FairPensions™
The campaign for **responsible** investment

FairPensions' Climate Change Questionnaire 2009

Name of Firm: Aviva Investors
Assets Under Management: £237 billion as at 31 December 2008

Section A: Assessment of climate change as an investment issue

1. In your business, how important is climate change as a factor in investment research, decision making and engagement activities with companies?

a) Very unimportant ☐
b) Unimportant ☐
c) Important ☐
d) Very important ☒

2. With regard to question 1, and compared to 2007, has climate change become:

a) Less important ☐
b) Unchanged from 2007 ☐
c) More important ☒

3. As a fund manager, which of these factors do you see as a barrier to incorporation of climate change risks/opportunities into investment analysis and decision making?
(please mark any that apply in priority order with 1 as the most significant barrier)

a) lack of demand from clients	5
b) low current carbon price / difficulties in determining material financial impact	2
c) lack of regulatory requirements for investee companies	1
d) poor quality data on GHG emissions disclosed by firms	3
e) lack of regulatory requirements for investors	4
f) other – please specify	

Please comment on barriers to integrating climate change into investment analysis and decision making:

We believe there are three major barriers to integrating climate change into investment analysis:

1. **Business case limitation** – There may be some instances where an unsustainable company is financially rewarded due to an inefficiency in the market or uncertainty regarding future climate change policy. Where these market failures exist, government policy makers should work to promote appropriate responses that align economic and climate change goals

2. **Access to information:** Although there have been improvements in transparency, there are still few companies that publish timely and accurate information on their ESG and CSR performance. Additionally, several companies have become skilled at communicating "green-issues" at a superficial level but these are not often reflective of the company's actual long-term strategy.

3. **Market for talent:** Despite this becoming a highly sought after market, there remains an insufficient number of investment professionals that have a financial background coupled with an in-depth understanding of ESG and CSR.

4. As a business, would you welcome regulatory requirements on investee companies to <u>report</u> GHG emissions?

a)Yes ☒
b) No ☐

NB The following section from our client Engagement Report refers:

Climate Change: supporting mandatory corporate carbon disclosure

We participated in a broad coalition that included companies, some investors and over 60 MPs, calling on the Government to set out a more robust framework for the introduction of a mandatory carbon reporting standard.

The open letter to the Prime Minister challenged the Government's current position regarding the corporate disclosure of carbon emissions. It is also highly critical of the decision to weaken a provision in the Climate Change Bill for a clear path to legislation at the earliest practical opportunity.

The letter argues that the Government's new strategy, which includes a review in over three years time, "does not reflect the urgency or magnitude of the issue, nor correspond with your (Gordon Brown's) vision for robust and transparent carbon accounting under the (Climate Change) Bill."

As well as Aviva Investors, the signatories included Liberal Democrat leader Nick Clegg. ACCA, Barratt Developments, United Utilities, Friends of the Earth, Oxfam and WWF.

The open letter to Gordon Brown reads:

By creating a system of statutory carbon budgets which will place an overall limit on the UK's emissions, the government recently heralded the Climate Change Bill as signalling a new era where carbon budgets would be managed with the same prudence and discipline as financial budgets; Chancellors of the Exchequer counting carbon as they currently count the pound.

Yet despite the existence of widely supported standards and voluntary initiatives such as the Carbon Disclosure Project, the reporting of clear and comparable quantified information on carbon emission from the corporate sector, representing a significant proportion of the UK's emissions, remains inconsistent and variable.

We – the undersigned – believe that a common protocol that is consistent with international financial reporting standards would be a significant driver for change and competitive advantage in the corporate sector. It would create a level playing field, allowing consumers and investors to make meaningful comparisons, and give the City the backing it needs to become the world leader in carbon accounting and reporting.

During the passage of the Climate Change Bill, it is unfortunate that the government subsequently weakened an amendment that it accepted in the Lords for mandatory carbon reporting. Its new proposals - issuing guidance on carbon reporting by October 2009 and a review by December 2011 - does not reflect the urgency or magnitude of the issue, nor correspond with your vision for robust and transparent carbon accounting under the Bill.

We urge the government to provide a suitably robust framework in the Climate Change Bill for the introduction of mandatory carbon accounting and reporting, building on the statutory guidance that will be produced within the next year. This will give certainty to the business community and attract the significant wealth creation and jobs that London's role as the carbon finance capital of the world would deliver. A clearer, stronger signal is needed now from your Government if this opportunity is to be grasped.

In addition, our CEO is on record at the Triple Bottom Line Investing conference in November 2008 as saying:

"The climate is without question the most important contemporary example of a range of natural resources that will cause complex and profound economic development issues if used unsustainably… I particularly welcome the UK's leadership with the passage of the climate change bill and the government's decision to further reduce the target for emissions from 60 to 80% by 2050 - and to make the emissions reduction target legally binding

We believe that where carbon emissions are a material commodity with a financial value, they should be properly defined, measured, accounted for, audited and reported in a similar way to other physical commodities and financial instruments.

As a global firm, we not only report on and offset our own emissions, but we expect other companies to act accordingly or explain why they are not.

It is our belief that external costs such as carbon emissions will become internalised into company profits and balance sheets over the next several years. ***This is why we approve of the UK Governments recent decision that they are likely to make greenhouse gas emissions reporting mandatory by 2012. This is a welcome development and represents something of a success for the Aldersgate Group – which we have been supporting – in its engagement with Gordon Brown.***

We have been advocating this disclosure of emissions in our AGM voting for some years and we have embedded a requirement for some companies to respond to the Carbon Disclosure Project in our global proxy voting."

5. As a business, would you welcome regulatory requirements on investee companies to reduce GHG emissions?

a)Yes ☒
b) No ☐

NB We believe that this is best achieved via a combination of carbon trading, fiscal measures and standards.

6. Do you (directly or through any collaborative initiatives) engage with government regarding regulation for companies and investors concerning GHG emission measurement, reporting and reduction responsibilities?

a)Yes ☒ - see also our response to Q4 above.

b)No ☐

Please specify if via membership of any collaborative initiatives:

While our primary role is to ensure that our clients' investment portfolios benefit from the financial opportunities and avoid, as far as possible, the financial risks, we also recognise that as one of the largest institutional investors in the world we have both an ability and an interest in helping to shape the policy debate. As an example of the lobbying we do in this area, during 2008, we signed a joint letter to Gordon Brown (16 June 2008) supporting a House of Lords amendment to the climate change bill. The amendment aimed to make it mandatory for large companies to report on their climate change emissions. The letter was coordinated by the Aldersgate Group and we supported it as we strongly agree that where carbon emissions are a material commodity with a financial value, they should be properly defined, measured, accounted for, audited and reported in a similar way to other physical commodities and financial instruments.

Aviva Investors is also an active member of the Institutional Investors Group on Climate Change (IIGCC), which we helped to found and currently fund. In 2007 we were among a number of leading global investors that called for the negotiators at the UN Climate Change conference in Bali to make substantial progress on a post-2012 climate treaty. In a letter sent to Heads of State of major economies and the Heads of Delegations in Bali, we argued via the Institutional Investors Group on Climate Change that credible and effective climate policy is critical for protecting and enhancing the value of their investments. We said that early agreement on a post-2012 policy framework is essential for investors to plan effectively how to respond to the risks and opportunities posed by climate change. We highlighted that the key considerations of a post-2012 framework include agreement on a target for the stabilisation of temperatures or of greenhouse gas concentrations in the atmosphere to avoid dangerous climate change, ambitious absolute emission reduction targets for industrialised countries and an expanded global carbon market. We called on the world's leaders to reach an agreement for such a framework by December 2009.

Following up this activity, in Q408 we collectively issued a public policy lobbying statement produced by the Institutional Investors Group on Climate Change. That statement was signed by 152 global investors worth over $9 trillion. It called on world leaders to negotiate a strong and binding successor to the Kyoto Protocol in order to ensure that investors receive the market signals critical to funding the transition to a low carbon economy.

In addition, Aviva's SRI team was part of a small delegation to for the climate conference in Poznan during December, where Aviva Investors hosted a dinner for a small number of diplomats, negotiators and investors - including Yvo de Boer, the Executive Secretary of the UN Framework convention on Climate Change.

In January this year, Aviva fed back to the other investors and some UK policy makers regarding our findings at a conference hosted by IIGCC. Our key points were:

- We highlighted the scale of the challenge of getting an agreement from a process involving over 1,000 diplomats, with 10,000 delegates and hundreds of non governmental organisations seeking to influence the process;
- The negotiators appeared convinced by our argument that investors shared their interests in the long term health of the economy as a whole - rather than one specific company or sector – and that we were therefore useful allies in the discussions regarding the financial consequences of their actions;
- There was significant interest in our ideas for creating funding mechanisms such as inter-governmental bonds for climate change mitigation and adaptation;
- While there are a significant number of political and economic risks to the process, on balance, our experience in Poznan has led us to be more confident of a strong post Kyoto deal on climate change.

2009 is an important year for the climate change negotiations. The Copenhagen debate in December set to provide the litmus test of whether President Obama will be able to put the US in the leadership position that has indicated he intends to take. We will continue to monitor the theme and its implications for our clients' investment portfolios.

Finally, please see below for a list of colloraborative inititiaves in which we are members and actively participate which are relevant to climate change:

- The United Nations Principles for Responsible Investment (UN PRI)
- The United Nations Environment Programme's Asset Management Working Group
- The United Nations Global Compact
- The Institutional Investors' Group on Climate Change
- Carbon Disclosure Project

Please comment on your firm's stance on the regulatory framework for companies:

In addition to our above responses, we closely follow developments in political support, fiscal intervention, efficiency standards, cap and trade regimes to identify companies that are likely to benefit from the move to a lower carbon economy as well as low carbon power generators and demand side management providers who we believe have the potential to benefit from concern and increasing action to mitigate CO2 emissions.

7. As a business, would you welcome stock exchange listing rules which require companies to disclose on a comparable basis climate change related risks?

a) Yes ☒
b) No ☐

Please comment on the relevance of listing requirements to achieving useful disclosure?

At the previously mentioned TBLI conference, our CEO called on the listing authorities of global stock markets to explore whether they include the principles of the Global Compact in their listing requirements. Our CEO Alain Dromer said: "*I would like to see all stock market listing authorities make it a listing requirement that companies must evaluate the responsibility and sustainability of their business model, and either put a forward looking sustainability strategy to the vote at their AGM or explain why they were unable to do so.*" One of the provisions of the global compact relates to environmental impacts such as climate change, so we would expect disclosure from companies in this area wherever they have significant climate change impacts. We are currently working with the UN on an event later this year to promote this idea to global exchanges.

Section B: Use of climate change data

1. Does your firm request climate change related information (including data on emissions) from investee companies?

a) In no sectors ☐
b) In a minority of sectors you invest in ☐
c) In a majority of sectors you invest in ☐
d) In all sectors ☒

Please comment on which sectors and why:

We request climate change information from companies in which we invest and across all sectors through our membership of the CDP (see also C1 below). In our own discussions with companies, we focus on a sub set of sectors as some industries have a higher exposure to climate change risk and opportunities. These sectors tend to be:

- Mining and Minerals
- Oil and Gas
- Property and Construction
- Retail
- Transport
- Utilities

2. As a business, do you factor climate change related risks and opportunities into analysis and investment decisions?

a) In no sectors ☐
b) In a minority of sectors you invest in ☐
c) In a majority of sectors you invest in ☐
d) In all sectors ☒

Please comment on which sectors and why:

Our SRI desk maintains sector guidelines which help Aviva Investors identify the extent to which climate change and the carbon factor will affect companies within that industry. While the research is led by the SRI desk, it is made available to other desks via both formal and informal communication channels.

Climate change is one of four key themes that our analysts utilise to identify high conviction ideas for our SRI portfolios. The purpose of the SRI thematic analysis process is to integrate our view on the impact of the sustainability issues on the company's future cash flows and to capitalise on the market inefficiency that we believe exists in this area.

The carbon factor is one environmental metric that we integrate into our thematic research. This measure is important because we believe that there will be a necessary and secular shift towards more eco-efficient use of resources. In particular, in their efforts to curb greenhouse gas emissions, governments are making investment decisions and passing regulations and legislation aimed at reducing carbon dioxide. Consumers too are increasingly expressing a preference for 'greener' products. We believe that these trends are likely to have significant effects on the profitability of companies.

In the case of electricity generators, for example, we use the carbon factor to differentiate between the clean and dirtier carbon dioxide emitters. By analyzing management strategy, their environmental targets, current exposure to greenhouse gas emissions and expected cash flows, the team believes it can identify companies likely to benefit and those likely to falter over the long-term.

3. Are you currently making use of climate change related data provided by companies (including data on emissions) in investment decision making?

a) In no companies ☐
b) In a minority of companies where data is available ☒
c) In a majority of companies where data is available ☐
d) In all companies where data is available ☐

Please comment on your use of climate change information from investee companies:

Climate change is not yet a material consideration for all the companies producing data on their emissions. Where we believe that the impact may be material, then we will reflect this in our investment decisions and our voting activity. We have attached an explanatory note on our work on our views on climate change that also refers.

4.In the last 2 years, have climate change related factors affected investment allocations at your firm (n.b. excluding specialist SRI / Environmentally focused funds)?

a) In no sectors ☐
b) In a minority of sectors you invest in ☒
c) In a majority of sectors you invest in ☐
d) In all sectors ☐

Please comment on why climate change does or does not affect investment allocations:

Climate change clearly routinely impacts our firm-wide holdings in the renewable energy and carbon trading sectors, where we have stakes beyond those held by the SRI desk. Climate change is also an increasingly important consideration for our holdings in energy intensive sectors. However, the general market failure of climate change has not yet been corrected by policy makers in such a way that it appears on the balance sheets of those companies that create the externality in such a way that it is a material consideration for the majority of sectors that we invest in. As highlighted by the quote from our CEO in our answer to A4, we expect this to change.

Section C: Engagement on climate change issues

1. As a business, do you engage (via written or face-to-face communication) with investee companies to ensure that they address climate change related risks and opportunities effectively?

a) with no companies ☐
b) with a minority of companies you invest in ☐
c) with a majority of companies you invest in ☒
d) with all companies you invest in ☐

Please comment on why you engage or do not engage with companies to address climate change related risks/opportunities, and if relevant how you undertake engagement:

Our strategic focus for our company engagement on climate change is improving the disclosure of greenhouse gas emissions data. Part of our work is in collaboration with the Carbon Disclosure Project (CDP), which Aviva Investors helped to found.

CDP requests disclosure of management's views on the risks and opportunities that climate change presents to the business, greenhouse gas emissions accounting, management's strategy to reduce emissions or minimise risk and capitalise on opportunity, and corporate governance with regard to climate change. This disclosure is important for investors to understand how companies are addressing their climate change impacts and the impact that climate change may have on them.

In 2007, we engaged with 29 persistently non-responding companies to request CDP disclosure. Two years on, almost three quarters of the original companies (72%) have provided a response to CDP. We will continue to engage with those remaining persistent non-responders and have indicated that Aviva Investors may withhold support from the Report and Accounts at future AGMs should the companies continue to fail to respond. In addition, two thirds of the companies who have responded have chosen not to make their response publicly available. We will continue to engage with these companies to encourage greater transparency.

In 2008, we focused on six companies identified as high GHG emitters (two of these were follow-up engagements from 2007). Two of these companies responded to CDP6, however have not made their response publicly available.

Aviva continued its CDP engagement programme into 2009. We identified a further eight companies that are high climate change impact but have no disclosure on climate change either within their annual/ sustainability reporting or via the CDP website (using EIRIS data) and sent a follow-up email to all companies we have previous engaged with.

A summary of outcomes 2007-2009 is provided below:

CDP status	Number of companies	Percentage of companies
Responded to CDP*	29	71%
Declined to participate	7	17%
No response yet	5	12%

* This includes a response to CDP4, CDP5 or CDP6 whether public or not public
CDP 2009 responses are not yet published but we have had positive responses from a number of companies that have indicated that they intend to respond this year. We continue to support wider climate change disclosure and the Carbon Disclosure Project.

2. Where engagement occurs, which of the following do you seek to have in place at investee companies?

i) Named board member / senior executive responsible for addressing climate change risks/opportunities

a) Yes ☒
b) No ☐

ii) Company measures its GHG emissions and discloses to shareholders

a) Yes ☒
b) No ☐

iii) Company has an action plan with targets to reduce GHG emissions over a specified timetable

a) Yes ☒
b) No ☐

iv) Other – Please specify

Please comment on the purpose of climate change related engagement with companies:

The attached explanation of our work on climate change contains some detail on our approach here. By way of an example of our climate change related engagement, Aviva Investors' publicly supported a shareholder resolution put forward by the Rockefeller family at ExxonMobil's AGM in May 2008. This resolution called for a separation of Chairman and Chief Executive, and used its anachronistic position on climate change as one example of how the personal views of an individual in a combined role could exert inappropriate influence over the company.

Exxon has a track record of generating good returns to shareholders. However, we believe that the returns would be more sustainable under a governance structure which separated the roles of Chairman and Chief Executive. We believe that separation of the roles is generally a good thing as separated roles are better placed to ensure that no one person is in an all powerful situation. This allows for more checks and challenges, which is healthy.

We also shared the concerns of others who question the use of shareholder funds to counter the scientific consensus around climate change, and its relation to the use of fossil fuels.

We have a track record of supporting similar shareholder resolutions on these issues at this company.

Section D: Reporting

1. As a business, do you report on action taken (including engagement with companies) to reduce portfolio risks and enhance opportunities arising from climate change?

a) no reporting ☐
b) to clients who request it ☒
c) to all clients ☐
d) publicly on a website ☐

Please comment on your policy for reporting action to reduce climate change risk and enhance opportunity:

Aviva Investors provides detailed quarterly reporting on our engagement and proxy voting to clients that request it. These reports include:

- A record of all meetings where ESG issues were raised. This information is recorded in an engagement database that is updated regularly.
- Details of focused engagement meetings or ongoing dialogue with companies - including information on recommendations we have made to companies and how companies are performing against those recommendations.
- A regular update of our voting activities including reasons for abstentions and/or votes cast against management.

Additionally we provide details of our proxy voting on environmental, social and governance issues online which is readily available to the public:
http://www.avivainvestors.co.uk/financial%5Finstitutions/about_us/our_corporate_governance/voting_schedules/index.htm

Aviva Investors is a member of the United Nations Principles for Responsible Investment (UN PRI), and has chosen to embed its membership into the global investment management agreements. We believe that this will better enable our clients to hold us to account for being responsible investors, at no additional cost.

By way of background, the UN PRI has an overarching objective which is consistent with Aviva Investors policy: “As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. It goes on to say that “where consistent with our fiduciary responsibilities” signatories commit to a number of main principles, covering integrating environmental, social and governance (ESG) issues into conventional investment analysis; to being active, responsible owners by promoting good corporate practice in these areas; and to reporting on what actions they have taken. The PRI clause in our IMA indicates that we are prepared to provide our clients with this assessment, in order that they may govern our delivery of this aspect of fund management. This information is available on request and comes at no additional cost to the client. We understand that we are the first fund management signatory to the UN PRI to offer this transparency to our clients.

Please return the completed questionnaire by Friday 12th June 2009 to:

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