

# Aegon AM UK Sustainability Risks and Impacts Policy

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**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 policy enshrines Responsible Investment (RI) practices in Aegon AM UK funds. The [Aegon AM Responsible Investment Framework](#) and [Active Ownership Policy](#) act as important reference documents for this policy, which remains consistent with the key principles of those documents.

This policy describes conceptually how sustainability risks are incorporated into the investment process of the funds concerned. The specific process, however, is adapted to each asset class. It also describes the way in which we identify, prioritize and mitigate the principal adverse impact(s) (PAIs) of investments on sustainability factors which helps formulate our exclusions and watch lists and guide our active ownership activities. This policy also outlines our approach to assessing good governance practices of investee companies, which is largely based on international norms and standards.

The fund documentation sets out additional information on how specific funds achieve ESG integration, consider principal adverse impacts, and to what extent and how they promote ESG characteristics or have a sustainable objective.

With respect to funds offered in the European Union, we refer to the fund documentation for additional information on how specific funds achieve ESG integration, consider principal adverse impacts, and to what extent and how these funds promote ESG characteristics or have a sustainable objective.

This policy applies to all funds managed or sub-advised by Aegon AM UK, including those sub-advised for Aegon Investment Management B.V. This policy does not apply to investment advice provided by Aegon AM UK or to client segregated mandates (such as AUK funds that are managed under an IMA).

## Definitions

- **'ESG Factors'** are environmental, social and governance factors.
- **'Sustainability Risk'** means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.
- **'Environmental, Social and Governance Integration'** or **'ESG Integration'** means the practice of systematically considering financially material ESG factors in the investment decision-making process with the aim of identifying Sustainability Risks.
- **'Principal Adverse Impact'** or **'PAI'** means the potential or actual negative impact of investment decisions on sustainability factors (environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters).
- **'Engagement'** means the process of entering into a dialogue with issuers to exercise one's influence as an investor, with the aim of reducing ESG risks, promoting good governance or mitigating PAIs.
- **'Exclusion'** means the removal of securities from the investment universe, or the set of securities in which relevant funds are allowed to invest.
- **'Screening'** means the process of identifying which issuers in the investment universe meet certain criteria.
- **'Voting'** means exercising voting rights stemming from being a shareholder in a company.
- **'Sustainable investment'** means an investment in an economic activity that contributes to an environmental or social objective, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.
- **'Taxonomy aligned sustainable investment'** means an investment in an economic activity that is considered sustainable based on the requirements as laid out in the EU Taxonomy (Reg. (EU) 2020/852)

## Consideration of Sustainability Risks

We aim to integrate financially material ESG factors throughout our investment decision-making processes to ensure we have a holistic understanding of our investments. By taking account of ESG factors alongside traditional financial considerations in the investment appraisal process, we develop a clear understanding of the Sustainability Risks facing an individual investment. This allows us to make informed decisions about the potential risks to an investment's value should a material ESG risk event occur. We can then act, if needed, to protect the value of our clients' investments.

A small proportion of our strategies take short positions. We integrate ESG factors into our investment decision on short positions just as we do on long positions. Where shorting forms part of an investment mandate, it can be used to implement our ESG (and other) investment convictions.

For actively managed portfolios, Sustainability Risks are systematically considered in our bottom-up research process for public corporate fixed income and equity issuers. We also consider Sustainability Risks in the investment analysis process for sovereign and securitized issuers. We aim to build our own in-house view of issuers' Sustainability Risk profiles where possible and as appropriate, using a combination of internal and external data sources.

We document and record the Sustainability Risks considered by analysts, for instance through explicit mention of Sustainability Risk views in research outputs. Where we develop in-house processes or methodologies for Sustainability Risk/ESG rating or categorization of issuers, these are also documented.

Where we identify high or poorly managed Sustainability Risks among the public corporate issuers in which we invest, we aim to exercise our influence as an investor through Active Ownership, with the objective of mitigating Sustainability Risks. These activities are carried out in line with the Aegon AM Active Ownership Policy, which governs Engagement and Voting activities across Aegon Asset Management.

For the avoidance of doubt, Sustainability Risks can only be managed by AAM UK in this way in actively and internally managed portfolios. Passive and externally managed portfolios are not subject to proprietary investment analysis and those investments therefore do not consider Sustainability risks. Passive portfolios that track ESG or sustainability-influenced benchmarks may make use of the respective benchmark provider's consideration of Sustainability risks, according to their proprietary methodology.

### Identifying and Monitoring of Principal Adverse Impacts

We aim to identify and monitor the PAIs on sustainability factors of all investments made by the funds covered by this Policy where data is available. Such information may come from data vendors or from our own manually constructed PAI databases (depending on the types of assets). Appendix 1 lists the PAI indicators we utilize to identify, monitor and report on these PAIs. Our approach to considering such PAIs is outlined in product disclosures.

To identify and monitor PAIs, we measure and report the PAI indicators for the holdings of the funds in scope of this policy, subject to the availability of PAI data at issuer level. We rely on external vendors to provide PAI data per issuer into appropriate Aegon AM systems. This data is then used to measure aggregate portfolio and entity-level PAIs. Measurements are performed at least on a quarterly basis, while reporting is completed annually by the reporting teams. The PAI indicators are listed in Appendix 1. Where such data is not available from specialized vendors, we may, on a best efforts basis, seek to collect this information from the relevant issuers or borrowers.

### Ensuring good governance

We have implemented an annual process to identify companies in actual breach of good governance standards. This process focuses on our listed corporate (debt and equity) investments. Where data is available on our unlisted corporate investments, we also include these investments in our screening process.

When implementing our annual screening process, we make use of third-party ESG research providers who assess an individual company's compliance with global norms, treaties and standards and categorize all controversies a company faces using a wide range of ESG data and criteria. This research serves as a starting point for our identification process and we follow up with subsequent analysis and assessment. This screening process is subject to availability of external ESG data from these specialized providers, and as such is limited by their research coverage.

Companies identified through this process enter our annual engagement program whereby we seek to verify the external research opinions and sources that identify potential and actual breaches, and also seek to better understand if and how companies are addressing such breaches. Companies identified as in actual breach of respective norms will be added to the Watch List.

Furthermore, in our active ownership activities we follow the Corporate Governance Guidelines outlined in the Aegon AM Active Ownership Policy.

### Sustainable investments and Taxonomy aligned sustainable investments

For a specific subset of products, AAM UK has decided to make and measure sustainable investments. These are sustainable investments made according to the AAM UK proprietary methodologies. These methodologies vary per asset class and are clearly disclosed in the product documentation.

It is currently not possible to apply the EU Taxonomy methodology for sustainable investments to construct sustainable investment portfolios, given the lack of reliable and verifiable data and the fact that the EU Taxonomy still involves a lot of regulatory uncertainty. Nevertheless, as required by the regulation, AAM UK will measure and report the alignment of its sustainable investments to the EU Taxonomy using third-party data. These reports will therefore be subject to the limitations of such third-party data with respect to research coverage, estimation models and methodological interpretations taken by the third parties.

### Exclusions

To partially mitigate certain adverse impacts, we aim to identify issuers that engage in activities associated with such impacts. We identify these issuers by using the criteria outlined in Appendix 3, which also serve as sustainability indicators used to measure attainment of the environmental and social characteristics promoted by certain products offered by AAM UK. Certain products may implement additional exclusion criteria, these shall be documented in the relevant product documentation.

Following identification, we avoid these adverse impacts by not investing in securities issued by the entities listed on the Exclusion List. Investment in securities issued by the entities listed in the Watch List is only permitted following enhanced due diligence with a pre-order justification signed off by relevant trade approver. Following a decision to invest in a security issued by an entity on the Watch List, the relevant investment control committee is informed ex-post and will consider, in each meeting, whether the Watch List investments remain acceptable.

The Watch List is not applicable to short positions nor traded indices (within which watch list names may be a constituent part but AAM UK has no control of the process for inclusion of those names): we may take short positions in securities issued by Watch List entities without applying the restrictions or additional approvals set out above. We do not take any position, short or long, in issuers on our Exclusion List. The relevant Investment Control Committee will annually review and consider the Watch List and Exclusion List.

AAM UK funds may not invest in securities issued by entities identified in the Exclusion List and may only invest in those issued by entities on the Watch List following an enhanced due diligence and subject to ongoing suitability review and challenge by the relevant Control Committees.

The Exclusion List and Watch List criteria set out in Appendix 3 are reviewed periodically to ensure the prioritized adverse impacts remain appropriate. The Responsible Investment Team annually screens the investment universe against the criteria outlined in Appendix 3 using the maximum available coverage from external data providers to compile the Exclusion and Watch Lists. Therefore, since it is subject to the availability of appropriate research data, it should not be considered as a fully comprehensive list of issuers involved in excluded activities. The Exclusion List and the Watch List are not applied to investments in index-based products, such as ETFs, futures or options, or structured credit.

### Active ownership

We seek to use our influence as bondholder or shareholder to enact change and help mitigate certain adverse impacts. However, we recognize that we cannot address and mitigate all potential and actual adverse impacts through exclusion and active ownership. To be effective we need to focus our efforts and prioritize. In recognition of this, the Responsible Investment Team prepares an Active Ownership Plan in the final quarter of each year for approval by the relevant stakeholders.

Active Ownership activities are broadly governed by the AAM Active Ownership Policy. Engagement with the issuers identified is conducted by a combination of portfolio managers, research analysts and the Responsible Investing team. The Responsible Investment Team is responsible for tracking and reporting on engagement with corporate issuers on certain adverse impacts identified using available PAI indicator data, other relevant information sources and available

collaborative engagement initiatives. The Responsible Investment Team prepares annually an Active Ownership Plan prioritizing engagement activity related to adverse impacts and good governance practices for the year, for approval by the relevant stakeholders. The Responsible Investment Team also exercises voting rights where applicable in line with its ongoing engagement activities. Engagement progress is tracked using Aegon AM's milestone system and is reviewed on a regular basis to determine where engagement goals have been achieved or where escalation is warranted.

### Reporting

To provide clients with insights into the PAIs associated with their portfolio, as well as how PAIs and Sustainability Risks are being managed and mitigated, we will periodically report relevant information on KR 1 to 5 when requested by clients or when we are legally required to do so.



## Appendix 1: Principal Adverse Impact Indicators

### A1.1. Climate change

For corporate issuers:

Adverse impact indicator	Metric
GHG emissions	Scope 1 GHG emissions (tCO <sub>2</sub> e)
	Scope 2 GHG emissions (tCO <sub>2</sub> e)
	Scope 3 GHG emissions (tCO <sub>2</sub> e)
	Total GHG emissions (tCO <sub>2</sub> e)
Carbon footprint	Carbon footprint (tCO <sub>2</sub> e per EURm invested)
GHG intensity of investee companies	GHG intensity of investee companies (tCO <sub>2</sub> e per EURm investee company revenue)
Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector (%)
Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage (%)
Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector
Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement

For sovereign issuers:

Adverse impact indicator	Metric
GHG intensity	GHG intensity of investee countries
Share of bonds not issued under Union legislation on environmentally sustainable bonds	Share of bonds not issued under Union legislation on environmentally sustainable bonds

For real estate investments:

Adverse impact indicator	Metric
Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transportation or manufacture of fossil fuels
Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets
Energy consumption intensity	Energy consumption in GWh of owned real estate assets per square meter

### A1.2. Inclusion & diversity

For corporate issuers

Adverse impact indicator	Metric
Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies
Board gender diversity	Average ratio of female to male board members in investee companies

**A1.3. Biodiversity**

For corporate issuers

<b>Adverse impact indicator</b>	<b>Metric</b>
Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity sensitive areas where activities of those investee companies negatively affect those areas
Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average
Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average

**A1.4. Social**

For corporate issuers:

<b>Adverse impact indicator</b>	<b>Metric</b>
Exposure to controversial weapons (anti-personnel mines, cluster munitions)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons
Lack of a human rights policy	Share of investments in companies without a human rights policy

For sovereign issuers:

<b>Adverse impact indicator</b>	<b>Metric</b>
Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law.
Average income inequality score	The distribution of income and economic inequality among the participants in a particular economy including a quantitative indicator explained in the explanation column.

## Appendix 2: Good governance metrics

This Appendix lists the metrics we utilize to monitor good governance practices of the companies we invest in.

Indicator	Metric
Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
Lack of processes and compliance mechanisms to monitor compliance with UNGC principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/complaints handling mechanisms to address violations

### Appendix 3: Exclusion and Watch List criteria

Exclusion List Criteria

Exclusion criteria	Associated sustainability indicator used to measure attainment of the promoted environmental or social characteristic
<p>Companies that are involved in development, production, maintenance and trade of:</p> <ul style="list-style-type: none"> <li>- Anti-personnel mines</li> <li>- Biological or chemical weapons</li> <li>- Cluster munitions</li> <li>- Ammunitions containing depleted uranium</li> <li>- Nuclear weapon systems for any countries not allowed to possess them under the Non-Proliferation Treaty.</li> </ul> <p>Companies that hold a stake of 20% or more in, or are currently 50% or more owned by, a company that is involved in controversial weapons based on the above criteria are also excluded.</p>	<p>Share of investments in companies involved in development, production, maintenance and trade of:</p> <ul style="list-style-type: none"> <li>- Anti-personnel mines</li> <li>- Biological or chemical weapons</li> <li>- Cluster munitions</li> <li>- Ammunitions containing depleted uranium</li> <li>- Nuclear weapon systems for any countries not allowed to possess them under the Non-Proliferation Treaty.</li> </ul>
<p>Companies that produce or develop key and dedicated components for controversial weapons, as listed above, or offer essential services for their use.</p>	<p>Share of investments in companies that produce or develop key and dedicated components for controversial weapons, as listed above, or offer essential services for their use.</p>
<p>Companies involved in controversial arms trade to countries where an arms embargo by the United Nations Security Council, the European Union or the United States is in place, or under any other relevant multilateral arms embargo;</p>	<p>Share of investments in Companies involved in controversial arms trade to countries where an arms embargo by the United Nations Security Council, the European Union or the United States is in place, or under any other relevant multilateral arms embargo;</p>
<p>Any form of government-issued debt (e.g., government bonds) from countries whose government is subject to an arms embargo by the United Nations Security Council, the United States, the European Union or another relevant multilateral arms embargo.</p>	<p>Share of investments in government-issued debt (e.g., government bonds) from countries whose government is subject to an arms embargo by the United Nations Security Council, the United States, the European Union or another relevant multilateral arms embargo.</p>
<p>Russian and Belarussian companies.</p>	<p>Share of investments in Russian and Belarussian companies.</p>

Watch List Criteria

<b>Watch List criteria</b>	<b>Associated sustainability indicator used to measure attainment of the promoted environmental or social characteristic</b>
Companies that derive 30% or more of their revenue from the exploration, mining or refining of thermal coal. The proportion of revenue threshold will decline to 10% in 2027 and 5% in 2029;	Share of investments in companies that derive 30% or more of their revenues from thermal coal exploration, mining or refining
Companies that produce more than 20 million tonnes of thermal coal annually <u>and</u> are actively expanding exploration, mining or refining operations.	Share of investments in companies that produce more than 20 million tonnes of thermal coal annually <u>and</u> are actively expanding exploration, mining or refining operations.
Companies that own coal-fired electricity generation capacity greater than 10 gigawatts <u>and</u> are actively expanding coal-fired electricity production capacity.	Share of investments in companies that own coal-fired electricity generation capacity greater than 10 gigawatts <u>and</u> are actively expanding coal-fired electricity production capacity.
Companies deriving 30% or more of their total oil equivalent production from oil sands.	Share of investments in companies that derive 30% or more of their total oil equivalent production from oil sands
Companies that are pipeline operators and which are significantly involved in oil sands transportation.	Share of investments in pipeline operators and companies which are significantly involved in oil sands transportation
Companies that derive 5% or more of their revenues from tobacco production.	Share of investments in companies that derive 5% or more of their revenues from tobacco production