# CEPS

## Sustainable / ESG Investment

*20th March 2018*

# Who is Aviva and why do we care about ESG and Climate change?

| | | |
|---|---|---|
| 320 years old company | 33 million customers | £490bn assets under management |
| 16 countries | First carbon neutral international insurer since 2006 | 2,400 community projects supported in 2017, helping 729,000 people |

We are responsible investors. We believe integration of responsible investing considerations into the investment process has a positive impact on long-term risk and return as well as doing good for society.

# How does Aviva integrate sustainability factors?

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|---|---|
| 1 | Integration of ESG into investment decisions |
| 2 | Active ownership and stewardship through engagement and voting |
| 3 | Shaping markets for sustainability |

Few facts…

- Responsible Investor Award for Innovation & Industry Leadership (2017)
- Voted 50,451 Resolutions at 4,259 shareholder meetings
- Engaged on 1,222 occasions with companies as part of our Stewardship responsibilities
- Member of the FSB Task Force on Climate-Related Financial Disclosures
- 1970: First records of Norwich Union exercising proxy voting rights

# How do we support the transition to a lower carbon 2 deg aligned economy?

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|---|---|
| Pillar 1 | Integrating climate risk into investment considerations |
| Pillar 2 | Investment in lower carbon infrastructure |
| Pillar 3 | Support strong policy action on climate risk |
| Pillar 4 | Active stewardship on climate risk |
| Pillar 5 | Divesting where necessary |

# Example: the Aviva France' approach in the context of art 173 implementation

| | | |
|---|---|---|
| Integration | SDGs | We consider SDG goals using ad-hoc metrics when we invest<br>Climate · Earth · People · Care more |
| | ESGs | ESG heatmap guides our investment decisions |
| | Climate | We adapt our investment portfolio to climate change risks and opportunities. In doing so, we consider three key areas<br>**Climate impact**: • Carbon emissions • Carbon exposure management<br>**Climate risk**: • Carbon intensity • Transition risks • Physical risks • Adaptation to 2deg scenario • Interconnected ESG issues<br>**Climate opportunities**: • Business mix • Investment in green techs • Capex |
| Optimisation | | We maximise returns and gradually increase SDGs / ESGs and climate related scores. This is done through:<br>• Existing investments: adjusting the portfolio (e.g. by reducing positions in most carbon intensive issuers)<br>• New Investments: Overweight the share of green investment / Underweight carbon intensive issuers<br>For climate change, we test our portfolio against a 2deg scenario for the most polluting sectors |
| Investments | | Target of £500m annually in low carbon infrastructure / Coal divestment / Green bonds divestments |
| Engagement / Voting | | We prefer dialogue over divestment. We believe we have more influence on companies when we remain invested |
| Exclusion | | We will not invest where the intent is to cause harm when used as intended. Based on the impact of the environmental, social, or governance is presented will seek to engage, consider divestment as a final course of action if our concerns are not addressed. |

Action plan

Sustainability ratings

Capital rules

Asset sourcing

Taxonomies

# Prudential regulation and sustainable investments: some thoughts

- Prudential regulation is about maintaining financial stability and mitigating risks however…
- ….the current prudential framework's focus on the short-term risk to capital and…
- …does not discourage investments that are riskier in the long term due to physical risks and transition risks.
- Therefore, capital recalibration needs to be adjusted to take better account of longer terms risk, including the potential consequences of climate change.