Aviva Stewardship

Report covering Aviva’s Stewardship Fund Range over the 12 months to end of March 2020
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Foreword

It’s now more than two years since the Stewardship Funds came across to Aviva Investors and the beginning of a very special relationship. The philosophy of the Stewardship Funds recognises that the contribution companies make to a sustainable society depends on the products and services they provide, and on the way that they provide them. Here at Aviva Investors, one of the founding signatories of the UK Stewardship Code and the UN Principles for Responsible Investment, we share the same philosophy, that is to provide the right outcomes for our customers while caring deeply about the world around us.

Taking on the Stewardship Funds, including the Stewardship UK Fund, which was the first ethical fund of its kind in the UK, made perfect sense for Aviva Investors’ Global Responsible Investment team, fund managers and analysts. In fact, we would go as far to say that Aviva Investors is a natural home for the Stewardship Fund range, a place where the funds – supported by our investment resources and our proven commitment to doing the right thing for investors and the world we live in – can flourish.

Indeed, we see it as our role to keep the Stewardship spirit alive. This is hopefully reflected across the many engagements with the businesses held across the Stewardship Range that we have undertaken since April 2018.

Successfully encouraging luxury retailer Burberry to stop using real fur in its clothing range is something that we are very proud of. Turning our back on the company two years ago and selling our position, when we inherited the Stewardship range, would have been a grave mistake. Losing our power as a shareholder in Burberry would have prevented us from encouraging change, something which our fund managers and analysts strongly believed through the meetings they had held with the company, was possible.

We believe that the case of Burberry highlights just how powerful collaboration and engagement can be, and it doesn’t stop there. Thanks to our conversations with Unilever, another leading UK business, the consumer goods manufacturer committed to stop using single-use plastics. Our head analyst, Eugenie Mathieu, highlights the dangers of single-use plastic for the world’s oceans in her article ‘Plastic (not so) fantastic’ in this report. We also provide a case study of our engagement with Unilever, as well as the other businesses we have worked with over the past 12 months in the report.

Regrettably, engaging with business doesn’t always lead to the change that we would like, and that’s why we also connect regularly with other fund managers, government and industry bodies to tackle some of the world’s biggest challenges. For example, Aviva Investors recently collaborated with the UN Foundation, the Business and Sustainable Development Commission and the Index Initiative to create the World Benchmarking Alliance (WBA). The mission of the WBA is to provide everyone with access to consistent information that shows how companies are contributing to their UN Sustainable Development Goals, which were agreed in 2015.

This is only the beginning for the next stage of the Stewardship journey. Here at Aviva Investors, we are incredibly excited about what this great partnership has the potential to go on to achieve, not only for our customers and their families, but also society in general, and we sincerely hope you are too.

Dr Steve Waygood,
Chief Responsible Investment Officer,
Aviva Investors
Executive Summary

Stewardship and Aviva Investors combine their expertise as responsible investors

The Stewardship UK Equity Fund was the first ethical fund of its kind in the UK when it was launched in 1984. The Stewardship Funds – the Stewardship UK Equity Fund, the Stewardship UK Equity Income Fund, the Stewardship International Fund, the Stewardship Bond Fund and the Stewardship Managed Fund – have been managed by global fund management group Aviva Investors since April 2018.

Stewardship engagement targets plastic pollution, climate change, board diversity and sustainability policies and systems

The Stewardship criteria were reviewed and tightened by Aviva Investors in April 2018. Engagement with companies held in Stewardship is targeted and aligned with the UN’s Sustainable Development Goals and it is focused on four themes – plastic pollution, climate change, board diversity and sustainability policies and systems. Engagement reflects Stewardship’s values of caring for our world, our people and the environment.

Stewardship engages with businesses to deliver positive change

Examples of Stewardship engaging with business to deliver positive change in the 12 months under review include:

- Consumer goods manufacturer Unilever on plastic pollution
- St James’s Place on board diversity
- UK Housing Associations on governance

Stewardship uses it shareholder vote to be an agent of change

Out of a total of 48 resolutions related to environmental, social and governance issues (ESG) in the period, Stewardship voted against management on 37 of these resolutions, up from 12 in the 12 months to the end March 2019.

Short-term performance helped by not owning oil & gas or mining companies and positive long-term performance

Stock markets fell heavily in March 2020 amid the unfolding of the Coronavirus pandemic. The Funds’ short-term performance – albeit impacted due to the heavy falls in markets overall - benefited from the Stewardship range not holding oil & gas or mining stocks, due to the screens which exclude these activities from the Funds. The Funds have produced positive returns over the five years to the end of March 2020, therefore growing customers’ pension savings over the long term.

Team-based approach

The fund managers of the Stewardship Funds and Responsible Investment Analysts work together to ensure the companies held in the Stewardship Funds reflect the Stewardship principles.

Aviva helps charities at outbreak of Covid-19

Aviva donated to the NHS and the British Red Cross at the outbreak of Covid-19 to provide financial assistance to those most in need at this challenging time.
Aviva’s history as a responsible business

With you today, for a better tomorrow

Responsible investment, and caring for the world around us, is not a fad at Aviva. It’s something we’ve been doing for a long time – whether that be as an insurer, as one of the UK’s biggest businesses, as an investor or as an employer. Our achievements in this space, which are shown below, reflect our commitment to investing responsibly. Helping create a better world for our customers, our families and communities in the UK and around the world is part of our lifeblood, part of Aviva’s history and something that we believe should be part of our future.

Our achievements

- We’ve been a leader of responsible investment for nearly 40 years.
- Aviva Investors was among the first asset managers to publish a Corporate Governance voting policy in 1994.
- Aviva was the first carbon-neutral international insurer in 2006.
- We were awarded the UN Momentum for Change Award in 2017 for our commitment to reducing our environmental impact, and for helping to write the world’s first Corporate Governance Code and the UN Principles for Responsible Investment.

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>Among first asset managers to publish Corporate Governance Voting Policy</td>
</tr>
<tr>
<td>2001</td>
<td>Founding signatory and first asset manager to formally integrate corporate responsibility to</td>
</tr>
<tr>
<td>2007</td>
<td>Founding signatory of Climate Wise</td>
</tr>
<tr>
<td>2012</td>
<td>Founded Corporate Sustainability Reporting Coalition with call to action at Rio+20 Conference</td>
</tr>
<tr>
<td>2015</td>
<td>CEO speaks at UN General Assembly on Sustainable Finance Strategy: Response to Climate Change</td>
</tr>
<tr>
<td>2016</td>
<td>Asked join European Commission’s High Level Expert Group on Sustainable Investment</td>
</tr>
<tr>
<td>2017</td>
<td>Corporate Human Rights Benchmark launched at Aviva’s offices Responsible Investor Award for Innovation &amp; Industry Leadership</td>
</tr>
<tr>
<td>1970</td>
<td>Voting at company meetings</td>
</tr>
<tr>
<td>1995</td>
<td>Pledge at the UN summit to ‘balance of economic development, the welfare of people and a sound environment’</td>
</tr>
<tr>
<td>2006</td>
<td>Founding signatory of Principles for Responsible Investment</td>
</tr>
<tr>
<td>2010</td>
<td>In vanguard of signing the UK Stewardship Code</td>
</tr>
<tr>
<td>2014</td>
<td>Launched Roadmap for Sustainable Capital Markets &amp; Sustainable Capital Markets Manifesto</td>
</tr>
<tr>
<td>2016</td>
<td>Asked to join Financial Stability Board Taskforce on climate-related financial disclosures</td>
</tr>
<tr>
<td>2018</td>
<td>UN award for sustainability work The Word Benchmark Alliance is launched</td>
</tr>
<tr>
<td>2019</td>
<td>ESG Manager of the Year, Global Investor Group Investment Excellence Awards Stewardship Disclosure (Asset Manager) award category at the ICGN Global Stewardship Awards</td>
</tr>
</tbody>
</table>
Aviva’s response to Covid–19

Putting our purpose into action to help others in times of crisis

Aviva donated £48 million at the height of the Coronavirus pandemic, including to the British Red Cross and the NHS, two organisations working on the frontline to help people at this challenging time. Separately, the Aviva Investors Liquid Markets team nominated two charities to donate to help those most affected by the crisis.

Working with the British Red Cross to help communities

Aviva is a longstanding partner of the British Red Cross and donated £10 million – the biggest ever single donation – to ensure the charity could help the most vulnerable in the pandemic. Read more about how Aviva is helping the British Red Cross here: https://blogs.redcross.org.uk/emergencies/2020/03/aviva-increases-support-to-red-cross-for-coronavirus-response/

Donation to the NHS Charities ‘Together’

Aviva donated £5 million to NHS charities in April as part of a package to support the NHS in three key areas: welfare and well-being for NHS employees, volunteers and patients; assistance for patients leaving hospital; and long-term mental health support for NHS workers.

Aviva helps its partner charity SafeLives

Aviva also donated to SafeLives, a charity which helps people suffering domestic abuse. Aviva brought forward a programme of domestic abuse awareness activity in March, which has involved implementing a new domestic abuse policy to support staff and training specialist teams in order to help colleagues and customers experiencing abuse.

Aviva Investors’ Liquid Markets Charity drive

The ESG team donated to City Harvest London and Mind to provide support to those most affected by the crisis.
Philanthropy and market reform at Aviva Investors

Philanthropy

Since 2018 Aviva Investors has supported the following charitable projects to promote more sustainable financial markets and communities.

1. Comic Relief:
   We have supported Comic Relief’s Future Lab, which helps marginalised adults and children. We have also funded Comic Relief’s Red Shed, which is a social enterprise programme dedicated to helping the resilience of communities and the environment.

2. WWF and the One Campaign:
   We have funded both organisations’ thought-leadership work.

3. Rosa UK:
   We have provided financing for projects that support women’s charities.

4. The University of Surrey:
   We provided financing to help the Centre of Environmental and Sustainability with research to improve investment valuation techniques by incorporating sustainability factors.

Market Reform

We are proud to have led and worked on a number of market reforms here in the UK and internationally to help create more sustainable financial markets. The highlights include:

- Working with Accounting for Sustainability to bring together 50 global finance leaders at St James’s Palace to agree the actions for markets to be more sustainable.

- Playing a key role in helping launch the World Benchmarking Alliance (WBA) in its work to create a better world by enabling people to see how companies are aligned with the Sustainable Development Goals (SDGs).

- Helping the British Standards Institute produce a set of standards intended to raise the bar in responsible investment. Asset managers’ voting and stewardship policies must now meet these standards.
What are the Stewardship Funds?

1. Heritage
   Launched in 1984, the Stewardship UK Equity Fund was the UK’s first social and environmentally screened fund.

2. Screening, company engagement and measuring the Funds’ ESG credentials
   The Stewardship process involves three layers: screening/excluding firms engaged in harmful activities and practices; engagement with companies to foster change; and measuring the Funds’ ESG performance. Companies must be aligned with the Stewardship values, namely that they do not harm the world in which they operate. Certain sectors - alcohol, gambling, tobacco, coal and oil - will always conflict with the Stewardship values and are therefore excluded.

3. Scale and experience in Stewardship team
   Aviva Investors and Stewardship have a long history of engaging with companies to help them become more aware of the risks they face and to encourage positive change. An experienced fund management team sits alongside a well-resourced team of more than 20 experienced responsible investment professionals.

4. The Stewardship Fund range covers the key asset classes
   Customers can access UK and international equities, fixed income, or a blend of equities and fixed income via the Stewardship Funds.

The table below shows the Stewardship Fund details including fund manager, launch date, benchmark and ABI sector.

<table>
<thead>
<tr>
<th>Stewardship Fund</th>
<th>Benchmark</th>
<th>Sector</th>
<th>Fund managers</th>
<th>Fund AUM as at 31 03 20</th>
<th>Launch date</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Equity</td>
<td>FTSE All-Share Custom Index TR</td>
<td>UK All Companies</td>
<td>Trevor Green and Tom Grant</td>
<td>£1,098 million</td>
<td>May 1984</td>
</tr>
<tr>
<td>Income</td>
<td>FTSE All-Share Custom Index TR</td>
<td>UK Equity Income</td>
<td>James Balfour</td>
<td>£52 million</td>
<td>September 1999</td>
</tr>
<tr>
<td>Bond</td>
<td>Markit iBoxx Sterling Non Gilts Overall TR</td>
<td>UK Fixed Interest</td>
<td>Thomas Chinery</td>
<td>£277 million</td>
<td>April 2018</td>
</tr>
<tr>
<td>International</td>
<td>MSCI World Index NDR TR GBP</td>
<td>Global Equities</td>
<td>Jaime Ramos Martin and Julie Zhuang</td>
<td>£607 million</td>
<td>September 2010</td>
</tr>
<tr>
<td>Managed</td>
<td>ABI Mixed Investment 40-85% Shares sector</td>
<td></td>
<td></td>
<td>£843.9 million*</td>
<td>September 1999</td>
</tr>
</tbody>
</table>

*The Stewardship Managed Fund comprises the Stewardship International Fund (approximately 80% of the Fund) and the Stewardship Bond Fund (approximately 20% of the Fund). This is reflected in the AUM for the Fund.

Discrete and cumulative fund performance to end March 2020 can be found in Appendix.

For objectives, risk codes and top 10 holdings, please see fund factsheets in fund centre: [https://www.fundslibrary.co.uk/FundsLibrary.BrandedTools/AvivaConsumer/FundCentral](https://www.fundslibrary.co.uk/FundsLibrary.BrandedTools/AvivaConsumer/FundCentral)
What is the Stewardship Philosophy?

More and more people want to know that their pension savings are being invested in businesses that contribute positively to the world around them to help create the type of world they want to retire into, and the world that the generations after them will inherit.

As a guardian of people’s money, we believe we have a duty to use our customers’ money in a responsible way, to help foster change across businesses, whether that be for the environment, for society or for people’s lives and communities, and the world in general.

The Stewardship investment approach is based on three layers, which are shown below:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Exclusion – based on what a company does</td>
</tr>
<tr>
<td>2</td>
<td>Engagement – concerned with how a company goes about its business</td>
</tr>
<tr>
<td>3</td>
<td>Outcome – measuring the ESG performance of the companies we invest in at a fund level</td>
</tr>
</tbody>
</table>

Businesses are crucial but they can cause problems for the environment and for society

Stewardship recognises that companies can and do make a positive contribution to a sustainable society, but that this depends on the products and services they provide, and how they provide them. As a result, companies can cause ethical, social and environmental problems, by for example: making harmful products; failing to consider how their behaviour might impact customers, their employees and the communities in which they operate; polluting the environment; or failing to have acceptable governance practices.

**Shareholders including Stewardship have a responsibility to improve this**

We believe that shareholders have a responsibility to address these issues actively with the companies we invest in. We want to use our relationships with businesses to deliver a positive outcome for our customers, suppliers, employees, local communities and the environment.

**Stewardship excludes certain industries and businesses and also engages with businesses to create change**

The Funds avoid companies and sectors whose products or services cause unmitigated social or environmental harm. Companies generally operate in such a way that some aspects of their activities are acceptable to Stewardship while others are not. In some instances, failing may not be significant enough to exclude a company from the Funds. In such cases, Stewardship will take a balanced view across the company’s activities before deciding what to do next. Aviva Investors’ intellectual capital can help in those cases that are not straightforward.

Ultimately, Stewardship tries to use its influence as a shareholder to support the positive contribution companies make to a sustainable society, and to encourage positive environmental, social and governance practices.

**How does Stewardship aim to meet the needs of our customers?**

<table>
<thead>
<tr>
<th>Client need</th>
<th>Our solution through the Stewardship fund range</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONTRIBUTE TO A BETTER WORLD TO RETIRE INTO</td>
<td>WE USE YOUR INVESTMENT AS A POWER FOR CHANGE ON FOCUSED TOPICS AND REPORT BACK ON PROGRESS</td>
</tr>
<tr>
<td>COMFORT FROM INVESTING ETHICALLY</td>
<td>A ROBUST AND EVOLVING SCREEN TO ENSURE THE OPERATIONS OF THE COMPANIES WE INVEST IN ARE NOT HARMFUL TO SOCIETY</td>
</tr>
<tr>
<td>ATTRACTIVE LONG-TERM SUSTAINABLE RETURNS AND INCOME</td>
<td>GENUINE SCALE, HERITAGE AND CALIBRE IN BOTH OUR ESG AND INVESTMENT TEAMS WORKING TOGETHER AS A POWERFUL PARTNERSHIP</td>
</tr>
</tbody>
</table>
Stewardship and screening

Stewardship uses robust and evolving screens to ensure that the operations of a company in which the Stewardship Funds invest are not harmful to the environment or to society. The screens are based on ethical, social and environmental themes, which are shown below, and they are used to exclude companies from the Funds. For more detail about the activities excluded from the Stewardship Funds by the Layer 1 screen and the criteria, namely thresholds used, please see the Stewardship Funds Philosophy and Investment Principles document, which can be found at www.aviva.co.uk/retirement/fund-centre/stewardship/.

### Avoiding companies that harm society

<table>
<thead>
<tr>
<th>Tobacco</th>
<th>Human rights controversies</th>
<th>Media Violence and Adult Entertainment</th>
<th>Military &amp; Defence</th>
<th>Alcohol</th>
<th>Gambling</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 million estimated deaths per year globally from smoking.</td>
<td>40 million people in modern slavery around the world, including 10 million children.</td>
<td>Direct link between violent behaviour in children exposed to media violence.</td>
<td>85% of the world’s 1 billion firearms are owned by civilians.</td>
<td>3m deaths per year from harmful use of alcohol - contributing to c. 5% of all annual deaths.</td>
<td>Problem gambling increasing over the last 5 years.</td>
</tr>
</tbody>
</table>

### Avoiding companies that harm the environment

<table>
<thead>
<tr>
<th>Nuclear Power Generation</th>
<th>Harmful Chemicals</th>
<th>Oil, Tar Sands &amp; Arctic Oil</th>
<th>Coal</th>
</tr>
</thead>
<tbody>
<tr>
<td>30yrs after Chernobyl exclusion safety zones still exist.</td>
<td>Ozone slowly recovering after years of depletion by CFCs/HFCs.</td>
<td>Global temperature increased +1°C to 14.7°C since industrial revolution.</td>
<td>The single biggest source of GHGs. A primary source of air and water pollution, which kills an estimated 9 million people every year.</td>
</tr>
</tbody>
</table>

### Strengths and limitations of ethical funds such as Stewardship

It is important to be clear about the strengths and limitations of ethical funds. Simply avoiding companies involved in certain specific controversial areas does not mean that the companies held in the Stewardship Funds are beyond ethical question. Ethics are typically personal and therefore more subjective than objective. Moreover, while we hope clients will take reassurance from knowing that they are not benefiting financially from the production of certain goods and services at the thresholds shown in the Stewardship philosophy, it is important to highlight that without the rights associated with being a shareholder, engaging to bring about change is much less likely to be effective. Clients should therefore check that they are personally comfortable with the ethical policy and the criteria, as well as the companies in the Funds and the Funds’ voting and engagement record.
Tightening the Layer 1 Screen – Stewardship’s screens and therefore its exclusion criteria have been strengthened

After taking on the Stewardship Funds, we carried out a review of the exclusion criteria used for Layer 1 and the Funds’ data providers.

**Coal**
A screen on coal-fired power generation was added. Companies with significant involvement in this area are excluded from Stewardship.

**Negative screens on the following sectors were added:**

**Ethical and social screen:**
**Adult entertainment and violence-related products**
Companies that generate more than 10% of turnover from violent video games & films and all companies that make civilian firearms are excluded from Stewardship.

**Defence**
Any firms involved in weapons - either controversial or conventional weapons – are excluded. The screen was extended to exclude:
- Manufacturers of weapon support systems.
- Firms owned by a parent company involved in weapon-related activity, or companies that own a subsidiary involved in weapons.

**Tobacco**
Firms which generate more than 25% of revenue from the distribution of tobacco are excluded.

**Animal testing**
In 2019, the Funds’ animal testing criteria was strengthened to exclude testing on animals by non-pharmaceutical companies without a strong animal testing policy. This means that the Stewardship team now closely reviews the policies of those cosmetics and household goods companies which test on animals to ensure that companies are committed to replacing, reducing and refining the use of animal testing in regulatory testing, as well as introducing other indicators of best practice in this area.

**Environmental exclusions:**

**Aviation**
Airports or aircraft manufacturers that derive more than 10% of turnover from aviation-related activities are excluded from Stewardship.

**Oil**
The exclusion criteria for oil was strengthened by adding companies that operate in the oil pipeline sector, as well as those that operate in the Arctic.

The team believes that taking a balanced view across a firm’s operations is important when creating an ethical investment universe from which companies can be selected for Stewardship.

The decision to exclude tobacco manufacturer British American Tobacco from Stewardship is an easy one, but what about supermarket chain Tesco? The latter might not make cigarettes, but it does sell them and so derives an income from tobacco. This is where the intellectual capital of the ESG team can help ensure that investments which offer long-term dependable and sustainable returns for the Funds are not excluded on a technicality. As Tesco only generates a small percentage of revenue from tobacco production, the company is not excluded from the Stewardship Funds. The same concept applies to companies involved in alcohol and adult entertainment.
### Stewardship Layer 2

**Review of Layer 2 - focusing Stewardship’s engagement strategy on climate change, plastic pollution and board diversity**

The team has also reviewed and updated Stewardship’s Layer 2 engagement strategy. Before April 2018, the Stewardship strategy consisted of 65 engagement issues, most of which were related to companies having the relevant sustainability policies and public reporting processes in place. The Aviva Investors’ ESG team replaced this list with a four-pronged engagement strategy. This is shown in the table below.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sustainability policies and systems</strong></td>
<td>We encourage companies to report publicly on sustainability policies and their performance against such policies, using quantified metrics and timebound targets. This incorporates issues such as water, waste, human rights, diversity, discrimination, business ethics and whistleblowing.</td>
</tr>
<tr>
<td><strong>Climate change</strong></td>
<td>Climate change poses long-term risks to the value of a company’s assets, and as a result, our ability to generate sustainable returns for our clients. Engagement with companies that we invest in focuses on articulating a long-term climate change strategy (i.e. providing evidence of Task-Force Climate-related Financial Disclosures or TCFD), setting meaningful reduction targets for emissions in line with climate science, and proactive initiatives to reduce emissions.</td>
</tr>
<tr>
<td><strong>Plastic pollution</strong></td>
<td>Plastic pollution has reached unsustainable heights, with consumption rising at staggering rates. Current estimates show that at least eight million pieces of plastic enter the world’s oceans every day. Companies held in the Stewardship Funds with significant exposure to plastic-use or production of plastic are requested to develop a strategy to prevent the use of plastic and to provide evidence of closed-loop (re-use and recycling) practices and targets. Please see article on plastic pollution.</td>
</tr>
<tr>
<td><strong>Board diversity</strong></td>
<td>Various studies have shown that companies with three or more female directors tend on average to outperform companies where this threshold is not applied. The UK’s Hampton-Alexander Review calls for FTSE 350 companies to set a target of having a female representation of 33% on boards and in leadership teams by 2020. Stewardship is working with companies to encourage and help them meet this target.</td>
</tr>
</tbody>
</table>
We believe that improving the ‘non-financial’ performance of companies is likely to benefit their long-term financial performance. We therefore monitor the performance of the Stewardship Funds against several ‘non-financial’ targets, including carbon emissions, the percentage of companies in the Funds with a set target to reduce emissions, as well as the percentage of companies in the Funds with a diversity policy and the average % of women on the board. The table below shows the ‘non-financial’ performance of the Stewardship International Equity Fund, the Stewardship UK Equity Fund and the Stewardship UK Equity Income Fund in the year to March 2020, compared to their respective benchmarks.

<table>
<thead>
<tr>
<th>ESG performance – Stewardship Funds versus their respective benchmark</th>
<th>Stewardship International Equity Fund</th>
<th>MSCI World Index</th>
<th>Stewardship UK Equity Fund</th>
<th>Stewardship UK Equity Income Fund</th>
<th>FTSE All Share Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carbon emissions t Co2e/$1M invested (please see key below)*</td>
<td>10</td>
<td>113</td>
<td>29</td>
<td>51</td>
<td>180</td>
</tr>
<tr>
<td>Carbon emissions t Co2e/M $ revenue (please see key below)**</td>
<td>22</td>
<td>181</td>
<td>31</td>
<td>45</td>
<td>146</td>
</tr>
<tr>
<td>Carbon emissions t Co2e/M $ market cap (please see key below)***</td>
<td>34</td>
<td>160</td>
<td>28</td>
<td>42</td>
<td>121</td>
</tr>
<tr>
<td>% data coverage</td>
<td>98%</td>
<td>100%</td>
<td>99%</td>
<td>95%</td>
<td>95%</td>
</tr>
<tr>
<td>% of portfolio deriving &gt; 20% of revenue from clear tech solutions</td>
<td>7%</td>
<td>5%</td>
<td>3.1%</td>
<td>7.4%</td>
<td>2.5%</td>
</tr>
<tr>
<td>% of portfolio with fossil fuel reserves</td>
<td>0%</td>
<td>6%</td>
<td>0%</td>
<td>0%</td>
<td>15%</td>
</tr>
<tr>
<td>% of portfolio with emissions reduction target</td>
<td>70</td>
<td>78</td>
<td>86</td>
<td>77</td>
<td>82</td>
</tr>
<tr>
<td>% of portfolio with a diversity policy</td>
<td>58</td>
<td>63</td>
<td>60</td>
<td>56</td>
<td>54</td>
</tr>
<tr>
<td>% of portfolio with a detailed formal policy on bribery and anti-corruption</td>
<td>80</td>
<td>73</td>
<td>72</td>
<td>63</td>
<td>74</td>
</tr>
<tr>
<td>Average % of women on the Board across portfolio</td>
<td>29</td>
<td>30</td>
<td>35</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>% of portfolio with high social or environmental impact with pay linked to sustainability</td>
<td>24</td>
<td>21</td>
<td>23</td>
<td>37</td>
<td>39</td>
</tr>
<tr>
<td>% of portfolio with a formal anonymous whistleblower system with legal protection</td>
<td>17</td>
<td>12</td>
<td>27</td>
<td>22</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: MSCI Index. Weighted averages are used for the Funds and their respective benchmarks. Please note that in 2020 we changed the data source of the Stewardship Funds’ ESG performance to harmonise ESG reporting across the Funds. As a result, data for the period to end March 2020 is not comparable to data to end March 2019.

Key:
*What is the Fund’s carbon footprint per million dollars invested?
**How efficient is the Fund in terms of carbon emissions per unit of output?
***What is the Fund’s exposure to carbon intensive industries?
Voting record

During the 12 months to the end of March 2020, we voted at 105 company meetings on 1,799 resolutions for the Stewardship Equity Funds. Of these shareholder resolutions, 48 were ESG-related resolutions. We voted against management on 37 of these resolutions, which is more than double the number for the previous 12-month period.

Key takeaway: Stewardship is using its voice as a shareholder to act as an agent of change.

<table>
<thead>
<tr>
<th></th>
<th>12 months to end March 2020</th>
<th>12 months to end March 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of ESG resolutions Aviva Investors voted on</td>
<td>48</td>
<td>18</td>
</tr>
<tr>
<td>Number of Against/Abstentions</td>
<td>37</td>
<td>12</td>
</tr>
<tr>
<td>% ** Management Non-Support</td>
<td>77%</td>
<td>86%</td>
</tr>
</tbody>
</table>

**Refers to one (or more) sets of shareholders disagreeing with the board and voting against the board’s wishes.

Shareholder resolutions for the year to end March 2020 are split by type in the table below:

<table>
<thead>
<tr>
<th>ESG-related Shareholder Resolutions 12 mths to end March 2020</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental</td>
<td>2</td>
</tr>
<tr>
<td>Environmental and social</td>
<td>3</td>
</tr>
<tr>
<td>Social</td>
<td>17</td>
</tr>
<tr>
<td>Governance</td>
<td>23</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>48</td>
</tr>
</tbody>
</table>

Voting highlights
We voted for several shareholder resolutions at US conglomerate Alphabet, including on employment practices, on its gender pay gap, on policies and risks related to its technologies and content governance and for an assessment of its human rights risks.

We voted for a resolution requiring US banking group Bank of America to report on its gender pay gap to provide better disclosure of its diversity and inclusion initiatives. We have sold our holding in Bank of America.

While we welcome better disclosure at US home improvement retailer Home Depot, we think this could go further. For this reason, we voted for Home Depot to provide improved disclosure around its diversity statistics and policy, as well as better information regarding how it is addressing the use of prison labour in its supply chain to create awareness of its human rights risks.

We voted for US technology conglomerate Microsoft to report on its gender pay gap with the aim of helping shareholders to measure the progress on its diversity and inclusion initiatives.
Stewardship engages with businesses to foster positive change

As well as using our voice as a shareholder to vote for change at company meetings, we also engage with businesses themselves, which is the second layer of the Stewardship philosophy. We believe strongly that engagement goes hand in hand with being a ‘good’ investor, of being an investor with a conscience, and therefore wanting to guide businesses in the right direction, whether that be for their employees, the environment or society as a whole.

Rather than walking away from a business whose activities might conflict with the Stewardship values, we believe it’s better to stay invested and to encourage change. We work with businesses to set stronger goals, for example on board diversity or Science Based Targets on greenhouse gas reduction.

Key engagement areas:
The Stewardship team carried out a total of 409 engagements with 118 companies in the year to the end of March 2020. A total of 194 of these engagements were focused on climate change, plastic pollution and board diversity. Firms’ sustainability policies are monitored across all investments.

We engage with companies in all sectors – financials, services, retail, industrials, technology. The experience and intellectual capital of our fund managers and their relationships with businesses facilitates the engagement process.

<table>
<thead>
<tr>
<th>Subject</th>
<th>Number of engagements in year to end March 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability policies and reporting</td>
<td>A minimum requirement for all companies held in the Stewardship Funds.</td>
</tr>
<tr>
<td>Climate change</td>
<td>100 engagements including with banking group Barclays</td>
</tr>
<tr>
<td>Plastic pollution</td>
<td>4 engagements including with consumer goods manufacturer Unilever</td>
</tr>
<tr>
<td>Board diversity</td>
<td>90 engagements including with wealth manager St James’s Place</td>
</tr>
</tbody>
</table>
Evidence of Stewardship delivering positive change

**ESG – the environment**

**Unilever introduces target to reduce its use of virgin plastic by 50%**

In October 2019 Unilever, the company behind household brands such as PG Tips, Domestos and Hellmans, announced plans to halve the amount of virgin plastic it uses. This commitment makes Unilever the first major global consumer goods company to commit to an absolute reduction in plastics across its portfolio. The business plans to slash new plastic use over the next five years by using more recycled plastic and finding other alternative materials – including selling toothpaste that comes in chewable tablets, among other things.

Eugenie Mathieu, Senior ESG Analyst on the Stewardship Funds said: ‘When we met Unilever CEO Alan Jope in July 2019, we shared our view that the company’s existing targets on plastic were outdated and unambitious, particularly given the rapid change in public mood on the issue. We also engaged with the company this year in collaboration with other investors as part of the Plastic Solutions Investor Alliance coordinated by US NGO ‘As You Sow’, which targeted Unilever, PepsiCo, P&G and Nestlé. We are really pleased to see Unilever respond to investor and customer pressure to build a stronger business for the future’.

**Unilever CEO Alan Jope: ‘There is “no paradox” between sustainable business and better financial performance. We profoundly believe that sustainability leads to a better financial top and bottom line.’**

Unilever has also vowed to:

Reduce the amount of plastic packaging it produces annually by nearly 15% by 2025 across all its brands including leading names like Dove soap and Lipton tea.

The company’s new pledges complement two earlier ones; to use 25% recycled plastic in its packaging and to make all plastic packaging reusable, recyclable or compostable by 2025.

**Key parts of the plastic strategy include:**

- Multiple-use packs (reusable and/or refillable)
- ‘No plastic’ solutions (alternative packaging materials or naked products)
- Reducing the amount of plastic in existing packs. Replacing non-recycled plastic packaging with recycled plastics
- Product innovation is a key part of solving the problem. As part of a pilot that launched earlier this year, Unilever will soon begin selling toothpaste that comes in chewable tablets, so it avoids the need for hard-to-recycle plastic toothpaste tubes.

**Industry action: Procter & Gamble which makes Fairy and Lenor – said in April that it planned to halve the amount of plastic it used by 2030. Nestle announced that it would phase out all non-recyclable plastics from its wrappers by 2025.**

**Outcome**

Whilst Unilever’s move is clearly a result of the upswell of public opinion since David Attenborough’s Blue Planet programme, as well as new legislation on this issue, we’re proud that our voice as a key shareholder working alongside other investors can be part of driving the change.
Plastic (not so) fantastic…

Following on from the engagement case study for Unilever, Stewardship’s Senior ESG Analyst Eugenie Mathieu tells us why the Stewardship team is working hard to encourage businesses to eliminate single-use plastics.

The ultra-long lifespan of plastics is an ecological nightmare

For decades, plastic production has seen unfettered growth - the low cost, efficiency and durability of plastic have made it an indispensable material; in addition to its key role in food retail, a wide range of medical applications and packaging for pharmaceuticals have also benefited from plastic.

However, the global plastics economy is directly responsible for unprecedented environmental pollution. Our oceans contain an estimated 150 million tonnes of degraded plastic, with four to 12 tonnes being added on an annual basis, amounting to nearly $13 billion in damages to our marine ecosystem. Plastic has been found on the floors of the world’s deepest ocean trench, in the stomachs of camels, guts of seabirds and in human food and tap water as well.

It is estimated that the vast majority (95%) of plastic packaging is lost after first use, translating to $80 to 120 billion of value lost to the economy annually. While recycling is often heralded as the primary solution, the reality is that globally only 14% of plastic packaging is collected for recycling. When additional losses are factored in due to sorting and reprocessing, the recycling rate drops to 5% of material retained for secondary use. Recent research estimates that two-thirds of plastic used by UK households is not recyclable, due to a variety of polymers in finished products which are difficult to separate out for the purpose of recycling.

Solutions

The Stewardship Funds believe there are three key solutions to the plastic problem:

1. Reduce use of plastic in the first place, in particular by designing for re-use rather than single use. Where that cannot be achieved, substitute with more sustainable alternatives.

2. Use types of plastic that can be easily recycled and re-used. If that cannot be achieved, for example, in food wrapping, oxo-biodegradable plastics will be useful.

3. Vastly improve our recycling infrastructure and create demand for recycled plastics.

UK Plastics Pact

We are encouraged to see the lead taken by members of the UK Plastics Pact, who share 4 goals to eliminate unnecessary single-use packaging and increase the reusability and recyclability of plastic packaging by 2025. Whilst this transition will require initial costs to redesign supply chains and equipment, we believe that companies that adapt to these trends stand to benefit; cost savings realised by lower packaging use, improved consumer perceptions and reputational gains, as well as lower regulatory risks yielding higher margins for food retailers and consumer goods companies.

Moving to a re-use economy
What are the Stewardship Funds doing about plastic?

An important part of my work since 2018 when the Stewardship Funds came across to Aviva Investors, has been discussing the challenges around plastic with companies, encouraging them to develop a plastic strategy, with a focus on the reduction of single-use and virgin plastic. We also suggest product design to maximise reduction, re-use and recyclability, better labelling on recyclability, and public disclosure on how successful, and therefore their efforts have been.

- In 2019 we were delighted when Unilever announced ambitious new plastic targets, including to halve the amount of virgin plastic it uses, following our solo and collaborative engagements with the company (see case study on page 16).
- During 2019 we had discussions with cosmetics companies Estee Lauder and Shiseido on the issue of reducing virgin plastic consumption and the public disclosure of plastic data. We continue to engage with these companies on this issue.
- We invest in DS Smith, Europe’s largest cardboard and paper recycling company, on the basis that companies which produce recycled corrugated packaging will benefit from the move away from single-use plastic.
Evidence of Stewardship delivering positive change

ESG – the environment

UK bank Barclays pledges to make its financing activities carbon-free by 2050.

In recent years, Barclays has been criticised for its lack of a response to climate change – being one of the largest lenders to fossil fuels globally. To try and foster change on this matter, Aviva Investors initiated an intense period of engagement with the bank, meeting the chairman on four separate occasions. We encouraged the bank to view this as an opportunity to move beyond a reactionary approach and establish a leading climate strategy for the banking sector.

**Outcome**

Barclays responded by publishing a market-leading ambition to be the first bank globally to achieve net zero emissions in all financing activities by 2050 in line with the goals of the Paris Agreement. The bank also agreed to publish ‘transparent targets’ to track its progress. Barclays received 99% support for its climate approach at the May AGM, and Aviva Investors will work closely with the bank in the coming months as it develops a detailed climate framework and roadmap to achieve its ambitious climate objectives.

**Schneider Electric commits to low carbon future**

We engaged with Schneider Electric (a French software and hardware provider to the energy sector) to encourage the company to set targets to reduce its carbon emissions in line with the Paris Agreement.

**Outcome**

We welcome Schneider’s consequent decision to set a Science Based Target (SBT) to reduce emissions in line with the Paris Agreement. As part of its goal to become a carbon neutral business, Schneider Electric plans to sell circuit-breakers that do not emit greenhouse gases, and help its customers move towards a low-carbon future.

**Tritax Big Box improves ESG approach and sets target to become zero net carbon**

Aviva Investors has been a shareholder in logistics real estate owner Tritax Big Box since the company’s initial public offering in 2013. The fund manager and the ESG team have worked closely with the company’s management team over the past seven years to help guide it on best practice. Most recently, Aviva Investors requested a meeting in February 2020 with the newly appointed Sustainability Director Helen Drury.

Trevor Green, fund manager of the Stewardship UK Equity Fund, who held the meeting with Tritax Big Box, explains: ‘The meeting was highly productive. We encouraged Tritax to improve how it promotes its ESG credentials to other investors and the wider audience, as well as push the firm to set target dates on certain ESG performance indicators. Our relationship with Tritax is about working together on ESG matters, rather than Aviva Investors setting demands. This has led to the company having, in our opinion, some of the best ESG credentials in the UK real estate sector.’

**Outcome**

Tritax Big Box now has a strategy to become net carbon zero with a timetable to follow in due course. The evidence of Aviva Investors’ advice shone through at the company’s results in March 2020 when sustainability was added as a key strategic priority.

**Broadcaster ITV improves disclosure and targets on carbon emissions**

We have engaged with ITV in 2020 to encourage the business to improve transparency around its climate impacts by participating in the Carbon Disclosure Project (CDP) survey for the first time. This survey is a vital source of information for investors, helping us to compare companies’ efforts to reduce their greenhouse gas emissions. We also suggested the company set a Science Based Target (SBT) to reduce emissions in line with the Paris Agreement.

**Outcome**

We were pleased to see ITV participate in the CDP and commit to setting an SBT in 2020.
Evidence of Stewardship delivering positive change

ESG – societal change

St James’s Place agrees to improve diversity, adding 2 female board members

During the past 12 months, Aviva Investors has met with wealth manager St James’s Place (SJP) to enhance diversity on its board and gain a better understanding of its approach to ESG. We also requested better disclosure over how it manages ESG risks in its investment process. Gender diversity (as there was only one female on the board), executive remuneration and responsible investment were also discussed. This included a deep dive to look at how the company’s approach to responsible investment and how ESG is integrated into its investment strategy. Towards the end of 2019, the team engaged with SJP about the succession arrangements for the Chair and better gender diversity.

Outcome

We welcome SJP’s decision to add two female board members. We were encouraged by the company setting targets and commitments to ensure it can benefit from diversity of gender, social and ethnic backgrounds. Our internal ESG score for the company has improved. We believe that SJP can and wants to do more on ESG integration and we will be assessing progress at the end of 2020.

ESG – cultural change and governance

Sage Group confirms to prioritize company culture & risk of cyber security

Global accounts and payroll software provider Sage Group has been held by Aviva Investors for more than a decade. The investment team has engaged regularly with the Board and chief executive officer (CEO) Steve Hare in this time. As a major shareholder, Aviva Investors has been given the opportunity to express its views and concerns about the firm’s culture and cyber security threat directly with the Chairman, and the team has used this relationship to help the group improve its ESG credentials.

Outcome

Sage Group’s culture and the threat from cyber security are now key priorities for the Board, providing reassurance to us. We are also pleased with the company’s Sage Foundation which helps charities across the world. CEO Steve Hare has increased the number of Sage employees who work with the Foundation.
ESG – governance

Housing Associations agree to work with Stewardship to improve governance

Tom Chinery, fund manager of the Stewardship Bond Fund, has worked with the Regulator of Social Housing to help Housing Associations improve their transparency, as well as be more aware of their environmental social and governance risks. The aim was to help them attract more investment to help them provide better and more affordable housing.

Tom explains: ‘If we see sub-optimal governance at a business that we believe represents a good investment opportunity, we will focus on helping businesses leverage the engagement skills of our equity colleagues. We are keen to leverage our expertise to help educate what we think ‘good’ looks like for Housing Associations. We discussed our concerns about the sector on ESG with the regulator and surveyed 42 housing associations asking for their feedback on the matter.’

Outcome

The survey responses have had a real impact on our assessment of the creditworthiness of Housing Associations and we can now include this feedback in our investment process. We believe that engagement here could have the dual benefit of encouraging discussions with companies like the Housing Associations to guide them to what we are looking for from an ESG perspective, while the team could incorporate this feedback into our company analysis. The response to our engagement from Housing Associations has been positive and they want to work with us to enhance their governance.
Deciding to disinvest

**Stewardship is not afraid to walk away where change is not forthcoming**

We decided to exit our position in online retailer Amazon in September 2019 as our attempts to engage with the company about workforce issues, as well as our requirement for more detail about how it would meet its Climate Pledge, did not yield any results. We show our engagement work with Amazon in the table below:

While staying invested to foster change is our desired outcome, we recognise that engagement does not always achieve the type of results we want from a company. In this situation, we can decide to sell a position completely, enabling us to devote our efforts to engaging with businesses where we believe we can have a positive impact.

<table>
<thead>
<tr>
<th>X</th>
<th>Voted on 11 resolutions on ESG issues at 2019 AGM</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>Concerns with company’s ability to meet what we regarded as an ambitious Climate Pledge</td>
</tr>
<tr>
<td>X</td>
<td>Lack of transparency on labour risks internally and across value chain</td>
</tr>
<tr>
<td>X</td>
<td>Divested due to lack of progress on multiple issues raised</td>
</tr>
</tbody>
</table>

**Governance of the Stewardship range**

**The following three groups provide oversight of Stewardship:**

- The Aviva Investors’ Global Sustainable Outcomes team, headed by Marte Borhaug, runs the ESG screening and assessment research for the Stewardship Funds, working closely with the fund managers.

- The Aviva Investors’ Investment Oversight Committee conducts a deep dive of environment, social and governance issues every six months. The Committee also reviews the Stewardship Funds, the investment policies and the holdings to ensure they continue to reflect the Stewardship philosophy and remain suitable for the Stewardship Funds.

- Aviva Investors employs a panel of subject-matter experts to act as independent advisers on a wide range of ESG issues to ensure that we listen to different voices and incorporate experts’ views into our thinking. John Elkington of think-tank and advisory firm Volans and Annelisa Grigg, formerly of the UN Environment Programme Word Conservation Monitoring Centre, are joined by Niall O’Shea, former Head of Responsible Investment at Royal London and the Co-operative Asset Management.
Aviva’s Stewardship Lifestyle Strategy

A key milestone in Aviva’s responsible investment story was the launch of the Stewardship lifestyle strategy in July 2019. This investment strategy lets our customers invest in the Stewardship Funds throughout their retirement journey. We believe that this is the first default offering of its kind, which incorporates investing ethically at each stage of the retirement journey. We want our customers to be confident that regardless of where they are in the retirement journey – at the very beginning or near to the end – their money is helping to make a difference in a positive way. We show how the Stewardship Lifestyle Strategy works below:

**Lifestyle Strategy**

The Lifestyle Strategy uses the Stewardship International, Managed and Bond Funds. It has been designed recognising that the balance between return and risk will change as members progress through their retirement journey, from joining the scheme to reaching their selected retirement date. It also reflects the enhanced flexibility available to members following the introduction of pension freedoms by the government in 2015. It means that members are able to take their savings the way they want to when they come to their retirement date.

Reflecting the use of the Stewardship Funds throughout the strategy members can be reassured that, regardless of when they first invest, ethical and ESG considerations are integrated all the way up to their selected retirement date.

The glidepath for the strategy is shown below. The chart shows the underlying funds which make up the strategy and how investors’ monies are gradually moved from one fund to another during the journey to retirement.

**Stewardship Lifestyle Strategy - Taking customers through the journey to retirement**
Fund performance

In this section we look at how the Stewardship Funds have performed in the second year of Aviva Investors managing the funds, and therefore over the 12 months to the end of March 2020. We also look in detail at companies that were added to the Funds in the period, and also those that were sold.

Discrete and cumulative fund performance to end March 2020 can be found in the Appendix. Please refer to fund factsheets in fund centre for fund objectives, risk codes and top 10 holdings: https://www.fundslibrary.co.uk/FundsLibrary.BrandedTools/AvivaConsumer/FundCentral

Lack of exposure to oil, gas and aviation helped Stewardship Funds in Q1 2020

The Covid-19 crisis, which began in March 2020, resulted in the first three months of 2020 being one of the most challenging periods on record for companies, the financial markets, and for investors. The Stewardship Funds benefited from their lack of exposure to oil and gas, as well as aviation – two of the sectors hurt the most by the crisis and the downturn in economic activity.

James Balfour, fund manager of the Stewardship UK Equity Income Fund, talks about how companies have responded to the crisis.

‘Many companies reacted quickly to the crisis, with both costs and liquidity needs in focus, which has impressed us, with government initiatives and support mechanisms being embraced. In terms of ESG, we have been heartened by companies sticking to their principles with the S part (social) coming to the fore in the crisis. This says a lot about the culture of a business. Firms have provided financial help to NHS, while Burberry Group, which Stewardship holds donated more than 100,000 pieces of PPE to the NHS. Such actions will not be forgotten quickly.’

Performance of Aviva Stewardship UK Equity Fund over 12 months to 31 March 2020

Key performance drivers

- Pharmaceuticals firm GlaxoSmithKline (GSK)
- Global telecommunications business Spirent

GSK enjoys strong and beneficial partnerships, such as its joint venture with Pfizer, while it acquired oncology-focused biopharmaceutical firm Tesaro in January 2019. This should enable GSK to invest in innovation and growth opportunities.

‘GSK is driven by a focus on patients and a desire to develop medicines that can improve and extend patients’ lives.’ Trevor Green, Stewardship UK Equity Fund Manager

Spirent Communications has a healthy balance sheet and is exposed to long-term growth drivers, including 5G, which should remain intact despite the economic challenges. Spirent’s forecasts have continued to improve with investment in 5G gaining momentum.
Detractors from performance

- High-end fashion retailer Burberry
- Banking group Lloyds

**Burberry** performed well in 2019; its new product collection was well received; its sales outlook improved and its rationalisation programme made progress. However, the business, which depends on tourism and is exposed to China and has an overseas supply chain, was hit hard by Covid-19. The team continues to support Burberry, believing in its long-term strategy and the opportunities being pursued by management.

> ‘Burberry’s response to the Covid-19 crisis has been exemplary. It is using its manufacturing capability to produce PPE, donating to Oxford University’s vaccine research and has formed the Burberry Foundation Covid-19 Community Fund, was part funded by directors’ donated salary.’
> Trevor Green Stewardship UK Equity Fund Manager

The UK landslide election in December 2019 topped off a good year for **Lloyds**, a period when it invested heavily in its digital transformation and its wealth management partnership with fund manager Schroders progressed. The economic disruption from Covid-19 has hurt Lloyds, but the team is confident that thanks to its strong balance sheet and help from policymakers, the business can support the UK economy at this difficult time.

The Stewardship team welcomed Lloyds’ decision to outline targets to reduce the emissions that it finances by more than 50% by 2030. The bank is now in line with the UK’s Net Zero Goal and the Paris Agreement.

Newcomers to the Stewardship UK Equity Fund in the review period

- Soft drinks manufacturer Britvic
- Utility provider Severn Trent
- Infection control and hygiene manufacturer Tristel

**Britvic** has invested heavily to improve its supply, bottling and distribution operations. The team is confident that this will lead to better cash flow generation, strong returns and lower debt.

> Britvic was a founding member of the UK Plastics Pact and achieved its goal to reduce calories in its drinks by 20% by 2020. The company has entered into a long-term agreement with Esterform, one of the UK’s leading producers of recycled rPET, which is a bottling plastic. Britvic invested £5m into the construction of a new UK recycling facility, which secures access to locally sourced rPET long into the future, thereby strengthening its supply chain.

The investment team sees attractive value in **Severn Trent**’s long-term stable earnings and dividend outlook, and also believes that there is growth potential in its non-regulated businesses, particularly green power.

> Severn Trent’s acquisition of Agrivert added 5 food waste energy plants to its portfolio, meaning it has 9 anaerobic digestion and 5 composting facilities that turn 0.5 million tonnes of organic waste into enough green energy to power 50,000 local homes each year. The anaerobic digestion plants also produce an organic replacement to petrochemical derived fertilisers. The company recently released its first Sustainability Report, which explains how its sustainability agenda is embedded into the corporate strategy.

**Tristel**, whose products benefit from its proprietary chemical – chlorine dioxide (ClO2) – and its applications was also added to the Fund. The business has an impressive 15-year growth track record and the Covid-19 outbreak should provide a growth opportunity. The firm’s healthy finances reflect its specialism.

> ‘As well as Tristel’s strong growth outlook, we believe there are powerful environmental and social angles; the NHS could reduce costs and lower its environmental impact by switching to Tristel products. Tristel sprays could be used with paper wipes, or dilution sachets for mopping, reducing plastic waste without compromising efficacy.’ Trevor Green

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Performance of Aviva Stewardship UK Equity Income Fund over the 12 months to 31 March 2020

Key performance drivers

- Publicly listed renewable infrastructure fund Greencoat UK Wind
- Specialist motor insurance company Sabre Insurance

Greencoat UK Wind’s asset base of windfarms is increasing, and the company now produces nearly one Giga Watt of power to the UK’s power network. The benefit of scale and experience is allowing Greencoat to grow through investment partnerships, in particular with pension funds that want to source cash flow from green sources.

Sabre Insurance performed well thanks to its financial discipline. The firm provides car insurance in a competitive market and this is supporting the firm’s financial strength. In a market where price competitor websites dominate, Sabre Insurance has built a strong position as an insurance provider for learners, first-time drivers, younger learners and students.

Detractors from performance

- Cinema chain Cineworld
- Software and information technology company Micro Focus

Cineworld closed cinemas in March at the outbreak of Covid-19. Its situation was also impacted by its acquisition in early 2020 of Cineplex, the largest Canadian cinema franchise. Before Covid-19, the firm’s US performance had been improving; the firm launched its monthly subscription offer and continued to renovate sites following its acquisition of Regal. The management team was flexible with costs throughout lockdown. The challenge now is for cinemagoers to return.

Micro Focus has struggled to improve orders because of its older IT systems, and this has meant its model for improved cash flow and margins has not been forthcoming. The business has failed to meet the refreshed targets set out post its reverse takeover of Hewlett Packard and has since failed to find suitors for parts or all of its divisions.
Newcomers to the Stewardship UK Equity Income Fund in the review period

- Telecommunications group Vodafone
- Soft drinks bottler and manufacturer Britvic

After reducing Vodafone ahead of its dividend-cut in mid-2019, the position has since been increased on the back of the company’s better performance in Europe. This has been boosted by the announced review of the Towers business, which has attracted suitors due its strong cash generation.

Please see Stewardship UK Equity Fund section for information about Britvic, a founding member of the UK’s Plastics Pact and the company’s work in trying to reduce plastic pollution.

Sales

- Hotel chain International Hotel Group

International Hotel Group was sold as the indications for revenue per room declined in line with growth in alternative overnight accommodation. The marketplace has become more congested with alternative offers. The firm’s business model has remained resilient, but it faces headwinds due to slowing economic activity post Covid-19.

Fund manager James Balfour shares his view on the outlook for dividend payments in light of the Coronavirus crisis. He explains how he has positioned the Stewardship UK Equity Income Fund.

‘The outlook for dividend payments is uncertain in the shorter term; companies are conserving cash on their balance sheets – this was to ensure they could survive lockdown and capitalise on opportunities in the medium term. Financials provide a greater proportion of the distribution from the available universe, however the positioning in the Fund towards insurance companies providers a more positive outlook on dividend distribution than if the Fund had bigger positions in the banking sector were held.

The Stewardship UK Equity Income Fund is focused on businesses that will do well in a recovery. It also has defensive positions that have steady revenue streams, irrespective of what’s happening in the economy.

The fear of a second peak and the impact that might have on the global economy has prevented us taking larger positions that would benefit from a V-shaped recovery. However, valuations have come back in a number of sectors providing possible points at which we could buy companies that we believe have strong long-term return prospects.’
Key drivers of performance

- Video games hardware and software developer Nintendo
- Chemicals and biotechnology company Lonza

Nintendo enjoyed more success in its hardware, including the launch of the Switch Lite. The business has hit global franchises and one of the biggest intellectual property catalogues of the industry, but in the team’s view, is still a long way from monetising this. It believes that video games will play a more important role in media consumption. It likes Nintendo’s creativity, as well as the more family-friendly titles in its portfolio compared to other players in the industry.

Lonza is helping the healthcare industry to shift from simple molecules to complex biologics. The firm enjoys a strong competitive position given the importance of complex biologics for the pharmaceuticals industry.

Detractors from performance

- Aluminum producer Norsk Hydro
- European insurance provider Axa

Norsk Hydro was sold as the team had been expecting better supply discipline by Chinese producers and the positive effect of the reopening of its Brazilian operations. However, this thesis has not played out. The market does not appear to be giving Axa credit for its transformation to a more stable business model with a greater focus underwriting. Market turmoil in both interest rates and the equity market also hit Axa’s share price. Despite this, the team believes in the long-term potential of the company and is confident that the investment thesis will play out.

Newcomers to the Stewardship International Fund

- Cable manufacturer Prysmian
- Insurance broker Marsh and McLennan

Prysmian is the world’s largest cable manufacturer for the utilities and telecommunications industries. The firm’s cables are helping the transition to a low-carbon economy and are used by offshore wind projects all over the world to connect to the grid. The team is positive about the outlook for the company.

Insurance broker Marsh and McLennan is well placed to help its clients improve their risk management and in particular to help companies prepare for risks related to climate change. The team believes that the firm has a bright outlook after finishing the integration of JLT, its latest acquisition.

Positions sold in the review period

- Online commerce platform Amazon
- US banking group Bank of America
- Aluminium producer Norsk Hydro

The position in Amazon was closed in September 2019, as mentioned earlier in report attempts by the Stewardship team to engage with the company about workforce issues and other matters did not yield any results.

Bank of America was sold in August 2019, enabling the team to focus on other opportunities. Bank of America has continued to increase its lending to the fossil fuels industry and has yet to sign the UN Principles of Responsible Banking.

As mentioned the position in aluminium producer Norsk Hydro was sold. The team believed that environmental considerations would force more Chinese producers to shut down or reduce output, but this hasn’t happened.
Key drivers of performance

- Supermarket chain Tesco
- Fund manager M&G
- Not holding Intu (investment trust and retail property manager) post February helped
- Sustainable power company Orsted

As expected, Tesco’s bonds were upgraded by the ratings agencies and the bonds performed well. The Fund’s holding in Tesco was subsequently reduced and the team has since added to the position again.

The team added to the position in M&G ahead of its demerger from insurance group Prudential.

Intu is a retail position that was sold prior to the Covid situation; it has since underperformed significantly before falling out of the index due to being downgraded.

Not holding a number of names on exclusion grounds in the utilities sector, including French nuclear power provider EDF, cost the Fund some performance. However, performance was added to the Fund via its position in sustainable power company Orsted, which is the fund’s top ESG pick.

The fund’s position in financials cost some performance overall. However, this was partly offset by the fund’s position in fund manager M&G, which is mentioned above.

Key detractors

- Insurance provider Prudential
- Banking group HSBC

The sell-off in lower-rated bonds, which are classed as riskier insurance holdings, had a negative impact on Prudential’s bonds.

During the Covid sell-off, investors were concerned in particular about banks given they are in the riskiest part of the market. HSBC has a substantial UK mortgage book which has led to weaker performance, as did concerns around its Hong Kong/China assets.
Performance of the Stewardship Managed Fund over the 12 months to the end of March 2020

Key drivers of performance
The Stewardship Managed Fund is a multi-asset Fund, which invests in the Stewardship International Fund and the Stewardship Bond Fund. It has a small position in the Stewardship UK Equity Fund. The position in the Stewardship International Fund was the main driver of performance in the 12 months under review. Please see pages 27-28 for the Fund’s update.

This performance refers to the past. Past performance is not a guide to future performance. Investors may get back less than they originally invested. Fund performance is on a gross basis and therefore does not include any charges which may apply.
Appendix

Aviva Investors’ ESG capabilities team

The Stewardship team benefits from the rich experience in responsible investment across the Aviva Investors business, which is shown below:

### Equity and Credit

- **Sustainable Finance Centre for Excellence**
  - Market reform, strategic partnerships with NGOs, training and coordination across Aviva Investors

- **ESG Solutions**
  - Advisory and strategic asset allocation

- **Governance & Stewardship**
  - Engagement and voting on impact and ESG

- **Sustainable Outcomes**
  - Thematic and impact research, sustainable product range

- **Corporate ESG Research**
  - Company and sector research

- **ESG Real Assets**
  - ESG research for real estate, infrastructure and private debt

#### Solutions

- **Steve Waygood**
  - Chief Responsible Investment Officer

- **Abigail Herron**
  - Global Head of ESG Strategic Partnership

- **Sophie Rahm**
  - ESG Solutions Lead

- **Mirza Baig**
  - Global Head of Governance & Stewardship

- **Marte Borhaug**
  - Global Head of Sustainable Outcomes

- **Paul Lacoursiere**
  - Global Head of Corporate ESG Research

- **Ed Dixon**
  - Head of ESG Real Assets

- **All Denholm**
  - CIO

- **David Cumming**
  - CIO Equities

- **Liquid Markets**
  - Colin Purple

- **Real Assets**
  - Mark Versey

#### Real Assets

- **Eugenie Mathieu – Senior ESG Analyst on Stewardship**
  - Eugenie was part of Greenpeace International’s Forests team, where she worked on deforestation driven by palm oil, pulp & paper, cattle and soy. She spent 14 years as a sustainability consultant advising major international companies, including FTSE 100s, on their environmental, social and ethical strategies and performance. Prior to consulting, Eugenie worked with EIRIS on the creation of the FTSE4Good indices in 2001, following an MSc in Business and Environment at Imperial College, London, and two years at Bain & Company.

### Experience and qualifications

As Head of EU public policy Marte led sustainability campaigns where she looked after Aviva’s public policy work on sustainable finance, financial reform and Brexit. She joined Aviva from the Confederation of British Industry where she was Head of Financial Services and Corporate Governance. Marte led sustainable finance campaigns in Brussels at the EU public affairs consultancy The Brussels Office and the Mission of Norway to the EU. She holds an MSc in European Political Economy from the London School of Economics.

### Marte’s work with communities

Marte is an adviser to Rosa UK, a charity that funds grassroots women’s organisations to help make the UK a fairer, safer place for women. She is also an adviser to the social accelerator Bethnal Green Ventures.

- **Marte Borhaug – Global Head of Sustainable Outcomes**
  - Marte leads the Sustainable Outcomes team, which is responsible for ensuring Aviva Investors contributes to the United Nation’s Sustainable Development Goals through positive impact. Her team delivers thematic research used across the investment team on impact issues such climate change, biodiversity, diversity and inequality, as well as running thematic screens across funds.
Trevor Green – fund manager of the Stewardship UK Equity Fund
Trevor has managed UK equities at Aviva Investors since 2011. He joined from Henderson Global Investors, where he was co-manager of the Henderson Managed Distribution Fund. Before that Trevor worked at New Star Asset Management.

James Balfour – fund manager of the Stewardship UK Equity Income Fund
James joined Aviva Investors in 2012 as part of the Aviva Investors Graduate Training scheme, initially as UK Equity Analyst before becoming assistant fund manager. James was appointed co-fund manager of the firm’s UK Equity Income Strategy in May 2016.

Jaime Ramos Martin – fund manager of the Stewardship International Fund
Jaime is a fund manager in the global equity team. He joined Aviva Investors from Standard Life Aberdeen where he was a global equity fund manager for 12 years. Before this, Jaime worked at Mercer investment Consulting.

Thomas Chinery – fund manager of the Stewardship Bond Fund
Tom co-manages sterling investment grade funds, the Pre-Annuity Tax Transparent Fund (TTF) and the Stewardship Bond Fund. Tom is also a Responsible Investment Officer and is leading the efforts to ensure that ESG factors are integrated across the credit process. Before joining Aviva Investors, Tom worked at Mitsubishi Trust Bank managing a credit total-return treasury book.

This report is for information purposes only. It does not constitute investment advice. All information correct at time of publication. Performance refers to the past. Past performance is not a guide to future performance. Markets can go down as well as up.
Cumulative and discrete performance to end March 2020
Av Stewardship (UK Equity) Fund over the five years to 31 March 2020

Past performance showing percentage increase or decrease to end March 2020

<table>
<thead>
<tr>
<th></th>
<th>31.03.2019 To 31.03.2020</th>
<th>31.03.2018 To 31.03.2019</th>
<th>31.03.2017 To 31.03.2018</th>
<th>31.03.2016 To 31.03.2017</th>
<th>31.03.2015 To 31.03.2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Av Stewardship</td>
<td>-11.3</td>
<td>6.6</td>
<td>2.7</td>
<td>15.5</td>
<td>-5.9</td>
</tr>
<tr>
<td>ABI UK All Companies</td>
<td>-21.0</td>
<td>2.6</td>
<td>1.0</td>
<td>17.2</td>
<td>-2.5</td>
</tr>
<tr>
<td>FTSE All-Share Index</td>
<td>-18.5</td>
<td>6.4</td>
<td>1.3</td>
<td>22.0</td>
<td>-3.9</td>
</tr>
</tbody>
</table>

Cumulative past performance to last quarter end showing percentage increase or decrease

<table>
<thead>
<tr>
<th></th>
<th>3 months</th>
<th>6 months</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Av Stewardship</td>
<td>-24.5</td>
<td>-20.5</td>
<td>-11.3</td>
<td>-2.9</td>
<td>5.6</td>
</tr>
<tr>
<td>ABI UK All Companies</td>
<td>-28.8</td>
<td>-24.3</td>
<td>-21.0</td>
<td>-18.2</td>
<td>-7.5</td>
</tr>
<tr>
<td>FTSE All-Share Index</td>
<td>-25.1</td>
<td>-22.0</td>
<td>-18.5</td>
<td>-12.2</td>
<td>2.9</td>
</tr>
</tbody>
</table>

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Stewardship (UK Equity) Income Fund over the five years to 31 March 2020

Past performance showing percentage increase or decrease to end March 2020

<table>
<thead>
<tr>
<th></th>
<th>31.03.2019 To 31.03.2020</th>
<th>31.03.2018 To 31.03.2019</th>
<th>31.03.2017 To 31.03.2018</th>
<th>31.03.2016 To 31.03.2017</th>
<th>31.03.2015 To 31.03.2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Av Stewardship UK</td>
<td>-14.7</td>
<td>7.8</td>
<td>2.5</td>
<td>16.6</td>
<td>-3.4</td>
</tr>
<tr>
<td>Equity Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ABI UK Equity Income</td>
<td>-21.6</td>
<td>3.5</td>
<td>-0.9</td>
<td>15.8</td>
<td>-2.2</td>
</tr>
<tr>
<td>FTSE All-Share Index</td>
<td>-18.5</td>
<td>6.4</td>
<td>1.3</td>
<td>22.0</td>
<td>-3.9</td>
</tr>
</tbody>
</table>

Cumulative past performance to last quarter end showing percentage increase or decrease

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<tr>
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<th>3 years</th>
<th>5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Av Stewardship UK</td>
<td>-27.1</td>
<td>-20.8</td>
<td>-14.7</td>
<td>-5.7</td>
<td>6.3</td>
</tr>
<tr>
<td>Equity Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ABI UK Equity Income</td>
<td>-28.8</td>
<td>-23.8</td>
<td>-21.6</td>
<td>-19.6</td>
<td>-8.9</td>
</tr>
<tr>
<td>FTSE All-Share Index</td>
<td>-25.1</td>
<td>-22.0</td>
<td>-18.5</td>
<td>-12.2</td>
<td>2.9</td>
</tr>
</tbody>
</table>

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Performance of the Av Stewardship International (Equity) Fund over the five years to 31 March 2020

Past performance showing percentage increase or decrease to end March 2020

<table>
<thead>
<tr>
<th>Fund</th>
<th>31.03.2019 To 31.03.2020</th>
<th>31.03.2018 To 31.03.2019</th>
<th>31.03.2017 To 31.03.2018</th>
<th>31.03.2016 To 31.03.2017</th>
<th>31.03.2015 To 31.03.2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stewardship International</td>
<td>2.4</td>
<td>11.4</td>
<td>3.9</td>
<td>30.7</td>
<td>-1.2</td>
</tr>
<tr>
<td>ABI Global Equities</td>
<td>-7.8</td>
<td>7.4</td>
<td>1.7</td>
<td>27.7</td>
<td>-2.7</td>
</tr>
<tr>
<td>MSCI World Index</td>
<td>-5.3</td>
<td>12.6</td>
<td>1.8</td>
<td>32.7</td>
<td>0.3</td>
</tr>
</tbody>
</table>

Cumulative past performance to last quarter end showing percentage increase or decrease

<table>
<thead>
<tr>
<th>Fund</th>
<th>3 months</th>
<th>6 months</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stewardship International</td>
<td>-13.7</td>
<td>-11.7</td>
<td>2.4</td>
<td>18.5</td>
<td>53.0</td>
</tr>
<tr>
<td>ABI Global Equities</td>
<td>-17.3</td>
<td>-15.4</td>
<td>-7.8</td>
<td>0.8</td>
<td>25.3</td>
</tr>
<tr>
<td>MSCI World Index</td>
<td>-15.5</td>
<td>-14.6</td>
<td>-5.3</td>
<td>8.6</td>
<td>44.5</td>
</tr>
</tbody>
</table>

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Performance of the Av Stewardship Bond Fund since launch in June 2019 to 31 March 2020

Past performance showing percentage increase or decrease to end March 2020

<table>
<thead>
<tr>
<th></th>
<th>31.03.2019 To 31.03.2020</th>
<th>31.03.2018 To 31.03.2019</th>
<th>31.03.2017 To 31.03.2018</th>
<th>31.03.2016 To 31.03.2017</th>
<th>31.03.2015 To 31.03.2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stewardship Bond</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>ABI Sterling Fixed</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Interest</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iboxx UK Sterling</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Non-gilts All</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maturities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Cumulative past performance to last quarter end showing percentage increase or decrease

<table>
<thead>
<tr>
<th></th>
<th>3 months</th>
<th>6 months</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stewardship Bond</td>
<td>-3.1</td>
<td>-4.4</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>ABI Sterling Fixed</td>
<td>1.9</td>
<td>-4.0</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Interest</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iboxx UK Sterling</td>
<td>-3.4</td>
<td>-0.9</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Non-gilts All</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maturities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</table>

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Performance of the Av Stewardship Managed Fund over the five years to 31 March 2020

Past performance showing percentage increase or decrease to end March 2020

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>31.03.2019 To 31.03.2020</th>
<th>31.03.2018 To 31.03.2019</th>
<th>31.03.2017 To 31.03.2018</th>
<th>31.03.2016 To 31.03.2017</th>
<th>31.03.2015 To 31.03.2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stewardship Managed</td>
<td>2.4</td>
<td>8.6</td>
<td>2.7</td>
<td>24.0</td>
<td>0.5</td>
</tr>
<tr>
<td>ABI Mixed Investment 40%-85%</td>
<td>-7.0</td>
<td>4.5</td>
<td>0.8</td>
<td>17.9</td>
<td>-3.0</td>
</tr>
</tbody>
</table>

Cumulative past performance to last quarter end showing percentage increase or decrease

<table>
<thead>
<tr>
<th>Fund Type</th>
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<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stewardship Managed</td>
<td>-10.8</td>
<td>-9.6</td>
<td>2.4</td>
<td>14.7</td>
<td>41.5</td>
</tr>
<tr>
<td>ABI Mixed Investment 40%-85%</td>
<td>-14.3</td>
<td>-12.8</td>
<td>-7.0</td>
<td>-2.1</td>
<td>12.1</td>
</tr>
</tbody>
</table>

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The fund performance information in this report refers to the past. Past performance is not a guide to future performance.