Aviva Investors Luxembourg Sustainability Risk Policy

10 March 2021

For today's investor

AVIVA INVESTORS

Introduction

Aviva Investors Luxembourg (AILX) recognises and embraces its duty to act as a long-term steward of clients' assets, maintaining a deep conviction that environmental, social, and governance (ESG) factors can have a material impact on investment returns and client outcomes. We believe that being a responsible financial market participant means that our investment approach must support, and not undermine, the long-term sustainability of capital markets, economies, and society. We believe that integration of ESG considerations and sustainability risks throughout the investment process can enhance the returns that we deliver to investors.

In summary the key pillars of AILX's ESG approach, including consideration of sustainability risks, and how they apply to the funds we operate (the **Funds**), are as follows:

1. Oversight and governance

Under Article 3 of the Sustainable Finance Disclosure Regulation (SFDR)[1], we are required to describe the manner in which sustainability risks are integrated into our investment decision-making processes. As we currently delegate day to day investment management of our funds, we look to Aviva Investors Global Services Limited (AIGSL) to implement and adhere to their own sustainability risk policies and processes as required under relevant regulations, while ensuring that AIGSL's approach is aligned with our other key ESG pillars.

However, it is our responsibility as a management company to ensure that we carry out robust governance, monitoring and oversight of our Funds and of our appointed investment manager. To do this we:

- carry out ongoing monitoring of AIGSL's approach to the integration of sustainability risks. This includes consideration of periodic reporting on AIGSL's approach to sustainability risks and, where relevant, the impact of sustainability risks on the Funds;

- will consider sustainability risks in the selection and appointment of any new appointed investment manager (including any sub-investment manager appointed by AIGSL), and, in particular, the manner in which they integrate sustainability risks into their investment decision-making process.

We expect AIGSL to make decisions in line with their stated investment processes and approach to the integration of sustainability risks. Subject to our governance and oversight responsibilities, AIGSL has responsibility for its own investment process, from research to acquisition and ongoing engagement as a shareholder.

2. ESG integration

ESG integration is the consideration of financially material ESG factors in investment analysis and decision-making to gain a more comprehensive understanding of both the risks and the long-term opportunities arising from these factors. ESG factors include environmental, social and employee matters, respect for human rights, and anti-corruption and anti-bribery matters. These factors vary by industry, corporate size, regulatory regime, and regional footprint.

As noted above, AILX has selected AIGSL to manage the Funds. AIGSL integrates ESG factors into the investment approach as set out in its own sustainability risk policies and in a way that is relevant to each strategy and asset class. Their policies are available here: https://www.avivainvestors.com/en-lu/capabilities/sustainable-finance-disclosure-regulation/

[1] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

Where AIGSL sub-delegates all or part of the investment management to another investment manager, AIGSL will consider the sub-delegate's ability to demonstrate an appropriate ESG framework, and the extent to which ESG factors are integrated into the investment process. However, it is important to note that the third-party investment manager may retain discretion over which investments are selected for some funds. In case of sub-delegation to an entity belonging to the Aviva Investors (AI) group, the AI entity will follow the same approach to ESG factors as AIGSL.

3. Stewardship and Engagement

As part of the AI group, we are committed to the responsible stewardship of our clients' investments through engagement, voting and public policy activities. The primary purpose of stewardship and engagement activities is to support long-term returns and to mitigate sustainability risks. We also believe that, by encouraging investee companies to manage sustainability risks better, we contribute to a more resilient global economy, which will ultimately enhance our clients' long-term prosperity and security.

AILX, in the appointment and ongoing monitoring of AIGSL's stewardship activities, seeks to ensure that AIGSL, where relevant for the particular asset class or strategy:

(1) integrates shareholder engagement into the delivery of each Fund's investment strategy;
(2) monitors investee companies on relevant matters, including;
  (a) strategy;
  (b) financial and non-financial performance and risk;
  (c) capital structure; and
  (d) social and environmental impact and corporate governance;
(3) conducts dialogues with investee companies;
(4) exercises voting rights and other rights attached to shares;
(5) cooperates with other shareholders;
(6) communicates with relevant stakeholders of the investee companies; and
(7) manages actual and potential conflicts of interests in relation to the firm's engagement

Funds managed by AIGSL will actively engage with companies and use voting rights with the aim of positively influencing company behaviour and helping to create competitive returns. For more information on our approach to stewardship and our adherence to the Financial Reporting Council's Stewardship Code please see our Stewardship and Responsible Investment Policy on our website[2].

Where AIGSL sub-delegates investment management to another investment manager, AIGSL have confirmed that they will endeavour to apply their stewardship approach to those mandates.

4. Sustainability Risks

SFDR defines sustainability risk as "an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment".

Where AILX delegates the investment decisions to AIGSL as the investment manager of the Funds, AILX has considered the appropriateness of each AIGSL Sustainability Risk policy and will ensure that AIGSL integrates sustainability risks into their investment decision making processes as described in these policies. However, this approach can vary across asset class and, in certain cases, per Fund.

The policies for each asset class managed by AIGSL can be found here: https://www.avivainvestors.com/en-lu/capabilities/sustainable-finance-disclosure-regulation/

AIGSL may also sub-delegate investment decisions to third party investment managers for some Funds, and in these cases, it will be the sub-investment manager's policies on the integration of sustainability risks

2 Aviva Investors Stewardship and Responsible Investment Policy (Stewardship Statement) and the Annual Review – Responsible Investment can be found on our website: https://www.avivainvestors.com/en-gb/about/responsible-investment/policies-and-documents/

that are relevant to that particular Fund. AIGSL will ensure that AILX is provided with details of the sub-investment managers approach to Sustainability Risk and adverse impacts and the relevant fund documentation will summarise how sustainability risks and adverse impacts are considered. AILX requires that AIGSL ensures any sub-delegated investment manager (i) integrates sustainability risks in line with all relevant legislation and, where this is considered by AIGSL and the sub-delegate investment manager to be relevant to the Fund in question (ii) considers adverse impacts as part of their investment process. AI entities will apply equivalent policies on the integration of sustainability risks as AIGSL.

AILX will oversee, monitor and challenge how AIGSL and its sub-delegated investment managers are identifying and integrating sustainability risks and the extent to which they take account of the adverse impacts of the companies in which they invest as part of their pre-investment due diligence.

5. Principle Adverse Impacts (PAI)

Adverse impacts are the negative environmental and social effects of economic activity. There is a wide range of factors to consider in this space, such as climate-related impacts including pollution and carbon emissions or potential damage to society caused as a result of insufficient human rights policies adopted by investee companies. We rely on AIGSL in its capacity as investment manager of the Funds to use various techniques to identify, monitor and mitigate adverse impacts in the investment research process. These include both indicative quantitative metrics and qualitative assessments. In our capacity as management company, we will make further relevant disclosures in relation to PAI in line with the requirements of SFDR.

AIGSL's approach to the consideration of adverse impacts is to ensure that its investment decision making processes (and those of its sub-investment managers) will take financially material adverse impacts into account in a way that is most relevant to each asset class and product.

AILX has made available online[3] the details relevant to the investment processes and how PAIs are integrated into the investment decision process by AIGSL, in summary this is as follows:

(a) AIGSL uses various techniques to identify PAI's in the investment research process, these include both indicative quantitative metrics and qualitative assessments, there is no specific pre-ordained prioritisation or PAI's at AIGSL other than to identify the most relevant and therefore key adverse impacts of the investment decision being considered. AIGSL will disclose how they source, collate and use this data in a Principal Adverse Impacts policy, which will be published in line with regulatory requirements.

(b) AIGSL has a detailed and robust set of engagement policies that are described both briefly in relation to these rules and in expanded form in order to meet the Shareholder Rights Directive rules – all of this information is available on its website.

(c) AIGSL adheres to various responsible business conduct codes and internationally recognised standards as detailed on its website.

AILX is part of the AI group which applies a group-wide remuneration policy (the Global Remuneration Policy) to all its employees. An extract of the appendix dedicated to AILX is published on the website. The Global Remuneration Policy has been updated at the end of February 2021 and is consistent with the integration of sustainability risk.

6. Aviva Investors ESG Baseline Exclusions Policy

AILX has instructed AIGSL and its sub-delegated investment managers to exclude investment in companies which derive prescribed levels of revenue from the manufacture of controversial weapons (the "Excluded Companies"). This is because there is a wide, international consensus on the inappropriateness of these types of weapons, as set out within key conventions and treaties including the Non-Proliferation

[3] https://www.avivainvestors.com/en-lu/capabilities/sustainable-finance-disclosure-regulation/

of Nuclear Weapons Treaty, the Convention on Cluster Munitions (the Oslo Convention), and the Ottawa Treaty, which prohibits the use, stockpiling, production and transfer of anti-personnel mines.

The following weapons are included in our definition of controversial weapons:

- Cluster munitions and landmines
- Nuclear
- Biological and chemical
- Depleted uranium
- Incendiary (white phosphorous)
- Laser-blinding
- Non-detectable fragments

Excluded Companies also include companies which derive prescribed levels of revenue from the manufacture of civilian firearms. Although these are not subject to international treaties, the Investment Manager has excluded manufacturers of these weapons due to the large number of civilian deaths resulting from their use.

The ESG baseline exclusions apply to all Funds managed by AIGSL and its sub-delegated investment managers. Baseline exclusions are generally applied by prohibiting investment in any financial instrument issued by a company that derives a certain level of income from the manufacture of controversial weapons or civilian firearms. This includes a parent company of a manufacturer involved in these activities. Indirect exposure to these companies is also prohibited, subject to certain exceptions; and the receipt of securities issued by these manufacturers as collateral. Furthermore, Aviva Investors Real Assets is prohibited from arranging the provision of any new finance to a borrower, project or asset that derives the specified level of income from the manufacture of controversial weapons or civilian firearms. It is also prohibited from making new investments in real estate where more than 10 per cent of contractual rent is derived from tenants who manufacture controversial weapons or civilian firearms, and the granting of new leases (including lease extensions and renewals) to such tenants.

Where new Excluded Companies are identified, AIGSL and its sub-delegated investment managers will seek to divest any holdings within 90 business days.

Additional information on the policy is available on the website www.avivainvestors.com/en-lu/about/responsible-investment/.