The Stewardship Funds Philosophy

The Stewardship Funds give our customers the opportunity to provide a secure future for themselves and their families while actively contributing to a sustainable long-term future for the world around us.

Introduced in 1984, the Stewardship Funds have a proud heritage as the UK’s first ethical fund range. The original aims of the Stewardship Funds were, and remain, to:

1. Exclude companies that do not meet certain ethical standards or that harm society or the environment.
2. Support companies that make a positive contribution to society.
3. Encourage better business practices through shared ownership and dialogue.

The Stewardship Funds Philosophy recognises that the contribution companies make to a sustainable society depends both on the products and services they provide and on the way they provide them. Shareholders have a responsibility to address these issues actively with the companies they invest in to deliver a positive outcome for their customers, suppliers, employees, local communities and the environment.

Through our management of the Stewardship Funds, we aim to use our influence as a shareholder to support the positive contribution companies make to a sustainable society and to encourage positive environmental, social and governance (ESG) practices. The Funds avoid companies and sectors whose products or services cause unmitigated social or environmental harm.

Oversight of the investment policies is provided by a combination of the Aviva Investors’ Investment Oversight Committee and independent issue experts, who review the Stewardship Funds policies, processes and holdings so they remain appropriate and relevant to the core Stewardship Fund principles.

The Stewardship Funds Criteria

Companies and their shareholders can and do make a positive contribution to society. However, companies can also cause ethical, social and environmental issues by, for example: making harmful products; acting without regard to customers, employees and the communities in which they operate; polluting the environment; or failing to have acceptable governance practices. Shareholders inevitably bear some responsibility for the harm done by the companies in which they invest.

Stewardship aims to determine whether the benefits delivered by a company or a sector outweigh the potential harm they may cause when creating those benefits and if, as shareholders, we believe we can influence them to reduce the harm and increase the benefits.

Companies generally operate in such a way that some aspects of their activities are acceptable to Stewardship while others are not. In some instances, failings may not be significant enough to disqualify a company from inclusion in the portfolio. In such cases, Stewardship will take a balanced view across the company’s activities.

The Stewardship Funds investment approach is based on three layers:

| Layer 1 | Exclusion – principally based on what a company does |
| Layer 2 | Engagement – generally concerned with how a company goes about its business |
| Layer 3 | Outcome – measuring the ESG performance of the companies we invest in at a fund level |

The value of an investment can go down as well as up and you could get back less than invested.
Layer 1: Exclusions

Some industrial sectors and activities will always conflict with the values of the Stewardship Funds. The screens shown below are fundamental to the Stewardship Funds philosophy and a company engaging in them will not normally be considered for investment by the Stewardship Funds.

Ethical & Social Exclusions

<table>
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<tr>
<th>Issue</th>
<th>Negative screening criteria</th>
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| Adult entertainment, pornography and violence       | • >10% of turnover from adult entertainment or pornography.  
• >10% of turnover from violent video games.  
• Any involvement in the manufacture of guns.                                                                                                                    |
| Alcohol                                             | • >10% of turnover from the manufacture of alcoholic products.  
• >25% of turnover from the distribution or sale of alcohol products (e.g. retail, hotels, restaurants and leisure industries).                                      |
| Animal testing                                      | Any involvement in the development and manufacture of non-medical related products (such as cosmetics, personal care, household cleaning products) where this has involved animal testing and where the company does not disclose an animal testing policy, or has a weak policy.  
Any involvement in providing animal testing services, where the company either does not disclose an animal testing policy, or has a weak policy. |
| Animal welfare – fur                                | Any involvement in production or design of fur pelt, raw materials and products containing fur or fur trim. It also includes companies that hunt, raise, trap animals for their fur.                                      |
| Endangered species                                  | Involvement in the retail of threatened species, or components thereof, with insufficient action to prevent it.                                                                                                                     |
| Gambling                                            | >10% of turnover from gambling related activities.                                                                                                                                                                                |
| Genetic Modification                                | Companies that genetically modify plants (e.g. seeds, crops) and other organisms intended for agricultural use or human consumption.                                                                                                     |
| Labour standards, human rights and Health & Safety controversies | Companies that are the subject of severe controversies related to health & safety breaches or systematic failure to protect human rights and labour standards, with no evidence of serious or lasting remedial action. |
| Military – weapons and weapon systems               | Any involvement in the manufacture of whole weapons systems, components or support systems (including conventional, Biological-Chemical, cluster munitions, depleted uranium and nuclear weapons).     |
| Tobacco                                             | Any involvement in the manufacture of tobacco related products.  
• >25% of turnover from distribution or sale of tobacco related products (e.g. retailers).                                                                            |

Environmental Exclusions

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<tr>
<th>Issue</th>
<th>Negative screening criteria</th>
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<tr>
<td>Chemicals</td>
<td>Any involvement in production of chemicals restricted by the following international agreements: the Stockholm Convention, Montreal Protocol and OSPAR Priority List. This includes persistent organic pollutants, PCBs and CFCs. (Note manufacturing lead compounds is a Layer 2 engagement issue).</td>
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<tr>
<td>Climate change – Aviation</td>
<td>&gt;10% of turnover from aviation related activities i.e. airlines, airport operators and aircraft manufacturers.</td>
</tr>
<tr>
<td>Coal</td>
<td>&gt;25% turnover from thermal coal mining or coal-fired power generation.</td>
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| Oil                                                 | >10% turnover from oil sands extraction.  
• >25% turnover from oil operations, including pipelines.  
• Any involvement in oil operations in the Arctic.                                                                                                 |
| Nuclear power generation                            | >10% of turnover from nuclear power activities.  
Any company deriving revenues from the mining of uranium.                                                                                                        |
| Pollution                                            | Companies that are the subject of severe controversies related to environmental pollution, with no evidence of serious or lasting remedial action.                                                                             |

The Stewardship Funds aim to adopt a practical and pragmatic approach. On rare occasions, a company may be removed from the exclusion list where its exposure to the negative investment criteria is minor, inconsequential or immaterial and the company makes a strong, positive contribution to society.

We use a range of experienced research providers to constantly monitor our investment universe and supply us with accurate data and insights into each company’s ESG performance. The large data bank we rely upon for screening the investible securities in our investment universe is updated on a quarterly basis. Layer 1 screens are reviewed annually for relevance and effectiveness.
Layer 2: Engagement

Layer 2 primarily relates to how a company conducts its business, i.e. its sustainability practices. While a majority of companies satisfy the Layer 1 criteria and qualify for inclusion in the Stewardship Funds, few can claim to manage every aspect of their business perfectly. Through a structured programme of engagement with the highest levels of company management, we encourage them to improve practices that fall short of our expectations, and reward those who adopt market-leading practices through continued investment. We encourage companies to participate in market-leading collaborative initiatives and to improve their performance in independent third-party rankings, such as the Carbon Disclosure Project (CDP), the UK Plastics Pact, the Corporate Human Rights Benchmark and the Workforce Disclosure Initiative.

Our engagement approach has a two-tier approach to account for the different stages of development in corporate sustainability practices across sectors and geographies.

1. Firstly, companies are encouraged to have, as a minimum, strong sustainability policies and systems. Companies should report publicly on sustainability policies, and their performance against them, using quantified metrics and timebound targets. We look for companies to have policies and commitments on the following:
   i. A target to reduce greenhouse gas emissions, and board level responsibility for climate change.
   ii. Disclosure of data on water use and waste where salient.
   iii. Policies to prevent discrimination, child and forced labour, to allow freedom of association, and to promote business ethics and whistleblowing.
   iv. A globally applicable human rights policy.
   v. Commitments to improving gender and ethnic diversity across the business and at board and senior management level.

In this manner, the funds seek to ensure a basic standard of sustainability practice across geographies and sectors, and to encourage continual improvement in performance.

2. In April 2018, the Stewardship Funds added an element of additionally engaging on three ESG issues in depth. Our current focus areas are:

   a. Climate change. We identify which of our holdings have a weaker-than-expected approach to climate change by looking at their disclosure of carbon emission data, the strength of their emission reduction targets and involvement in innovative product development and collaborative initiatives to reduce emissions. We encourage all companies to:
      i. Adopt Science Based Targets for emissions reduction to prove their commitment to the Paris Agreement 1.5°C goal.

   b. Board diversity. We identify which holdings have low representation of women on the board and encourage them to meet the 33% target set by the UK Government’s Hampton-Alexander Review. We also ask companies to strengthen their strategies to build a pipeline of female and ethnic minority talent at management and executive level.

   c. Plastic. Over the last year there has been a step change in public understanding of the threat to the vitality of the world’s oceans posed by the exponential growth in our use and disposal of plastic. The Stewardship Funds are engaging with consumer goods companies to encourage the development of strategies to reduce, reuse and recycle plastic far more effectively. By supporting a circular economy we also look to reduce the contribution that plastic production plays in climate change.

The Stewardship Funds fundamentally believe that companies who show good management of the issues above will outperform their peers in the long run.

Engagement should not be seen as the easy option for companies to satisfy the criteria for inclusion in the Stewardship Funds. When we engage with a company, we will set out what we deem to be sufficient improvement for us to remain invested. Typically, the time period set for engaging with a company to see this improved performance will be no more than three years, which allows the best possible chance of creating the desired response by company management. Where the stock is judged to have failed to respond to engagement, the fund manager will normally have up to six months to divest.

ii. Report publicly according to the Taskforce for Climate Related Financial Disclosure (TCFD) recommendations, to ensure the company and its stakeholders fully understand its climate-related impacts and risks.

We have a particular focus on the financial, consumer products and industrials sectors as these are the most exposed sectors in our investment universe.

Certain sectors, including consumer goods companies, retailers and the financial sector also have a significant climate footprint via deforestation in their supply chain/client and investments. We therefore engage with these companies to encourage them to strengthen their deforestation policies and performance.
Layer 3: Outcomes

The Stewardship Funds exist, like any investment offering, to help our customers secure their future, but importantly, it was established for customers “who care about more than simply investment returns”. This, of course, is not the same as not caring about investment returns. We will, therefore, monitor and measure how the Funds are performing in both financial and non-financial terms.

Layer 3 looks at long-term indicators of the portfolio’s ESG performance, seeking to demonstrate how Stewardship is contributing to long-term environmental, social and governance outcomes for its customers. The following key ESG indicators will be tracked and reported on annually to customers:

- The carbon footprint of the individual fund, per £1,000 invested.
- Proportion of companies with initiatives and targets in place to reduce carbon emissions.
- Proportion of companies actively managing their supply chain’s environmental impact.
- Proportion of companies with an equal opportunities policy.
- Proportion of companies with an anti-bribery policy.
- The average proportion of women on the board across the fund.

We aim to show improved performance both over time and compared to the rest of the investment universe. Due to the lack of data disclosure by many companies in different regions of the world, the scope of Layer 3 currently is limited to the UK equity holdings, which form the majority of the Funds. As the non-financial performance is measured over the medium term, improvements may take time to become apparent. However, through Stewardship’s policy of active engagement, the Funds apply rigorous oversight of those companies into which they have invested.

Further information

Further information is available on the following websites:

www.avivafunds.co.uk
https://www.aviva.co.uk/business/workplace-pensions/corporate/stewardship/
https://www.avivainvestors.com/en-gb/about/annual-responsible-investment-review/