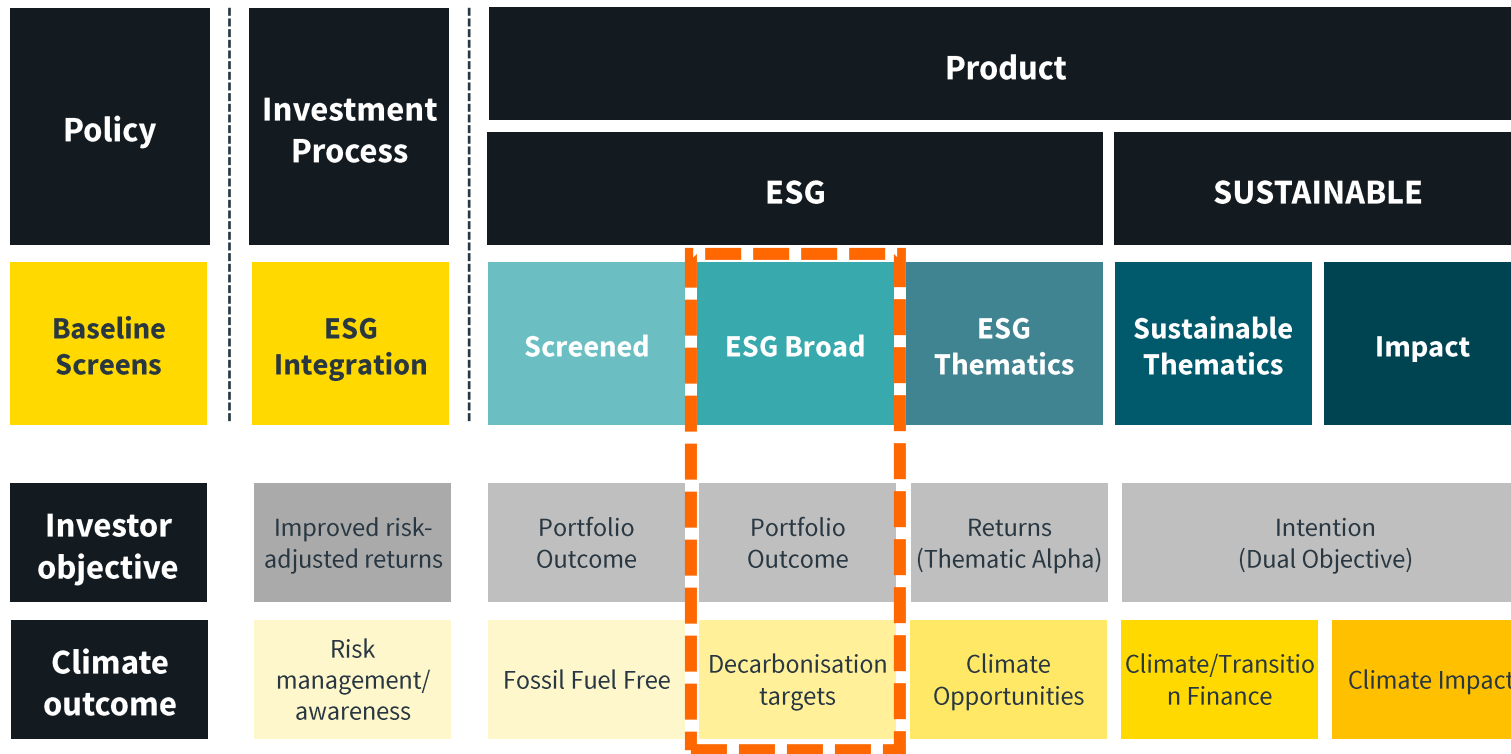


# Greening Investment Portfolios

Danny McHugh (CIO, Aviva Investors)

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It is not to be distributed to or relied on by retail clients.

# The spectrum of greening portfolios



**Optionality to decarbonise mainstream portfolios**

Source: Aviva Investors, table as of 29<sup>th</sup> September, 2023





# Greening in action

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## Aviva Investors' beliefs:



We aim to actively finance the global transition through responsible capital allocation

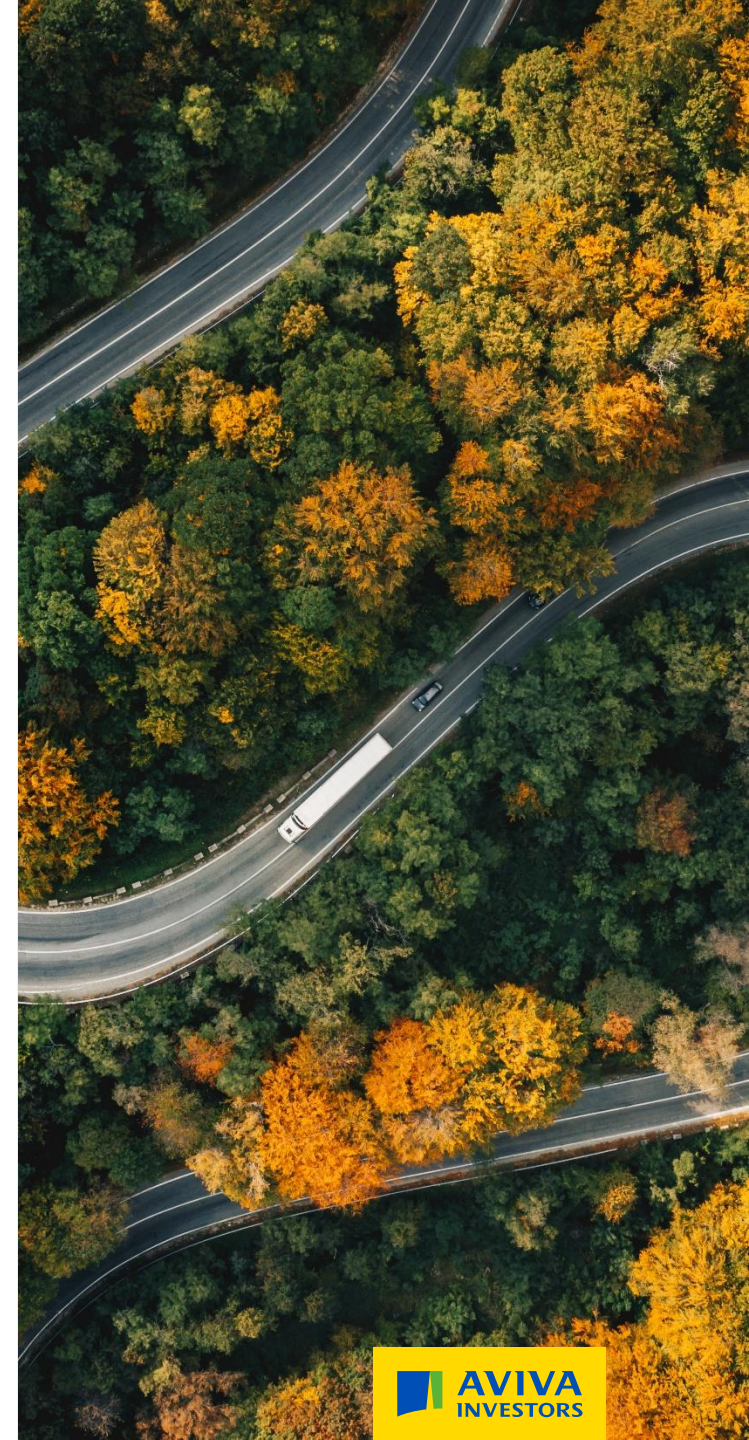


We drive real world outcomes through our engagement and system change agenda – investing over excluding



We aim to deliver sustainability objectives of clients alongside investment risk and return objectives

Source: Aviva Investors as of 29<sup>th</sup> September 2023



# Case study

## Emerging market buy and maintain

<b>Client</b>	<ul style="list-style-type: none"><li>• A large asset owner with long-dated pension liabilities.</li></ul>
<b>Key investment requirements</b>	<ul style="list-style-type: none"><li>• Investment grade emerging market bonds</li><li>• Managed on a buy and maintain basis with limited portfolio turnover</li><li>• Attractive credit spread whilst maintaining rating profile</li></ul>
<b>Sustainability objectives</b>	<ul style="list-style-type: none"><li>• Ability to align to the clients net zero strategy which includes:</li><li>• Quantitative portfolio emission reduction targets</li><li>• Assessment of issuers net zero alignment</li><li>• Application of exclusion lists based on client values</li></ul>

For illustrative purposes only and not intended as an investment recommendation.  
Source: Aviva Investors, table as of 29<sup>th</sup> September, 2023





# Key considerations

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1

**Regional approach to net zero** – EM presents greatest need for decarbonisation

2

**Investment style** – assets held to maturity, limited ability to take emission driven investment action post investment

3

**Geo-political challenges** – unforeseen events and impacts to gvmt. policy

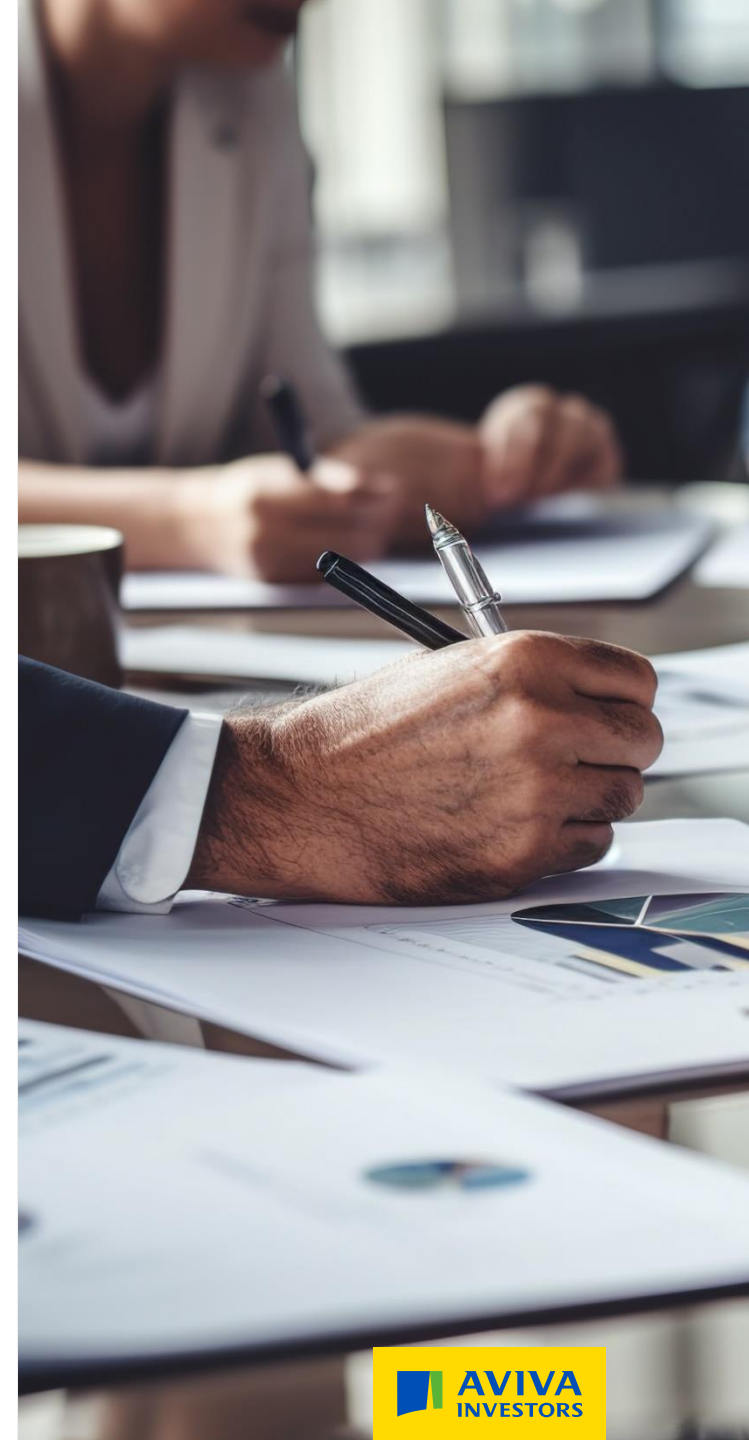
4

**Data availability** – Imperfect and incomplete, different ways to measure alignment

5

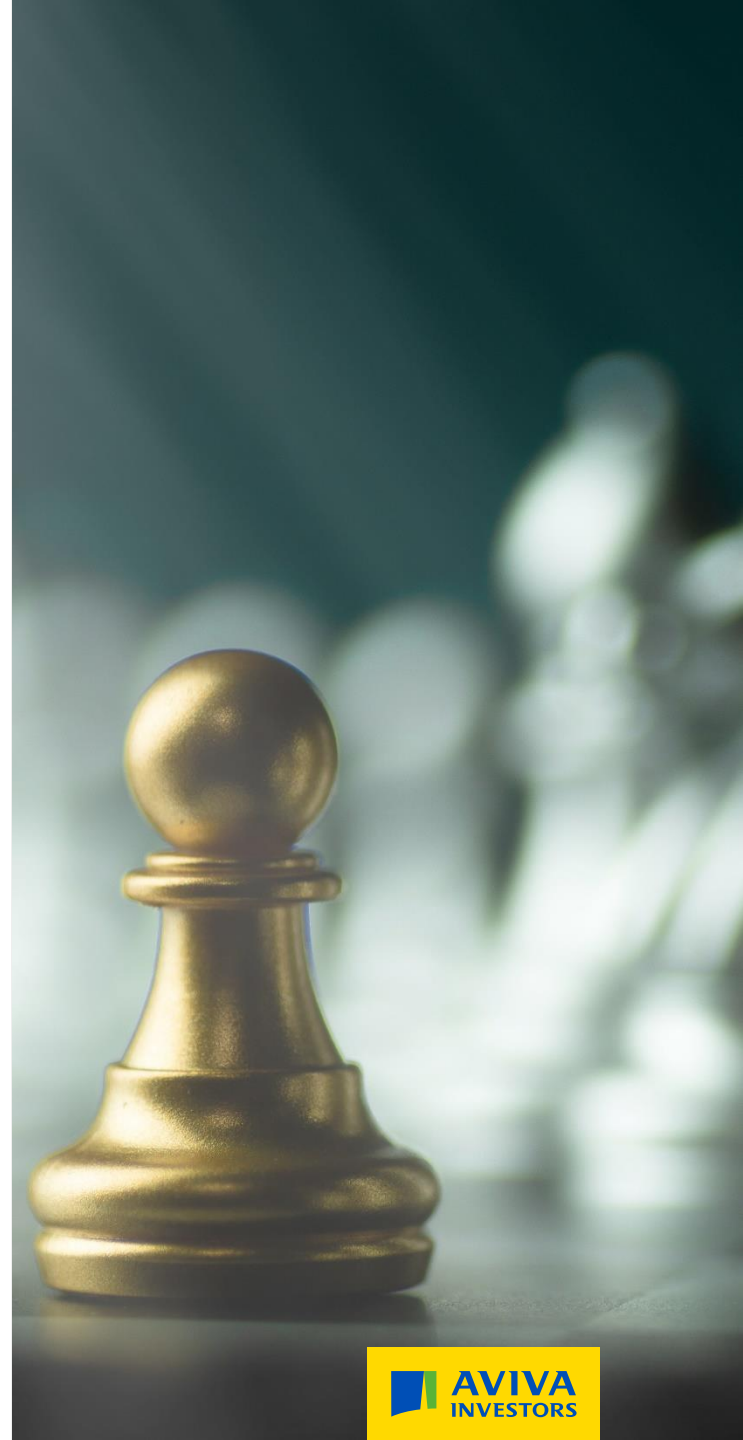
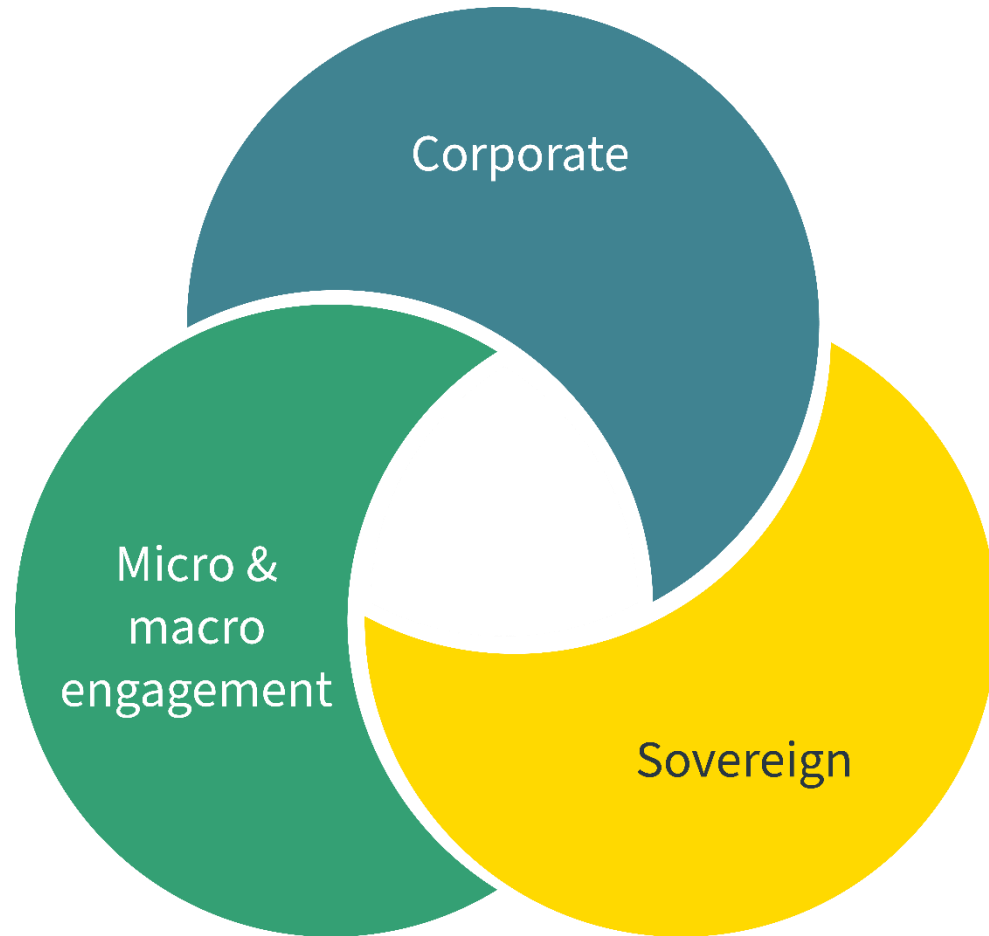
**Target setting** – Determining appropriate portfolio alignment targets that balance investment objectives and transition philosophy

Source: Aviva Investors, table as of 29<sup>th</sup> September 2023



# Setting a strategy

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# Corporate approach

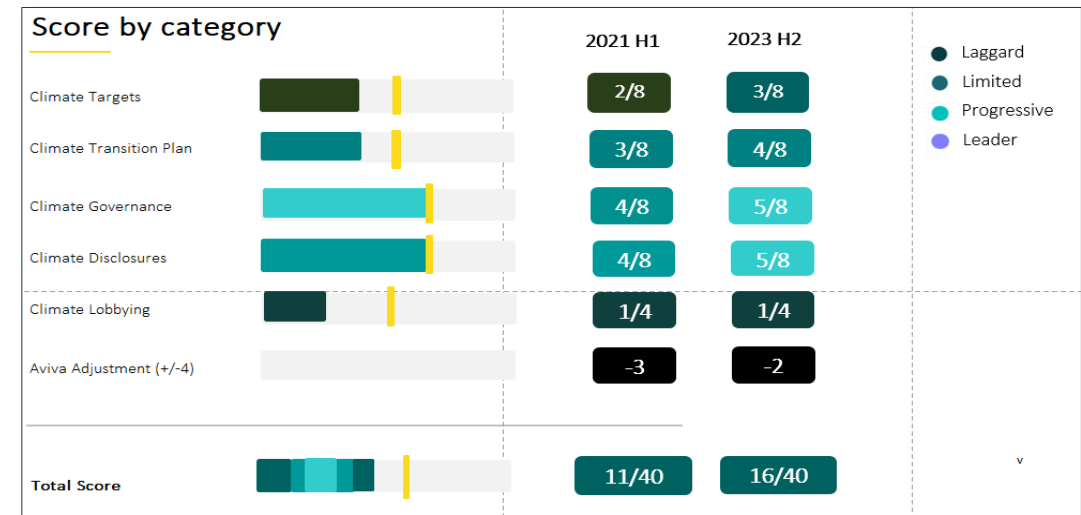
## Our thinking

- 1 Apply AI screening or bespoke client screening approach
- 2 Assess issuer net-zero alignment incorporating quantitative and/or in-house qualitative assessment framework
- 3 Assess portfolio alignment coverage and set targets
- 4 Develop engagement approach – setting portfolio engagement coverage targets
- 5 Determine the role of green/sustainable bond instruments

## Example of categorisation framework



## Example of proprietary scorecard






Source: Proprietary scorecard, Aviva Investors, 29<sup>th</sup> September 2023. Categorisation framework aligned to Paris Aligned Investing Initiative Net Zero Investment Framework.

# Sovereign approach

## Our thinking

- 1 Develop scoring framework** – Leveraging a range of indicators.
- 2 Recognise regional differences** – Adjust models to acknowledge income bias and measure country relevant to level of development
- 3 Industry collaboration** – Support development of industry frameworks and scores

## Example of categorisation framework

	Past and future emissions	<ul style="list-style-type: none"><li>• Level &amp; trend emission intensity</li><li>• Emission reduction targets</li></ul>
	Past and future performance in key sectors	<ul style="list-style-type: none"><li>• Power sector decarbonisation</li><li>• Combustion vehicle phaseout</li><li>• Land use change</li></ul>
	Other national and international policy positions	<ul style="list-style-type: none"><li>• Net zero policy and legislative environment</li></ul>

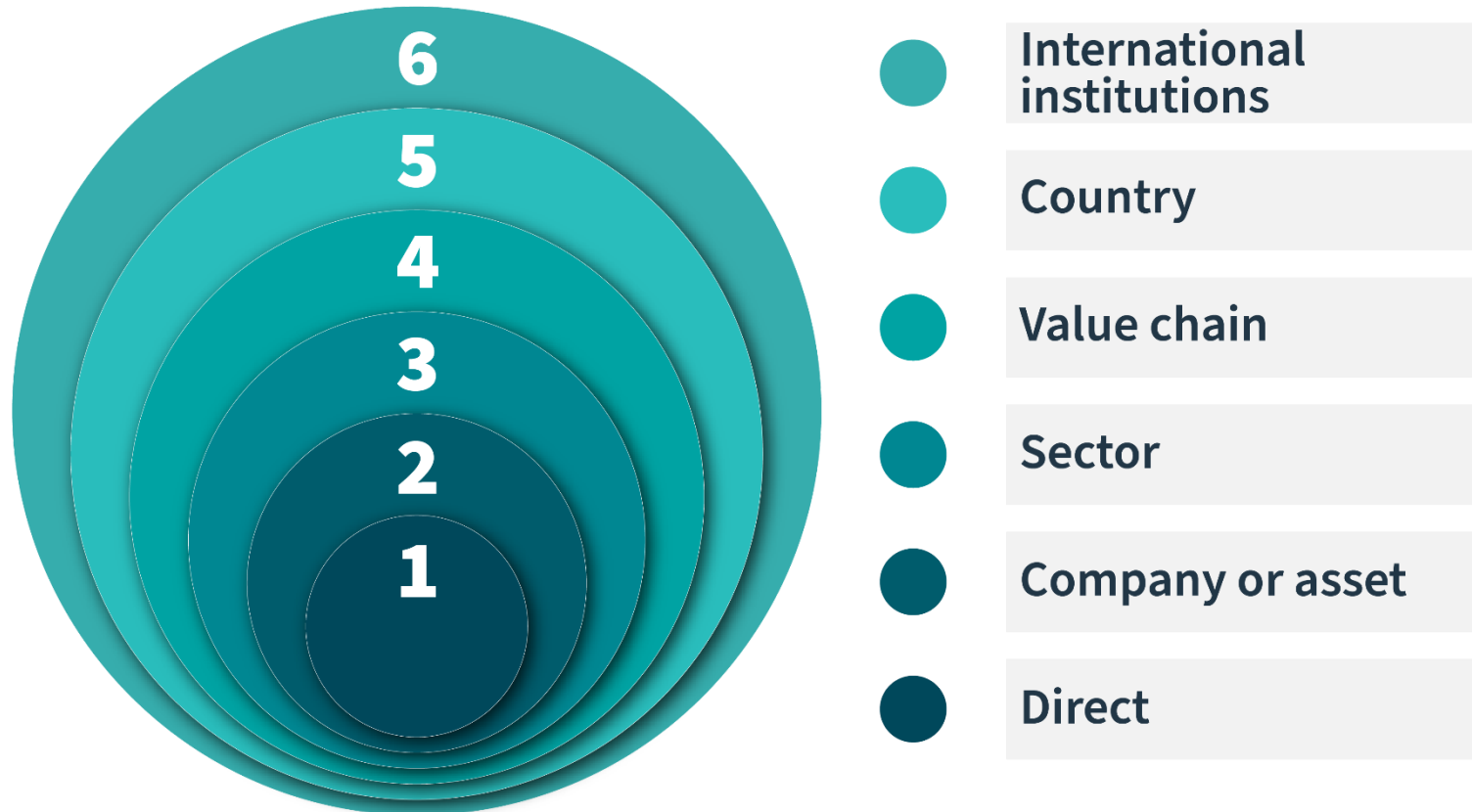
**Sovereigns scored on scale 0-10 and compared within peer group**

Source: Aviva Investors, table as of 29<sup>th</sup> September 2023. The scale of 0-10 represents a proprietary score designed by Aviva Investors that seeks to utilise several third-party data inputs.



# Holistic stewardship

...creates innovative ways of influencing real world outcomes



Source: Aviva Investors, table as of 29<sup>th</sup> September 2023

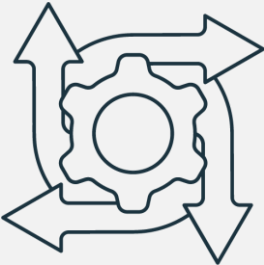
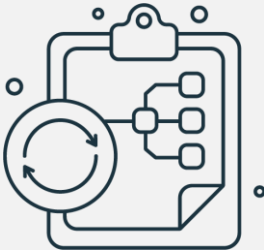



Real world outcomes

Connected to investments

Overcoming obstacles

Ability to influence

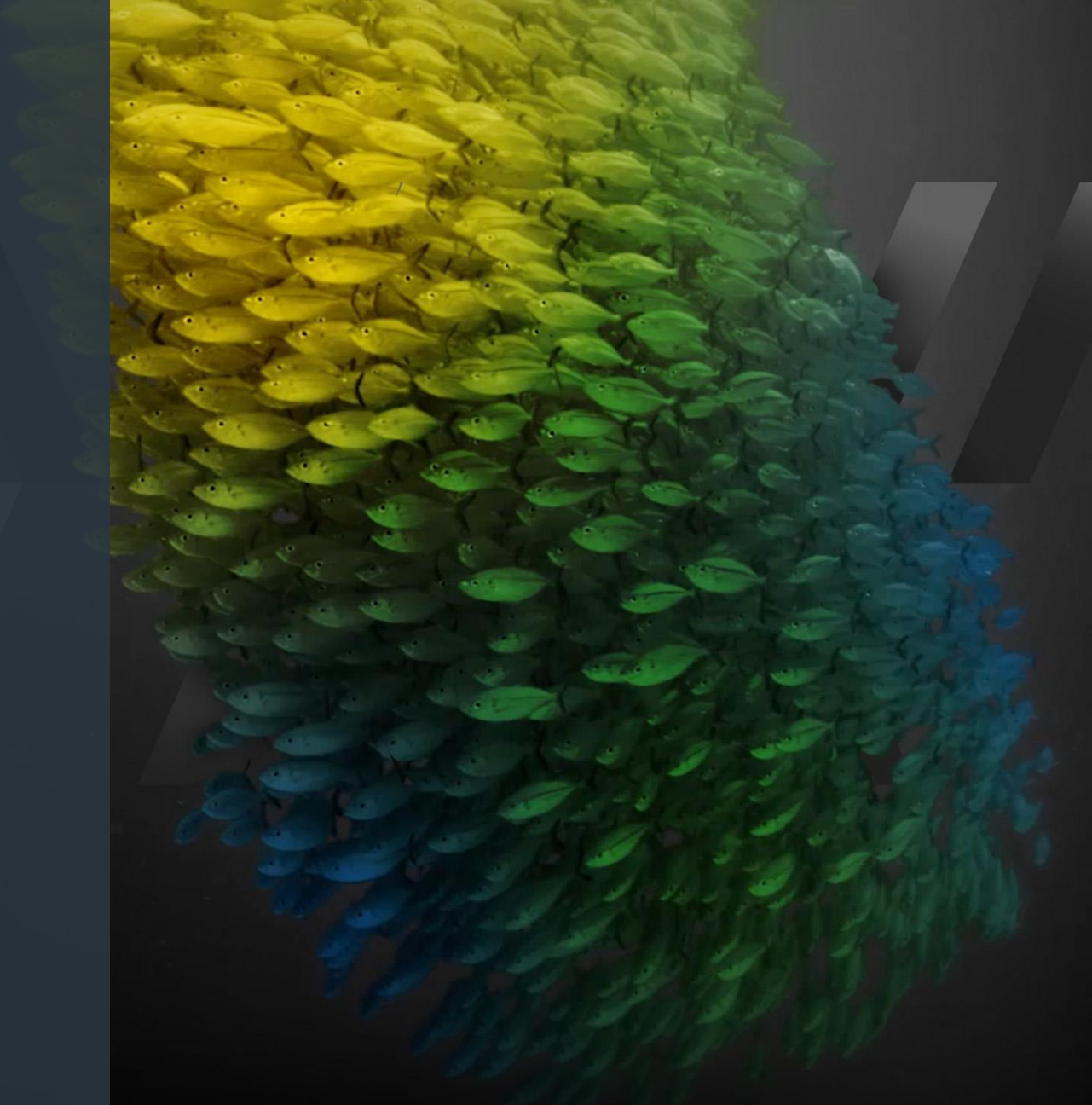
# Lessons learnt

Agility	Targeted insight	Impactful engagement	Scalability	Continuous development
 <p>Necessary to operate in volatile investment environment</p>	 <p>Quantitative and qualitative insight essential to balance risk, return and net zero objectives</p>	 <p>Essential to meet decarbonisation ambitions</p>	 <p>Asset managers require scalable solutions to meet differing client needs</p>	 <p>Industry and client partnerships required to close knowledge gaps</p>

Source: Aviva Investors, table as of 29<sup>th</sup> September 2023

# Thank you

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# Important information

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