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The Frontiers of Sustainable Investing & Insurance

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Aviva & Aviva Investors

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Dear reviewer...

- This is our “bullet point” deck, with all the content we intend to present, but not quite all of the shiny embellishments
- Hopefully you’ll be able to appreciate the content we’ll be presenting and the conclusions we’re hoping the audience will be taking away.

Kind regards

Russ and Marte



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[abstract, for reference]

Title: The Frontiers of Sustainable Investing and Insurance

Description: In this talk we make a whistle-stop tour of what we see as best practice in sustainable investing and the integration of Environment, Social and Governance (ESG) factors into both investments and insurance.

For example, for controversial investments such as tobacco or coal is it better divest or engage? Should we be underwriting insurance for these sectors?

This session will provide senior managers and practitioners alike with a good overview of the theory, practice and advantages of considering the long-term sustainability of our businesses and the planet as being central to profitability.



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The why

- The science is now irrefutable
- We have a limited amount of time to act
- The finance sector controls the flow of capital. The flow of capital determines who gets the financing to succeed
- The downside is very material and likely undiversifiable
- The regulator is deeply concerned
- Your policyholders, shareholders and debtholders are concerned





This is my “why”...

- My grandchildren will be middle aged at the turn of the century
- The state of the world then is essentially being determined by our emissions and actions now.
- Current projections, whilst uncertain, are dire for even the median of the distribution.
- I want to look them in the face and be able to tell them that, using my skills and position I did my very best to create a better future for them
- If we were at war, the call to action would be more obvious...
climate change is more insidious, less obvious but potentially more serious



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Notation – what do we mean by ESG?

- Applying a **valuation**, **underwriting** and **risk management** approach that explicitly allows for:
- Environmental
 - Pollution, biodiversity, and climate change
- Social
 - Impact on society, employees, suppliers & stakeholders in the widest sense
- Governance
 - Due process, anti-corruption



4 key messages

- There are many favours of ESG and there is no need to compromise performance in favour of “doing good”
- Shareholder/debtholder engagement preferred to outright divestment
- Investment solutions as the bridge between assets and the insurance business
- TCFD as a means to focus down on what we want to achieve



“Would you like sprinkles with that?”

(...there many favours of ESG)

- ESG is not a single concept or implementation
- There are many ways to approach:
 - Analysis
 - Risk management
 - Implementation via investment and business decisions
- What we're not hear to talk about:
 - To persuade you that climate change #is_an_actual_thing
 - To tell you there is a single way to achieve best practice...

[next slide a graphic showing the “menu of ESG”, with some early audience participation]

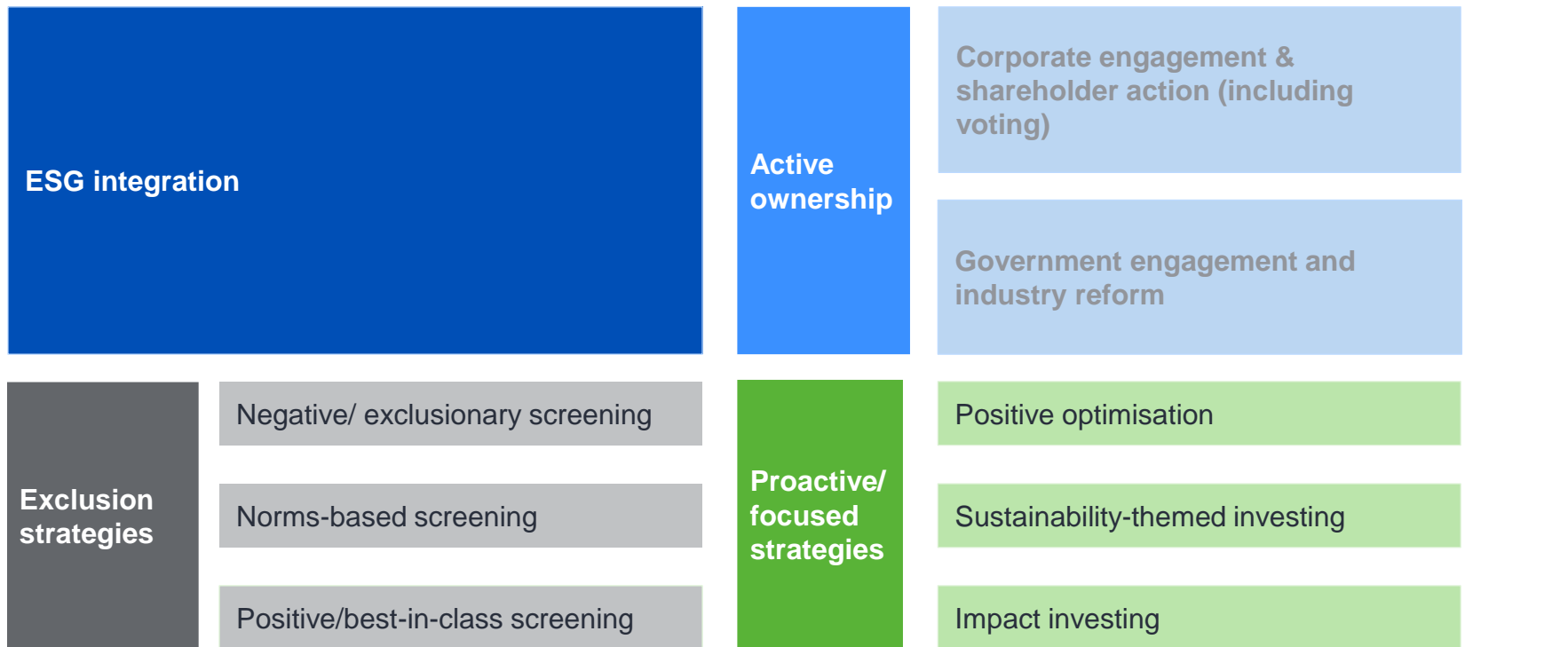


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What do we mean by “responsible investment”



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Engage or divest – it's about flows of capital & influence

Try to persuade or just walk away?

- Activists come in many forms – all may be necessary – some are more effective than others:
 - XR and their high profile disruption
 - But short on concrete ideas
 - Suit and tie activists
 - Carney
 - You're looking at two
 - There is a ground swell



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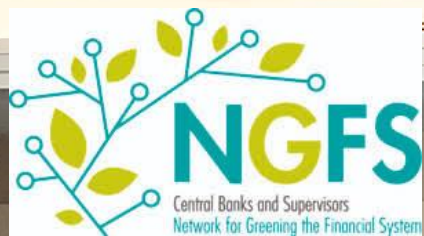
“ • Once climate change becomes a defining issue for financial stability, it may already be too late.”





**CLIMATE CHANGE
12 YEARS TO SAVE EARTH**





It's not just the central banks...

- We are seeing a dramatic shift in rules targeting responsible investment from policy-makers and regulators



Insurance angle

Underwriting dirty industry

- [as responsible companies, can we consistently apply engage>>divest to the insurance books?]
- [call to disclose insurance transition exposures alongside investment, so not just “owned emissions” but also “facilitated e]missions”]
- Prisoner’s dilemma
 - ie: if we don’t underwrite (or invest) then someone may do and make outsized profits as a result



Change requires data – making sense of it all

- Where to start?
- Assess the risk
- Disclosing in line with the recommendations of TCFD is a excellent start
- Plenty of specialist vendors



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Who cares?

- Your shareholders and bond holders (have you actually asked them? We have!)
 - Financial risk are material, if uncertain
- The regulators
 - Those risks are systemic
 - Especially PRA, FCA and French regulator
- The government
- We'll all be (mostly) dead by the time this really bites
 - So why wouldn't you do anything?



What do you give up by considering weighting towards ESG?

(nothing)

- Present retrospective data
- Point to the fact this is about the future (not historic data) and the factors that will weight to ESG (particularly E) being predictive of performance in future



Story time

- Bring to life with case studies
- Russ:
 - TCFD – measurement is the first step...
- Russ and Marte:
 - Aviva's climate change strategy
- Marte:
 - Climate transition fund – answering a client challenge



TCFD case study

- **Problem/need**

- What are the financial risks and opportunities posed by climate change?

- **What done**

- Identified, modelled, sized and disclosed the size of Aviva's exposure to the facets of climate change risk

- **Solution**

- See our TCFD report online
- Search “Aviva TCFD 2019”



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Aviva's Climate-Related Financial Disclosure 2018

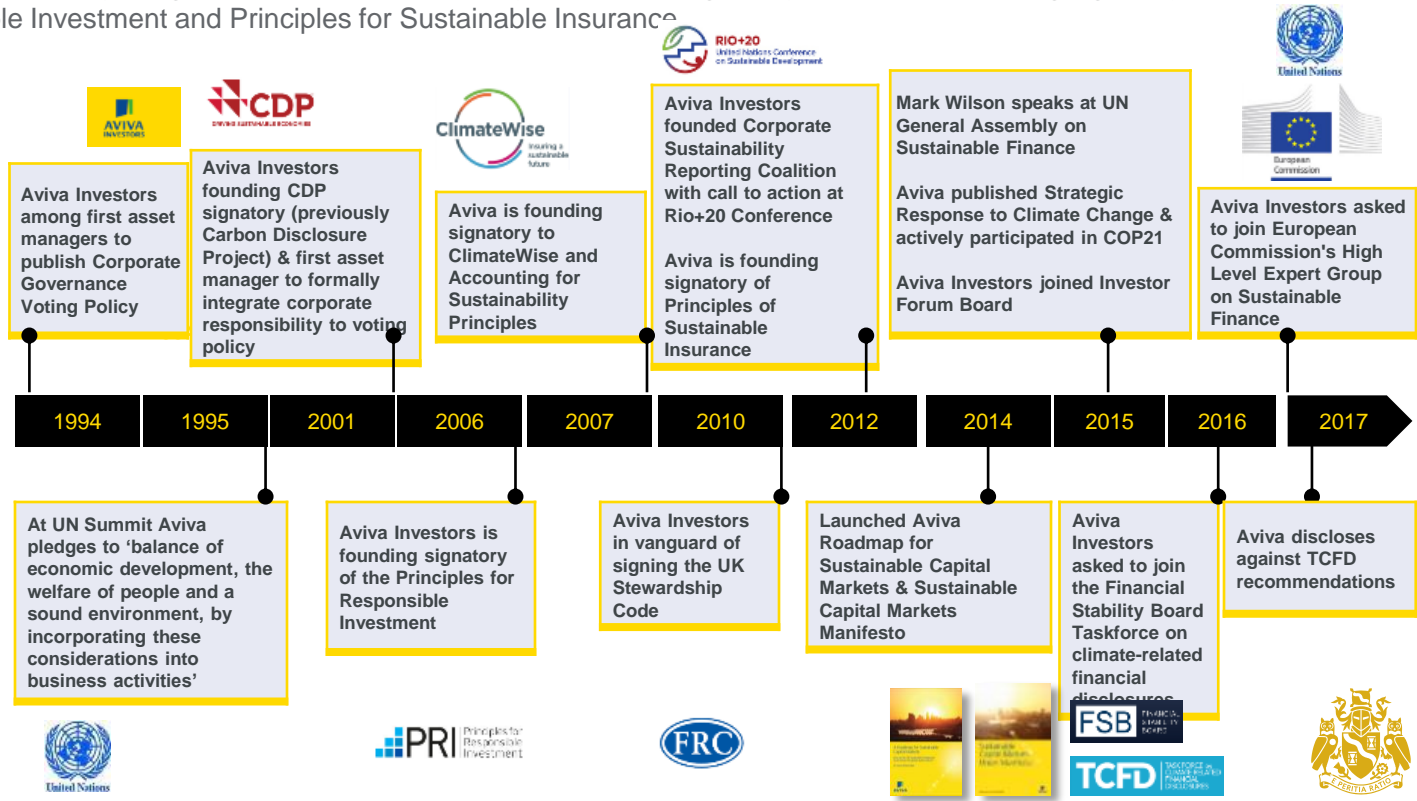


| Retirement | Investments | Insurance | Health |



Heritage

Aviva has been at the forefront of industry developments with respect to sustainable finance since the 1990s. We were the first asset manager to formally integrate corporate responsibility into our Voting Policy and were a founding signatory of the Principle for Responsible Investment and Principles for Sustainable Insurance



“ Not only are we long-term investors with a **responsibility to act sustainably**, we are also there to **protect our customers** against the adverse impacts of climate change itself.”

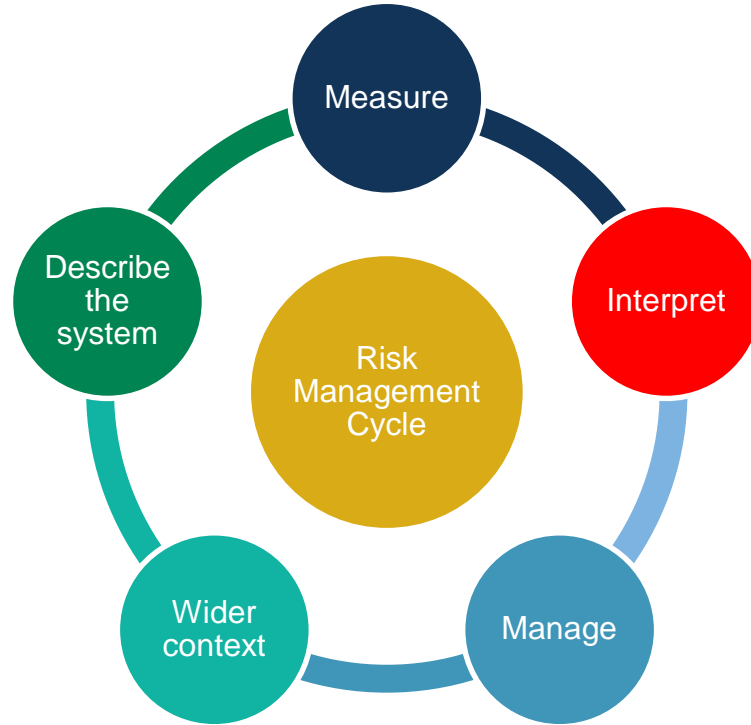
Maurice Tulloch, CEO, Aviva



Measurement is the first step to management

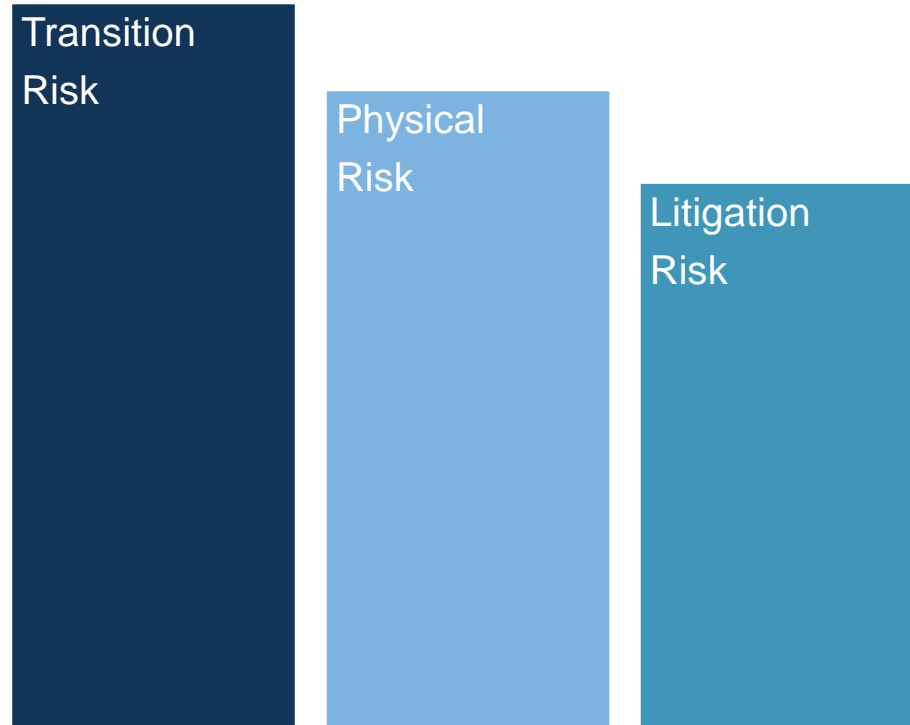


But you need to understand what you're looking at...



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3 Pillars of climate change's financial impact



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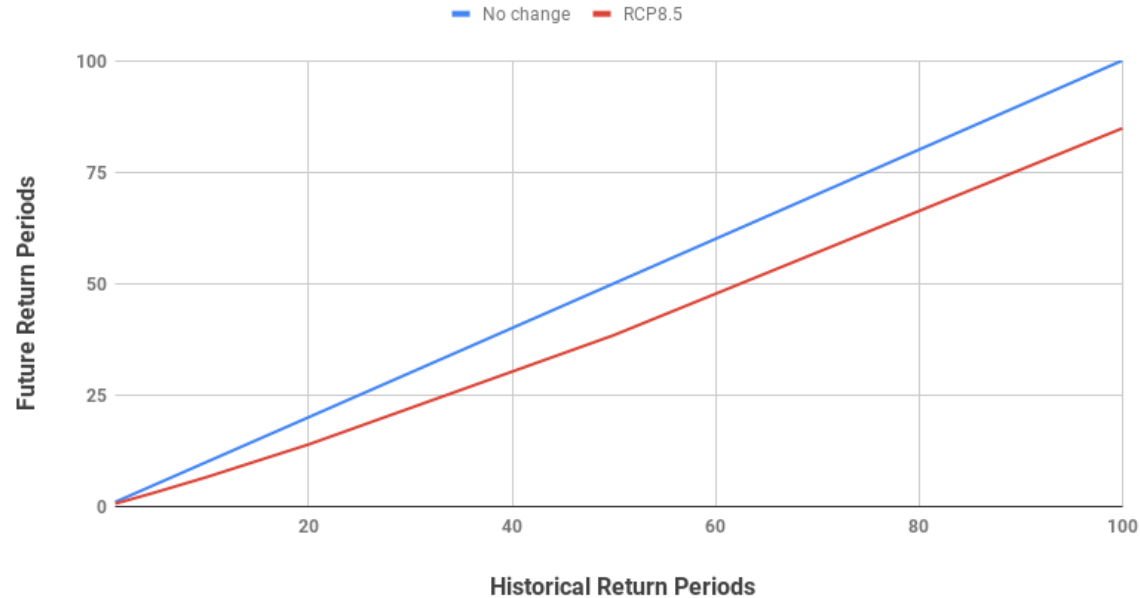
Transition risk: the cost of putting things right



Physical risk: the cost of inaction

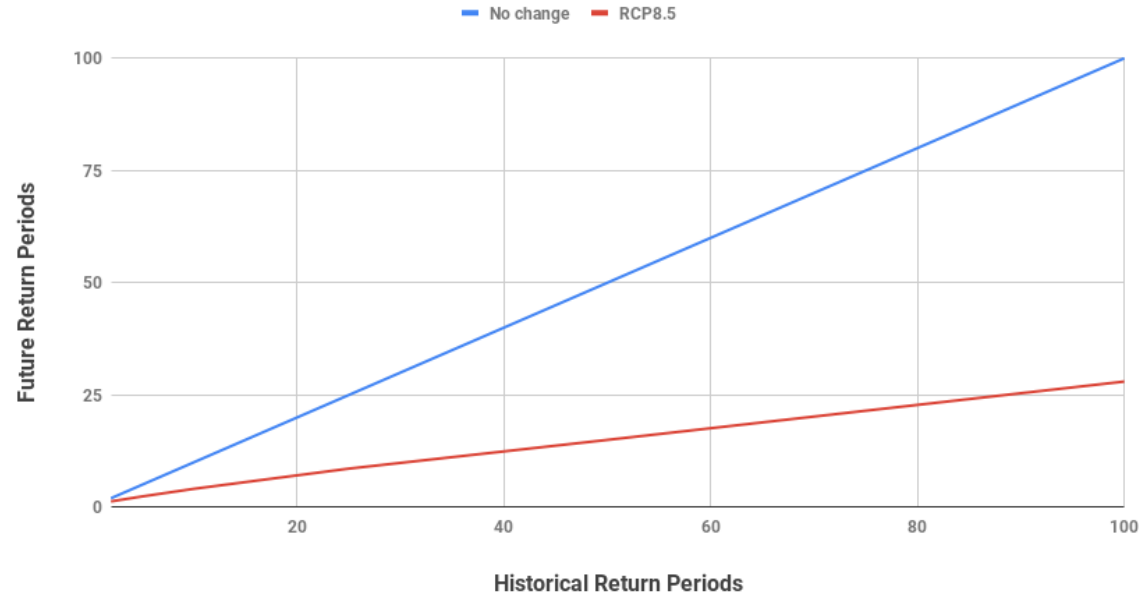
Physical risk: leveraging catastrophe models

Future changes in windstorm for Great Britain



Physical risk: leveraging catastrophe models

Future change in floods for Northumbria in 2050



**Litigation risk:
It's all their fault!**



What the modelling tells us

- There is greater cost from inaction
- PV of physical risk costs more than transition risk
- The output is decision useful, despite the uncertainty
- Simple actions can have large impacts
- Modelling sophisticated but immature
 - How useful are dollar losses given the huge modelling uncertainty?
- Learning to interpret the data
 - Expert insight, pragmatism experience required



Responding to the call

Designing Aviva's climate change strategy

- **Problem/need**

- “What on earth do we do about our exposure to climate change?”

- **Process**

- Worked with climate scientists, investors, underwriters to develop a climate change strategy that positions to the business to respond to climate change

- **Solution**

- An internal strategy that will be published in due course



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[Aviva's climate change strategy]

- The material for this is still being finalised as Aviva's strategy is nearing the end of internal governance. It'll be ready in plenty of time for the conference.



Bring strategy to life

Launching the Climate Transition Fund

- **Problem/need**

- Following their Article 173 (climate change) disclosure Aviva France understood better their exposure to climate change the the demands from their customers for products that address it. They asked Aviva Investors for a fund to bring this to life.

- **Process**

- [Marte to expand]

- **Solution**

- The fund was launched [TBC]



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Building a Sustainable Fund Range



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First out: Climate Transition Fund

“

Companies offering goods and services providing solutions for climate change mitigation and adaptation

Investable universe
~700 stocks



Portfolio & climate risk management

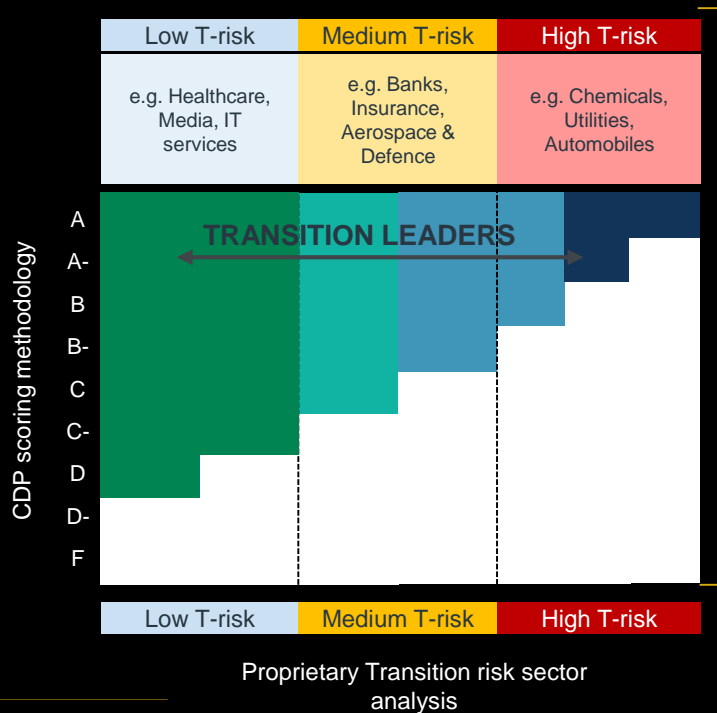
Companies positively aligning and supporting the transition to a low carbon economy by:

- Aiming to reduce to zero the emissions through their value chain, or
- Transitioning to a warmer world by making clear efforts to adapt



Transition orientated, risk aware management

- Companies positively aligning and supporting the transition to a low carbon economy by:
 - Aiming to reduce to zero the emissions through their value chain, or
 - Transitioning to a warmer world by making clear efforts to adapt

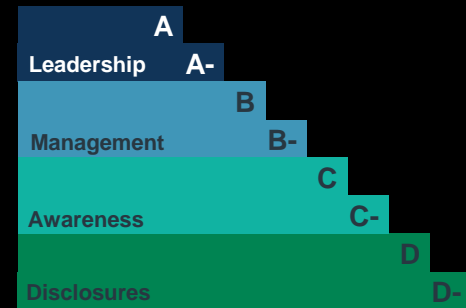


Top down sector analysis

- Integration & aggregation of research:
 - Decarbonisation
 - Physical impact
- 8 sectors, 24 industries and 159 sub-industries covered

Bottom up company analysis

- CDP scoring methodology



F=Failure to provide sufficient information to be evaluated



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Source: Aviva Investors as at 31/12/2018.

A possible shape for best practice?



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Questions

Comments

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