



Asset Management

# RESPONSIBLE INVESTMENT FRAMEWORK FOR FIXED INCOME, MULTI-ASSET & EQUITIES

March 2024

For institutional and professional investors only



*Beyond  
borders™*

Aegon Asset Management is the global investment brand of Aegon Ltd.  
See disclosures for more detail

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**This framework summarizes Aegon Asset Management’s approach to responsible investment and active ownership across our fixed income, multi-asset and equities investment platforms within the various Aegon Asset Management affiliates. The activities and processes described herein are not applicable, or not applicable to the same degree, across all affiliates or all strategies. Please refer to the specific product documentation as you consider investing with us.**

At Aegon Asset Management (Aegon AM), we are active, engaged and responsible investors. We consider investing responsibly a part of our investment philosophy and process as we believe responsible investment practices are critical to securing long-term value for our clients.

This document sets forth our Responsible Investment Framework, including our practices and approaches to investing responsibly as well as the principles that guide them.

## Responsible investment defined

Responsible investment (RI) is an umbrella term that covers various tools and approaches to incorporating environmental, social and governance (ESG) considerations into investment decision-making processes.

# Our guiding principles

## Responsible investment can align with clients’ interests

As stewards of our clients' capital, we think it's prudent to consider all relevant and material risks and opportunities, including those presented by ESG issues, as part of our comprehensive issuer research. With a focus on long-term results, we use responsible investment practices to manage client assets in accordance with specific mandates and to support a holistic understanding of the investments we make on behalf of our clients.

## Responsible investment can contribute to long-term value

A growing body of academic research demonstrates that sound ESG practices can enhance corporate financial performance in the long term. This value can manifest itself in the form of lower cost of and access to capital, better operational performance, reduced reputational risks and, in turn, potentially superior long-term returns on investments.

## Environmental and social risks can be material investment risks

Exogenous risks such as natural disasters and pandemics can disrupt industries and threaten business models. Failure to effectively manage such risks can lead to a range of financial, legal, and reputational consequences. A company's ability to mitigate such risks can have a profound effect on their ability to create and sustain long-term value.

## Integrating ESG factors can help uncover opportunities

We believe it is important to form a holistic view of investment opportunities. To analyze future profitability and creditworthiness, we think it is helpful to consider financially material ESG factors alongside traditional financial metrics. By considering these factors we strive to deliver better investment outcomes and long-term performance.

## Active ownership is a key aspect of active management

Our stewardship ambitions extend beyond today's investment opportunity. By leading engagement efforts and exercising shareholder voting rights, we use our voice to help effect positive change consistent with our clients’ objectives. We collaborate with other investors and stakeholders to engage where possible to maximize our voice.

# Responsible investment approach: Three key pillars

Our responsible investment approach consists of three pillars: ESG integration, active ownership and solutions.



## ESG integration

Incorporating financially material ESG factors into the investment analysis process to better understand risk and potentially uncover opportunities.<sup>1</sup>

## Active ownership

Addressing ESG issues by actively engaging with issuers and investee companies and exercising shareholder rights.

## Solutions

Providing responsible investment strategies to meet client ESG objectives through approaches such as selecting or excluding investments based on ESG practices, climate transition readiness, sustainable activities, or measurable social and environmental impact.

<sup>1</sup>The firm's research teams may incorporate ESG-related factors into their analysis as applicable to their asset class and the output may differ as warranted. Aegon AM's research analysts do not take ESG factors into consideration with respect to every investment in the portfolio.

# ESG integration

## Our research framework

ESG factors are systematically integrated into our bottom-up research process for fixed income and equity issuers. We aim to develop our own holistic house view of issuers' ESG profiles. By considering ESG issues alongside other financially material economic factors and drawing from specialized ESG research sources, the research teams seek to arrive at an independent, comprehensive view of the investment.

## Financial materiality is key

We view ESG analysis as a risk management tool and a potential alpha source. By integrating ESG factors into the traditional financial analysis framework, we aim to identify financially material factors which could affect the issuer's long-term growth potential, profitability, or creditworthiness, and to assess if they are appropriately priced.

## Debunking common ESG myths

Our ESG integration process focuses on managing financial risks and identifying opportunities by including additional information in investment analysis to help inform our decision making. ESG integration does not seek to make ethical judgements. It seeks to systematically uncover financially material ESG risks and opportunities to ensure they are appropriately priced in the investment being considered.

## Examples of ESG integration

Examples of ESG factors we may consider in corporate issuer analysis, depending on their materiality to the issuer's key activities and operational practices:



## Key potential benefits of ESG integration

<b>Deepens our knowledge</b>	Bringing new aspects to light.
<b>Strengthens our conviction</b>	Providing a more comprehensive view of the investment.
<b>Promotes a long-term focus</b>	As fundamental, research-driven investors, it can make us more confident in our decisions.

## Considering climate risks and opportunities in our fundamental research processes

At Aegon AM, we integrate climate-related factors into our ESG analysis where relevant. Various climate-related considerations are evaluated in the firm's proprietary ESG integration process as part of the fundamental research framework. Analysts evaluate the impact on fundamentals with an emphasis on the issuers most exposed to climate-related risks. Climate-related factors may include metrics such as carbon emissions as well as a qualitative assessment of climate risks such as stranded assets, regulatory and physical risks. Utilizing their industry, country or asset class expertise, analysts identify the most material and relevant climate-related factors and assess the potential effect on fundamentals.

# Active ownership

## Active ownership defined

The practice of engaging in a dialogue with issuers on ESG topics and exercising voting rights to advocate for change.

We believe taking responsibility as an investor also means being a truly active owner, not just as a shareholder but as a financier more broadly. We aspire to influence change by engaging in dialogue with issuers, either bilaterally or as part of an investor consortium. This dialogue can provide opportunities to highlight ESG risks, educate management on sustainability concerns, promote growth in sustainable business lines and advocate for changes that align with responsible investment priorities and client standards. Successful engagement can create new investment opportunities or strengthen the case for existing investments.

Please note, engagement and other active ownership activities will occur with some, but not all, issuers where the manager deems it appropriate. Not all engagements result in positive outcomes.

## Reasons for engagement

Our engagement efforts are focused on addressing and managing financially material ESG-related investment risks. To that end we:

- Exercise our stewardship responsibilities on behalf of our clients
- Try to better understand the companies we invest in
- Monitor, manage and work towards mitigating investment risk
- Try to fulfil client expectations with respect to their policies and standards

Further details of our approach are outlined in our **Active Ownership Policy**.

## Engaging companies to address climate risk

Aegon AM carries out a significant number of individual and collaborative engagements related to climate change in an effort to improve outcomes for our clients' portfolios. As part of our engagement strategy, we challenge portfolio companies to set science-based greenhouse gas (GHG) reduction targets and expect them to work towards those with ambitious decarbonization plans. We engage with companies on a regular basis, prioritizing top GHG emitters, and discuss progress towards their targets and the realization of the 2015 Paris Agreement as the key international commitment to the climate transition. Further, by supporting Climate Action 100+, we collaborate with other investors to increase our voice and promote a standardized approach to addressing climate risk.

The activity described in this paragraph is carried out by the UK and NL affiliates within Aegon AM on behalf of their applicable clients.

# Solutions

Our responsible investment capabilities are segmented into five categories: Exclusions and ethical, Best-in-class ESG, Climate transition, Sustainable and Impact investments. These solutions serve as building blocks that can be combined to create customized client strategies.

Exclusions and ethical	Best-in-class ESG	Climate transition	Sustainable	Impact investment
Identify issuers to exclude usually based on their activities and associated adverse impacts.	Select issuers with superior ESG profiles based on financially material ESG issues.	Select issuers better prepared to manage climate risks.	Select issuers better aligned to sustainable economic activities or the Sustainable Development Goals.	Select projects, borrowers or issuers able to demonstrate measurable social or environmental impact.

## Exclusions and ethical solutions

Aegon AM offers exclusionary screening as set out in product-specific investment guidelines and may also apply exclusionary criteria based on client preferences. We act on mandates to exclude certain sectors or companies whose activities are considered incompatible with our clients' values. Notably, our affiliated clients require ESG-related exclusions in the management of their proprietary assets so a large proportion of the assets we manage are subject to customized exclusion lists mandated by affiliated clients. Our Sustainability Risks and Impacts policies, applicable to specific product ranges, outline exclusionary criteria based on certain adverse impacts.

## Best-in-class ESG solutions

Best-in-class ESG strategies aim to balance ESG and traditional financial metrics. For clients focused on ESG risks and their potential impact on financial returns, we identify issuers that are better positioned to manage their ESG risks and present compelling long-term investment opportunities. As such, we have developed strategies that utilize a best-in-class selection approach to invest in issuers with more favorable ESG profiles. These best-in-class ESG strategies are usually based on research undertaken as part of our proprietary ESG integration process.

## Climate transition solutions

At Aegon AM we are committed to supporting our clients' climate-related investment goals. Addressing the complexities of climate change requires a pragmatic approach and a comprehensive toolkit of climate-related investment solutions ranging from carbon reduction goals to targeted climate solutions investments and engagement. For investors looking to align their portfolios with net zero climate goals, we believe there are compelling opportunities to direct capital toward issuers that are better prepared for the net zero transition. Using a proprietary, climate-focused research framework, we assess issuer's ambitions, performance and management of climate risks. This research goes beyond headline carbon emissions to form a forward-looking view of a company's transition readiness, allowing us to construct a portfolio of climate-transition investments.

## Sustainable solutions

There is an evolution in sustainability-themed products and services, enticing a growing number of companies to provide solutions to key sustainability challenges. We believe this also presents compelling investment opportunities and may generate better returns while contributing to a more sustainable world.

Our sustainable strategies center around a set of investment opportunities contributing to one or more sustainability challenges or trends. Our dedicated Responsible Investment experts lead the development of their methodology and advise on the determination of their investment universe. The processes for these activities may vary according to asset class, but usually involve a committee or discussion group chaired by an RI expert to help ensure consistency and credibility of the strategy's sustainability proposition. Comprehensive sustainability analysis is undertaken for each eligible issuer, ensuring sufficient involvement in sustainable economic activities and no significant harm to other environmental and social objectives.

## Impact investment solutions

We develop impact investment strategies to use capital to help drive environmental and social impact. Our approach builds on two key characteristics: ex-ante intentionality, whereby we outline the intended positive environmental or social impact as part of the investment decision-making process; and ex-post measurement, which consists of monitoring our progress, measuring and reporting impact after the investment is made.



# Our commitment to responsible investment in practice

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Dedicated responsible investment specialists serve as a company-wide resource to support our RI practices. These experts lend their expertise to ESG integration initiatives, conduct and validate sustainability research for certain RI solutions, contribute to product development and lead active ownership activities. Our RI specialists serve as a resource for responsible investment education, best practices and research.

Furthermore, we have taken several organizational steps to support our commitment, including:

- Ensuring our investment teams have access to high-quality, broad-coverage, specialist ESG data services. Given the diversity of research methodologies on the market, we aim to maintain access to different views to inform our own in-house assessments.
- Providing our staff access to appropriate RI and ESG training for their specific function, encouraging personal development and a corporate culture conducive to best RI practices.
- Collaborating with other investors, industry associations, regulators and stakeholders where possible to exchange best practices, create market standards, develop new solutions and shape RI regulation.
- Maintaining transparency with respect to our RI activities through reporting.



# Disclosures

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