FINANCE FOR THE FUTURE
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AVIVA INVESTORS

AVIVA Investors: Applying a macro-stewardship approach

Winner: Moving financial markets (large organisations)

What?

Global asset manager Aviva Investors has a long history of responsible investment. The company was a founder member of the UN Principles for Responsible Investment and it has been voting at company AGMs on ESG issues for decades. ESG is central to the company's investment process.

In 2021 the company set out its pathway to achieve net zero emissions by 2040. In recent years Aviva Investors has launched a new Sustainable Transition fund range, working across three pillars: climate, earth and people. The range works with companies to generate sustainable outcomes.

The Climate Engagement Escalation Programme also has a targeted engagement approach, focused on influencing the 30 biggest carbon emitting companies in Aviva Investor's portfolio to commit to, and achieve, specific targets.

A major area of activity for the company is 'macro-stewardship': working with regulators, policymakers and others in the industry to drive systemic change. Currently, Aviva Investors is at the forefront of a coalition calling for a new International Platform for Climate Finance that would play a leading role in harnessing markets to deliver the Paris Agreement targets.

"What really stood out for the judges was Aviva Investor's strategic view on its role within the global financial system. Referred to as its macro-stewardship approach, which started in essence nearly two decades ago, it includes working with clients, policymakers, regulators and supranationals to help create a global financial system that works for planet and people."

Finance for the Future Awards judges

Why?

Aviva Investors' focus on engagement is intended to spark changes that have real-world impact and result in positive returns for its clients.
In particular, the Sustainable Transition range incentivises companies to meet clearly defined social and environmental targets.

The Climate Engagement Escalation Programme is a key element of the company's net zero ambition, as the 30 organisations Aviva Investors focuses on account for around a third of global carbon emissions.

Engaging with individual organisations – no matter how large – is not enough, though. Aviva Investors views climate change, biodiversity loss and social injustice as symptoms of market failures that can only be fully addressed through change in the regulatory environment. The market reward structure needs to ensure that companies do not find it profitable to generate short-term financial returns at the expense of sustainable development.

Aviva Investors knows that such widescale change to the international financial architecture cannot be made alone. So the company uses its convening power to amplify its voice, bringing together some of the biggest financial institutions to call for change collectively.

For Aviva Investors, a macro-stewardship approach is essential both for its internal plan for achieving net zero and for true transformation of the market.

ESG Integrated *Incorporated ESG progress*	Stewardship *Enhanced Screens*	Sustainable Transition *Backing a sustainability future*
Credit (£90.2bn)	Stewardship UK Equity (£1.25bn)	European Equity Climate Transition (£43.5m)
Equities (£15.6bn)	Stewardship International Equity (£957.6m)	Global Equity Climate Transition (£899m)
Multi-Asset and Macro (£51.1bn)	Stewardship Fixed Interest (£306.2m)	Global Credit Climate Transition (£453.1m)
Real Assets (£40.6bn)	Stewardship UK Equity Income (£61.4m)	Real Assets Climate Transition (£574m)
		Global Equity Social Transition (£22.3m)
		Global Equity Natural Capital Transition (£19.6m)
		Credit Social & Natural Capital Transition

■ Existing

■ Potential

Aviva Investors as at 30 November 2022. 18.4Potential strategies are subject to regulatory approval. Portfolio Managers will ultimately retain discretion over any final investment decision, subject to the specific objectives set out in relevant fund or strategy and the Baseline Exclusions Policy. * Incorporated ESG process is not binding.

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Macro-stewardship is the way that financial institutions need to behave as proper stewards. We believe financial organisations overall need to engage with those who set the rules of the game – the governments, the policymakers and the regulators – so that companies that do the right thing are rewarded with a lower cost of capital and a higher profitability level.

Steve Waygood, Chief Responsible Investment Officer, Aviva Investors

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How?

Aviva Investors works to achieve its sustainability goals through its ESG work at multiple levels:

- The company's investment philosophy guides its approach to ESG integration, stewardship, divestment and market reform, underpinned by a governance framework. Staff focused on ESG are embedded in different investment teams to guide ESG integration across the organisation.
- Each of the funds in the Sustainable Transition range – created to support Aviva Investors' sustainability goals – has an agreed sustainability objective. Several funds focus on climate, including real estate, credit and equity funds. For these, climate indicators are selected, which are used to monitor and report on the portfolio's climate performance. Other funds focus on social and natural capital.
- Sustainable Transition funds invest in two types of organisations: 'solutions providers' and 'transition companies'. Solutions providers offer products and services that address environmental and social issues. Transition companies are companies that are leading their peers in driving positive change.
- When deciding which climate solutions providers to invest in, Aviva Investors looks at a company's work on climate adaptation, climate mitigation and positive climate impact, among other areas. For natural and social capital, it considers how a company's products and services contribute to the circular economy or provide access to social needs such as finance, health care and education.
- When working with transition companies, Aviva Investors lays out environmental and social expectations for performance, often using sustainability benchmarks from the World Benchmarking Alliance. If Aviva Investors does not see the required progress against those benchmarks, it works through a set pathway of escalating engagement. Ultimately, if it does not see results from these engagement activities, then the company will divest.
- In the Climate Engagement Escalation Programme, if specific targets – such as signing up to the Science Based Targets initiative – are not met, then Aviva Investors follows a pre-defined set of steps to increase pressure on companies in the programme. These steps include voting against management, tabling motions and collaborating with other stakeholders. Divestment is, again, a last step if the companies fail to make enough progress.
- When it comes to macro-stewardship, the Sustainable Finance Centre for Excellence works closely with regulators, such as the Bank of England. The team has been actively campaigning for setting up an International Platform for Climate Finance. The team also engages directly with governments of countries around the world, making the case for market reform aligned with the Paris Agreement.

www.avivainvestors.com

The Finance for the Future Awards recognise the role of finance in driving sustainable economies.

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