AVIVA INVESTORS
RESPONSIBLE INVESTMENT

Annual Review 2014

Sustainable Income | Capital Growth | Beating Inflation | Meeting Liabilities

For today's investor

AVIVA INVESTORS

Contents

Virunga National Park, in the Democratic Republic Of Congo. For more information on how Aviva Investors has been involved in the efforts to protect this World Heritage Site for future generations, see page 16.

2014 HIGHLIGHTS

- Our Responsible Investment integration management system now covers over 90% of Aviva Investors global AUM (up from 80% in 2013)
- We expanded our Responsible Investment Officer (RIO) network to cover our global offices and now have 33 RIOs (up from 25 in 2013)
- We engaged with over 800 companies on environmental, social and/or governance (ESG) issues
- We organised several speaker series to develop the knowledge among our mainstream investment professionals of ESG material issues
- We voted at over 4,000 company meetings on over 44,000 resolutions
- We contributed to over 500 positive changes through our voting and engagement
- We were a founding partner of the Corporate Human Rights Benchmark

OUR APPROACH TO RESPONSIBLE INVESTMENT

EUAN MUNRO

Chief Executive Officer

As CEO of a major asset manager, I can see both the risks and the opportunities that issues such as corporate governance and climate change present to our clients. This is why environmental, social and governance (ESG) considerations form an integral part of both our investment and research processes at Aviva Investors, across all asset classes and all regions. This approach enables us to offer better quality, more risk-aware investment propositions for our clients. For us, it's about aligning our organisation and investment philosophy for the long term.

As asset managers, I believe our industry has a fiduciary duty to do what we can to protect and enhance the value of client assets. I think this includes putting pressure on policymakers to address the key sustainability challenges within our capital markets and the broader economy.

I am extremely proud that Aviva Investors already does a great deal across these areas to show that we can have responsible, competitive and sustainable capital markets with a long-term perspective.

We have always believed that companies conducting their business in a responsible and sustainable manner are more likely to succeed over time, benefiting our customers and society as a whole.

That's why we were one of the first global fund managers to integrate environmental, social and governance (ESG) issues into our investment decision making and one of the first to express our views through the power of shareholder voting. We are a founding signatory to the UN-backed Principles for Responsible Investment (PRI) and one of the first signatories to the UK Stewardship Code.

Today, we believe we're among the leaders in our industry. We are responsible owners who encourage greater transparency, sustainability and better corporate governance. In this way, we shape new corporate behaviours that help to reduce the risks for our clients.

We challenge accepted practices and promote fresh debate in every industry in which we invest. In doing so, we create greater shareholder value while building a genuine legacy for our customers, our communities and the planet that we all share.

OUR RESPONSIBLE INVESTMENT STRATEGY

We believe that as responsible investors, we protect and enhance value for our clients by promoting more responsible and sustainable business behaviours. Our Global Responsible Investment Team works with our fund managers and analysts to integrate ESG issues into our approach. This enables us to exploit market inefficiencies in ESG analysis. At the same time, we actively engage with companies and use our voting rights to help improve their performance on material ESG issues.

Our ambition is to be known in all major markets as a world-leading responsible investor.

THE THREE STRATEGIC PILLARS OF OUR APPROACH ARE:

1. **Integrating ESG factors into our investment decisions** – we partner with fund managers and analysts to create bespoke ESG programmes for all of our investment processes. This leads to improved investment outcomes for our clients.
2. **Active ownership through engagement and voting** – we use our influence to promote good practice among those companies in which we invest. This enables us to gain added insight and so reduce the investment risk for our clients and, often, the broader economy and society at large.
3. **Market reform –** we are tireless advocates for new policy measures that support more sustainable capital markets. By working at a national, EU and UN level, we seek to correct market failures.

THEY ARE UNDERPINNED BY:

1. **Risk management –** we engage with key stakeholders on the issues they raise regarding our investments. This enhances our investment decision-making and reduces the risk of a business franchise suffering a catastrophic loss in value.
2. **Commercial differentiation –** we aim for true thought leadership. We demonstrate this through excellence in ESG integration and active ownership and this differentiates our brand.

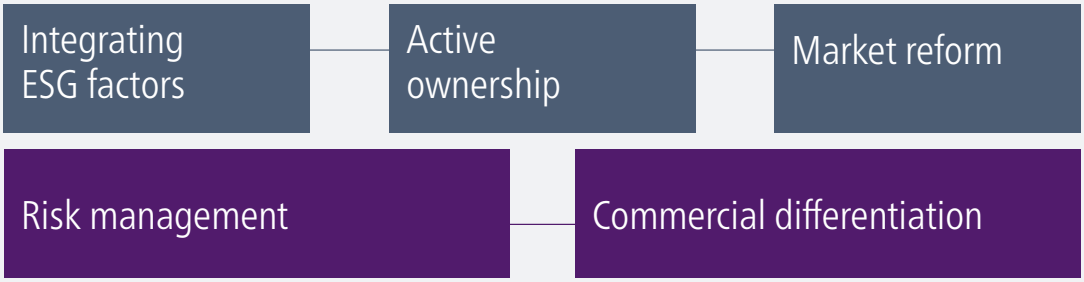
STEVE WAYGOOD

Chief Responsible Investment Officer

We have a unique perspective on capital markets and we use this insight to shape recommendations and engage with policymakers to improve their market sustainability. It is in all our interests that companies and economies are sustainable and I am proud of the contribution Aviva Investors makes.

On the following pages you will be able to read more about the team, what we do and what we have helped Aviva Investors achieve by way of a positive legacy.

OUR APPROACH



OUR GLOBAL RESPONSIBLE INVESTMENT TEAM

Our Global responsible Investment Team (GRI) is comprised of six corporate governance and responsible investment professionals and is headed by Dr Steve Waygood, our Chief Responsible Investment Officer. Our team acts as a centre of expertise for all environmental, social and governance matters. We are on hand to work with fund managers and analysts around the globe and in every asset class.

Our internal network of 33 Responsible Investment Officers (RIOs) means that we have experienced ambassadors for responsible investment positioned right across our business.

Our activities are reviewed each quarter by our GRI Advisory Committee. The committee is comprised of five experts in governance and sustainability issues who provide advice and oversight. We report on our activities at least annually to the Aviva Investors Executive Committee and the Aviva Governance Committee.

STEVE WAYGOOD

Chief Responsible Investment Officer

Steve leads Aviva Investors' engagement and voting on environmental, social and governance (ESG) issues.

He is the founder of the Sustainable Stock Exchanges Initiative and the Corporate Sustainability Reporting Coalition and was on the board of the UK Sustainable Investment and Finance association (UKSIF) for many years. He also helped produce the United Nations Principles for Responsible Investment and was part of the UK delegation to Rio+20.

Steve is a member of the CFA Institute, has a degree in economics, a PhD in sustainable finance and lectures at University of Cambridge Institute for Sustainability Leadership.

ADELINE DIAB

Head of Responsible Investment Integration

Adeline leads on the integration of environmental, social and governance (ESG) considerations into our investment analysis and processes. She also leads our Responsible Investment Officer network, supporting them in identifying material ESG issues and seeking out global opportunities to integrate ESG into mainstream investment processes.

ABIGAIL HERRON

Head of Responsible Investment Engagement

Abigail leads on environmental, social and governance (ESG) engagement across all asset classes. She sits on the UKSIF Leadership Committee, the 30% Club Investor's Steering Committee, the FTSE4Good Banking Sector Working Group and the Travis Perkins Non-Executive Environmental Advisory Forum.

DORIS KO

Corporate Governance Executive

Doris is responsible for the submission of proxy vote instructions, ensuring effective and robust voting on over 4,000 companies annually in line with our Corporate Governance and Corporate Responsibility Voting Policy.

NATHAN LECLERCQ

Head of Corporate Governance

Nathan leads on our governance function, including the formulation of our corporate governance and voting policies. He works alongside fund managers in assessing company corporate governance and remuneration arrangements, and ensures that votes are submitted in accordance with Aviva Investors policy.

STEPHANIE MAIER

Head of Responsible Investment Strategy and Research

Stephanie leads on strategy development for responsible investment. In September 2013, Stephanie was elected to the Board of Directors of the UK Sustainable Investment and Finance Association (UKSIF). She is also the Chair of the Institutional Investors Group on Climate Change (IIGCC) Corporate Programme.

OUR GLOBAL NETWORK OF RESPONSIBLE INVESTMENT OFFICERS

One of the major innovations we have pioneered to facilitate responsible investment integration across our business is the launch of our Responsible Investment Officer (RIO) network.

This network of fund managers, analysts and other senior managers is the first point of contact for ESG integration across every investment desk and every major region.

Our RIOs play an active role in embedding ESG data and analysis fully into each desk's investment process. This includes working with the GRI Team on the most appropriate use of ESG data and the development of new purpose-made tools. The network is co-ordinated by our Head of Responsible Investment Integration, Adeline Diab. During the course of 2014, it grew to include 33 individuals across our business and further expansion is still underway.

Global Credit

Credit Management	Credit Research	Rates
US: Todd Youngberg	US: Asish Dafria	UK: Anton Kerkenezov
UK: Colin Purdie	UK: Credit Analysts	UK: Anthony Philips
UK: Richard Harlet	FR: Clémentine Boris-Garnier	FR: Denis Lehman
FR: Xavier Nicolas	FR: Karine Petitjean	

Equity and Multi Assets

Equity	Multi Assets
UK: Will Ballard	UK: Nick Samouilhan
UK: Brad Beardsell	UK: Isabel Emo Capdilista
UK: Mark Denham	UK: Nahed Ennasr
FR: Jean-François Chambon	
FR: Frederic Tassin	

Real Estate and Infrastructure

Real Estate	Real Estate Multi Manager	Infrastructure
UK: Michael Borello	UK: Kathleen Jowett	UK | FR: David Dahan
UK: Alex Hill	UK: Paul van de Vaart	

Marketing and Investment Governance

Risk	IT	Legal and Compliance	Business Development
UK: Hemesh Naran	UK: Divyen Mistry	FR: Andre Petit	UK: Rose English
UK: Colin Purdie	UK: Credit Analysts	SING: Tom Bulfin	FR: Véronique Cherret
UK: Richard Harlet	FR: Clémentine Boris-Garnier	FR: Denis Lehman	FR: Sophie Berlandier
FR: Xavier Nicolas	FR: Karine Petitjean		

UK: United Kingdom FR: France US: United States of America SING: Singapore

DELIVERING PROGRESS ON INTEGRATION

Over 90%

of the £240 billion Aviva Investors manages is covered by a responsible investment policy.

At Aviva Investors, we've always taken a progressive approach to incorporating ESG issues into our investment analysis and decision making. Our Global Responsible Investment Team was founded with the explicit goal of integrating ESG factors into all our investment processes. Progress has been quick. As at the end of 2014, over 90 per cent of the £240 billion Aviva Investors managed for its clients was already covered by a specially tailored responsible investment policy.

It is important to be clear what is meant by the "integration" of ESG issues and, in particular, what it does not mean. Integration is a phrase that has evolved in the responsible investment world over the past decade. It is generally used to refer to an evaluation of environmental, social and corporate governance issues that could be material to share price - and then the integration of that analysis into security selection and portfolio management. Put simply, integration is about long term investment that evaluates all risks and makes a proper assessment accordingly.

Integration is not what is often referred to as an ethical approach to investing. This typically involves avoiding - or negatively screening - portfolios for controversial companies, such as those involved in manufacturing defence equipment or tobacco. Some individuals want to avoid these areas on the basis of personal values or religious beliefs, and an integration strategy by itself does not deliver for them. To be clear, this means that our approach to integrating ESG issues into all portfolios does not deliver an ethically screened portfolio unless the client also specifies that this is what they would like.
In addition, if doing the wrong thing from a sustainability perspective continues to pay companies, even over the long term, then we have a situation where the market is said to be failing. Examples of this include the over-extraction of timber, fish and climate change as well as the neglect to labour standards in supply chains. In the presence of market failure, integration by itself does not lead to more sustainable outcomes for society or the planet. This is why our work to engage with governments to encourage them to correct these market failures is particularly important. In other words, in our view, integration by itself does not equate with a responsible approach to investment. This requires a considered approach to company and government engagement too.

INTEGRATION TOOLS

All Aviva Investors fund managers and analysts have access to our voting record and the ESG scores for the individual companies in which we invest.

This information is available on a company-by-company basis thanks to the unique 'ESG heat map' that we designed in-house and then made available to our investment teams through the financial data provider Bloomberg.

Bloomberg

This is just the first step however, and we are continuing to work on a range of new portfolio management tools to better facilitate ESG integration into our analysis and decision-making across all asset classes.

"Our proprietary 'heat map' affords us tremendous insight and contributes greatly to the assessment of the risk profile of individual investments."

Paul van de Vaart

Fund Manager

"Incorporating ESG considerations provides us with a global research and analysis framework. This strengthens our investment management capabilities. At Aviva Investors, being a long-term investor also means being a responsible investor and the RIO network gives us the momentum we need to take ESG information forward as part of our daily work."

Denis Lehman

Developed Market Rates Team

BUILDING KNOWLEDGE AND UNDERSTANDING

Our GRI Team sources a range of high-quality independent ESG data from brokers and research organisation as well as information from less conventional sources such as NGOs and civil society. This enables us to build up a rich and sophisticated picture of how environmental, social and governance issues impact the investments we make. We currently allocate approximately seven per cent of our equity research budget to ESG research.

We actively collaborate with external analysts and frequently commission research on a range of issues which enables us to better understand our exposure to ESG risks and opportunities.

We also organise speaker events to further develop our investment professionals' understanding of a range of material ESG topics.

For example, in July 2014, we published joint research with Standard & Poor's and Carbon Tracker entitled 'Carbon constraints cast a shadow over the future of the coal industry'. This examined how carbon constraints are changing the ratings landscape and the outlook for the coal industry as a whole. This report was presented internally to our credit team and then externally at the annual PRI In Person event, held in Montreal in September 2014.

INTEGRATION IN ACTION

Here we look briefly at how we integrate environmental, social and governance issues into a variety of different asset classes.

FIXED INCOME

Two thirds of Aviva Investors' assets under management (AUM) are classified as fixed income, which explains why ESG integration in this asset class is a priority for us.

Our fixed income holdings include loans to governments, public authorities and companies in the form of government and corporate bonds. ESG research can provide valuable information and insight by identifying risks that may impact on the performance or reputation of both countries and companies.

Increased litigation, regulation and other pressures on a company's business model, stemming from ESG issues can negatively impact earnings, cash flows and credit ratings in both the long and short term.

In 2014, we worked closely with our Emerging Market Debt Team to embed ESG factors at the heart of the analysis and country-risk framework we employ. At the end of the process, specific ESG data points represented ten per cent of the valuation model.

Elsewhere in our Credit Team, we enhanced the credit notes we produce for presentation at each investment meeting to include a clearly explained ESG rationale on each company's bonds.

CASE STUDY: ENVIRONMENTAL FOCUS

Our credit analysts have successfully incorporated environmental considerations into their fundamental analysis. This analysis feeds through to our investment decision-making process as the degree of conviction held by our analysts dictates the size of the positions we take. Within the utilities sector, examples of preferred names which benefit from a more sustainable environmental policy include Gaz de France (GDF) and SSE (formerly Scottish and Southern Energy), which generates more power from renewable sources (primarily wind) than the majority of its UK-based peers.

It has a committed policy to renewable energy and continues to be a market leader in terms of investment in sustainable power generation. With ever-increasing environmental regulation changing consumer behaviour, we believe that choosing to position the business at the forefront of the renewable energy space should be positive for the business and lead to above average returns. As a result, we invested in the company.

"Being a Responsible Investment Officer ensures that I'm at the forefront of a very important, but often overlooked, concept in the investment world. Whether one considers client demand, investment performance or our own corporate ethos, responsible investment is a factor that has to be incorporated if we are to successfully manage investments and grow assets in a market where differentiation can otherwise be difficult"

Colin Purdie

Head of Global Investment Grade Credit

EQUITIES

Corporate governance considerations and active ownership have long been part of our approach to equity investment. In 2014, we continued to develop our investment processes, particularly in the Emerging Market Team, to reinforce the valuation and discount models we employ to analyse specific ESG issues.

"A focus on good corporate governance is one of the cornerstones of our investment strategy across emerging markets and Asia. There is clear evidence supporting our approach of investing in companies with good governance and taking an active approach in encouraging companies to improve their disclosure and overall business practices. Over the long term, we believe that as minority shareholders, this will help not only protect our investments but also actively aid us in generating higher and more consistent returns."

Will Ballard

Head of Emerging Markets Equities

CASE STUDY: BOARD GOVERNANCE

Concerns around corporate governance were raised in Synthos, a Polish chemical company, when we identified that businessman Michael Solowow owned 64 per cent of the company. Within emerging markets, governance is a key aspect of our analysis and valuation process with our system raising a 'red flag' for further analysis whenever a single shareholder exceeds a 30 per cent holding. At the same time, we also noted a lack of clarity regarding the role of the company's chief financial officer (CFO).

We therefore adjusted our valuation and applied a discount to our target price due to the additional governance risks presented by Synthos. This has reduced our target price for the investment, which materially affects our position size and our exit point. We own the stock within our Emerging Market Equity Small Cap Fund and are closely monitoring this investment.

REAL ESTATE

We recognise the significant impact that buildings have on their environment. The longevity of property assets – most buildings stand for between 30 and 50 years – makes the consideration of long-term social, economic and environmental impacts critical. Addressing these issues from an investment perspective can also deliver real value in terms of cost savings, enhanced returns and reduced regulatory and obsolescence risk.

For this reason, we include sustainability factors in our investment decision making and due diligence processes as we consider such analysis an essential part of our fiduciary duty to our clients. Our Responsible Property Investment Committee, comprising representatives from across our real estate business provides a forum for co-ordinating and monitoring our approach and sharing best practice.

We continuously update the investment process – acquisition, holding period and sale – for direct real estate transactions, further integrating ESG considerations into our process. As part of the process, we set internal objectives to manage the impact of our activities on the environment and protect the long-term value of our investments. At the same time, our Global Indirect Real Estate team integrates ESG considerations into each step of their investment process – from new fund intake, through our staged approval process and both our quarterly and annual asset management reviews. We actively vote on fund resolutions and engage with fund managers to encourage their participation in the Global Real Estate Sustainability Benchmark (GRESB) survey.

CASE STUDY: FLOOD RISK

In light of the recent flood crisis in the UK, ESG considerations made it important for us to asses our portfolios' current and future exposure to UK flood events. To do this, the Global Indirect Real Estate team sent a survey to our 12 largest real estate managers in the UK representing roughly 80 per cent of our UK AUM. Our research revealed that while roughly half of our funds invest in properties located on UK floodplains, only 24 per cent were affected by the crisis and that only around one per cent of our actual AUM was impacted.

We received detailed responses from all but one of the managers we contacted. However, after engagement from our team, this manager has agreed to join the EcoPAS initiative, which will help it to better monitor its risk to UK flooding events.

"Our team considers ESG issues a key part of our investment process. At our core, we believe that good ESG policies will manifest themselves in enhanced future returns for investors in indirect property, exactly as it should in direct property or securities investing. Directly embedding good ESG practices also provides a degree of future proofing, for instance, by ensuring buildings do not become obsolete early, or reducing the risk of reputational damage. As a global team, our key challenges lie in the ever-changing landscape of global environmental legislation and the regional differences in both approach and implementation of ESG issues."

John Gellatly

Head of EMEA, Global Indirect Real Estate

MULTI-MANAGER RESEARCH

The Multi-Manager team are the central source of external manager research and selection within the Aviva Group. The team is responsible for creating a 'buy list' from which Portfolio Managers and other internal users populate their products and platforms.

The team has a robust selection and monitoring process and assessing environmental, social and corporate governance (ESG) factors is integral to the Research phase. ESG factors are embedded in the due diligence, investment analysis, decision-making and monitoring activities, including active engagement with fund managers on their own stewardship activities.

"The Multi-Manager Research team is in the stimulating and rewarding position of being able to meet the world's finest fund managers on an ongoing basis. This affords us the ability to question them on responsible investing real-time and builds up a picture of how it is being viewed and integrated 'at the coal face'. It is clear that fund managers are slowly but surely caring more about this area."
Ian Aylward
Head of Multi-Manager Research

CASE STUDY: BIENNALE ESG SURVEY 2014

The Multi Manager Research team conduct a biennial ESG survey of asset managers to raise awareness and enhance our understanding of best practice regarding ESG integration in the industry.

We conducted our second survey in 2014 and were pleased that we had double the number of respondents (60 in 2014 compared to 31 in 2012) representing assets of over £5 trillion. The level of integration and resources has increased, with the key driver identified as risk management. It is encouraging that 88% of respondents believe ESG related issues are important to their clients and that 73% see ESG factors as likely to be incorporated in all mainstream funds in the future, however the resources are yet to catch up.

Key findings included:

- 90% considered ESG factors as part of their investment process (84% in 2012)
- 65% had a dedicated ESG resource (42% in 2012)
- 68% subscribe to an ESG information provider (55% in 2012)

ACTIVE OWNERSHIP AND STEWARDSHIP

We use our influence as shareholders to promote responsible and sustainable practice among those companies in which we invest. We were in the vanguard of signatories to the UK Stewardship Code and today we fully support and comply with all the principles established in the code.

Our approach to stewardship and each of the seven stewardship principles is set out in our Stewardship Statement. This is supported by our Corporate Governance and Corporate Responsibility Voting Policy, which sets out our voting position on a range of issues associated with board accountability, effectiveness and company values.

We apply this policy across the tens of thousands of resolutions put forward at the thousands of company AGMs where we exercise our voting rights. This helps us encourage companies to be better governed, more transparent and more sustainable. These are qualities we believe will deliver better long-term returns for our clients.

In December 2014, we were pleased to receive independent assurance on our Stewardship Code statement under the AAF 01/06 Stewardship Supplement by PwC – one of less than ten per cent of signatories to the UK Stewardship Code to do so.

NAPF STEWARDSHIP AGM

In November 2014, we were proud participants in the first ever National Association of Pension Funds (NAPF) Stewardship Accountability Forum. Our CEO, Euan Munro, Head of Equities and Multi Assets, David Lis, Chief Responsible Investment Officer, Dr Steve Waygood and Head of Responsible Investment Engagement, Abigail Herron, participated alongside senior representatives from Legal & General Investment Management (LGIM) and UBS Global Asset Management. It was a great opportunity for pension funds of all sizes to question asset managers on their stewardship activities on behalf of pension savers and we received some excellent feedback from participants.

"Although asset managers are expected to comply with or explain their objections to the Stewardship Code, asset owners do not hold them to account to any great extent. It is imperative that pension trustees consider the long-term stewardship of the capital their funds are invested in as a key responsibility and this forum represents a great opportunity to make progress in this area."

Euan Munro

CEO

STEWARDSHIP ACROSS ASSET CLASSES

While the UK Stewardship Code has the most direct relevance to equity investments, at Aviva Investors our stewardship principles are also applied to other investments where appropriate. Our Real Estate Multi Manager team has formally outlined how it applies each of the seven stewardship principles to their investments.

To learn more: see the Aviva Investors REMM Stewardship Policy.

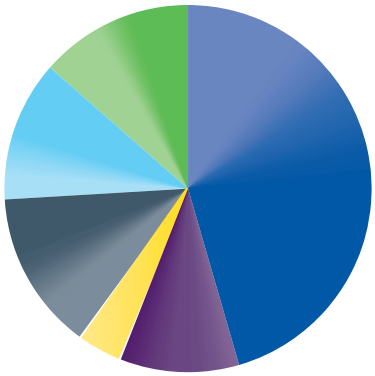
To learn more: see the Aviva Investors Stewardship Statement and the Aviva Investors Corporate Governance and Corporate Responsibility Voting Policy. You can access our voting record over the last year by visiting: www.avivainvestors.com/voting_schedules

ENGAGING FOR CHANGE

We engage with hundreds of companies each year with the aim of improving corporate behaviour and shareholder returns. The issues we address focus on good governance and range from human rights, health, safety and labour standards to operating in environmentally-sensitive habitats, corporate values and tackling bribery and corruption.

By focusing on the long-term issues, and encouraging companies to place sustainability and good governance at the centre of their strategy and operations, we create a legacy for our customers and the communities and environment we live and work in.

ENGAGEMENT ISSUES COVERED DURING THE YEAR:



Corporate governance and strategic direction[1]	45.7%
IPO related	0.1%
Management succession, board and auditor	10.2%
Diversity	3.9%
Remuneration	14.4%
Social and environmental	12.3%
Routine management	13.4%

[1] These numbers include the letters sent to the chairmen and secretaries of UK FTSE All-Share companies advising them of our 2014 corporate governance and corporate responsibility voting policy, which highlighted our key areas of focus for 2014.

We engaged with

over 800

companies in 2014

CASE STUDY: OPERATING IN WORLD HERITAGE SITES

We engaged with SOCO International, a FTSE250 oil and gas company, regarding its operations in Virunga National Park, a designated World Heritage site in the Democratic Republic of Congo (DRC). We felt its operations in this protected area and the associated reputational impact was damaging for SOCO and, consequently, a concern for shareholders.

In the second quarter of 2014, our engagement intensified. We commissioned research providers, EIRIS, to produce an independent report into SOCO's activities in the area. It set out six recommendations relating to better governance, transparency and the management of human rights issues. It also published a biodiversity policy with a commitment not to carry out exploration or production within world heritage sites. We presented this to the board of SOCO, which welcomed the report and its recommendations, and we shared it with other interested investors at a roundtable discussion we hosted at our offices in May. Our aim is to work with companies to achieve outcomes that are beneficial to them, its investors and our clients.

On 11 June, SOCO announced it would not drill in the Virunga National Park and not conduct any future operations in any other World Heritage sites. This breakthrough led to the withdrawal of the World Wildlife Fund's (WWF) complaint lodged at the OECD National Contact Point. SOCO has not yet addressed all the recommendations and there continue to be ESG risks associated with historic and future operations in the DRC. Consequently, we remain actively engaged with SOCO to resolve these outstanding concerns.

"We commend and appreciate the time and effort that Aviva Investors put into engaging on this important issue which played an integral part in efforts to safeguard Virunga. This illustrates the power of constructive engagement and the impact of effective and responsible stewardship of capital."

David Nussbaum

Chief Executive, WWF-UK

INDUSTRY COLLABORATION

Aviva Investors actively engages with other investors in the belief that investor collaboration is an essential tool for influencing company behaviour. We actively participate in a range of investor groups and collaborative initiatives, including:

- **30% Club**
  We are members of the Investor Group for the 30% Club, which was launched in the UK in 2010 with the goal of making 30 per cent of FTSE-100 boards female by end 2015. We were also one of the first asset managers to include voting against the chairman of the nominations committee where there were no women on the board.
- **Access to Medicines Index**
  This initiative independently ranks pharmaceutical companies' efforts to improve access to medicine in developing countries. We were a founding signatory to the investor statement, and in November, we hosted the London launch of the 2014 index and are currently building an engagement programme for the Index.
- **CDP (Carbon Disclosure Project)**
  We were founding signatories of the CDP and in 2010 catalysed and funded the Carbon Action Programme.
- **Institutional Investor Group on Climate Change (IIGCC)**
  We chair the corporate programme, engaging with carbon and energy-intensive companies on carbon risk.
- **Principles for Responsible Investment**
  We were founding signatories of the Principles for Responsible Investment. Currently, we are active members of the PRI, who lead and support collaborative engagements on issues including fracking, human rights and vote confirmation.
- **The Investment Association**
  We are active members of a number of Investment Association committees which focus on developing best practice guidelines for the industry. Committees include the Governance and Engagement and Remuneration and Share Schemes committees.
- **UK Sustainable Investment and Finance Association (UKSIF)**
  We currently have representation on the Board and Leadership Committee of the UK association for sustainable and responsible financial services, which promotes responsible investment and financing for sustainable economic development. Our Chief Responsible Investment Officer was previously Chairman of UKSIF. We are also members of EuroSIF, the pan-European network of Sustainable Investment Forums.

CASE STUDY: STRANDED ASSETS

Climate change is a systemic risk and one of the single largest market failures we face today. We recognise the importance of climate change to our insurance and investment business and to our customers. We are aware of our responsibility to act and in doing so to strike a balance between our long-term and short-term responsibilities to both our clients and shareholders.

We are actively addressing this issue through commissioning research to better understand our exposure to this risk, engaging directly with companies to better understand their strategy and approach to stranded assets and collaborating with other investors to better understand the risks and impacts of these stranded assets. This is an issue not just for individual investors but for companies, the investment industry and the wider economy.

Consequently, we were pleased to contribute to Investor expectations: oil and gas company strategy supporting investor engagement on carbon asset risk. This will form a useful part of our collaborative engagement through the Institutional Investor Group on Climate Change (IIGCC) corporate programme which we chair.

"How policymakers respond to climate change will impact on the profitability of more carbon-intensive energy assets over time. We recognise the economic and financial case for such future policy changes, so we are in favour of lower carbon-intensity capex plans in the energy sector today. Active and engaged investors are key to supporting this transition."

Stephanie Maier

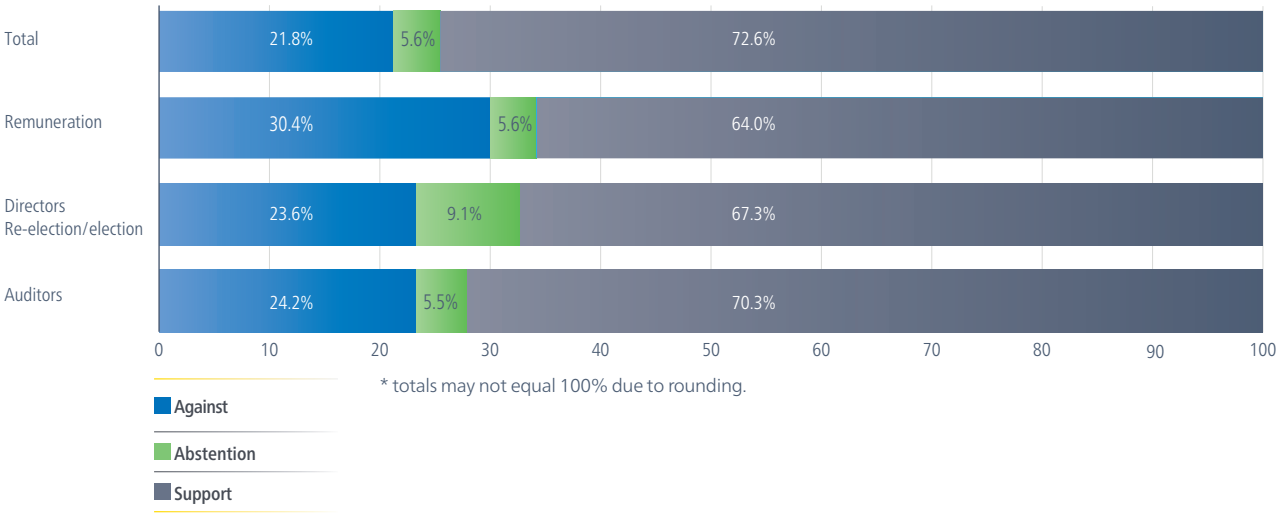
Head of Responsible Investment Strategy and Research and Head of IIGCC's Corporate Working Group

OUR VOTING RECORD IN 2014

In 2014 we voted at over 4,000 company meetings on over 44,000 resolutions. All our voting schedules are published three months after each AGM. This includes how each vote was cast and the reason for any opposition votes.

We were among the first financial institutions to adopt this practice, having published our voting record since 2008.

We engage on our voting position in advance of the AGM where we have a holding level of over one per cent, or where we consider a company has material risks inherent in its strategy. We send out our Corporate Governance and Corporate Responsibility Voting Policy to all FTSE All-Share chairman and company secretaries on an annual basis.



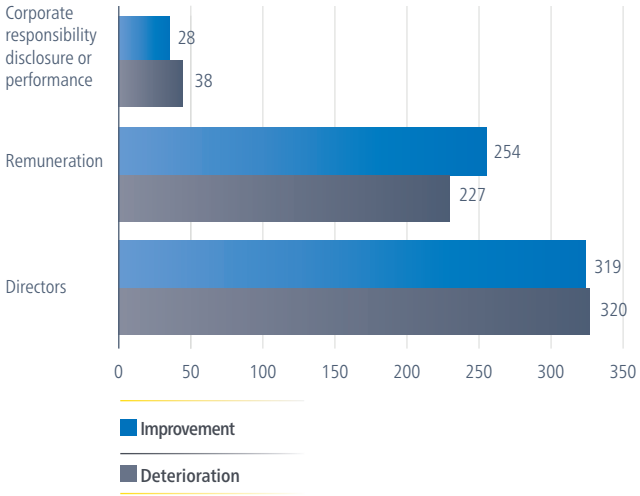
* totals may not equal 100% due to rounding.

MEASURING EFFECTIVENESS IN 2014

The chart below indicates where we have changed our voting position due to improvements or deterioration in performance. We use this as an indirect measure of effectiveness and recognise that in many cases other investors may also have been engaging with the same company of the same issue. Improvement is where we vote in support (or abstain) where we have previously abstained (or voted against). Conversely, a deterioration is where we abstain (or vote against), having previously voted in favour (or abstained).

We have focused on three key elements within our voting policy:

1. Corporate responsibility (company disclosure and performance on material corporate responsibility issues).
2. Directors (independence, balance and skills of directors).
3. Remuneration (policy and approach).



SHAPING THE MARKET

We operate within capital markets that are imperfect. We recognise that there are a range of market failures, most markedly those that create incentives towards short-term investment and decision-making by investors and companies. We actively engage with policymakers at a national, EU and UN level to correct market failures with the aim of creating a more sustainable economy and improved long-term investment outcomes for our clients.

In June 2014, Aviva, our parent company, hosted the UN Principles of Sustainable Insurance event at which Aviva plc CEO, Mark Wilson, addressed an audience of insurers, investors, regulators and UN agencies, giving his views on how and why insurers should strive to be sustainable and unveiling a new white paper.

"I am a believer in the power of the market to catalyse the innovation and entrepreneurialism required to meet the growing demand for goods and services from an ever-growing global population. I am also a strong believer in the role of governments to correct market failure. In my view, there are a number of important global capital market failures leading to unsustainable economic activity that are in need of correction."

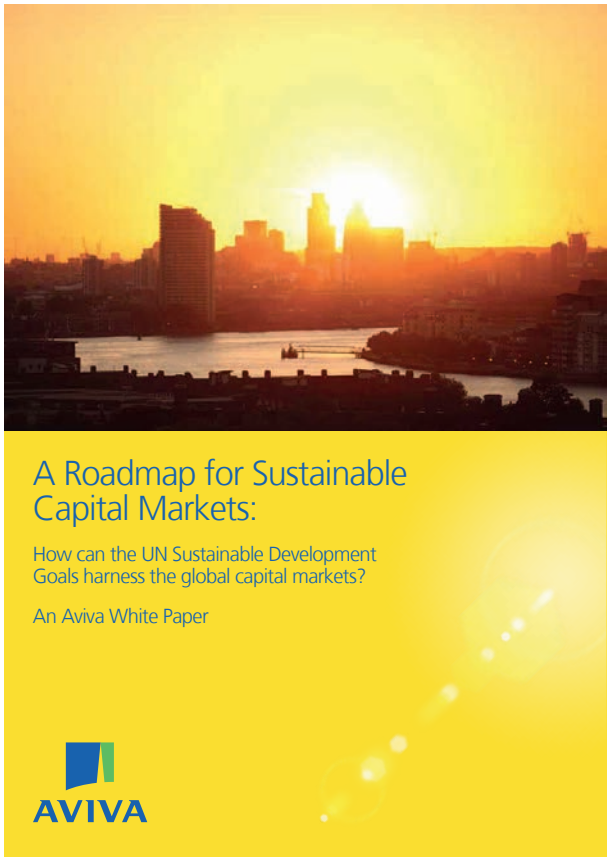
Mark Wilson

Group Chief Executive Officer, Aviva plc

The Roadmap for Sustainable Capital Markets outlines Aviva's recommendations for policymakers to move capital markets onto a more sustainable basis. Building on this, in December, Aviva launched its Sustainable Capital Markets Union (SCMU) manifesto in response to the European Commission's Capital Markets Union initiative. Aviva believes that the Capital Markets Union should include, from the very start, a long-term, sustainable vision on investment and working practices in business to ensure that the lessons of the financial, economic and social crisis have been learnt, both in the EU and globally.

Aviva's manifesto offers four principles:

- Better information, better companies, better growth.
- Reward for long-term success, not failure.
- Capital for sustainable growth.
- Increasing responsible ownership.



ACTIVELY CONTRIBUTING TO THE DEBATE

We believe investors have a key role to play in shaping policy for longer-term markets. We also participate in key industry initiatives focused on tackling short-termism in the market.

THE UK CORPORATE GOVERNANCE CODE

In the UK, we responded to the Financial Reporting Council's (FRC) consultation on changes to the UK Corporate Governance Code. On 17 September 2014, the FRC published an updated version of the code. Aviva Investors' policy is primarily based on this code and a number of its changes generally reflect best practice and are understood by UK companies. As an overview, the new code emphasises the need for companies to focus on long-term sustainability and this is reflected throughout. There is continuing emphasis on 'tone from the top' and for boards to embed strong values throughout the organisation, of which we were very supportive. However, we were disappointed it does not say more about culture and values.

THE BIS KAY PROGRESS REPORT

Aviva Investors was directly involved in nine of the 13 market developments mentioned in the report and many of our views were reflected in changes to regulation. In particular, we were instrumental in developing the NAPF Framework for Stewardship through the 2020 Stewardship Working Party. We were also delighted to participate in one of the first Stewardship AGMs at the NAPF, the new Stewardship Forum, and we were pleased to see some of our ideas reflected in the EU directive on non-financial disclosure.

THE LAW COMMISSION CONSULTATION ON FIDUCIARY DUTY

We responded to the Law Commission Review of Fiduciary Duties of Investment Intermediaries and met with the Law Commission to share our views. We welcomed the report's conclusion, published in June, that trustees should take into account factors which are financially material to the performance of an investment. Where trustees think ethical or ESG issues are financially material they should take them into account.

THE EU SHAREHOLDER RIGHTS DIRECTIVE

The proposed amendments to the EU Shareholder Rights Directive (SRD) were published in April 2014. The Commission's aim is to tackle corporate governance shortcomings relating to listed companies and their boards, shareholders, intermediaries and proxy advisors in line with long-term investment horizons. This is an important focus in Europe, and rightly so.

We provided a preliminary response in September to say that we are strong supporters of the amendments but highlighted the issues where we would like further clarity in order to help ongoing discussion on the directive. In addition to written submissions, we have met with and responded to consultations from MEPs, the UK Department for Business, Innovation and Skills (BIS) and trade bodies such as the Investment Association. We also hosted two events in Brussels including a EurActiv Stakeholder Workshop, organised with the support of Aviva, focused on how better corporate governance can encourage competitiveness and long-term sustainability.

In December 2014, our Head of Responsible Investment Engagement was invited to give evidence at a European parliamentary hearing on the topic. We believe the proposals in the second iteration of the Shareholder Rights Directive will improve the long-term focus for EU capital markets and we are very supportive of the directive, with a few small caveats.

FOCUSING CAPITAL ON THE LONG TERM

Our chief executive is a member of the Focusing Capital on the Long-Term Initiative. Co-founded in 2013 by the Canada Pension Plan Investment Board (CPPIB) and McKinsey & Company, it aims to develop practical structures, metrics, and approaches for longer-term behaviours in the investment and business worlds.

In September, we were part of a group of asset owners and asset managers who reconvened in New York to further the discussion on practical ways to manage portfolios for the long term. This initiative complements our own thinking on leadership and the incentives required for more sustainable capital markets.

THE UNCTAD WORLD INVESTMENT FORUM

In October, Mark Wilson, CEO of Aviva, was invited to speak at the opening session of the biennial UNCTAD World Investment Forum in Geneva. This high-level event was designed to facilitate conversations and action on the world's key and emerging investment-related challenges. It also provided an excellent opportunity to launch the third benchmarking report Measuring Sustainability Disclosure: Ranking the World's Stock Exchanges by Corporate Knights Capital sponsored by Aviva, Standard & Poor's and ACCA.

The report ranks stock exchanges by evaluating the disclosure levels of the companies that are listed upon them.

Despite clear improvements across the list of exchanges featured in the report, the overwhelming majority of companies are failing to provide data on even very basic sustainability indicators, such as employee turnover, greenhouse gas emissions (GHGs), injury rate, waste, energy and water usage. This lack of transparency is what first prompted Aviva Investors to call for the Sustainable Stock Exchange Initiative to be established in 2008 and we have remained involved since its launch in 2009.

We recognise the value and importance of this information, which is why we have focused on far-reaching interventions to address this problem. Our contribution to this debate was warmly welcomed on the day.

Copyright is "UNCTAD".
Source "UNCTAD - 2014 World Investment Forum".

"Aviva Investors is a leader in sustainable development financing. They have had a significant, positive impact on the global public policy agenda relating to sustainable development through the development of innovations on how to incentivise and reform financial systems to fund the transition to an environmentally-sensitive and fair future, as well as helping build the knowledge of other stakeholders."

Farooq Ullah

Executive Director, Stakeholder Forum

FOUNDING THE CORPORATE HUMAN RIGHTS BENCHMARK

In December 2014, Aviva Investors, together with five collaborating NGO, investor and research organisations launched the world's first wide-scale project to rank companies on their human rights performance. We launched the benchmark at the 2014 United Nations Forum on Business and Human Rights in Geneva.

In recent years, media attention has helped to focus public concern on the potential human rights impacts that business can have. Tragedies such as the collapse of the Rana Plaza factory in Bangladesh, in which 1,129 workers lost their lives, and the threatened mass suicide at a Chinese factory owned by iPhone manufacturer Foxconn, have highlighted the issue, as have ongoing campaigns by non-governmental organisations. Meanwhile, regulators in numerous jurisdictions are attempting to address such concerns through enhanced disclosure requirements. Good examples include the amendment to the 2006 Companies Act in the UK, which mandates disclosure on human rights in a company's Strategic Report, the EU Non-Financial Reporting Directive and the Dodd-Frank Act in the US, which addresses conflict mineral legislation.

The Corporate Human Rights Benchmark (CHRB) will harness the competitive nature of the markets to drive better human rights performance by developing a transparent, publicly available and credible benchmark. Initially, a total of 500 of the world's top companies from the four highest impact sectors for human rights risks – agriculture, telecom and consumer electronics production, textile and clothing manufacture and raw materials – will all be researched and ranked on their human rights performance.

"Our Corporate Human Rights benchmark will provide the transparency we need as investors and a powerful incentive to improve performance. We are strong supporters of existing benchmarks, such as the Access to Medicine Index, which has brought advances in the pricing of medicines for poor people.

"We know this approach works, which is why we got involved in creating a benchmark to address human rights. This is good for us, our investors and for society at large, creating a legacy that will drive real change."

Steve Waygood

Aviva Investors Chief Responsible Investment Officer and Chair of the CHRB Steering Group

NOTES

KEY DOCUMENTS

- Carbon constraints cast a shadow over the future of the coal industry www.avivainvestors.com/coal
- Aviva Roadmap for Sustainable Capital Markets A Roadmap to Sustainable Capital Markets www.aviva.com/roadmap
- Aviva Sustainable Capital Markets Union Manifesto www.avivainvestors.com/SCMU
- Aviva Investors Corporate Governance and Corporate Responsibility Voting Policy www.avivainvestors.com/voting_policy
- Aviva Investors Stewardship Statement www.avivainvestors.com/stewardship
- REMM Stewardship Policy www.avivainvestors.com/remm_stewardship

WANT TO KNOW MORE? EMAIL CLARITY@AVIVAINVESTORS.COM

Benelux
Aviva Investors Global Services Ltd
WTC Amsterdam,
H-Toren, 4th floor,
Zuidplein 36
1077 XV Amsterdam
The Netherlands
info.lu@avivainvestors.com

Central and Southern Europe
Aviva Investors Global Services
Stockerstrasse 38
Switzerland
8002 Zürich
+41 44 215 90 10
info.ch@avivainvestors.com

France
Aviva Investors France
S.A.Direction commerciale
et marketing 24-26,
rue de la Pépinière
75008 Paris
+33 (0)1 76 62 90 00
info.fr@avivainvestors.com

Nordic markets
Aviva Investors Global Services
Strandvägen 7A
11456 Stockholm
Sweden
+46 (8) 58 61 07 92
info.nordic@avivainvestors.com

United Kingdom
Aviva Investors Global Services Ltd
No. 1 Poultry
London EC2R 8EJ
+44 (0)20 7809 6000
info.uk@avivainvestors.com

Middle East
Aviva Investors Global
ServicesAlFattan Currency
House Tower
1 Office 108, DIFC
PO Box 482092,Dubai, UAE
+97 1 4439 0213
dubai@avivainvestors.com

MC3268-V002-375056-A15/0205/311215

Environmental statement

As an Aviva Group company we recognise that our actions today will affect future generations. In line with this thinking, this document has been printed on Forestry Stewardship Council (FSC) certified paper. It is 80% recycled and 20% sustainably sourced from well managed forests. It is also Elemental Chlorine Free (ECF). Please follow our environmentally.