Aegon Asset Management is the global investment management brand of Aegon N.V. See disclosures for more detail.
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This Active Ownership Report describes Aegon AM’s Responsible Investment team and its approach to active ownership within Aegon AM’s fixed income, equity, and multi-asset solutions investment platforms. The activities described herein apply specifically to corporate issuers but do not encompass sovereign issuers, bank loans, or scrutinized debt, among others. Similarly, while this report generally describes our active ownership approach, each affiliate’s specific implementation within Aegon AM will vary based on the specific strategy or asset class specialization. Additionally, each client has unique needs and requirements within their mandate and certain of our clients may have stated expectations different from the activities described herein. For that reason, not every capability within Aegon AM’s fixed income, equity, or multi-asset solutions platform necessarily utilizes the approach described herein. Information specific to each capability within Aegon AM is available upon request.

Please refer to the Disclosures pages for additional important information.
Welcome to our second annual Active Ownership Report, in which we report on our activities globally for the first time. The objective of this report is to inform our clients and other stakeholders of our stewardship activities by providing a snapshot of key engagements, achievements and other outcomes attained in 2020.

As an active asset manager, we launched our first RI strategy in the UK market more than 30 years ago. As the years have evolved, we have developed a comprehensive approach consisting of ESG integration, active ownership and focused RI solutions. By investing responsibly, we aim to minimize risk and explore new opportunities as we seek to generate value for our clients.

As a significant holder of the equity and debt of many companies, we aim to promote best practice in environmental, social and governance (ESG) matters in accordance with our clients’ mandates. We believe responsible investing can help drive performance and consider it our responsibility as active owners to engage with investee companies with the aim of improving their ESG profile for the benefit of our society, the communities and environment in which we all live and work.

Responsible investing has evolved significantly since we first embarked on our ESG journey, but never more so than in the last year, following the disruption caused by the Covid-19 pandemic. This has clearly led to a shift in priorities around the world. Individuals, investors, governments and corporations have all become more ESG conscious and increasingly concerned about the impact of society’s actions on people and the planet.

We believe that this attention will only increase in the post-pandemic world. As part of our active ownership program, we at Aegon AM play an active role in trying to encourage sustainable practices to help improve long-term outcomes for our clients.
Responsible investment is an important part of Aegon AM’s investment approach for many of its strategies. Furthermore, we believe good stewardship is an essential element of our responsibility as a provider of capital to investee companies on behalf our clients. We actively seek to work with relevant stakeholders and the companies in which we invest to address complex ESG challenges in line with the interests of our clients. To do this we have developed a robust responsible investment program consisting of three pillars.

**ESG integration**
Incorporating financially material ESG factors to help mitigate risk and potentially uncover opportunities.

**Active ownership**
Addressing ESG issues by actively engaging with investee companies and exercising shareholder rights.

**RI Solutions**
Providing focused responsible investment strategies including exclusions, best-in-class ESG, sustainability-themed and impact investments.

Within this report, we focus on the active ownership pillar. The report describes the active ownership activities conducted under our fixed income, equity and multi-asset & solutions investment platforms. At Aegon AM, active ownership is about entering into a dialogue with corporations on ESG issues on behalf of our clients in working toward optimal economic outcomes. It is about exercising shareholder voting rights considering the best interest of our clients and stakeholders, while engaging with issuers to help mitigate ESG risk and encouraging more sustainable practices. We may apply these practices across our strategies globally, where feasible and as appropriate to the asset class, and in alignment with clients’ investment objectives. We apply active ownership practices to enhance outcomes: financial, societal and environmental.

Within our responsible investment program, our responsibilities extends beyond today’s investment opportunities. With a long-term focus, we have built a robust active ownership program. We aim to be the voice of change, as we endeavour to not only improve risk-adjusted returns for our investors but also contribute to a more sustainable future.

Our active ownership activities are governed globally by the Aegon AM Active Ownership Policy. We may also apply several approaches to specific strategies in addition to those outlined in the policy in order to comply with our clients’ investment guidelines. Ultimate accountability for Aegon AM’s Active Ownership Policy and its implementation rests with our management board.

Responsibility for day-to-day implementation of active ownership activities is led by the responsible investment team and our investment teams may contribute. Between these different teams, we aim to ensure a balance of expertise to form our position on relevant issues where we manage fully discretionary mandates. For mandates where we have limited discretion on stewardship activities, such as for clients who wish to apply an engagement overlay or their own voting policy, the responsible investment team is solely responsible for implementation, according to instructions outlined in client mandates.
Engagement

Aegon AM is an active asset manager with capabilities spanning asset classes such as fixed income, equities and multi-asset solutions. Through our investment exposure, and where appropriate, we look to build a constructive dialogue with the companies and bodies either bilaterally or as part of an investor consortium, as we promote responsible business practices.

Bilateral engagement is our preferred method. However, to effect change on a larger scale, we also actively participate in collaborative engagement initiatives organized by external organizations. Through these different dialogue methods, we can highlight concerns over ESG risks, discuss ESG policies and management systems, promote growth in sustainable business lines and advocate changes in alignment with our RI priorities and the standards expected by our clients.

For relevant equity investments, we actively use our voting rights to support our engagement with the corporate issuers in which we invest. For bondholders without voting rights, we still believe we can influence change by engaging in a constructive dialogue with corporate issuers, either directly or as part of investor consortiums.

Each engagement has a specific objective stated at the outset, which is formulated according to the engagement trigger. These objectives stem from the ESG issue identified in the research process, a resolution at a shareholder meeting, or an ESG criterion in a client policy. We contact the most appropriate person in the company with which to discuss the issue.

Our engagement efforts can be broadly categorized into these three types:

- **Long-term value**: Our engagement work supports our objectives to generate value and reduce risk in the longer term. As part of our bottom-up research process, we actively engage with companies we identify as facing specific ESG risks which we believe need to be addressed or further understood. We actively engage with companies on key management and shareholder resolutions at their general meetings to clarify our expectations and make fully informed voting decisions. We also systematically engage on ESG themes that are of immediate concern to long-term investment value, such as climate change.

- **ESG and sustainability research support**: RI solutions demand scrutiny of the ESG and sustainability practices of companies at a deeper level than is often achievable through existing corporate disclosures and specialist data provider assessments. As part of this process, we engage with companies to help enhance our understanding of their sustainability practices, to request further ESG-related or impact disclosures or to encourage positive change in alignment with the objectives of our RI strategies.

- **Compliance with standards**: Aegon AM and its clients have defined certain ESG standards that we strive to satisfy (as appropriate within the product and client mandate) when making investments. We engage with companies when we see actual or potential breaches of such standards, also leading to actual or potential adverse impacts on society and the environment and potentially investment returns. Our objective for these engagements is to encourage compliance, communicate expectations and assure continued portfolio adherence to the agreed standards.

Tracking and Sharing Engagement Progress

We closely follow the progress made by the companies we engage with. Systematic screening, up-to-date recording of our activity, and reviews of our objectives allow us to measure progress. We systematically share our engagement progress among the responsible investment team, research analysts and investment managers to help ensure investment decisions are taken based on the most comprehensive information possible.

As part of our active ownership program, we introduced a milestone-based approach to better track and communicate our engagement efforts.

| Milestone one | We flag our concerns with the investee |
| Milestone two | When a company / investee responds and dialogue begins |
| Milestone three | Once concrete steps have been taken to resolve our concerns, such as a commitment has been achieved |
| Milestone four | When the engagement objective has been fully achieved and verified |
| No further action | In some cases, our assessment of the ESG issue at stake may change and we subsequently decide to no longer pursue the engagement |
Voting

For Aegon AM’s relevant investment strategies that incorporate equities, we seek to execute votes in alignment with our engagement objectives and clients’ best interests, often in favor of shareholder resolutions. Similar to our engagement activities, through our voting rights, we seek to ensure our voice as investors is heard, in an effort to improve a company’s performance and enhance the potential returns for our clients. Our approach to voting is informed by our engagement practices and we execute votes in alignment with our engagement objectives.

Escalation

If engagement does not yield the desired results, we intensify our efforts.

This can be achieved in various ways, including increasing the frequency of communication, widening the scope of our engagement efforts to include multiple company representatives, or by teaming up with other investors in a collaborative engagement effort. In instances where we are a shareholder, we may also exercise ownership voting rights in those instances to vote against management or file a shareholder resolution.

In general, we try to engage with a company for at least three years. If the engagement is unsuccessful and the issue is material, the responsible investment team may recommend divestment to the respective portfolio management team. Divestment recommendations are then evaluated within the context of the portfolio’s investment guidelines and the current market environment. For example:

- If a company is expected to remain non-compliant to client policy standards due to the severity of the breach or the fundamental nature of its business, or
- If a company in breach of client policy standards remains non-responsive to our attempts to communicate for over one year.
Our responsible investment team conducted 575 engagements in 2020, despite the disruption caused by the Covid-19 pandemic. This was a slight increase from 2019, when we conducted 564 engagements. We obtained responses in 451 cases, reflecting a 78% response rate. This is a 15% increase to our 2019 response rate due to continuous improvements in our engagement practices and an increasing market focus on ESG topics. We continue to strive for improvements in our response rate as a key success indicator for our engagement program.

In 2020, we began rolling out our engagement documentation and tracking system to all the engagement specialists across our global business. We also upgraded our proprietary engagement database to improve the ability to share data, increase consistency and to enhance our reporting and tracking capabilities. For the first time, we are now able to report on our engagements globally according to the same tracking method.

Most of our engagements remain in milestones two and three, reflecting the long-term nature of quality dialogues between investors and companies on substantial issues. According to academic research, an engagement takes about three years on average, depending on the complexity of the engagement objective.1

In terms of engagement themes, 2020 saw a continuation of the dominance of governance topics in our engagement dialogues. This is largely driven by the prevalence of governance-related resolutions filed for voting at corporate annual general meetings (AGMs), which often trigger detailed discussions with corporate management teams.

In terms of regional balance, we saw a significant uptick in our engagements in North America, driven partly by our dedicated inclusion and diversity engagement project. Our regional balance of engagements is broadly in line with that of our holdings.

Our engagements remain well diversified across sectors. This reflects the broad range of ESG topics we cover, as well as the fact that certain topics such as governance affect all sectors prompting similar needs for dialogue.

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1. Source: Hoepner, Andreas G. F. and Okonomou, Ioannis and Sautner, Zacharias and Starks, Laura T. and Zhou, Xiaoyan, ESG Shareholder Engagement and Downside Risk (August 10, 2018). AFA 2018 paper. 2. Source: Aegon AM as of December 31, 2020. Percentages may not sum to 100 due to rounding. Themes are divided according to the main issue. At times, there is more than one theme for an engagement. A small number of engagements were outsourced and therefore not included in this dataset.
Collaborating to boost engagement impact

At Aegon AM, we aim to be influential in effecting change at both an industry and corporate level. We often do this directly with investees; however, in an effort to maximise our effectiveness, we also collaborate with other investors and non-governmental organizations with the aim of achieving greater impact.

The latter can be beneficial for the following reasons:

1. If there is a specific theme or topic where collaboration with other similar minded investors or organizations makes the most sense. For example, other organizations may have in-depth knowledge on a particular subject matter to complement our own expertise.

2. Where we recognize that equity or bond holdings alone are not significant enough to influence change. This route is often used as part of an escalation process when bilateral dialogues fail to progress.

Such collaboration can help us to increase our leverage and influence with investee companies to carry out their business more responsibly. Almost 30% of our engagements are done in collaboration with other investors or organizations.

In 2020 there were three significant topics on which our RI team collaborated with like-minded investors and organizations.

- **Climate change**
  Working primarily with the Institutional Investors Group on Climate Change and its CA100+ initiative through a number of working groups and through our seat on its advisory committee.

- **Biodiversity**
  Collaborating with FAIRR and an innovative collaborative engagement initiative focused on satellite imagery for supply chains.

- **Good health & wellbeing**
  Aegon AM RI team partner with the Access to Medicine Foundation, while on pandemic-related workplace issues it partners with IICR.

In 2020 we were involved in 161 collaborative engagements across a number of issues. The extent of our participation varied on a case-by-case basis, from active participation in Climate Action 100+ (CA 100+) engagements, to a more passive role in opioid engagements with Investors for Opioid and Pharmaceutical Accountability (IOPA), as Covid-19 related engagements took precedence.

In addition, Aegon AM UK is an active member of the Investment Association (IA) trade body in the UK and members of a number of the committees, including the Stewardship and Sustainability Committees and act as the chair of its Share Schemes Committee. This gives us the opportunity to respond to consultations on regulatory changes, which would impact our clients. In 2020, the IA was effective at achieving a significant degree of alignment of pension contributions between executives of UK-listed companies and their general workforces.

- 98% of FTSE 100 companies have now either aligned the pension contributions of new directors with that of the workforce or committed to doing so.

- A total of 14 FTSE 100 companies reduced pension contributions for existing directors during the year and a further 43 committed to reduce contributions in future years. Six FTSE 100 companies are increasing their workforce rate as part of their effort to align pension contributions.

In the Netherlands, Aegon AM NL is represented in various committees on stewardship and sustainability at Eumedion (the Dutch Corporate Governance Forum). This means we contribute to key research or advocacy topics and the chief investment officer for our Dutch subsidiary Aegon Investment Management BV is a member of its board. We are also committed to supporting those clients that have signed up to the International Responsible Business Conduct Agreements, in particular those covering the Dutch insurance and pension fund sectors. These agreements involve partnerships between businesses, government, unions and non-government organizations (NGOs). Their main purpose is to promote responsible business conduct by applying the principles outlined in the OECD Guidelines for multinational enterprises and, by doing so, to prevent social and ecological adverse impacts. We are represented in topic-related working groups but also hold a seat in the Dutch Insurance Sector Committee.
Aegon AM’s RI team has collaborated with various organizations to support engagement efforts.

<table>
<thead>
<tr>
<th>Organization</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principles for Responsible Investment (PRI)</td>
<td>The PRI, a UN-supported network of investors, works to promote sustainable investment through the incorporation of environmental, social and governance issues into investment and ownership decisions.</td>
</tr>
<tr>
<td>Institutional Investors Group on Climate Change (IIGCC)</td>
<td>IIGCC is an investor network on climate change; the group works with business and policymakers, as well as investors to help mobilize capital for the transition to a more sustainable economy.</td>
</tr>
<tr>
<td>Climate Action 100+</td>
<td>Climate Action 100+ is an investor initiative aimed at ensuring the world’s largest greenhouse emitters take necessary action on climate change.</td>
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<tr>
<td>FAIRR – Farm Animal Investment Risk &amp; Return</td>
<td>FAIRR works on ESG issues related to farming and agriculture.</td>
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<tr>
<td>Eumedion</td>
<td>Eumedion is a forum for institutional investors on corporate governance and sustainability topics.</td>
</tr>
<tr>
<td>Investors for Opioid and Pharmaceutical Accountability (IOPA)</td>
<td>Investors for Opioid and Pharmaceutical Accountability is a coalition of institutional investors, established in 2017. The IOPA engages with manufacturers, distributors and retailers on ways to tackle the current opioid crisis in the US.</td>
</tr>
<tr>
<td>Investor Forum</td>
<td>Established in 2014, the Investor Forum has been developed by industry practitioners with the core objective of creating long-term value. The Forum helps investors to work collectively to escalate material issues with the Boards of UK-listed companies.</td>
</tr>
<tr>
<td>Access to Medicine Foundation</td>
<td>The Access to Medicine Foundation stimulates and guides pharmaceutical companies to do more for people living in low- and middle-income countries without access to medicine.</td>
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<tr>
<td>As You Sow</td>
<td>As You Sow is a shareholder advocacy group, promoting environmental and social corporate responsibility.</td>
</tr>
<tr>
<td>Dutch Association of Investors for Sustainable Development</td>
<td>VBDO is the Dutch Association of Investors for Sustainable Development. It aims to create more sustainable and responsible capital markets and has been advocating for sustainability in companies since 1995.</td>
</tr>
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</table>

All third-party names and logos are property of their respective owners and are used in this material for identification purposes only. Aegon AM is not associated with, nor endorsed by, the organizations depicted above.
Aegon AM has joined other investors in engaging with some of the world’s largest greenhouse gas (GHG) emitters to promote positive change, while aiming to protect the long-term value of their assets. We do this directly and collaboratively, notably as part of Climate Action 100+ (CA100+). We are currently mid-way through its five-year remit to engage systemically with prominent GHG emitters and other companies across the global economy to drive the clean energy transition and help them achieve the goals of the Paris Agreement. As an active participant of this initiative, Aegon AM has been co-leading engagement with major GHG emitters in the steel and power generation sectors.

Progress in this initiative is measured using the CA100+ Net Zero Company Benchmark. The benchmark is aimed at drawing attention to the most significant aspects of corporate strategy related to climate action and outlines the actions each company is expected to take to achieve their climate goals. The benchmark builds on Task Force on Climate-related Financial Disclosures (TCFD) recommendations with guidance on specific company actions and disclosures most relevant to investors’ decisions based on the experience of the CA100+ program - including GHG reduction targets, decarbonisation strategy, capital alignment, climate policy support, governance and impact on employees, communities and other stakeholders. The data and information on each focus company is available through an online database, in a format that enables cross-company comparisons by indicator, industry or region and will complement research-based data such as the Transition Pathway Initiative. Along with the broader objectives of the CA100+, this new benchmark is another step on the way towards achieving net-zero, helping to avoid exclusions and giving companies the chance to work toward providing disclosures consistent with the framework, as well aligning investments accordingly.

Audit committee directors and auditors also have an important role to play in helping ensure companies deliver on investor expectations related to climate change. In collaboration with other investors, we reached out collectively to the audit committees of 36 of the largest companies calling on them to properly reflect the implications of their global commitments to limit temperature increases to well below 2°C, in their financial statements. We expect them to take five clear steps in preparing ‘Paris aligned’ company accounts, outlined in the ‘Investor Expectations for Paris-aligned Accounts’ published by IIGCC.

We believe that representation of the Paris Agreement considerations in financial statements is one way to help ensure that the firms most exposed to carbon will be held truly accountable against this important global commitment, while also aiming to protect long-term value for investors.
Responding to diverse market and client demands

Globally, there is an increasing focus on how investors live up to their active ownership responsibilities. As a global asset manager, Aegon AM is privileged to participate in diverse markets with varying expectations with respect to active ownership standards and reporting. In this section, we briefly outline our response to evolving market standards for responsible investing and active ownership in the UK and the Netherlands.

Legislation such as the Shareholder Rights Directive and Sustainable Finance Disclosure Regulation in the EU, as well as best practice codes such as the UK Stewardship Code and the International Responsible Business Conduct agreements in the Netherlands, provide guidance and transparency requirements to encourage good stewardship and responsible investment.

Aegon AM is committed to the transparency of its responsible investment and active ownership activities. We consider this report to be a critical part of these disclosure requirements, outlining our efforts to safeguard long-term value for our clients through active ownership and tracking our progress towards helping mitigate adverse sustainability impacts.

The Netherlands: International Responsible Business Conduct (IRBC) Agreements

The products and capabilities specifically managed by our Netherlands affiliate, Aegon AM NL, are subject to responsible investment policies developed with reference to international treaties, standards and initiatives that we support. These include the United Nations Global Compact Principles and OECD Guidelines for Multinational Enterprises. With the International Responsible Business Conduct (IRBC) Agreements for the Dutch insurance and pension fund sectors expecting companies to adhere to the OECD guidelines, including practicing due diligence to assess and help mitigate harm, we adhere to their requirements by implementing these RI policies.

OECD due diligence process for institutional investors

For a full list of the funds to which these policies apply, is available on request.
The Netherlands: International Responsible Business Conduct (IRBC) Agreements (continued)

1. Embed
We expect all companies we invest in on behalf of our clients to conduct business responsibly. Our responsible investing policies clearly set out our expectations in terms of responsible business conduct for the companies. The policies also detail the process we follow to ensure we are not causing harm with our clients’ investments. This may include specifying exclusion rules for certain activities considered especially harmful, such as producing palm oil or manufacturing controversial weapons.

2. Identify and assess
We annually screen investments against the standards set out in the responsible investing policies. Doing so allows us to identify investments that we believe are causing, or are at risk of causing, unacceptable adverse impacts to society or the environment. We can then take action to try to mitigate or prevent the harm being caused. In 2020, our screening process focused on identifying companies which, according to our research provider, were non-compliant or on the watchlist (with negative outlook) for potential non-compliance with the UN Global Compact, OECD Guidelines or UN Guiding Principles on Business and Human Rights. We identified over 70 companies and had over 200 contact moments with these target companies in 2020. For 2021 we expect to further enhance our screening process, by identifying controversies or events with a significant negative impact on the environment or society, or which indicate more structural problems a company may have. In addition, the screening will not be limited to just the investee companies but will also include their supply chains.

3. Cease, prevent or help mitigate:
We have many tools at our disposal to help prevent or mitigate potential adverse impacts on investments. Our preferred option is to use our influence as a long-term investor and engage with an identified company’s management. Through our engagement efforts, we attempt to encourage a change of behavior and prevent harm being caused. Where we have voting rights on behalf of our clients, we also use these to complement our engagement efforts. In extreme cases, we may recommend divestment and exclusion for certain issuers. In 2020, we started or continued bilateral engagement with all companies identified for their adverse impacts. Where deemed appropriate, our bilateral efforts were supported by collaborative engagement with other investors. As not all engagements demonstrated sufficient progress, we recommended a further nine companies for exclusion.

4. Monitor
As described above, we regularly review the progress being made with our engagement efforts, using our milestone-based approach. We usually expect engagements to take around three years to conclude. At the end of 2020, most of our engagements were at milestone two with a gradual shift towards milestone three. With an enhanced screening approach for 2021, we expect an increase in companies in the pipeline as new companies are likely to be identified. Our engagement typically continues until we believe the company has improved its ESG practices towards compliance with the mentioned international norms. However, if we feel there is insufficient response or change after defined period, we will begin our escalation process and possibly recommend the company is excluded from the investible universe of the applicable Dutch funds or mandates.

5. Communicate
We believe in being transparent on our impact, both positive and negative. In addition to the information we publish annually in this report, we also publish further information on our website. This includes details of how we exercise our influence by disclosing how we vote at companies’ annual general meetings. These disclosures may be found on the responsible investing page of our website.

6. Remediation
In the exceptional situation where our investments could fall into the category of “contributing” to significant harm to people or the planet, we will use our influence to encourage the relevant company to provide remediation. We will mainly do this through engagement.
The UK Stewardship Code

As a signatory to the UK Stewardship Code for many years, Aegon AM UK remains committed to its principles, namely:

1. Our purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society
2. Our governance, resources and incentives support stewardship
3. We manage conflicts of interest to put the best interests of clients and beneficiaries first
4. We identify and respond to market-wide and systemic risks to promote a well-functioning financial system
5. We review our policies, assure our processes and assess the effectiveness of our activities regularly
6. We take account of client and beneficiary needs and communicate the activities and outcomes of our stewardship and investment to them
7. We systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil our responsibilities
8. We monitor and hold to account our service providers
9. We engage with issuers to maintain or enhance the value of assets
10. We participate in collaborative engagement to influence issuers
11. We escalate stewardship activities to influence issuers
12. We actively exercise our rights and responsibilities

We outline our compliance with the UK Stewardship Code in further detail in a dedicated disclosure on our website for UK investors.

The Dutch Stewardship Code

Aegon AM NL is committed to the principles of the Dutch Stewardship Code. In line with its requirements, we hereby report our voting record on Dutch companies.

Dutch meetings in 2020

- Number of meetings voted with management: 57%
- Number of meetings with at least one vote against management: 43%

Votes cast on Dutch meetings in 2020

- Number of votes with management: 89%
- Number of vote against: 11%

Meetings voted with/against Benchmark advice proxy-adviser

- Number of meetings voted with ISS Benchmark policy: 83%
- Number of meetings voted differently from ISS Benchmark policy: 17%

Break-down of votes against management proposals

- Routine/Business: 2%
- Directors Related: 35%
- Capitalization: 26%
- Non-Salary Compensation: 37%

Source: Aegon AM as of December 31, 2020.

The EU Shareholder Rights Directive

The Shareholder Rights Directive II (SRD II) is an EU directive aiming to ensure that decisions are made for the long-term stability of a company and to improve corporate governance in companies which have their registered office in an EU Member State and whose securities are traded on the EU’s regulated markets. SRD II establishes requirements in relation to enabling issuer company identification of its shareholders and the exercise of certain shareholder rights attached to voting shares in general meetings of companies.

European investors have access to information mandated under SRD II, including comprehensive reporting on the implementation of our Active Ownership Policy, on our website.
Spotlight on diversity

2020 saw an increasing focus on inclusion and diversity. The RI team has engaged companies on diversity matters since 2018, but last year we redoubled our efforts, expanding our scope beyond the UK to target companies with poor levels of diversity in the US as well.

Our objective was to understand the issues facing the companies with regards to diversity in the workforce, particularly in the management progression pipeline. We also sought to encourage companies to improve the diversity of their management teams and their reporting on diversity matters.

With relatively limited data available when we started in 2018, we initially screened UK holdings for companies that had low levels of gender diversity at Board level. This led us to a list of around 60 companies to engage with. From there, we contacted the chair of the companies in writing, asking for an understanding of how their organization looks like in terms of diversity (including measures such as gender, race, ethnicity and sexual orientation), what their strategy was to tackle the issue, what practical steps they are taking to implement that strategy and the challenges they face. We had responses via emails and letters, leading to in-depth conversations with 15 companies. These tended to be the companies with the most significant challenges, reflecting the industries they operate in.

In 2020 we repeated the exercise, this time focussing on US companies. This led to a list of around 50 companies to engage with. We followed the same method as previously and received responses from 30 of these companies and will continue to prompt others for a response.

In the Netherlands in 2018, the RI team started engaging Dutch listed companies with no female executive and supervisory board member via collaborative engagement platform of Eumedion. While we are aware that it takes time for further improvement, we have seen good results that go beyond the legal target of 30% female executive and supervisory board membership.

We have continued the conversations and seen some real progress in terms of gender diversity among the UK companies originally engaged in 2018. The final report of the Hampton Alexander Review was published recently that shows the huge progress over the past five years in the UK market. There is a real appetite to increase information gathering and disclosure around other aspects of diversity and new regulations will help in Europe over the next few years, while the Equal Employment Opportunity-1 disclosures in the US gives good visibility of the workforce diversity in all its aspects.

We have had many interesting conversations on innovative programs being implemented in some of the companies. For example, one company implemented a program to retain women in India after they leave to start families, while another company had good information on diverse social backgrounds and is making real progress in other areas. Some companies are really focussing on neural diversity and mental health. These conversations are not over, there is still much work to do and we will continue to encourage progress.

In the US, we have had more fruitful conversations in 2020, showing a willingness to increase disclosure and talk about where they have challenges. The conversations are at an early stage, and we look forward to continuing these conversations in the future and seeing the progress made.

Aegon AM has engaged companies on diversity matters since 2018, but last year we redoubled our efforts...
Our engagement objectives vary within the three broad engagement types previously described. For example:

In long-term value generation engagements, we might be seeking to:

• Improve a company’s long-term financial performance
• Monitor, manage and help mitigate investment risk from a credit perspective

In engagements to support sustainability and sustainable research and RI solutions, we usually seek to:

• Better understand corporate strategy, focus and business model
• Improve ESG disclosure
• Maximize positive sustainability outcomes, including those related to the Sustainable Development Goals (SDGs)
• Encourage the issuance of labelled bonds for the purpose of investment participation

In engagements focused on compliance with standards, we:

• Set expectations on the company’s management
• Set goals and timeframes to reach and meet compliance with the relevant policies

In this section, we provide engagement highlights to demonstrate these different types of dialogue.

The case studies described herein are examples of how our RI team seeks to engage with corporate issuers. These case studies do not represent all examples of our engagement and not all attempted outreach by the RI team results in engagement with corporate issuers, in the level of engagement described herein, or in positive outcomes. Corporate issuers may change their business practices for any number of reasons that may or may not relate to the RI team engagement. The reader should not assume that the target companies described below are or were held by all affiliates within Aegon AM.
**Aiming for long-term value generation**

**Addressing transition risks in the steel sector**

<table>
<thead>
<tr>
<th><strong>Target company</strong></th>
<th>A steel and mining company</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objectives</strong></td>
<td>Calling on this systemically important greenhouse gas emitter to help achieve the goals of the Paris Agreement and take ambitious action for a low-carbon future, in light of the significant transition risk faced by the company.</td>
</tr>
<tr>
<td><strong>How we engaged</strong></td>
<td>Engagement with the company was co-led by Aegon AM, as an active member of the CA100+ IIGCC Working Group. We have been engaging with the company since 2018. To date we have had several meetings with management and the company joined an IIGCC convened roundtable on decarbonisation of the steel sector. We have also engaged with it on the Climate Action 100+ Net Zero Company Benchmark, which will be launched in 2021.</td>
</tr>
<tr>
<td><strong>Company progress to date</strong></td>
<td>To date, the company’s progress has included:</td>
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<tr>
<td></td>
<td>• A commitment to be carbon neutral by 2050, building on the 2019 commitment for its European business to reduce emissions by 30% by 2030 and be carbon neutral by 2050.</td>
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<td></td>
<td>• The release of a lobbying review of its trade association memberships, taking into account investor feedback.</td>
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<tr>
<td></td>
<td>• Working on various pilot technologies for carbon-neutral steelmaking and producing steel with hydrogen from renewables from 2020.</td>
</tr>
<tr>
<td></td>
<td>• Joined the Energy Transition Commission and is a driving force in the net zero pathway.</td>
</tr>
<tr>
<td></td>
<td>• The publication of a Climate Action report, which included scenario analysis.</td>
</tr>
<tr>
<td><strong>Status and next steps</strong></td>
<td>Although for some of the engagement objectives we have reached milestone four, we continue to engage the company to encourage them to improve on their performance in the CA100+ benchmark and on accelerating progress in their energy transition.</td>
</tr>
</tbody>
</table>
### Addressing alignment of management interests with shareholders.

<table>
<thead>
<tr>
<th>Target company</th>
<th>A global professional services business headquartered in UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectives</td>
<td>The structure of the longer term incentive plan did not align the interests of the shareholders with those of the management team as vesting of the awards began for below median performance of Total Shareholder Return over a 3 year period.</td>
</tr>
<tr>
<td>How we engaged</td>
<td>We spoke directly with the company and explained the issue.</td>
</tr>
</tbody>
</table>
| Company progress to date | To date, the company’s progress has included:  
  • The issue was discussed at the remuneration committee meeting.  
  • The vesting schedule has been modified so that the minimum threshold is now median performance. |
| Status and next steps | For this engagement objective we have reached milestone four, however, we continue to engage the company on their disclosure standards and balance of independence at board level. |

### Reducing financing for fossil fuels

<table>
<thead>
<tr>
<th>Target company</th>
<th>A UK bank identified as one of the largest fossil fuel funders in Europe by a third-party industry report.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectives</td>
<td>To convey a collective view that climate concerns are seen as a business issue for the bank and that it needed to show leadership commensurate with its position as one of the UK’s leading investment banks. In addition, to encourage the company to set clear climate ambitions and to engage with ShareAction.</td>
</tr>
<tr>
<td>How we engaged</td>
<td>Investor Forum collated opinions on how this topic should be tackled by the bank and wrote to the board and engaged extensively with the Chair in a series of constructive conversations. It also worked with ShareAction and shareholders to encourage ambitious climate commitments, to try and avert a proxy battle. Conversations continued after the AGM to provide input to help the bank deliver against the commitments made.</td>
</tr>
<tr>
<td>Company progress to date</td>
<td></td>
</tr>
</tbody>
</table>
  • The bank outlined landmark climate ambitions ahead of the AGM, with the commitment to provide a clear strategy by the end of 2020.  
  • The bank tabled its own climate-related resolution at the AGM, the first such resolution by a major bank. This received overwhelming support of 99.9%  
  • In November, the bank outlined its strategy with clear targets for 2025. It also explained methodology for monitoring emissions and committed to greater disclosure in 2021. |
| Status and next steps | Milestone three; while this is good progress, we need to monitor how the company measures up against its own strategy. |
## Promoting high governance standards

<table>
<thead>
<tr>
<th>Target company</th>
<th>A consultancy and engineering firm</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objectives</strong></td>
<td>There were governance issues identified that we would like to see improved, namely:</td>
</tr>
<tr>
<td></td>
<td>• Independence of the board</td>
</tr>
<tr>
<td></td>
<td>• Removal of supermajority to approve changes to the charter</td>
</tr>
<tr>
<td></td>
<td>• Remuneration structure</td>
</tr>
<tr>
<td></td>
<td>• Diversity</td>
</tr>
<tr>
<td></td>
<td>• Introduction of Proxy Access Provision</td>
</tr>
<tr>
<td><strong>How we engaged</strong></td>
<td>We contacted the company the first time we voted at an AGM. While it had good environmental and social credentials, governance was lacking. We first contacted by letter and have had subsequent regular dialogue by telephone and video conference over the past few years. We have discussed these issues and see steady progress on these matters:</td>
</tr>
<tr>
<td></td>
<td>• The board is now 50% independent. There is still an issue with a non-independent director sitting on the audit committee, but we have discussed this with them and have taken voting action against him for the past three years.</td>
</tr>
<tr>
<td></td>
<td>• The supermajority vote requirement to change charter was removed and is now a simple majority.</td>
</tr>
<tr>
<td></td>
<td>• The remuneration structure was previously majority based on time-based vesting. Over time this has changed, so it is now majority based on sufficiently challenging performance criteria. In addition, the change of control provisions altered so that it only vests as a result of a beneficiary losing their job. Finally, the disclosure surrounding the structure and benefits has improved greatly.</td>
</tr>
<tr>
<td></td>
<td>• Before 2020 the discussion surrounding diversity was very high-level and mostly platitudes. There was a major change once the Black Lives Matter movement regained prominence in the US and in 2020, our conversation was far more meaningful, outlining its thought process on disclosure of data and how they are setting out a strategy to improve diversity throughout the organisation.</td>
</tr>
<tr>
<td></td>
<td>• Proxy Access has been an area where the company has been reticent to move. It is now majority practice in the S&amp;P 500. We will continue to encourage adoption of this provision and we have taken voting action against the Chair of the Governance committee to signal how seriously we would like this considered.</td>
</tr>
<tr>
<td><strong>Company progress to date</strong></td>
<td>While we are pleased to see slow and steady progress on a lot of these matters, the issue of the independence of the audit committee and the lack of adoption of proxy access are still ongoing. We have escalated voting action on the non-independent director and also the Chair of the Governance committee, as we believe that is where responsibility sits for such governance matters.</td>
</tr>
<tr>
<td><strong>Status and next steps</strong></td>
<td>Milestone three, we continue this engagement in 2021.</td>
</tr>
</tbody>
</table>
ESG and sustainable research

Addressing a lack of disclosure on material waste reduction

<table>
<thead>
<tr>
<th><strong>Target company</strong></th>
<th>Multi-industrial conglomerate operating under two business platforms: Automation solutions and commercial and residential solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objectives</strong></td>
<td>Although the company is considered advanced in ESG disclosure, it has not quantified the impact of its process manufacturing solutions on material waste. We sought further disclosure on its waste management practices after reviewing its public disclosures. This was initiated to determine the eligibility of the company for any of our RI capabilities. Based on the information currently available, this was difficult to do.</td>
</tr>
<tr>
<td><strong>How we engaged</strong></td>
<td>We exchanged several emails and had a call with the company. It was forthcoming and confirmed that one of the paths to improve production cost is to reduce material waste. They pursue this with automation technologies, which also increases consistency and hence reduces material waste.</td>
</tr>
<tr>
<td><strong>Company progress to date</strong></td>
<td>It has not quantified this likely benefit yet. It did agree that it would be an interesting concept to add to its next CSR report. A few months after the call, we reviewed its 2020 CSR report and were encouraged that it shows improvement, but not as much as we would like. We sent them feedback and it indicated that its goal in the near term is to get more customer anecdotes and to help quantify how they help its customers achieve its ESG targets.</td>
</tr>
<tr>
<td><strong>Status and next steps</strong></td>
<td>We have categorized the engagement as milestone three. We have recently reiterated our objectives with the company and the next step is to review its 2021 CSR report.</td>
</tr>
</tbody>
</table>
### Addressing a lack of disclosure on waste generation and energy efficiency

<table>
<thead>
<tr>
<th>Target company</th>
<th>A company engaged in the manufacture of engineered power transmission, aerospace, and other precision motion technology products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectives</td>
<td>We need to better understand the potential impact of the automation products to be able to determine eligibility for our RI capabilities. More specifically, we are interested in receiving more information on the automation business and the potential environmental benefits or costs associated with it (i.e. energy savings, waste reduction etc.). The engagement was initiated by the relevant analyst.</td>
</tr>
<tr>
<td>How we engaged</td>
<td>We reached out to the company about six times in the last two years, including a call together with the relevant analyst. We thoroughly reviewed its disclosures to monitor progress and to provide them with ample feedback.</td>
</tr>
</tbody>
</table>
| Company progress to date | In its first response the company provided more insights but couldn’t fully answer our questions. It explained the obstacles in collecting aggregate data from its customers. Its 2019 CSR report does demonstrate environmental benefits clearly in case studies. The number of case studies in its CSR report is also higher than it was in 2018. This demonstrates that it is trying to demonstrate the impact of its products. Nevertheless, its case studies were less tangible than the year before and this needed to be addressed.

The 2020 report was much more concrete in terms of impact. Moreover, its new sustainability strategy shows that they have become more ambitious. We were particularly impressed with:

- Its new goal to be carbon neutral by 2030 for Scope one and two emissions*
- The at-a-glance figures at the beginning of the report, also including waste generation and a detailed breakdown of emissions
- Its plans in 2021 to report information aligned with the Global Reporting Initiative (GRI)
- They also included a Sustainability Accounting Standards Board (SASB) reference table regarding “renewable energy-related and energy efficiency related products” of $1.6 billion. This is a helpful metric for us to determine the company’s eligibility for our RI capabilities. |
| Status and next steps | The engagement was classified as milestone four, since the company published details on both waste generation and energy efficiency of products. |

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*Scope 1 emissions are greenhouse gas emissions associated with direct energy use while Scope 2 are indirect emissions from purchased electricity, steam, heating and cooling.
### Compliance with standards

#### Holding mining companies to account on human rights

<table>
<thead>
<tr>
<th>Target company</th>
<th>A mining company</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objectives</strong></td>
<td>In May 2020 the company faced outrage in response to its destruction of an ancient cultural heritage site as part of the expansion of an iron ore mine. The company was criticised for its initial response and resistance to accept responsibility. In June, the company published its board-led review of the incident, which revealed systemic failures in its cultural heritage management system over an extended period. The remuneration committee revealed that three key executives, including the CEO, would leave the company and receive no short-term incentive plan for 2020. We were pleased to see accountability at executive level but felt this was a short-term view on an issue requiring long-term systemic change. We decided it was prudent to engage on this particular issue, due to the severity of the impact and the context in which it took place. The failings in the processes that led to the event and weaknesses in the consultation and communication process with the traditional owners raised concerns for us as investors that go beyond this specific incident and point to more systemic weaknesses in the company’s approach to human rights. Our objective was to ensure a consistent message is relayed to the company in terms of our view of the situation so far, and what we would like to see going forward. In addition, due to the company’s perceived leading approach to corporate social responsibility in the mining industry, we felt it was important to send a signal to the wider industry.</td>
</tr>
<tr>
<td><strong>How we engaged</strong></td>
<td>We engaged with various peers and stakeholders, ensuring we gain a balanced account of the events. Engaging with the company through a conference call enabled us to put questions directly to the company. We also sought further guidance directly from the local Centre for Corporate Responsibility, who were also leading a collaborative engagement with the company. Through engagements facilitated by a third-party, we gained insights from professionals with expertise in the development of native title law, a senior indigenous leader, and traditional owners. Engaging with various stakeholders throughout helped us gain a balanced account of the situation. These insights will inform our stewardship activities with the company and the wider mining industry going forward.</td>
</tr>
<tr>
<td><strong>Company progress to date</strong></td>
<td>We welcomed the further action taken by the Board in the removal of three Executives, due to the lack of accountability shown throughout. We believed this response was adequate in addressing the systemic failures that led to the disaster. The company is now better placed to confront the remediation necessary in its cultural heritage and risk processes. We have joined a wider collaborative engagement led by the Church of England Pensions Board. The disaster highlighted that investors do not have the full picture around how companies in the sector are managing cultural heritage. We needed to better understand where companies are now before deciding what best practice looks like. A letter was sent to 71 mining companies, including the company, requesting more detailed information on its approach to managing cultural heritage and indigenous community relations.</td>
</tr>
<tr>
<td><strong>Status and next steps</strong></td>
<td>This engagement is still ongoing, in milestone three. We will continue to monitor the company’s approach to community and social factors and will engage further in 2021.</td>
</tr>
</tbody>
</table>
Reconsidering Coal

<table>
<thead>
<tr>
<th><strong>Target company</strong></th>
<th>The company is an electricity, heat and natural gas generation, distribution, trading company with additional operations in energy services and coal mining</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objectives</strong></td>
<td>In line with a particular client’s Responsible Investment Policy, we screen companies for possible exclusion under the climate change criteria related to thermal coal. We also actively engage with companies responsible for significant GHG emissions to encourage it to better measure, disclose and reduce them in line with the objectives of the Paris Agreement. As an active member of CA100+, we joined other investors in engaging with the company in 2019. As one of the largest energy companies in Europe, the company is a systematically important GHG emitter involved in all stages of the thermal coal value chain. This engagement called on the company to increasingly minimize its dependence on thermal coal while simultaneously improving its disclosure related to its thermal coal mining operations as part of its 2050 climate neutral commitment.</td>
</tr>
<tr>
<td><strong>How we engaged</strong></td>
<td>Initial contact was made in 2019 as part of a collaborative effort with other Climate Action 100+ signatories regarding its long-term net-zero ambitions. When it became clear that the company would end up in violation of the thermal coal exclusionary criteria in Aegon N.V.’s Responsible Investment Policy, we continued to engage bilaterally to push for greater disclosure and clarity regarding its thermal coal mining business. On 1 January 2020, the company was excluded from our client’s investment universe due to the scale of its coal mining business exceeding our client’s policy threshold.</td>
</tr>
<tr>
<td><strong>Company progress to date</strong></td>
<td>As a result of our engagement efforts, the company increased the level of detail, transparency and disclosure related to its coal mining operations as part of its climate strategy. Investor pressure, coupled with an overall contraction of economic activity in Europe throughout 2020, continues to put pressure on the company to eliminate its dependency on thermal coal.</td>
</tr>
<tr>
<td><strong>Status and next steps</strong></td>
<td>This engagement has concluded, in milestone four. As of 1 January 2021, and the company is no longer excluded from the client’s investment universe.</td>
</tr>
</tbody>
</table>
Promoting Access to Medicine

**Target company**
The company is specialized in healthcare products, such as medicines, vaccine, and consumer healthcare.

**Objectives**
Calling on this globally important player to fight the Covid-19 pandemic to assure its products are available globally for people of all backgrounds and of all income levels, in line with the standards set out in some of our client’s Responsible Investment Policy.

**How we engaged**
Together with other insurers, NGOs, and the Dutch government, we collaborated to share knowledge and improve access to medicines. We questioned them on medicine affordability and transparency of price-setting practices. Unsurprisingly, as the Covid-19 pandemic unfolded, we focused our efforts on issues relating to vaccines. After we sent a letter to the company, we had a conference call, followed-up by emails. The company then announced an advanced vaccine purchase agreement with COVAX for low- and lower-middle-income countries.

**Company progress to date**
Progress to date has included:
- An initial agreement to provide up to 40 million doses to COVAX in 2021.
- First deliveries took place in Q1 2021 subject to the execution of supply agreements under the COVAX Facility structure.
- A not-for-profit price for the COVAX Advanced Market Commitment covering 92 countries.
- Pledged to deliver 1 billion doses of its Covid-19 vaccine to poorer nations this year and another 1 billion in 2022.

**Status and next steps**
This engagement is still ongoing, in milestone three. We will continue the dialogue on price setting standards and transparency.
## Demanding compliance with UN Global Compact principles

<table>
<thead>
<tr>
<th><strong>Target company</strong></th>
<th>A company active in a range of petroleum-related products, services, and activities in Mainland China as well as internationally</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objectives</strong></td>
<td>To investigate whether we agree with the opinion of our data provider as to the non-compliance with UN Global Compact (where Principle two states that businesses should ensure that it is not complicit in human rights abuses).</td>
</tr>
<tr>
<td></td>
<td>The company’s lengthy track record of alleged human rights violations indicated structural compliance problems. We were particularly interested to see evidence of a formal management system or human rights policy that aims to avoid or minimize the risk of becoming complicit in human rights violations in countries of operations.</td>
</tr>
<tr>
<td><strong>How we engaged</strong></td>
<td>We made contact via letter, but the company was not sufficiently reactive.</td>
</tr>
</tbody>
</table>
| **Company progress to date** | • The company was sent an official engagement letter, as well as several reminders  
• It did not respond, which we deemed to be a serious red flag, especially in combination with the lengthy track record of alleged human rights violations.  
• We sent it another official letter to notify it that we would recommend divestment and exclusion for applicable clients in the absence of a satisfactory response. Eventually we received a response. |
| **Status and next steps** | Due to the severity of the issue and the erosion of confidence in the ability of management to manage these risks, we still recommended exclusion for this client, which was agreed by the respective client. The engagement is therefore classified as no further action required. |
Voting for transparency on deforestation

<table>
<thead>
<tr>
<th>Target company</th>
<th>The company is one of the largest US producers of processed chicken and beef. The company is also a large producer of processed pork and protein-based products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectives</td>
<td>In line with a particular client’s responsible investing policy, we exercise our shareholder voting rights to support shareholder proposals that encourage or require companies to care for the environment, protect biodiversity, and help mitigate the risks associated with climate change. While the company publicly states that it sources ingredients in a responsible way, it provides only limited transparency with regards to its supply chain risks. No information is provided on its sourcing of palm oil or its international supply chains, both of which pose high risks for deforestation. Although the company reports to the Carbon Disclosure Project (CDP), its Forest Response only includes a risk assessment for soy and cattle products. Information on palm oil and timber are excluded, and the information only covers its US-based operations. Despite the company announcing in 2019 that it had partnered with Proforest to conduct a deforestation risk assessment across its global agricultural supply chain, we viewed its efforts as behind those of several key peers. Other companies in the industry had already publicly committed to creating a policy on eliminating or mitigating deforestation risks associated with commodities such as timber (paper and pulp), palm oil, soy, and cattle products. For this reason, we welcomed the shareholder proposal requiring the company to publish a comprehensive report on eliminating deforestation from its global supply chain. The report would include quantitative data and an assessment of how the company could increase the scale, pace, and rigor of its efforts to eliminate deforestation risks from its supply chain.</td>
</tr>
<tr>
<td>How we engaged</td>
<td>Following bilateral and collaborative engagement with the company on the topic, we voted the shares of the respective client in favor of the shareholder proposal calling for this report.</td>
</tr>
<tr>
<td>Company progress to date</td>
<td>The proposal was withdrawn after the company publicly committed to developing and implementing a forest policy that addresses, deforestation, peat production and exploitation, and to establishing supplier monitoring and engagement policies. To meet investor concerns about transparency, the company also agreed to improve its reporting on the traceability and sustainability of so-called ‘forest-risk commodities’ such as palm oil in its global supply chain.</td>
</tr>
<tr>
<td>Status and next steps</td>
<td>The company revealed its Forest Protection Standard in November 2020. The proposal was viewed as sub-standard and failing to eliminate the company’s exposure to deforestation. We agree that the company’s response is not in line with industry best practice and that it has failed to meet earlier expectations. For this reason, we have added the company once again to our engagement list for 2021, and will continue to engage with the company about this issue.</td>
</tr>
</tbody>
</table>
Our research into the use of engagement strategies

Aegon AM RI Team is participating in a larger academic project looking at engagement strategies. The project involves Aegon AM conducting more than 70 interviews together with Robert Eccles, Visiting Professor of Management Practice at the University of Oxford and Judith Stroehle, Senior Research Fellow, University of Oxford. The goal of this endeavour is to better understand the engagement process in its entirety and identify the levers to successful engagement and the different types of engagement strategies investors may employ.

The interviews include asset owners and managers, as well as target companies. The latter have interestingly been left out of shareholder engagement research to date. Their input, however, enables a deeper understanding of internal change processes and to identify success levers of engagement.

Key findings of this research identified four types of engagement strategies:

- **Conservatism**: mostly focused on risks and often driven by minimum standards in client policies, such as compliance with the UN Global Compact Principles. Engagements are normally determined by screening holdings for red flags.

- **Opportunism**: a more thematic approach and often focused on systemic change, which is why it may make sense to team up with other investors. An example of this is the CA 100+ investor collaboration.

- **Constructivism**: which is more focused on financial materiality and relationship-building, whereby the investor knows the company well. In-depth conversations and open language are the norm. This type of engagement is focused on quality and not on quantity.

- **Activism**: previously mostly associated with hedge funds, but now increasingly a tool used by other investors. An example is the Follow This movement, whereby investors do not shy away from filing shareholder resolutions.

One of the key findings from this research exercise is that the in-depth, relationship-focused, and open conversations associated with the constructivism approach is appreciated by target companies. This can be applied to the other engagement strategies to increase the likelihood of success. This is not the only factor that determines engagement success as there are other moderating variables, such as momentum, that play an important role.

As can be gauged from our case studies, it is not unusual for investors to employ multiple engagement strategies for different strategies and different purposes. For larger portfolios, it may also make sense to employ several strategies at once. For example, a screening for red flags in addition to several collaborative engagements on important ESG themes and in-depth engagements in collaboration with analysts or portfolio managers on the larger holdings. In case these strategies do not yield the desired results, we may decide to switch to a more activist approach where appropriate for a given client.
How has the global pandemic influenced engagement?

The Covid-19 pandemic dominated our engagement with companies in 2020. The lockdowns that began in March 2020 caused severe financial pressure for certain industries and companies, precipitating the need for new equity issuance or raising of debt. As stewards of our clients’ investments, we took each situation on its own merits by assessing the urgent needs of companies within the context of clients’ investment objectives.

Engagement played a significant role in those assessments, enabling us to explore various potential scenarios in a period of extreme uncertainty. Our goal was to understand the financial requirements of those companies under different scenarios: To assess whether the equity or debt issuance was sufficient to survive, and the new investment offered a return potential commensurate with the ongoing risks.

Where our investee companies sought funds, and we were satisfied of the long-term merits, we provided fresh equity. With one company, for example, we engaged in the very early stages of the crisis, before government-sponsored credit facilities and furlough schemes were announced. As the company was not indebted, it lacked sufficient banking facilities for the unprecedented situation in which it found itself. We agreed with management that raising fresh equity was the right solution, allowing the company to continue to pursue its growth agenda despite the impact of lockdown.

While conference calls were already a key part of our toolkit, our European and UK-based RI team members have historically enjoyed engagement dialogues at corporate headquarters and physically attending shareholders’ meetings to speak and ask questions live. Although we appreciate the challenges the pandemic posed, we felt that not every jurisdiction and not every company was keen on offering its investors easy remote access.

In the Netherlands, Eumedion evaluated the 2020 AGM season and confirmed that due to the coronavirus outbreak 2020 was far from a ‘business-as-usual AGM season’. Many companies that had scheduled their AGMs at the end of March or early April postponed them until June with the expectation by that time in-person AGMs could be held, while others took restrictive measures with respect to shareholders’ attendance at the meetings.

There was a similar situation in the UK. The vast majority of meetings were held with the minimum quorum requirement and behind closed doors.

In many countries, emergency regulation was necessary to officially define clear legal requirements to support companies and shareholders. The experiences with virtual or ‘semi-virtual’ AGMs have been mixed for minority shareholders as they did not get the opportunity to express concerns or opinions to the board directly. Where we had concerns regarding 2021 AGM formats inhibiting our engagement and voting rights, we raised them with the companies and pushed for improvement. As a result, many companies offered moderated conversations between shareholders and the directors where this wasn’t the case in 2020.

As responsible long-term stewards of our clients’ investments we took each situation on its own merits, balancing the urgent needs of companies with the risk and potential rewards of investment.
Voting: Exercising our shareholder beliefs

We utilize our clients’ voting rights similarly to our engagement efforts: to make our voice heard and influence change in a manner that is consistent with our clients’ best interests. When voting, we follow the guidelines set out in our Active Ownership Policy. In addition to using any voting rights to support our engagement efforts, we also support shareholder proposals that seek to enhance long-term value creation, promote sustainable business practices, and align with our responsible investment policies and those of our clients.

The aim of our voting activity is to ensure that voting rights are exercised in an informed manner, to enhance long-term value creation and promote best practice ESG policies, disclosure and performance by portfolio companies. We consider and vote (as consistent with our client mandates) all shareholder meetings of UK and Dutch companies in which we invest and Aegon AM NL and UK vote on all other markets where they own over 0.1% of the issued share capital. We believe this is the level where we have the best opportunity to influence management.

Given the large number of companies in which we invest globally, Aegon AM UK and NL make use of a third-party proxy voting service (ISS) to vote on our behalf at shareholders’ meetings. This is common practice for many large investors with shareholdings in multiple companies across the world, and it enables us to make our voice heard to as many companies as possible. The use of research of both ISS and The Investment Association’s IVIS is just part of the input into the decision-making process. We also use our previous interactions with the company, the information held internally, the opinion of the relevant fund manager as well as the publicly available disclosures when formulating our opinions. Each meeting is considered on a case-by-case basis and in a pragmatic manner, with input from both the responsible investment team and our investment managers for our active strategies.

We record all votes cast and other relevant responsible investment activity. These records allow us to monitor each company’s progress towards compliance with the appropriate governance codes and to demonstrate to our clients the approach we have taken.

We voted at a total of 2,511 meetings during 2020, up from 2,321 in 2019 and 1,373 in 2018. Approximately 91% of the votes we cast were with management and 9% were against. Votes cast spanned multiple regions and countries across Europe, North America, Asia and Australia with no one country comprising more than 25% of the activity. Most of the votes cast against management were related to resolutions on corporate governance, and on environmental and social issues, as these matters become more material to companies and investors.

We continue to see an increase in the number of shareholder proposals related to social and environmental issues. These proposals provide us with the opportunity to use our voting rights to further our engagement efforts. We supported 63% of the 787 shareholder proposals on which we voted.

Voting activities in 2020

2,511 meetings globally voted on
787 shareholder proposals voted on
63% shareholder proposals supported

Votes on supported shareholder proposals

- Directors related 40%
- Routine/business 15%
- Other/Misc 15%
- Health/environment 11%
- Compensation 7%
- Corp governance 5%
- Social proposal 4%
- Social/human rights 3%

Votes against management proposals

- Directors related 56%
- Non-salary compensation 22%
- Capitalization 13%
- Routine/business 7%
- Reorg. and mergers 1%
- Antitakeover related 1%

Source: Aegon AM as of December 31, 2020.
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