the climate emergency.

Outcome

COP27 saw the reform of the IFA as one of its defining narratives on finance. Momentum built from the World Bank and IMF annual meetings in October, and powerful advocacy from Barbados Prime Minister, Mia Mottley, for her Bridgetown Agenda that found supporters in the halls of Sharm, most notably French President Emmanuel Macron. COP26 President Alok Sharma used his speech at the Wilson Centre at the World Bank annual meetings to outline the need for institutions to put tackling the climate crisis at the heart of everything that they do. He also spoke repeatedly at COP27 about the need for a "Bretton Woods 2 moment" to repurpose the IFA for climate action, including at the launch of a report at a meeting of leading businesses at Chatham House setting out actions focused on the achievement of the 1.5-degrees goal, including IFA reform. Our own advocacy for IFA reform and the policy recommendations of the 'Act Now' report included meetings and events with finance ministers, heads of bodies within the IFA and the Glasgow Financial Alliance for Net Zero (GFANZ), the UN Secretary General's Global Investors for Sustainable Development, WWF and the UK Transition Plan Taskforce.

The outcome text from COP27, the Sharm el-Sheikh Implementation Plan, includes, for the first time, acknowledgement that delivering the investment needed for the transition to a low carbon global economy will *"… require a transformation of the financial system and its structures and processes, engaging governments, central banks, commercial banks, institutional investors and other financial actors".*

This is welcome. But it is only the start of the systemic change needed to transition finance such that it can finance the transition. Encouraging those with their hands on the levers of power to deliver the reforms needed to match the scale of the climate challenge will be a key focus for us in 2023.

Aviva also attended COP15 to advocate for an ambitious global agreement that includes the alignment of financial flows with biodiversity goals.

Seeking to align finance with the protection and restoration of nature in the Convention on Biological Diversity Kunming-Montreal Framework

Earth

Issue

Biodiversity – the variability and variety of living organisms on earth – is fundamental to human wellbeing and a healthy planet, and economic prosperity for all. Biodiversity supports all life systems and economies; over half of global GDP is moderately or highly dependent on nature.[25]

However, biodiversity is declining faster than at any time in human history;[26] global wildlife populations have plummeted 69% on average since 1970.[27] Delayed action to protect nature would double the cost of intervention from around 8% to 17% of global GDP.[28] In this context, parties to the UN Environment Programme Convention on Biological Diversity (CBD) gathered in Montreal in December 2022 for a 15th conference of the parties (or CBD COP15).

Action

As part of support for an ambitious outcome, we advocated for the CBD framework to include provisions to require the alignment of financial flows with the protection and restoration of nature, broadly equivalent to Article 2.1.c of the Paris Agreement,[29] and for corporate disclosure obligations to support this and other policy aims.

We first supported this in our response to a 2019 consultation from Business for Nature, a coalition of businesses and conservation organisations. Subsequently, we advocated for an ambitious COP15 outcome as part of the Finance for Biodiversity and WWF. As part of our commitment to the Finance for Biodiversity delegation, where we represented finance in the negotiations, Amanda Blanc, CEO of Aviva, and Aviva colleagues were closely involved in the pre-COP negotiations of the proposed text and supported the negotiations in Montreal, where we also took part in panels and sessions on our biodiversity policy,[30] biodiversity measurement and the need for Target 14 and Target 15. We also collaborated with the WWF and Business for Nature on this agenda.

Outcome

The Kunming-Montreal Global Biodiversity Framework was agreed on 18 December. It includes clear provisions for the inclusion of all types of finance to be reflected within the goals and targets of the CBD framework and for large companies and financial institutions to monitor, assess and disclose their risks, dependencies and impacts on biodiversity, including in their operations, supply and value chains. This was integrated into the final version of the framework. The hope is that the framework provides a 'Paris moment' for biodiversity, and that through the alignment of financial flows, the power and scale of financial markets can be harnessed to support the protection and restoration of nature, where it has previously contributed to its destruction.

[25] World Economic Forum (weforum.org)
[26] Global Assessment Report on Biodiversity and Ecosystem Services | IPBES secretariat
[27] https://livingplanet.panda.org/en-GB/
[28] https://www.vivideconomics.com/wp-content/uploads/2021/02/210211-The-Urgency-of-Biodiversity-Action.pdf
[29] Article 2.1.c provides that the parties agree to strengthen their response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty by "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" – Adoption of the Paris Agreement – Paris Agreement text English (unfccc.int)
[30] https://www.aviva.com/newsroom/news-releases/2022/12/aviva-calls-for-financial-sector-to-play-a-bigger-and-clearer-role-in-preventing-biodiversity-loss/

Collaborating with others in the industry

Corporate Human Rights Benchmark (CHRB) framework

People

Issue

In 2014, we helped launch the Corporate Human Rights Benchmark (CHRB), an initiative designed to rank companies on human rights performance. As of 2022, the CHRB ranks 230 globally listed companies in five high-risk sectors. This year's iteration assessed 127 companies in the food and agricultural products, information and communication technology (ICT) and automotive manufacturing sectors. The 2022 assessment comes at a time of growing regulatory requirements and investor scrutiny on human rights practices.

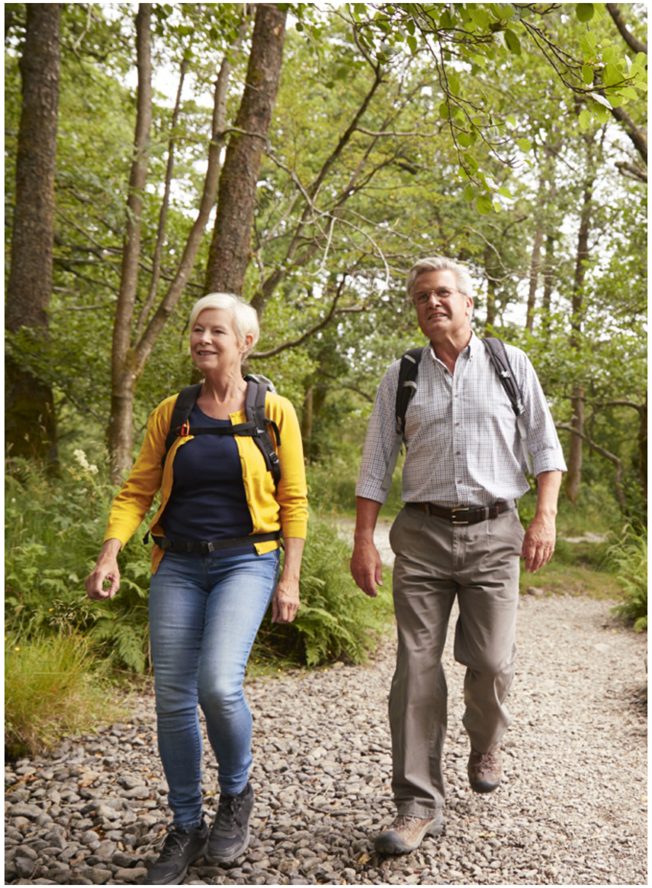
Action

We use the benchmark to identify and engage on human rights risks within our investments. The last CHRB assessment took place in 2020, where 106 companies scored zero on human rights due diligence. We voted against the management of these laggard companies where we had significant exposure in 2021 and 2022. We are also a member of the Investor Alliance for Human Rights (IAHR) that engages with these companies. As part of this group, in 2022 we co-signed a public statement calling out poor-scoring companies[31] and conducted follow-up engagements requesting they engage directly with the CHRB to understand more about the topic in advance of the 2022 assessment, and substantively improve human rights due diligence.

Outcome

In 2022, 66% of food and agriculture companies, 65% of ICT companies and 57% of automotive companies have improved their overall scores on key indicators. On human rights due diligence, 13 companies no longer scored zero, with many substantially improving their overall scores. However, improvements across the business community are required. We support further regulatory action on human rights due diligence and have publicly supported calls for stronger proposals at the European level.

[31] https://investorsforhumanrights.org/cross-sectoral/investors-over-us45-trillion-assets-call-out-leading-companies-over-human-rights



Working with financial support experts

In 2022 we announced new partnerships with two major UK financial support and debt advice charities: Citizens Advice and Money Advice Trust. Data shows they have been facing unprecedented levels of demand from individuals and businesses. Our work together will increase their capacity.

Through Aviva's support:

- Citizens Advice recruited around 50 new advisers to help 250,000 additional people seeking support through phone lines, webchat and in community settings.
- Citizens Advice will also increase their capacity to offer advice through their website by 50% – providing key resources for people before their problems become a crisis.
- The Money Advice Trust can now support an estimated 17,000 more small businesses and self-employed people through their Business Debtline, and an additional team of Business Debtline advisers can take an estimated extra 25,000 advice calls and appointments.

Collaboration, awards and accreditations

Founders

- Founding signatory of the Carbon Disclosure Project (CDP) and the first asset manager to formally integrate corporate responsibility to voting policy
- Founding signatory of ClimateWise
- Founder of Corporate Human Rights Benchmark (CHRB)
- Founder of Corporate Sustainability Reporting Coalition
- Founder of Digital Inclusion Benchmark
- Founding signatory to the Farm Animal Investment Risk and Return (FAIRR)
- Founding partner of Oxfam 365 Alliance Coalition with call to action at Rio+20 Coalition
- Founding signatory to the Powering Past Coal Alliance Finance Principles
- Founding partner of Project Everyone
- Founder of the Sustainable Stock Exchange Initiative
- Founding member/sponsor of TeamPride
- Founding member of the Trinity Challenge (data-driven solutions to global health issues)
- Founding signatory of the UN Principles for Responsible Investment (UN PRI)
- Founding signatory of the UN Principles of Sustainable Insurance (UN PSI)
- Founding member of the World Benchmark Alliance (WBA)
- Founding member of the Net Zero Insurance Alliance (NZIA)

Members

- Member of Finance for Biodiversity
- Member of Global Financial Alliance for Net Zero (GFANZ)
- Member of Net Zero Asset Managers Initiative (NZAM)
- Member of Net-Zero Asset Owner Alliance (NZAOA)
- Member of 30% Club
- Member of Aldersgate Group
- Member of Asian Corporate Governance Association (ACGA)
- Member of Association of British Insurers (ABI)
- Member of Better Building Partnership (BBP)
- Member of European Sustainable Investment Forum (Eurosif)
- Member of Global Investors Collaboration Services (GIGN)
- Member of Global Investors for Sustainable Development (GISD)
- Member of the Green Finance Taskforce (a government initiative to push green finance in the UK and implement recommendations from the TCFD)
- Member of Global Real Estate Sustainability Benchmark (GRESB)
- Member of Institute of Chartered Accountants in England and Wales (on ICAEW's Financial Reporting Committee)
- Member of the Institutional Investors Group on Climate Change (IIGCC)
- Supporting member of the International Cooperative and Mutual Insurance Federation (ICMIF)
- Member of the International Corporate Governance Network (ICGN)
- Member of The Investment Association
- Member of Investor Action on Antimicrobial Resistance, FAIRR
- Member of the Investor Forum Investor Group on Climate Change
- Member of Plastics Solutions Investor Alliance
- Member of PLSA (previously: National Association of Pension Funds)
- Member of Sustainability Accounting Standards Board (SASB) Alliance
- Member of the UK Sustainable Investment and Finance Association (UKSIF)
- Aviva is the first insurance company to join UNFCCC Climate Neutral Now
- Member of the World Business Council for Sustainable Development
- Member of the BlackNorth Initiative
- Member of Flood Re Consultative Forum
- Member of the Employers' Initiative on Domestic Abuse
- Member of the Good Business Charter
- Member of the Slave-Free Alliance
- Member of IFRS Sustainability Alliance
- Member of Institute of Business Ethics UK Transition Plan Taskforce (Amanda Blanc Co-Chair, member of Delivery Group)
- Member of the TNFD Forum
- Member of UN Environment Programme Finance Initiative (UNEP FI)

Signatories

- Signatory to Business for Nature Pledge
- Signatory of Access to Nutrition Initiative
- ShareAction – Chemical decarbonisation initiative
- Signatory to the Business in the Community Ireland, Low Carbon Pledge
- Signatory to the Business in the Community Ireland, The Community Elevate Pledge
- CCLA Investor letter on modern slavery
- CERES FAIRR initiative on fast food supply chains
- Signatory of Cerrado Manifesto (deforestation), FAIRR
- Signatory to the Change the Race Ratio campaign
- Signatory to Climate Change Commitment (launched by Better Building Partnership)
- Signatory to 2012 FRC Stewardship Code
- Pensions and Lifetime Savings Association Marine Plastics Letters
- Signatory to Race at Work Charter
- Investor support for Seafood Business for Ocean Stewardship (SeaBOS)
- Signatory to the Social Mobility Pledge
- Signatory of Terra Carta
- Signatory of the UK Social Impact Implementation Task Force
- Signatory of the UN Global Compact
- Signatory to the UN Principles of Sustainable Insurance
- Signatory to the UN PRI Investor Statement on Corporate Action on Deforestation
- Signatory to the UN PRI Investor Statement on Palm Oil
- Signatory to Women in Finance Charter
- Powering Past Coal Alliance Finance Principles
- Signatory to the Prompt Payment Code
- The Climate Pledge
- Finance Sector Deforestation Action Initiative (FSDA) Commitment on Eliminating Agricultural Commodity-Driven Deforestation

Commitments

- UN Race to Zero
- Business Ambition for 1.5 degrees/ Science-Based Targets initiative
- The Power of Communication
- RE100
- EV100
- Armed Forces Covenant
- Corporate Human Rights Benchmark
- Finance for Biodiversity Pledge
- Plain Numbers

Accreditations

- Good Shopping Guide by The Ethical Company
- The Good Business Charter

Awards

- PWC's Building Public Trust Awards 2021 and 2022
- Third Sector Business Charity Awards 2021
- The Corporate Engagement Awards 2021
- Global Good Awards 2021 and 2022
- Third Sector Business Charity Awards 2022
- The Times Top 50 Employers for Women Awards 2021, 2022
- Irish Pension Awards 2021
- The FS Awards
- Irish Pension Awards 2022
- Business and Finance ESG Awards 2022

Community partnerships

- Partnership with the Canadian Association of Black Insurance Professionals
- Climate-focused partnership with WWF
- Partnership with Citizens Advice and Money Advice Trust to increase the financial resilience of people across the UK
- iCAN, a multicultural insurance network driving change across the industry
- Sponsor of 'Dive In Festival', a global diversity and inclusion insurance festival, covering all diversity characteristics
- involve, experts on inclusion
- The Social Mobility Foundation
- Stonewall
- The Diversity Practice
- The Valuable 500
- Living Wage Employer

Further information on some of these initiatives can be found on the following pages of our website: [Our memberships, awards and accreditations – Aviva plc]
[Diversity, equity and inclusion – Aviva plc]

Identifying and acting on risks in 2022

The micro and macro approach to stewardship above works in combination with our governance structure, described in Chapter 2, allowing Aviva UK Life to identify or monitor market-wide or systemic risks since we consider these risks as economic factors which feature in all of our meeting structure agendas. They are considered from both an asset and liability perspective, which ultimately leads to discussion at the Asset Liability Committee and thereafter potential escalation to the Board.

This approach is also closely tied to our Risk Management Framework Policy, available on our intranet for our employees, which enables risks (including ESG-related risks) to be identified, measured, managed, monitored and reported. The Risk Management Framework comprises the systems of governance, risk management processes and risk appetite framework and is owned by the Aviva plc Board (and adopted by the subsidiary boards). Management is responsible for identifying all material short- and long-term risks to the business with the risk management function in place to identify, oversee and challenge the completeness of this. All risks must be kept up to date in the business-wide key risk register.

A variety of tools and processes are available to support identification, measurement, management, monitoring and reporting processes for risk, such as stress-testing and scenario analysis related to the management of climate change. At a Group level, Figure 33 below details some key risks identified during 2022.

Figure 33: Key risks relevant to Aviva UK Life identified at a Group level in 2022

Key trends and movement	Trend outlook	Risks impacted	Risk managed	Outlook
Economic and credit cycle – challenging prospects for future macroeconomic growth given cost-of-living pressures. Rising inflation, higher interest rates and sterling weakness: • will likely impact our customers' savings behaviours; and • could also impact the level of the returns we can offer to customers going forwards and our ability to profitably meet our promises of the past.	**Increasing**	**Credit risk, market/ investment risk, liquidity risk**	We limit the sensitivity of our balance sheet to investment risks. While interest rate exposures are complex, we aim to closely duration-match assets and liabilities and take additional measures to limit interest rate risk. We hold substantial capital against market risks, and we protect our capital with a variety of hedging strategies to reduce our sensitivity to shocks. We regularly monitor our exposures and employ both structured and ad hoc processes to evaluate changing market conditions. Liquidity is managed through maintaining sufficient buffers and taking through asset sales or intergroup funding where required.	The current economic uncertainty continues to pose trading risks (for example, lower margins) to the business. Heightened volatility is expected to persist with elevated inflation, rising interest rates, sterling weakness and stagnating economic growth. In 2023 the potential deterioration in global credit and property markets caused by materially higher borrowing costs and reduced affordability may pose a risk to our investments. However, our solvency and group centre liquidity positions are expected to remain within appetite.

Key trends and movement	Trend outlook	Risks impacted	Risk managed	Outlook
Climate change – potentially resulting in higher-than-expected weather-related claims (including business continuity claims), inaccurate pricing of general insurance risk, possible changes in morbidity and/or mortality rates, reputational impact from not being seen as a responsible steward/investor, as well as adversely impacting economic growth and investment markets. This also includes transition risks for our investments relating to the impact of the transition to a low carbon economy and litigation risk where we provide insurance cover.	**Increasing**	**General insurance risk, life insurance risk, credit risk, market risk**	Our ambition is to align our business to the 1.5°C Paris Agreement target and aspire to be a Net Zero carbon company by 2040. Our Climate-related Financial Disclosure sets out how Aviva incorporates climate-related risks and opportunities into governance, strategy, risk management, metrics (for example, climate value-at-risk) and targets.	Aviva considers climate change to be a significant risk to our strategy and business model, and its impacts are already being felt. Global average temperatures over the past five years have been the hottest on record. Despite the United Nations Framework Convention on Climate Change Paris Agreement, the current trend of increasing CO_2 emissions is expected to continue, in the absence of radical action by governments, with global temperatures likely to exceed pre-industrial levels by at least 2°C and weather events (floods, droughts and windstorms) increasing in frequency and severity.
Longevity advancements (e.g. due to medical advances) – these contribute to an increase in life expectancy of our annuity customers and accordingly future payments over their lifetime may be higher than we currently expect.	**Stable**	**Life insurance risk (longevity)**	We monitor our own experience carefully and analyse external population data to identify emerging trends. Detailed analysis of the factors that influence mortality informs our pricing and reserving policies. We add qualitative medical expert inputs to our statistical analysis and analyse factors influencing mortality and trends in mortality by cause of death. We also use longevity swaps to hedge some of the longevity risk from the Aviva Staff Pension Scheme and longevity reinsurance for bulk purchase annuities and for some of our individual annuity business.	There is considerable uncertainty as to whether the improvements in life expectancy that have been experienced over the last 40 years will continue into the future. In particular, there is likely to be a reduced level of improvement from the two key drivers of recent improvements: smoking cessation (as you can only give up smoking once), and the use of statins in the treatment of cardiovascular disease (where the most significant benefit from use in higher-risk groups has now been seen). Despite continued medical advances emerging, dietary changes, increasing obesity and strains on public health services have slowed the historical trend since around 2011. In the UK, this has led to some significant industry-wide longevity reserve releases in recent years, as the assumptions around future longevity improvements have been weakened. The potential impact of the COVID-19 pandemic on medium- and longer-term longevity projections, via ongoing direct effects (e.g. endemic COVID-19) or via indirect effects (e.g. strains on the NHS), also adds to the uncertainty and we do not currently anticipate a material impact on the overall outlook.

Key trends and movement	Trend outlook	Risks impacted	Risk managed	Outlook
Pandemic – in an increasingly globalised world, new or mutations of existing bacteria or viruses may be difficult for stretched healthcare systems to contain, disrupting national economies and affecting our operations and the health and mortality of our customers.	**Stable**	**Life insurance risk (mortality, longevity, morbidity), general insurance (business interruption, travel) and operational risk**	We have contingency plans which are designed to reduce as far as possible the impact on operational service arising from mass staff absenteeism, travel restrictions and supply chain disruption caused by a pandemic, which we were able to put into action during the recent COVID-19 pandemic. We reinsure much of the mortality risk arising from our life protection business and hold capital to cover the risks of a once-in-200-years pandemic event. We model a range of extreme pandemic scenarios including a repeat of the 1918 global influenza pandemic and COVID-19. In the Group and commercial insurance business we manage our potential exposure through our policy wordings. As an investment manager and investor, we engage with companies on the responsible use of antibiotics to reduce the risk that antimicrobial resistance negates the efficacy of medical treatment.	As COVID-19 becomes endemic, its long-term impact on mortality and morbidity is uncertain and dependent on the extent natural immunity develops in the general population, the efficacy of new healthcare treatments, and possible future strains that may emerge. This includes the long-term effects of long COVID. Legal uncertainty over the outcome of business interruption claims litigation arising from the COVID-19 pandemic is expected to persist for a number of years. Trends such as global climate change, urbanisation, antimicrobial resistance and intensive livestock production are likely to increase the risk of future pandemics, while reductions in migration and international travel as a result of COVID-19 have largely reversed making the containment of future pandemics more challenging. While we expect the experience and learnings from the recent COVID-19 pandemic will improve the effectiveness of the public healthcare response to any future pandemics, this is likely to be offset by increasing strain on public healthcare from an ageing population and stretched public finances.

Our process to manage climate-related risks
A rigorous and consistent risk management framework is embedded across Aviva.

The following measures allow Aviva to identify, measure, monitor, manage and report on the climate-related risks to which our business is, or could be, exposed.

Risk appetite statement: We have a very low appetite for climate-related risks which could have a material negative impact upon our balance sheet and business model as well as our customers and wider society. We actively seek to reduce our exposure over time to the downside risks arising from the transition to a low carbon economy. We seek to identify and support solutions that will drive a transition to a low carbon, climate-resilient economy.

We seek to limit our net exposure to the more acute and chronic physical risks that will occur in the event the Paris Agreement target is not met.[32] We actively avoid material exposure to climate litigation risks.

Escalation process: The climate risk appetite, its metrics and associated thresholds are set by the Board. When the overall appetite is breached, the Board is notified and the breach is discussed at the next sub-committee or Board meeting as relevant.

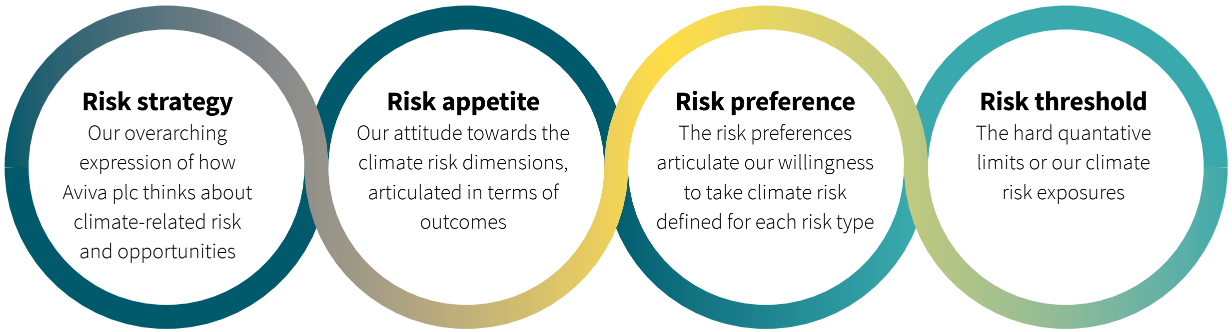
Frequency of review: We monitor our climate metrics against these thresholds and targets on a quarterly basis. Climate risk appetite monitoring is part of our internal reporting.

Figure 34: Risk preferences

Risk type	Preference	Rationale
Transition risk	Avoid[33]	We seek to reduce the impact on our business that is likely to arise from the extensive policy, technology and market changes resulting from the transition to a low carbon economy. Depending on the nature, speed and focus of these changes, transition risks may pose varying levels of financial and reputational risks.
Physical risk	Accept[34]	We seek to limit, or where appropriate reduce, our investment and net underwriting exposure to the more accurate and chronic physical effects of climate change, while recognising that we have capabilities to manage these risks, support adaptation and build resilience.
Litigation risk	Avoid	We are adverse to climate litigation risk that could arise from parties who have suffered loss and damage from climate change and seek to recover losses from Aviva if they consider that investment or underwriting activities have contributed to that loss.

[32]We note that physical risks will also occur even in the event the Paris Agreement target is met
[33]We want a small amount of this risk [34]We want a moderate amount of this risk

Figure 35: Key components within Aviva's climate risk appetite



Climate Biennial Exploratory Scenario (CBES)

Aviva is one of ten major insurers in the UK market that participated in the Bank of England's CBES exercise.

The exercise tested the resilience of the insurance and banking industries to the physical and transition risks from climate change, and examined the scale of adjustment needed in the coming decades for the system to remain resilient.

Aviva completed the bank's three exploratory stress scenarios (two transition-focused and one of rising temperatures) at a Group level, participating in the phases that ran through 2021 and early 2022.

The Bank of England findings from the exercise were published in May 2022, noting particular findings in relation to insurers' climate risk management capabilities and exposures to climate-related risks, along with observations of best practice and next steps for continued progress in climate stress tests.

Further information on our approach to risk management around climate change can be found in both our Group- and Entity-level 2022 Climate-related Financial Disclosure.

In addition to the risks and actions taken in Figure 35, Aviva UK Life also looks to its asset managers in terms of aligning our investments in response to market-wide and systemic risks; we consider this as part of our manager oversight process detailed in Chapter 3. Our regular investment meetings with our asset managers are used to action this. These items may then be escalated through our governance structure as outlined in Chapter 2, such as via the Investment Credit Committee and Asset Liability Committee. Some examples of papers or discussions that covered a couple of the Group risks identified and that were raised at Aviva UK Life investment meetings last year included:

- 2022 Mini Budget (Chancellor of the Exchequer's fiscal statement)
- Russia/Ukraine war
- Cost-of-living crisis

Managing systemic risks

Managing against systemic risk in the system – Collateral Call Spiral 2022

Introduction

On 23 September 2022, the Chancellor of the Exchequer's fiscal statement suggested an aggressive economic shift toward lower taxes / looser fiscal policy.

The extent of the shift was generally viewed by the markets as un-signposted, un-costed and unaffordable. Further, this led many market participants to believe an increased amount of government borrowing would be required, increasing the supply of UK government debt and reducing the price / increasing the yield of that debt. In the three business days after the statement was made, there was a significant spike in 30-year real gilt yields.

This shock to the UK rates market triggered a "collateral call spiral" in the pension scheme hedging markets. Predominantly leveraged Liability Driven Investment (LDI) funds were forced to limit losses and, therefore, generate high-quality collateral. This exacerbated rate moves and caused other market participants to do the same (a form of market contagion).

Working with our in-house asset manager, we quickly identified the risks and formed a response team who possessed the required skills to model, debate and agree action to address the crisis. Aviva entered the crisis with low leverage compared to the pension scheme industry, and so experienced a relatively lower collateral stress. For example, the Matching Adjustment portfolio, which makes up a significant proportion of UK Life shareholder assets, is based on cashflow (not risk-based) hedging and is unlevered. We did, however, see additional cash and gilt demands due to collateral margin calls and had to take action to create liquidity across a number of funds. Our governance framework includes protocols and controls for managing market events such as this, and worked well in this instance.

Risk management

We operate a strong liquidity risk management framework. Frequent monitoring and active management of liquidity are key business-as-usual (BAU) activities which identify potential issues, and actions are taken accordingly.

We have also undertaken various activities over the years to improve our liquidity risk management, for example renegotiation of credit support annexes to permit additional asset classes as collateral and reduction in operational complexity with the closure of investment portfolios.

The annual Stress & Scenario Testing (SST) process had previously identified the liquidity exposure that we had to collateral calls in the event of a large rise in the interest rate yield curve with contingent actions identified.

The BAU liquidity framework provided a significant buffer during the liquidity squeeze. Additional swift management focus and collaboration ensured wide stakeholder engagement and maximum efficiency to share problems and develop solutions. This multifunctional teamwork allowed rapid implementation of solutions to significantly increase that buffer and provide further downside protection (had the Government/ Bank of England not have stepped in to regularise the market).

Liquidity was raised and sufficient cash moved where required such that we did not miss a single collateral call.

Direction of travel: looking forward

We summarise the key areas we have identified in the order that they appear in our report, where we have ambitions to accelerate activities over 2023 and will hold ourselves to account to demonstrate progress as our stewardship maturity continues to grow.

Proposition development

- We will continue to develop customer-focused propositions and innovation across Insurance, Wealth and Retirement businesses; including our customers in our growing advice capability, with solutions across the full spectrum of face-to-face, digital and hybrid engagement.

- We will continue to consider enhancements to our auto-enrolment default funds following feedback from our customers and the independent assessment on our My Future focus solution, to better integrate ESG and climate risks and opportunities.

Manager oversight

- In the next year, we want to evolve our oversight of managers and their engagement activity, leveraging the collaborative efforts of the NZAOA and the existing guides on engagement assessments to further enhance our own assessments in 2023.

Training

Over the coming year, we will focus on enhancing the skills of not just those who work within the investment function, but also those who work across business units in Aviva. We intend to do this by:

- Developing a formal training programme which will incorporate both externally recognised professional qualifications for key colleagues across the investment function.

- Creating a bespoke internal training and development programme for wider stakeholders and business units across Aviva to offer informal educational sessions focusing on all aspects of sustainability in investments to further enhance the training available.

Insights and analysis

- In 2023, we will continue to build on our range of climate and sustainability metrics to provide more in-depth analysis and insight on the risks in our client investment portfolios to make informed decisions and drive our company and policy engagement agenda.

Appendix

The report should be read in its entirety to obtain the fullest picture of our stewardship activities during 2022. To facilitate navigation, the table below provides links to the sections within the report that demonstrate how Aviva UK Life complies with the 12 Principles of the UK Stewardship Code.

Stewardship Code Principles	**Location in the report**	**Relevant pages**
Principle 1: Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.	Foreword by Amanda Blanc | Foreword by Doug Brown | Foreword by Ashish Dafria Chapter 1: Our purpose, investment beliefs, culture and strategy | Our values and culture | Our Sustainability Ambition | Diversity, Equity and Inclusion | Our strategy | Our principles and investment beliefs | Our responsible investment principles | Our Baseline Exclusion Policy | Our customers and stakeholders	Pages 2-4 Chapter 1: pages 6-20
Principle 2: Signatories' governance, resources and incentives support stewardship.	Chapter 2: Governance and organisation of stewardship | Resourcing stewardship | Incentives and training Chapter 3: Monitoring asset managers | Monitoring and holding service providers to account	Chapter 2: pages 22-30 Chapter 3: pages 56-62
Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	Chapter 2: Assurance and managing conflicts | Managing conflicts	Chapter 2: pages 31-35
Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	Chapter 5: Broader market initiatives – collaboration and systemic risks | Working with businesses and governments | Addressing market failures | Collaboration, awards and accreditations | Identifying and acting on risks in 2022	Chapter 5: pages 92-112
Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.	Foreword by Ashish Dafria Chapter 2: Assurance and managing conflicts	Page 4 Chapter 2: pages 31-35

Stewardship Code Principles	Location in the report	Relevant pages
Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	Chapter 3: How are we invested? | Who are our customers? | Communication and feedback with customers and advisers	Chapter 3: pages 36-43
Principle 7: Signatories systematically integrate stewardship and investment, including material, environmental, social and governance issues, and climate change, to fulfil their responsibilities.	Chapter 3: An integrated approach to stewardship | ESG and stewardship in practice | ESG integration in equities and credit | An integrated approach to stewardship – case studies | Monitoring asset managers | Monitoring and holding service providers to account Chapter 4: Engagement with corporates	Chapter 3: pages 44-62 Chapter 4: pages 65-75
Principle 8: Signatories monitor and hold to account managers and/or service providers.	Chapter 3: Monitoring asset managers | Monitoring and holding service providers to account	Chapter 3: pages 56-62
Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.	Chapter 4: Engagement | Engagement with corporates | Engagements in real assets | External asset manager engagement	Chapter 4: pages 63-81
Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers.	Chapter 4: Escalations Chapter 5: Broader market initiatives – collaboration and systemic risks | Working with business and governments | Addressing market failures – climate change | Collaboration, awards and accreditations | Identifying and acting on risks in 2022	Chapter 4: pages 87-91 Chapter 5: pages 92-111
Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers.	Chapter 3: Monitoring asset managers | Monitoring and holding service providers to account Chapter 4: Engagement with corporates | Engagements in real assets | External asset manager engagement | Exercising rights and responsibilities | Voting activity in 2022 | Escalations	Chapter 3: pages 56-62 Chapter 4: pages 65-91
Principle 12: Signatories actively exercise their rights and responsibilities.	Chapter 3: An integrated approach to stewardship | ESG and stewardship in practice | ESG integration in equities and credit | An integrated approach to stewardship – case studies | Monitoring asset managers | Monitoring and holding service providers to account Chapter 4: Engagement with corporates | Engagements in real assets | External asset manager engagement | Exercising rights and responsibilities | Voting activity in 2022	Chapter 3: pages 44-62 Chapter 4: pages 65-86