

# AI Sterling Gilt Fund



LEI	FUND SIZE	AS AT
213800BQITU4TGOH7G43	GBP 1,045m	30/12/2022

## TCFD Fund Disclosures

**We are required by the UK Financial Conduct Authority (FCA) to provide this document, which gives you information about the collective climate impact and risks of the assets held by the fund. The content is aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and complies with the specific sustainability disclosure rules of the FCA.**

## Fund Objectives & Policy

**Objective:** The Sub-Fund aims to grow your investment over the long term (5 years or more) through a combination of income and capital returns, by investing in bonds issued or guaranteed by governments.

**Core investment:** At least 95% of the Sub-Fund will be invested in bonds which are issued or guaranteed by the UK Government (known as gilts), or issued or guaranteed by other governments, with a rating the same as or higher than that of the UK.

At least 80% of this investment must be bonds issued by the UK Government.

All bonds must be denominated in, or hedged back to, Sterling.

**Other investments:** The Sub-Fund may also invest in other investment grade bonds, other funds (including funds managed by Aviva Investors companies), derivatives, cash and deposits.

Derivatives may be used for investment purposes or to gain a particular market exposure which would otherwise be difficult or costly to achieve, or to manage the Sub-Fund's cash flows in a cost-effective manner. Derivatives may also be used to reduce risk, such as foreign currency risk within the Sub-Fund.

**Strategy:** The Sub-Fund is actively managed, and whilst this focus will be on investing in UK Government bonds, the Investment Manager will select appropriate investments from a range of global government bond markets with a view to delivering optimum risk adjusted-returns. The Investment Manager will focus on identifying investments through assessment of the economic and political stability of individual countries, the valuation of the bonds relative to the market, the views of independent risk rating agencies, and any other relevant factors, whilst also taking advantage of short-term opportunities when they arise.

## Climate Risk Strategy

Climate factors are integrated into the investment process and are considered alongside a range of financial metrics and research. The Fund has specific exclusions based on Aviva Investors' UK Responsible Investment policy including, unconventional fossil fuels and thermal coal and these form a key part of the climate mitigation strategy. For the investments selected within the portfolio we actively engage with these companies and use voting rights with the aim of positively influencing their climate risk strategy and helping to create competitive returns.

Please see page 116 of [Aviva's Climate-related Financial Disclosure](#).

## Climate Risk Management

Aviva Investors Global Services Limited, the funds appointed Investment Manager, has ESG-specific controls to perform ongoing oversight and ensure compliance, which contributes to, and supports, the investment functions in the delivery of strong first-line risk and controls management and governance.

Climate factors have the potential to cause harm to our clients by reducing the value of their investments or by creating stranded assets. Inefficient allocation of capital to companies with high external costs, such as those engaged in highly polluting or socially disruptive activities, can lower asset values over time, reducing returns to investors.

For further information on how these risks are mitigated please see page 116 of [Aviva's Climate-related Financial Disclosure](#).

## Climate Risk Governance

Aviva Investors has a strong system of governance, with effective and robust controls.

Aviva Investors UK Fund Services Limited has an independent governance structure to Aviva Investors which allows the Board, management committee and senior management to integrate climate related risks and opportunities into its strategy, decision making and business processes.

When Aviva Investors UK Fund Services Limited appoints an investment manager to manage a product they are required to demonstrate that effective Climate, ESG and responsible investment policies are in place and climate risk management is embedded into the investment process.

For further information on how we integrate ESG please refer to the Aviva Investors UK Fund Services Limited's Responsible Investment policy which is available on our website and in the prospectus.

Please see page 116 of [Aviva's Climate-related Financial Disclosure](#).

## Fund Greenhouse Gas Emissions

The table below show the key measures used to evaluate the Greenhouse Gas emissions impact of the fund as at 30 December 2022.

Climate Metrics	Unit of measurement	Coverage	2022 Amount
<b>Total scope 1 and 2 greenhouse gas emissions</b>	tCO2e - shown in thousands	100%	0.00
<b>Total carbon emissions</b>	tCO2e - shown in thousands	100%	0.00
<b>Total carbon footprint</b>	tCO2e / \$million invested	100%	0
<b>Weighted average carbon intensity</b>	tCO2e / \$million Revenue	100%	4
<b>Sovereign absolute GHG emissions</b>	tCO2e - shown in thousands	100%	158.17
<b>Sovereign Intensity</b>	tCO2e / \$million PPP adjusted GDP	100%	126

**Data sources** – please see information on data sources shown later in this document. **Note** - Zero balances may be a result of rounding.

**Carbon Emissions Metrics Explained:** We use the following metrics to measure the collective carbon impact of the fund's holdings, calculated according to TCFD standards, which in turn are based on the internationally accepted [GHG Protocol](#):

Metric	TCFD Definition, based on GHG Protocol
Scope 1 Greenhouse Gas Emissions (Metric Tonnes)	Direct GHG emissions that occur from sources that are owned or controlled by the company.
Scope 2 Greenhouse Gas Emissions (Metric Tonnes)	GHG emissions from the generation of purchased electricity consumed by the company.
Scope 3 Greenhouse Gas Emissions (Metric Tonnes)	GHG emissions that are a consequence of the activities of the company, but occur from sources not owned or controlled by the company. Will be disclosed from June 2024 onwards.
Total Greenhouse Gas Emissions (Metric Tonnes)	Total of Scopes 1 and 2 until June 2024, and total of Scope 1, 2, and 3 from June 2024 onwards.
Total Carbon Footprint (Metric Tonnes per \$1M AUM Contribution)	Total carbon emissions for a portfolio normalized by the market value of the portfolio, expressed in tonnes CO2e/\$M invested.
Weighted Average Carbon Intensity (Metric Tonnes per \$1M Revenue)	Volume of carbon emissions per million dollars of revenue (carbon efficiency of a portfolio), expressed in tonnes CO2e/\$M revenue.
Sovereign absolute GHG emissions	Attributed ownership of the sovereign's PPP-adjusted GDP in tonnes.

## Metric

Sovereign Intensity

## TCFD Definition, based on GHG Protocol

The issuing country's GHG intensity by PPP-adjusted GDP in tonnes by millions.

## Exposure to high carbon emissions risk sectors

**Sector analysis is a key part of our strategy. We'll continue to build on our approach by identifying, assessing, and reducing climate risks as we move forward.**

For more information on our approach to managing these risks please see the Aviva plc Climate-related Financial Disclosure 2022 report available at <https://www.aviva.com/sustainability/reporting/>.

## Climate risks

There are two main types of climate-related risks: physical risk and transition risk.

Physical risk has two components:

- Acute risks, stemming from more frequent and severe weather events like heatwaves, droughts, wildfires, and flooding; and
- Chronic risk driven by longer term shifts in climate patterns like sea level rise, and higher average temperature.

Physical risks can have a severe impact on properties (including assets owned or used by companies, such as production facilities), infrastructure and land. So, they can have a negative impact on all sectors either directly or indirectly, for example, through business disruption. Some sectors, such as real estate and agriculture, are particularly exposed to such risks.

Transition risks are generally estimated based on costs of shifting to a low-carbon economy. They arise primarily from policy change and level of technological adoption, but also from market developments such as changes in consumer preferences. These risks can impact all companies, but particularly sectors like Energy, Utilities and Industrials that are sensitive to carbon price policies and emissions regulations.

A company's profitability will be affected by its sensitivity to the physical and transition effects of climate change. These risks aren't mutually exclusive, which means a company can be exposed to both. This is because failure to adapt to climate change that is already happening carries a cost even if climate policies and technologies are deployed extremely fast to reduce future emissions.

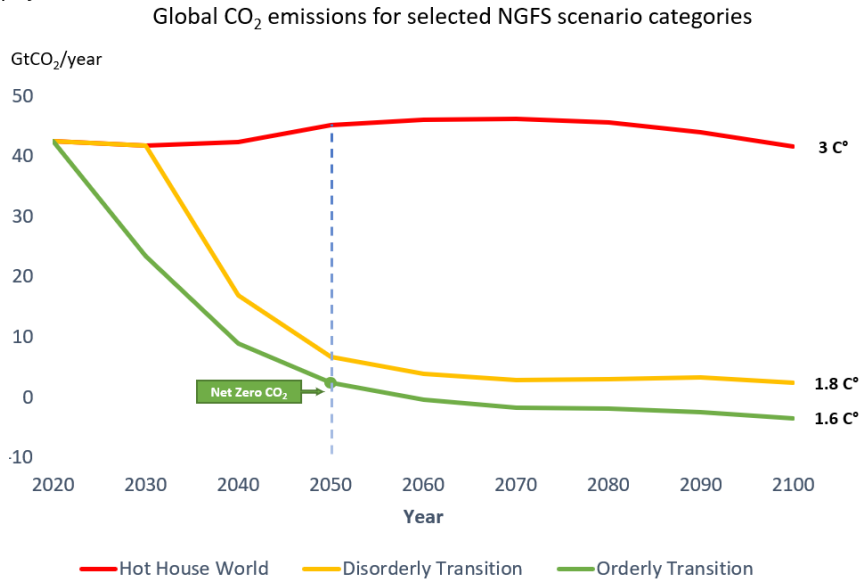
The sector transition risk analysis in the sections below focuses on GHG emissions reduction and carbon intensive industry sectors. This is to provide commentary on the sector emissions and carbon intensity metrics above.

## Scenario analysis

To understand how physical and transition risks could affect different sectors in the future, we use climate change analysis scenarios prepared by the Network for Greening the Financial System (NGFS)<sup>1</sup>. This covers six scenarios in three categories: "Orderly", "Disorderly", and "Hot House World". Each outlines a different possible climate pathway and its likely outcome by 2100.

- **Orderly transition** scenarios assume climate policies are introduced earlier and gradually become stricter. In this scenario, worldwide GHG emissions will reach net zero by 2050, and there is a higher likelihood that global warming is likely to be less than 2°C higher than pre-industrial levels. There are two key transition objectives: to significantly reduce the GHG emissions from the global energy sector (known as decarbonisation) by shifting from burning fossil fuels to using renewable energy, and to electrify energy usage in high carbon-emitting sectors.
- **Disorderly transition** scenarios assume climate policies are delayed until after 2030. Because the shift from fossil fuels to renewables remains slow and climate policies are implemented later, with emissions continuing to rise in the meantime, the transition would need to happen from a higher emissions level over a shorter period of time to limit global warming below 2°C. A sharper transition would be less coordinated, more complex and more costly. Physical risks would also be higher than in an Orderly transition.
- **Hot house world** scenarios assume that current policies stay the same. Paris Agreement commitments aren't met, and emissions and temperatures continue to rise. This causes severe physical risks, as well as social and economic disruptions. In these scenarios, the temperature will rise to over 3°C by 2100.

The chart below illustrates the three NGFS scenarios. If immediate actions are taken to reduce global levels of GHG emissions to net zero by 2050, this would lead to a 1.6°C global temperature increase by 2100 under the Orderly scenario. If no further policies are implemented, resulting in the Hot House World scenario, global mean temperature would rise to 3°C or more by the end of the century, very significantly increasing the impact of physical risks.



**Data Source:** IIASA NGFS Climate Scenarios, REMIND Model

<sup>1</sup> The new 2022 NGFS scenarios draw on the Integrated Assessment Models (IAMs) used by the Intergovernmental Panel on Climate Change, Sixth Assessment Report (IPCC AR6). The NGFS scenarios are widely used by central banks and the financial sector to analyse climate risks and opportunities.

We use the Global Industry Classification Standards (“GICS”) in the sector commentary which follows. GICS is widely used by finance firms, and covers 11 economic sectors: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate and Utilities.

There are different levels of climate risk for each economic sector. Policies, technological development, and changing societal preferences affect how quickly sectors transition to a low-carbon economy and how companies within them are valued.

## Top 3 Carbon Emitting GICS sectors

**For Equities and Corporate Bonds, we can break emissions down by sector. We use the Global industry Classification Standard (GICS) system, and measure all greenhouse gas (GHG) emissions, not just carbon.**

Metrics have been prepared for £0m of the Equity and Corporate Bonds.

The 3 largest (scope 1 & 2) carbon emitting Global Industry Sectors of the fund in Equities and Corporate Bonds are:

GICS Sector	WACI tCO <sub>2</sub> e / \$m Revenue*	Contribution to Portfolio WACI%	Assets holding £m	Assets exposure %**
Financials	4	100	0	100

**Data sources** – please see information on data sources shown later in this document. **Note** - Zero balances may be a result of rounding.

\*Carbon Intensity data is available for scope 1 & 2 emissions only.

\*\*Sector information is unavailable for 0% of the fund’s Equity & Corporate Bonds Assets.

## Financials

For most financial firms, the main climate-related risks feed through from the companies they do business with<sup>1</sup> or the assets they finance<sup>2</sup>.

Companies that lend, insure, underwrite, asset manage or trade in industries like aviation, shipping, automotive, energy and power could be at high risk. For those that own long-term, less flexible infrastructure, energy projects, or real estate, the positive or negative consequences depend on the assets' climate credentials. Financial firms investing in renewable energy, green hydrogen, battery EVs, and carbon capture and storage, or those investing in companies with ambitious carbon reduction commitments are less exposed to transition risks.

(Re)insurance companies face moderate risks because extreme weather events and global warming will add complexity to underwriting and risk management. These companies could face higher losses or claims if their business associates don't mitigate or adapt to climate change.

[1] Firms they lend to, invest in and/or insure such as corporates and households.

[2] Category 15, Investment includes scope 3 emissions associated with the reporting company's investments in the reporting year, not already included in scope 1 or scope 2. It applies to investors and companies that provide financial services, or not profit driven investors (e.g. multilateral development banks). Investments are categorized as a downstream scope 3 category because providing capital or financing is a service provided by the reporting company.

## Product Scenario Alignment

Indicating the likely implied temperature rise associated with a fund's investments is inherently complex, it is a rapidly evolving metric which has to include a host of assumptions by its very nature, guidance on how best to calculate this forward looking indicator is improving all the time, but currently we do not feel it appropriate to publish this data as it risks being potentially misleading and in any event would be heavily caveated and only indicative of a range of potential temperature rises and subsequent associated scenario's given the uncertainty of forecasts for the global economy to decarbonise. We intend to publish the implied temperature rise (ITR) of our investment products in subsequent years once we have designed a suitably robust methodology to represent the most likely possible future decarbonisation pathway of a representative basket of assets for a fund based on its sector, asset class and/or investee company specific projected decarbonisation pathways and other relevant carbon intensity data such as the likes of progress against the Science Based Target Initiative.

In the meantime the most decision useful information to enable comparison between funds based on their implied temperature rise is to use independent research that compares funds using the same methodology, this is freely available from climate data providers such as MSCI as per their ESG fund ratings and climate search tool <https://www.msci.com/our-solutions/esg-investing/esg-fund-ratings-climate-search-tool>. Comparing funds ITR scores from different firms which may be using proprietary models and differing assumptions could produce misleading results in that near identical funds could show very different numbers based on the method and bullishness of the model used and assumptive inputs.

## Climate Value-at-Risk

Climate Value at Risk (Climate VaR) has emerged as a measure to estimate the potential financial losses that a company or portfolio of assets could incur as a result of climate change, we are currently evaluating the robustness of this measure and intend to publish it for future iterations of our fund level TCFD reports once we are comfortable the data has sufficient coverage and quality and once we have fully understood the potential limitations and weaknesses of the metric so we can present it in a suitable way. This includes ensuring the appropriate time horizon of the indicator and the appropriate scenarios are reflected in the output in a way that ensures it is not potentially misleading.

## Other Metrics

There are countless options rapidly developing that are designed to convey climate risks and opportunities, we will keep this metrics under review and where they are deemed to be decision useful we will endeavour to incorporate them into our future reporting suite in conjunction with formal adoption of additional data by TCFD and other disclosure standards boards and regulations.

## Climate Metrics

Our key climate figures show the carbon emissions for each investment fund. Metrics are disclosed for Equities and Corporate Bonds and Sovereigns. There are three types of emissions we consider: Scope 1 (direct), Scope 2 (indirect) and Scope 3 (from a company's value chain). This year, we're publishing numbers for Scope 1 and Scope 2. In the future, we'll add Scope 3, but the current data isn't sufficiently established.

Climate metrics include estimates of emissions and climate change, for more details, our reporting approach<sup>1</sup> and cautionary statements are provided in the Aviva plc Climate-related Financial Disclosure 2022 report available at <https://www.aviva.com/sustainability/reporting/>.

<sup>1</sup> The principal reporting policies adopted in the preparation of these climate metrics are set out in the following sections of [Aviva plc Climate-related Financial Disclosure 2022 report](#); Climate reporting policies (pages 59 - 60), reporting criteria (note 14 – page 64 - 65), our approach and methodology for climate metrics (note 5: page 66 - 68, note 6: page 68 – 69), key estimates and assumptions (note 5: page 66 - 68, note 6: page 68 – 69), and cautionary statements (page 122 - 123). Judgement has been applied in this annualisation to incorporate expectations for expected usage (and therefore emissions) in the last 3 months of the year taking into account historical emission data.

## Useful Link

[Aviva's Climate-related Financial Disclosure](#)

## Data sources

We have used climate and other data from MSCI ESG Research LLC or its affiliates or information providers. Although Aviva's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the 'ESG Parties'), obtain information (the 'Information') from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use, may not be reproduced, or re-disseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

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