

Responsible Investment Report 2019



An aerial photograph of a wind farm situated in a lush, green, hilly landscape. Several white wind turbines are visible, scattered across the terrain. A winding road or path cuts through the fields. In the upper left, a multi-lane highway with moving vehicles is visible. A small cluster of buildings, possibly a farm or a small village, is located in the center of the image. The overall scene conveys a sense of sustainable energy integrated into a natural environment.

Invest Responsibly.

Aegon Asset Management is the global investment management brand of Aegon N.V.
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A Responsible and Engaged Investor

At Aegon Asset Management, we believe responsible investment practices can generate value over the long term. As stewards of our clients' capital, we think it's prudent to consider all relevant and material risks and opportunities, including ESG factors, as part of comprehensive securities analysis. Incorporation of ESG factors is a core element of our investment analysis and stewardship activities.

With a rich heritage of responsible investment stretching over the past 30 years, we've built a comprehensive responsible investment approach consisting of three pillars: ESG integration, active ownership and solutions. ESG integration and active ownership occurs across our investment platform, where applicable, and we provide responsible investment solutions.

As the marketplace has evolved, so has our responsible investment program. We have expanded ESG integration across investment strategies, strengthened our active ownership activities, grown the Responsible Investment team and developed client-centric responsible investment solutions. Through our comprehensive responsible investment activities, we aspire to help our clients pursue better long-term outcomes while contributing to sustainable capital markets and impactful economic activities.

Responsible investment quick facts



EUR 206 billion
AuM in responsible
investment solutions¹



564
engagements



2,321
company meetings voted on



13
professionals in a dedicated
Responsible Investment team

As a responsible and engaged investor, we aim to minimize risks and explore new opportunities as we seek to generate value for our clients.

Our responsible investment approach



As of December 31, 2019. ¹Assets under management/advisement excludes joint ventures. Responsible investment products and services may vary regionally.



About Aegon Asset Management

EUR 352 billion
total assets under
management/advisement

1,200
employees serving
clients worldwide

17
locations across Europe,
the Americas and Asia

30+
years of responsible
investing

As of December 31, 2019

Active management on a global scale

Aegon Asset Management¹ is a group of active global investors. We aim to deliver competitive investment performance for our clients with appropriate levels of risk, supported by quality service. Our 380 investment professionals manage and advise on assets of EUR 352 billion (USD 395 billion) for a global client-base of pension plans, public funds, insurance companies, banks, wealth managers, family offices and foundations.

We are an international business; our 1,200 employees work from 17 locations across Europe, the Americas and Asia. We have a supportive owner in the Aegon Group, one of the world's leading financial services businesses, which has a heritage dating back to 1844.

Four focused investment platforms

At Aegon Asset Management (Aegon AM), we organize our investment capabilities around four focused platforms where we have deep asset-class expertise: fixed income, real assets, equities, and multi-asset & solutions. Each platform has dedicated teams, organized globally and charged with maximizing client benefit from their specialist areas.

Research-driven approach

We believe in fundamental, research-driven active management, underpinned by effective risk management and a commitment to responsible investment. Our investment platforms have the flexibility to organize their resources and processes to best suit their areas of focus.

¹The following Aegon affiliates are collectively referred to herein as Aegon Asset Management (Aegon AM): Aegon USA Investment Management, LLC (Aegon AM US), Aegon USA Realty Advisors, LLC (Aegon RA), Kames Capital plc (Aegon AM UK), and Aegon Investment Management B.V. (Aegon AM NL). Kames Capital plc is being rebranded to align with the global Aegon Asset Management brand in quarter three of 2020, subject to regulatory approvals. After this point Kames Capital plc will be known as Aegon Asset Management UK plc (Aegon AM UK). Each of these Aegon Asset Management entities is a wholly owned subsidiary of Aegon N.V.

From Our CEO



Bas NieuweWeme, CEO

We live in an uncertain and rapidly evolving world. Global economies and financial markets are more interconnected, complex and more vulnerable to risks such as environmental or societal disruptions, than ever before. None more so than the Covid-19 pandemic which, has caused a tragic public health crisis and unprecedented disruption to the global economy.

Asset management is not immune to these challenges and threats. At Aegon Asset Management, we embrace and aspire to meet them through innovation and adaptability while helping our clients navigate market complexity, and by enabling them to invest responsibly.

To harness our worldwide knowledge, we recently integrated our regional investment centers into one global business, creating four distinct, yet complementary investment platforms: fixed income, real assets, equities and multi-asset & solutions. I believe this will allow us to bring our best capabilities to our clients, regardless of location, while keeping our existing process and local focus intact. By bringing the teams together, we aim to enhance our ability to seize investment opportunities when they arise, act with conviction, and ultimately generate better outcomes for our clients.

While our organization and industry are constantly changing, our commitments remain the same: work to deliver the highest-quality investment solutions to our clients; pursue competitive long-term results through active investment management; and provide our employees fulfilling careers, financial stability and a safe, inclusive and diverse workplace. Underpinning our ambitions is a strong commitment to responsible investing and sustainable business practices.

Aegon Asset Management has a long-established culture of responsible investing. It is something we have done for more than 30 years and we pride ourselves that, as an active investor, it is part of our process.

Responsible investing has evolved significantly over the years, but post-pandemic, we expect investors to place greater importance upon it with a stronger focus on environmental and social impact. Innovation within the asset management industry will also continue at pace, as investors aspire to effect positive change with their assets as they pursue financial, ESG and impact-related investment objectives while contributing to a more sustainable world.

We are proud of our responsible investing history, but we know the world does not stand still. To that effect, I can assure you neither will Aegon Asset Management. We are committed to responsible investing and aspire to drive the industry forward by promoting best practices for the benefit of our clients, the industry and society at large. We will continue to innovate and focus on providing investors with clarity to help them confidently navigate the changing investment landscape.

Underpinning our ambitions is a strong commitment to responsible investing and sustainable business practices.

Table of Contents

A Responsible and Engaged Investor	1
About Aegon Asset Management	2
From Our CEO	3
Introduction	5
Our Responsible Investment Framework	6
Our Journey	8
Ratings & Rankings	10
ESG Integration	11
<i>Fixed Income</i>	12
<i>Structured Securities</i>	16
<i>Equities</i>	18
Responsible Investment Solutions	20
<i>Exclusions: Ethical Bond & Equity</i>	22
<i>Best-in-class: High Yield ESG</i>	24
<i>Sustainability-themed: Sustainable Fixed Income</i>	26
<i>Sustainability-themed: Global Sustainable Equity</i>	28
<i>Impact: Healthcare Real Estate</i>	30
<i>Impact: Real Assets & Affordable Housing</i>	31
<i>Impact: Subordinated SME Loans</i>	32
<i>Multi-manager Solutions</i>	34
Active Ownership	36
<i>Engagement</i>	36
<i>Voting</i>	44
Corporate Social Responsibility	45
Inclusion & Diversity	46
Appendix	48

Introduction



Brunno Maradei, CFA,
Global Head of Responsible
Investment

Investment decisions can have a significant impact on society, the environment and the world at large. At Aegon Asset Management, we believe fully understanding the consequences of our investment decisions benefits our clients, the companies we invest in, and all of us as individuals. As we have seen this year, a company's ability to adapt

and navigate environmental or societal disruptions can have a profound effect on their ability to create long-term value. For that reason, our investment approach considers environmental, social and governance (ESG) factors critical in building a comprehensive understanding of the investments we make on behalf of our clients. To credibly integrate ESG factors in investment decisions, we believe it's essential for active managers to form their own ESG view, not solely relying on third-party research.

Understanding the consequences of investment decisions also means taking responsibility for them. For us, this means being an active owner of issuers' balance sheets, not just an active shareholder. That's why we stepped up our engagement activities in 2019, increasing the number of companies we engaged with from 360 to 564. When we talk with companies, we are agnostic on whether we hold equity or debt. Our focus is on deepening the engagement dialogue and closely tracking the expected outcomes from our comprehensive engagement program. Our response rates are impressive for our size—we are in active dialogue with over 60% of the companies we approach.

Responsible investment is also about making a positive contribution to society and the environment. Having spent more than half my career in development finance institutions, I firmly believe climate change mitigation and sustainable development cannot be achieved without mobilizing private capital. The United Nations estimates that meeting its 17 Sustainable Development Goals will require global investments of USD 5 to 7 trillion each year through 2030. Additionally, the World Economic Forum projects that starting this year, about USD 5.7 trillion must be invested annually in green infrastructure if we are to achieve the transition to a low-carbon world. Although the estimates are startling, the investment gap provides tremendous opportunities for investors.

We are finding interesting opportunities to contribute to sustainable development and climate challenges, aiming to deliver environmental and social impact alongside attractive returns in alternative credit and real assets. For example, our Government Related Investment strategy invests in private loans backed by investment grade sovereigns that finance low-income housing projects, municipal infrastructure, schools and hospitals. The strategy, managed by Aegon AM NL, is reaching high impact emerging market projects. Our Dutch Subordinated Loan strategy, also managed in the Netherlands, offers investors the opportunity to support small- and medium-sized enterprises that finance innovation, with support from the EU. Our Tax Credit Equity strategies, managed by Aegon Real Assets US, help finance impactful low-income housing projects, as well as wind and solar developments.

As a global asset manager, we aim to leverage the best responsible investment products and practices from the diverse markets we operate in. After all, sustainability is still very much defined by culture. While responsible investing practices vary across regions, our global presence supports our efforts to bring together the best ideas from each of our key markets as we aspire to deliver the highest quality responsible investment solutions and practices globally.

We are proud to be recognized as one of the leaders in responsible investment and to have our global approach acknowledged. We've made great progress, but there's more work to do.

As I write this in 2020, we face the worst and most widespread pandemic in living memory. The human toll of this crisis is tragic and cannot be underestimated. As investors, the crisis also highlights the strengths and limitations of our global economy and financial system. Inevitably, there will be more pandemics, environmental disasters and social unrest. Will we be ready? Will companies have sufficient disaster preparedness strategies? Will investors' portfolios weather the storms? These are critical questions that cannot be answered until such events unfold. However, we think one thing is certain—to fulfill our mission of protecting our clients' financial future, we must invest responsibly.

An aerial photograph of a dense forest with a river winding through it. The trees are mostly green, with some autumn-colored trees in shades of orange and yellow. The river is a light blue color, possibly due to the way the light reflects off the water or the way it was processed in the image. The overall scene is a lush, natural landscape.

Our Responsible Investment Framework

Inconsistent terminology remains one of the largest obstacles within the industry. To engage in transparent communication with our clients, we set forth a global responsible investment framework that defines our approach to responsible investment. The framework and underlying principles guide our responsible investment approach across asset classes and regions while allowing us to help our clients navigate the responsible investment landscape.

Our principles

Responsible investing is a key element of our investment philosophy and process. We believe responsible investment practices can help generate long-term value for our clients.

Responsible investing aligns with clients' interests

As stewards of our clients' capital, we believe it's our responsibility to consider all potential risks and opportunities. With a focus on long-term results, we use RI practices, such as ESG integration and active ownership, to help us manage risk and identify opportunities.

Responsible investing can contribute to long-term value

We firmly believe investing responsibly creates opportunities to add value for our clients. Academic research increasingly demonstrates that responsible investment practices can add value. Value can manifest itself in the form of lower cost of capital, better operational performance, reduced reputational risks and subsequently, potential for improved investment returns.

Environmental and social risks are investment risks

Exogenous risks, such as natural disasters or pandemics, can disrupt industries and threaten business

models. A company's ability to adapt and navigate such disruptions can have a profound effect on their ability to create long-term value.

Integrating ESG factors can help uncover opportunities

Integrating ESG factors into investment decisions can lead to better investment outcomes as we seek to maximize long-term performance. We find that it's quite challenging to analyze future profitability without considering ESG factors. By focusing solely on financial metrics, we may inadvertently overlook opportunities to generate value.

Active ownership is active management

Our stewardship activities extend beyond today's investment opportunity. By spearheading engagement activities and exercising shareholder voting rights, we use our voice and actions to help effect positive change. We cannot change the world on our own so we join forces with other investors, companies and regulators to engage collaboratively.

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. It may include ESG integration and active ownership as well as dedicated, RI-focused solutions. Related terms may include sustainable or ESG investing.

Our approach includes three pillars

As active investors, our comprehensive responsible investment approach consists of three pillars:



ESG integration

Incorporating ESG factors into the investment decision-making process across our investment platforms to help mitigate risk and uncover opportunities



Active ownership

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



Solutions

Providing RI-focused products that go beyond integration and active ownership, ranging from strategies applying exclusions based on client preferences to best-in-class, sustainability-themed and impact investments

Implementing the principles to create solutions

Guided by our RI principles, we design progressive responsible investment solutions for our clients.

- **ESG integration and active ownership across our investment platform:** ESG integration and active ownership are practiced across most of our EUR 352 billion investment platform¹, as appropriate for the specific asset class and investment strategy.
- **Responsible investment solutions:** Beyond ESG integration and active ownership, we manage EUR 206 billion², or approximately 59% of total assets, in dedicated responsible investment strategies spanning four categories: exclusions, best-in-class, sustainability-themed and impact investing.

Responsible investment solutions

Exclusions

Utilize negative screening to avoid certain sectors, companies or practices based on specific criteria

Best-in-class ESG

Seek to outperform by emphasizing positive screening of issuers with better or improving ESG practices

Sustainability-themed

Focus on issuers whose activities or practices are aligned with sustainability themes in an effort to generate competitive returns over the long term

Impact investing

Pursue financial returns alongside measurable positive social and/or environmental impact

¹ESG integration is part of our standard active investment processes, however Aegon AM also manages a limited number of passive mandates and certain asset classes where ESG integration is not considered appropriate or possible, such as commodity strategies. ²As of December 31, 2019. Assets under management/advisement excludes joint ventures. Responsible investment products and services may vary regionally.

Our Journey

In 2019, we enhanced ESG integration, strengthened our active ownership activities and developed client-centric RI solutions.

Over 30 years of investing responsibly

With roots dating back over 30 years, Aegon AM has a rich heritage of investing responsibly. As the marketplace has evolved, so has our responsible investment program. We have expanded ESG integration across investment strategies, strengthened our active ownership activities, grown the Responsible Investment team and developed client-centric responsible investment solutions. Today, responsible investing is a key component of our culture and a core element of our investment philosophy and process.

As one of the recognized leaders in responsible investment, we believe it is our duty to propel the industry forward and advance responsible investment practices. Responsible investing is a rapidly changing industry and we recognize the need to constantly evolve in order to maintain a competitive advantage. In the years ahead, we plan to continue to enhance ESG integration, work to effect positive change through active ownership and develop progressive responsible investment solutions.

A long history of responsible investing

1987	Real Assets US closes first investment in low income housing tax credits	2014	Introduces carbon footprint analyses
1989	Aegon AM UK launches first ethical strategy	2015	Integrates ESG ratings into credit research reports
2004	Aegon AM NL launches first multi-manager RI strategy	2016	Aegon N.V. establishes RI as a strategic company initiative
2007	Publishes first RI report	2017	Launches intensive ESG Next program to enhance ESG processes. Forms Climate Change Working Group
2010	Develops RI framework and forms central, dedicated team	2018	Expands RI team members and enhances global support
2011	Aegon N.V. adopts a global RI policy. Aegon AM becomes a member of PRI	2019	Aegon AM US launches dedicated ESG and sustainable fixed income strategies
2012	Selects ESG research provider and joins GRESB	2019	Formalizes RI principles and develops common terminology
2013	Adopts ESG training for all investment staff and appoints regional ESG officers		

Responsible investment products and services may vary regionally. Aegon AM became a signatory to UN-supported Principles for Responsible Investment (PRI) in 2011. Aegon AM UK (Kames Capital) became a standalone signatory to PRI in 2008.

Key Developments in 2019



Increased active ownership activity

The firm carried out 564 engagements in 2019, up from 360 the previous year. In 2019, we voted on 2,321 meetings globally, up from 1,373 in 2018, a 69% increase. We also introduced a milestone-based approach to better track and communicate our engagement activities.



Enhanced ESG integration and developed proprietary methodologies

Our global research teams continue to refine their ESG integration approach. In 2019, we developed a proprietary corporate credit ESG assessment framework and reviewed over 600 companies. Within equities, we continued to formalize, mature and document our own ESG views.



Expanded the Responsible Investment team

We expanded the RI team with four additional professionals for a total of 13 members as of December 31, 2019. This team contributes to product development efforts, supports the research analysts with ESG integration practices, leads active ownership activities and advises on RI policies and reporting.



Launched progressive responsible investment solutions

Within fixed income, Aegon AM US launched a High Yield ESG strategy, a best-in-class approach to high yield investing, as well as Sustainable Fixed Income, as sustainability-themed strategy. Within equities, Aegon AM UK launched the International Sustainable Equity strategy which seeks to capture innovative and disruptive growth.

Strengthened climate change commitment

Aegon AM NL signed a commitment in support of the Dutch Government's National Climate Agreement. We also developed carbon measurement reporting and conducted targeted engagement to advocate for climate action and disclosure by investees and support climate action-oriented shareholder resolutions.

Refined our responsible investment principles

We undertook a global company-wide exercise to develop common principles, classifications and terminology. These principles guide our responsible investment approach across asset classes and regions.

Promoted continuous learning

To foster continuous learning, we conducted RI training for employees globally. Additionally, Aegon's Climate Change Working Group hosted an internal educational climate change workshop to discuss how a changing climate can affect investments.

Developed an intentional inclusion and diversity plan

As a reflection of our commitment to inclusion and diversity, we launched a range of tactical initiatives. Efforts range from diversity goals in our recruitment process and vendor due diligence to unconscious bias training for employees and forming grassroots ideas through working groups.

Ratings & Rankings

A recognized leader in responsible investment

Each year various organizations assess our company's responsible investment strategy, program and policy. We are proud to report that our responsible investment program continued to receive high ratings and rankings by key industry organizations last year.

A+ PRI RI strategy and governance ¹	100 / 100 Sustainalytics RI policy and program ²
9.3 / 10 MSCI RI Program ³	6th / 75 ShareAction RI Program ⁴

Aegon AM was also honored to be recognized for our responsible investment practices during 2019.

Top decile globally for responsible investment⁴

Our responsible investment program was ranked in the top decile of managers surveyed by ShareAction. We were also the highest-rated of the specialist fixed income managers surveyed. Through its Asset Owners Disclosure Project, ShareAction ranked the world's largest asset managers for responsible investment. Aegon AM was ranked sixth overall out of the 75 managers surveyed in the report released in March 2020.

Celebrating notable anniversaries

3 years

Our Global Sustainable Equity strategy⁵, a sustainability-themed approach to investing in mid-cap innovators and disruptors, celebrated a three-year track record in 2019.

10 years

10 years since formed a dedicated Responsible Investment team. As of 2019, the team has grown to 13 professionals.

30 years

Our Ethical Equity strategy⁵, one of the first of its kind in the UK to employ strict ESG screening criteria, celebrated its 30-year anniversary in 2019.

Past rankings are no guarantee of future rankings. Please refer to disclosures for important information on ratings/rankings.

¹Approximately 25% of signatories received an A+ score for PRI strategy and governance module in 2019. ²Approximately 14% of 1,656 participants received a score of 100/100 for their responsible investment policy and approximately 17% of 1,147 participants received a score of 100/100 for their responsible investment program in 2019. ³Within MSCI's Life and Health Insurance category, Aegon N.V. ranks 2nd for its responsible investment score of out 78 insurance companies. ⁴ShareAction conducted a survey ("Point of No Returns", March 2020) of 75 of the world's largest asset managers across 17 countries (based on AUM as of December 31, 2017 according to IPE's 2018 Top Asset Managers List). ⁵The Global Sustainable Equity and Ethical Equity strategies are managed by Aegon AM UK.

ESG Integration

We believe responsible investing creates opportunities to generate value and may contribute to long-term outperformance. As a result, ESG factors are integrated into our bottom-up research process. By integrating ESG considerations with economic factors, the research teams seek to identify financially material ESG factors and arrive at an independent, holistic view of the investment.

Benefits of ESG integration

Incorporating ESG factors can help develop a more holistic view of the investment opportunity. ESG integration can also strengthen our conviction on the long-term viability of a company's profitability and business model. Clearing the short-term noise allows us to focus on long-term results.

Three key benefits

Deepens our knowledge

Strengthens our conviction

Promotes a long-term focus

Financial materiality is key

We view ESG factors as a risk management tool and a potential alpha source. By integrating financially material ESG criteria into the traditional financial analysis framework, we can form a comprehensive view of the investment and better evaluate future performance potential. The key is to identify financially material factors which could affect the company's long-term growth potential, profitability or creditworthiness.

Debunking common ESG myths

The ESG integration process is focused on managing financial risks and identifying opportunities by including more information in investment analysis to help inform our decision making. Contrary to some beliefs, ESG integration does not explicitly seek to make ethical, sustainability or responsible value judgements, and there is no hard restriction on the investment universe. Further, ESG integration does not necessitate major changes to the investment process and does not automatically translate into sacrificing portfolio returns.

Examples of potentially material ESG factors

Environmental

- Climate change & carbon emissions
- Energy efficiency
- Waste & pollution
- Water use & conservation
- Deforestation
- Natural resource use
- Sustainability initiatives

Social

- Human rights & labor standards
- Product safety and liability
- Workplace safety
- Workplace benefits
- Employee relations
- Diversity/inclusion policies
- Data protection and privacy
- Community involvement

Governance

- Board independence
- Board diversity
- Anti-corruption policies
- Shareholder rights
- Compensation structures
- Corporate political contributions

ESG Integration: Fixed Income




We believe it is critical to form our own view of the issuer's ESG profile.

Disciplined, holistic ESG framework

The concept of analyzing non-financial risks, such as environmental threats, labor disputes and governance quality, has been a longstanding part of our fundamental credit research process. Although ESG factors are identified and assessed individually, the firm takes a holistic approach to integrating ESG factors along with credit analysis to understand the overall credit profile and how it could affect the investment.

From corporate bonds and structured credit to sovereign debt, our ESG integration process seeks to evaluate the potential effects on economics and valuations. Analysts also identify opportunities for corporate engagement.

Our ESG integration process seeks to answer three key questions

	Evaluate economic impact and creditworthiness	What is the potential economic impact and the associated effect on the issuer's creditworthiness?
	Assess impact on valuation	Are ESG risks and opportunities accurately reflected in credit spreads?
	Identify engagement opportunities	Could engagement be beneficial to generate long-term economic value?

Internal insights combined with external data

At Aegon AM, we view third-party ESG research firms in the same way that we view other external or "sell-side" research. That is, they provide a helpful starting point, but they do not replace our own view. Just as we would not blindly accept credit ratings from traditional rating agencies, we believe it's critical to form our own view of the issuer's ESG profile.

As a result, the bottom-up, fundamental credit research process combines external ESG data with our own internal ESG assessment within the context of a broader traditional financial analysis framework. We rely heavily on the industry, company and country expertise of our research team.

ESG integration in practice

Integration of ESG factors into the investment process first occurs as part of the fundamental credit research analysis for issuers. The firm's research analysts integrate ESG information into their analysis by evaluating data from various third-party sources in combination with internal research. The analysis incorporates qualitative and quantitative elements. Focus is given to the potential economic impact ESG issues may have on the issuer's ability and willingness to meet debt obligations.

By integrating ESG matters with more traditional economic variables and analytical methodologies, the research team arrives at an independent view of a credit's overall fundamentals. ESG integration typically includes four key steps:

Our ESG integration process





Our proprietary ESG assessment

Limitations with third-party ESG research led us to develop our own standardized process to categorize ESG-related opportunities and risks for corporate credit. Through the ESG integration process, credit research analysts form an independent view of the issuer’s ESG profile and assign corporate credits to a proprietary ESG category based on increasing magnitude of ESG risk. The resulting ESG assessment serves as additional information that may guide decision-making. Additionally, the five-category ESG output can be used to construct ESG-focused portfolios which utilize a best-in-class ESG approach.

ESG categories for corporate credit	
Category	Description
Responsible Leader	A leader in sustainable business practices or positive ESG practices combined with contribution to the United Nations' Sustainable Development Goals (SDGs).
Minimal Risk	Fundamentally low exposure to ESG risks or policies in place that seek to mitigate most ESG risks.
Event Risk Potential	ESG risk exposures could negatively affect the company, but the effect is not measurable and timing is uncertain; the company's response is likely to influence the severity of such risk.
Credit Outlook Impact	ESG risks are resulting in pressure on the company's credit fundamentals, but there is still an ability to address these risks and limit the impact on the credit rating.
Internal Rating Override	ESG factors have resulted in a material effect on the company's credit quality that is not reflected in its credit rating.

ESG corporate credit case studies

Responsible Leader

Downstream aluminum producer

Environmental: Small environmental footprint for a metals/mining company with limited risk related to tailings (earth-filled) dams, biodiversity and land use. Uses recycled aluminum for a portion of substrate, which is approximately 90% less energy intensive than primary aluminum. Supplies aluminum to the auto/transport industries for light weighting, which increases fuel efficiency/reduces greenhouse gas emissions.

Social: Lack of mining operations limits local opposition risk.

Governance: New management team that was put in place has greatly reduced our past concerns around governance.

Event Risk Potential

Technology company

Environmental: 80% ownership of a company that provides software that allows datacenters to generate scale efficiencies and reduce energy needs.

Social: Supply chain risks with respect to sourcing cobalt from mines in the Democratic Republic of Congo.

Governance: Unique board structure raises serious questions regarding board independence. Multiple share classes and unequal voting power increases risk related to lawsuits and management distraction. History of controversies with minority public shareholders regarding valuation.

Internal Rating Override

Protein producer

Environmental: Sourcing of cattle from deforested areas as well as areas subject to water stress raises environmental concerns.

Social: A history of controversies involving labor and product quality point to an inability to manage relevant risk.

Governance: Poor corporate behavior and corruption is rampant with executives/controllers involved in numerous bribery and corruption scandals.

ESG Integration: Structured Securities

Unlike equities or corporate bonds, formal ESG integration is comparatively nascent within structured credit, including asset-backed securities (ABS), residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and collateralized loan obligations (CLOs). With limited third-party ESG research and few industry standards for private securitized issuers, assessing ESG factors for securitized assets requires a more creative approach. While challenges exist, at Aegon AM, we believe the real value lies in forming our own view. As such, ESG criteria are a key part of our proprietary structured credit research framework and investment decision-making process.

A systematic approach to uncover risks and identify opportunities

In our holistic approach, we identify financially material ESG factors in combination with traditional financial criteria. Systematically integrating ESG factors into our structured research process can help uncover risks that could impact collateral, structure and/or issuer performance and ultimately, portfolio performance. Although the primary focus is on risk mitigation, ESG integration can also identify opportunities. Environmental and social considerations may reveal alignment with sustainability initiatives. For example, solar ABS support renewable energy projects by financing solar panel installation. Student loan ABS support societal objectives such as quality education by providing financing to individuals for higher education.

ESG considerations within structured credit

At Aegon AM, our ESG integration approach seeks to answer three key questions:

Environmental	Are there specific environmental and climate change considerations that must be contemplated?
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Environmental risks can include natural disaster risks that are not insured, collateral or business exposure to climate change or potential environmental concerns around the sponsor that could affect performance. We seek to identify these risks where present and establish the degree to which they impact credit performance.

Social	Does the issuer create utility and long-term value for customers, bondholders and itself?
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Social considerations include regulation, product design, origination and servicing standards and customer satisfaction. We look to assess incentive structures, evaluate where these could create a systematic adverse relationship between the business and its customers and determine what mitigants are in place to help manage these risks.

Governance	Is the deal structured to provide appropriate economic split and incentives to transaction parties?
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Governance factors are a critical. Offering documents govern the transaction's economics and determine transaction participants' roles, rights and responsibilities. Our approach looks to identify the strength of alignment of interest between collateral performance, transaction participants' incentives and transaction processes and procedures.

Proprietary ESG risk assessment

Our systematic ESG integration process includes a proprietary categorization approach to classify the security's ESG risk. The categorization process focuses on the ESG risks related to the collateral, structure, originator and country, where relevant. Similar to our corporate credit ESG framework, structured securities are assigned into one of five categories based on identified ESG elements and their potential impact on the credit outlook. In 2020, we will adopt this systematic categorization approach across securitized assets.

Examples of ESG factors in structured credit

Environmental, social and governance considerations vary by collateral type, structure and issuer. We seek to answer two main questions:

1. Are there potential environmental concerns, or opportunities, around the sponsor's business model that could impact performance?
2. Are there mitigants in place to help address these risks?

	Environmental	Social	Governance
Collateral	Catastrophe risk Insurance coverage Climate change exposure	Product design regulation Origination standards Servicing standards Customer utility and satisfaction	Investor reporting quality Servicing standards Representations and warranties Borrower privacy protection
Structure	Insurance requirements and proceeds waterfall Representations and warranties	Representations and warranties Incentive structures Lender liability	Waterfall Credit enhancement Control provisions Servicing standards Representations and warranties
Issuer	Climate change sensitivity Business operational exposure Regulatory considerations Business continuity plans	Customer satisfaction Product liability Business mix Labor relations Staffing and turnover	Public vs. private ownership Alignment of interest Management and owner track record Cybersecurity risk management Management communications quality



ESG Integration: Equities

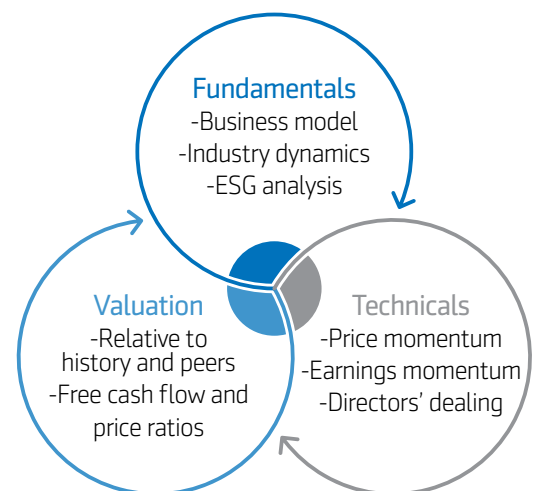
Active ESG integration

As active equity investors, we believe that integrating a company's ESG performance within our fundamental analysis is a tool for both potential value creation and risk management. Simply put, there is powerful evidence that companies with sustainable business models can deliver superior long-term financial returns. Ultimately, we view ESG integration as a potential alpha-generating layer of fundamental research that many investors miss.

We believe that purely passive approaches to ESG investing are sub-optimal. Many of these are driven by factor risks and view ESG as essentially an 'add-on'. In contrast, we believe that active ESG integration can help us manage risks and enhance performance. Integrating ESG into our investment decision-making strengthens our investment conviction, supports the management of concentrated portfolios and promotes a long-term focus—an important consideration when the general trend in many markets is for short-termism.

High-conviction equity investing

Within many of our concentrated high-conviction equity portfolios, the quality of our stock selection often drives our portfolio returns. We emphasize idea-generation rather than blanket research coverage and we use a common language and research framework to analyze companies based on fundamentals, valuations and technicals.



The rigor and depth of our fundamental research is central to our ability to assess the risks and opportunities at a company level. We believe in the careful consideration of ESG factors as part of our fundamental analysis, alongside our analysis of traditional financial statements and business models. We take a practical, bottom-up approach and focus on material ESG issues, with clear linkages to key business risks and opportunities. Our equity professionals work closely with the Responsible Investment team to support the effective incorporation of ESG factors within the investment process across all portfolios.

As an active, bottom-up equity manager, we invest in people as well as businesses. Our investment managers typically meet with the executive directors of many companies at least once a year and the non-executive directors on a frequent basis. The aim of these meetings, together with our stewardship activities, is to enable us to make better investment decisions and to protect our clients' interests. In addition, we use our influence with portfolio companies by highlighting ESG performance gaps and ways to improve, as we believe companies with positive ESG momentum will be rewarded by the market over time.



Looking ahead: ESG integration enhancements

With a focus on advancing our ESG integration practices, our research teams are continuing to expand and refine their approach to integrating ESG factors into the bottom-up, fundamental research process. Aegon AM is actively researching the extension of ESG integration to other aspects of the investment process, such as strategic asset allocation, structured finance and private markets.

Additionally, as data becomes more standardized, more widely available and more trustworthy, we expect ESG to play an increasingly important role in some aspects of our investment process. Looking ahead, we believe it will be possible to deepen ESG integration in asset classes other than equity and fixed income.

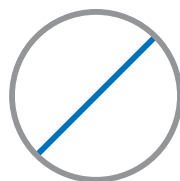




Responsible Investment Solutions

We provide a range of dedicated RI-focused solutions.

Beyond ESG integration and active ownership, Aegon AM provides a range of dedicated responsible investment solutions. From client-directed exclusions and positive screening to sustainability-themed strategies and impact investing, our progressive solutions can help clients achieve their financial objectives while emphasizing ESG criteria.



Exclusions

EUR 197.2 billion

Utilize negative screening to avoid certain sectors, companies or practices based on specific criteria



Best-in-class ESG

EUR 2.9 billion

Seek to outperform by emphasizing positive screening of issuers with better or improving ESG practices



Sustainability-themed

EUR 1.0 billion

Focus on issuers whose activities or practices are aligned with sustainability themes in an effort to generate competitive returns over the long term



Impact investing

EUR 5.0 billion

Pursue financial returns alongside measurable positive social and/or environmental impact

Source: Aegon AM as of December 31, 2019. Assets under management/advisement excludes joint ventures. Responsible investment products and services may vary regionally.

Responsible investment solutions

	Exclusions	Best-in-class	Sustainability-themed	Impact investing
Fixed income	<ul style="list-style-type: none"> • Ethical Corporate Bond • Customized solutions 	<ul style="list-style-type: none"> • High Yield ESG 	<ul style="list-style-type: none"> • Sustainable Fixed Income 	<ul style="list-style-type: none"> • Subordinated Loans • Government-Related Investment
Equities	<ul style="list-style-type: none"> • Ethical Equities • Customized solutions 		<ul style="list-style-type: none"> • Global Sustainable Equity • International Sustainable Equity 	
Real assets	<ul style="list-style-type: none"> • Customized solutions 			<ul style="list-style-type: none"> • Healthcare Property • Affordable Housing Mortgage Loans • Low Income Housing Tax Credit Equity • Workforce Housing Private Equity
Multi-asset & multi-manager (MM) solutions	<ul style="list-style-type: none"> • Ethical Cautious Managed • Customized solutions 	<ul style="list-style-type: none"> • MM World Equity SRI Index • MM European Equity SRI Index • European Real Estate 	<ul style="list-style-type: none"> • MM Long-Term Investment Equity 	<ul style="list-style-type: none"> • MM Global Green Bonds

Offered by:

- Aegon AM UK
- Aegon AM US
- Aegon AM NL
- Aegon Real Assets US

Not all strategies are available to all investors. Certain capabilities may not be open to new investors.



Looking ahead: Responsible investment solutions

At Aegon AM, we continue to evaluate opportunities to develop new investment products and solutions to help achieve clients' objectives. The firm is working to bring the best of Aegon AM's investment teams to investors through new strategies that incorporate distinct capabilities from multiple investment centers, as well as non-traditional, less benchmark-oriented capabilities and dedicated responsible investment solutions.

The firm is currently exploring potential new offerings that leverage its core competencies while expanding distribution to reach a broader clientele. Specific to our responsible investment solutions, the firm is exploring a range of new responsible investment products. The firm is also launching existing responsible investment strategies in additional investment vehicles such as pooled and private funds.

Responsible investment strategy ideas

Best-in-class ESG strategies

Investment Grade ESG

Global High Yield ESG

Sustainability-themed / impact investments

Sustainable Private Credit

Global Sustainable Sovereign Debt

Sustainable Euro Credits

Exclusions: Ethical Bond & Equity Strategies

Aegon AM was one of the pioneers of responsible investing in the UK and in 2019 our ethical equity strategy reached its 30th anniversary.

Ethical investment solutions

Aegon AM UK manages three specialist ethical strategies: Ethical Bond, Ethical Equities and Ethical Cautious Managed. Since the launch of the first strategy in 1989, our ethical strategies have provided clients a responsible investment solution based on strong ethical principles. The ethical screening process evaluates the effects that certain companies' activities, products and services can have on the environment and society at large. We exclude companies that meet the following criteria:

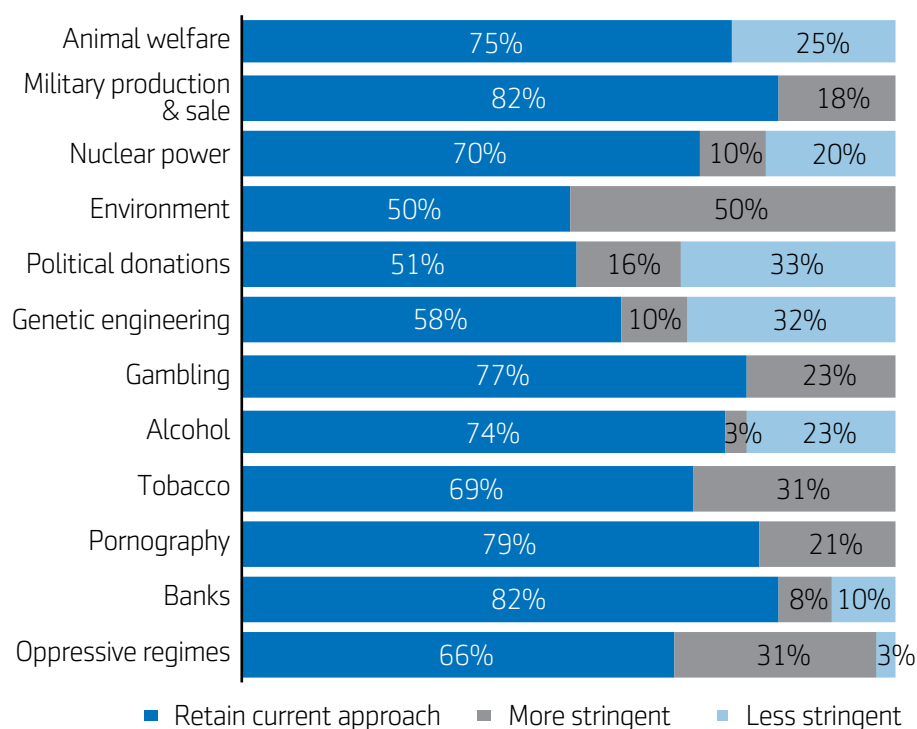
Animal welfare	Provide animal testing services or manufacture or sell animal-tested cosmetics, household products or pharmaceuticals; involved in intensive farming; operate abattoirs or slaughterhouse facilities; and/or produce or sell meat, poultry, fish or dairy products or slaughterhouse bi-products.
Military	Manufacture armaments, nuclear weapons or associated strategic products.
Nuclear power	Provide critical services to, or own or operate, nuclear facilities.
Environment	Are involved in activities which are commonly held to be environmentally unsound—specifically manufacturers of PVC, ozone depleting chemicals and hazardous pesticides. Or are in breach of internationally-recognised conventions on biodiversity and companies in energy intensive industries which are not tackling the issue of climate change. As of 2019, we also completely exclude oil and gas exploration and production.
Political donations	Made political donations of more than approximately EUR 28,500 (GBP 25,000) in the last year.
Genetic engineering	Patented genes.
Gambling	Investments in betting shops, casinos or amusement arcades accounting for more than 10% of their total business.
Alcohol	Derive more than 10% of their revenue through involvement in brewing, distillation or sale of alcoholic drinks.
Tobacco	Derive more than 10% of their revenue from the growing, processing or sale of tobacco products.
Pornography	Provide adult entertainment services.
Banks	Corporate or international banks with exposure to large corporate or developing country debt.
Oppressive regimes	Operate in countries with poor human rights records, and which have no established management policies on human rights issues.

Over the last three decades, our strategies have evolved in response to client feedback and changing societal concerns. Every two years, we formally review the exclusionary criteria applicable to our ethical strategies by asking our clients for their feedback on our approach.

The latest results demonstrate broad endorsement of our current screening approach while also revealing areas for improvement, such as the environmental category. In 2019, in response to client feedback, we updated the criteria to completely exclude oil and gas exploration and production. We previously allowed very selective investments in the area, but opted to omit these industries entirely to deliver client-focused solutions at a time when societal concerns regarding sustainability are at an all-time high.

With a focus on client-led exclusions, we will continue to refine our ethical screening approach to provide clients a compelling values-based investment solution.

Ethical screening survey results 2019



Exclusions are not ranked by order of importance. Qualitative and quantitative survey was conducted by Aegon AM UK (Kames Capital), using an online questionnaire. It was circulated to UK financial advisers, institutional investors and consultants with a known interest in responsible investing. Responses were collected from October to December 2018. 82% of respondents were already investing in ethical funds or advised clients who do so. A copy of the survey report was published on the Kames Capital website in March 2019.

Best-in-Class: High Yield ESG

We look for companies that have a well-articulated ESG strategy and solid governance practices as we construct a High Yield ESG portfolio using a best-in-class selection approach.

A best-in-class approach to high yield bonds

In 2019, Aegon AM US launched a High Yield ESG strategy as an extension of our time-tested high yield platform. The High Yield ESG product relies on a best-in-class approach and positive screening to tilt the portfolio toward issuers with favorable ESG profiles.

We believe companies that manage their business with environmental, social and governance factors top-of-mind are more likely to have sustainable business models and sustainable cash flows over the long term. From that perspective, companies with better ESG profiles may outperform those with weak practices, resulting in ESG factors being a potential source of long-term alpha. This philosophy underpins our High Yield ESG strategy as we seek to outperform the benchmark over the long-term and deliver competitive financial results for our clients.

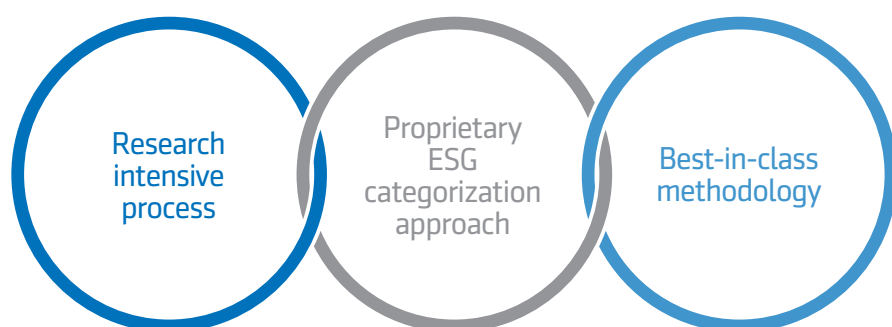
Provides high yield fixed income exposure	Relies on a proprietary ESG research framework
Seeks competitive long-term financial returns	Invests in issuers with favorable ESG profiles

The essential role of positive screening

We believe it's important to look beyond the surface-level environmental and social risks and use a best-in-class approach to consider which companies are doing the best job mitigating these risks. Exclusions or negative screening can help eliminate the more obvious culprits, but we believe the real value in ESG investing is to identify companies with better practices or improving ESG profiles through positive screening. After all, not all companies within a sector are created equal and excluding an entire sector can increase risk by reducing diversification. We look for companies that have a well-articulated ESG strategy and solid governance practices.

A proprietary ESG research framework

As part of our proprietary ESG research framework, we classify issuers into five categories depending on the level of ESG-related risk. To formulate a holistic view of the issuer's creditworthiness, research analysts integrate ESG information into their analysis by evaluating data from various third-party sources in combination with internal research to assign credits into a proprietary ESG category. Our proprietary ESG categories, also described in more detail on page 14, help determine the investable universe for the High Yield ESG strategy.



Portfolio construction combines ESG and economic criteria

In a best-in-class approach, investment candidates must meet both our ESG and economic thresholds. We don't view ESG factors in isolation—it's critical to consider the company's financial condition and the economics of the trade. The result is a diversified ESG-focused strategy that not only aims to deliver competitive long-term financial results, but also seeks to contribute in a positive way to the world around us.

Key tenets of our high yield platform also apply to High Yield ESG



All-weather approach

- Invests across the high yield credit quality spectrum
- Focused on high yield bonds with a tilt toward issuers with strong or improving ESG profiles
- Pursues alpha opportunities throughout business cycles and around inflection points



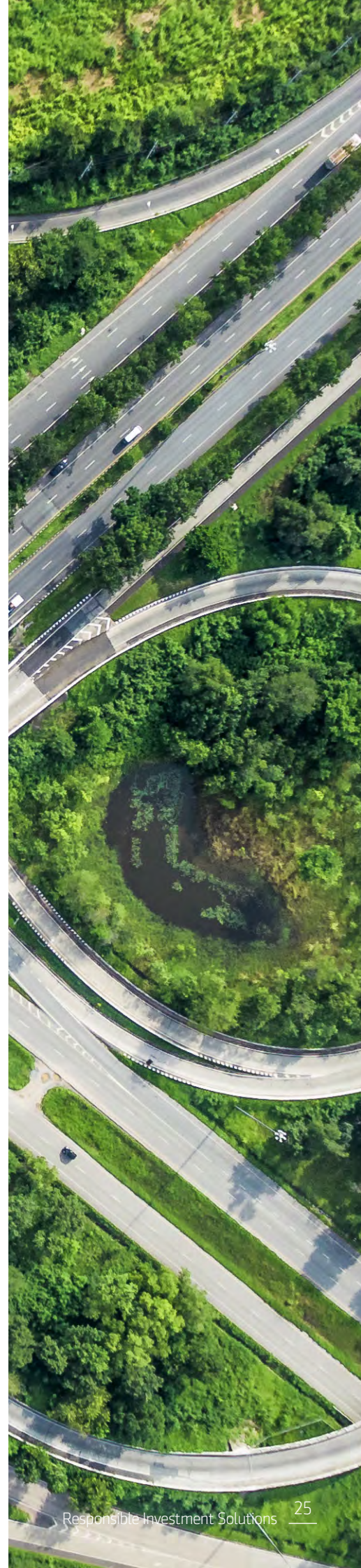
Multiple alpha sources

- Security selection in all environments
- Rating allocations around market inflection points
- Sector/industry allocations as opportunities arise



Risk-adjusted results

- Focus on capturing upside while mitigating downside risk
- Supported by independent risk management team



Sustainability-themed: Sustainable Fixed Income

Sustainability is a secular shift, presenting many opportunities to align portfolios with sustainable megatrends and potentially generate long-term alpha.

A sustainable approach to fixed income investing

Leveraging our time-tested fixed income capabilities, Aegon AM US developed the Sustainable Fixed Income strategy, a sustainability-themed approach to multi-sector fixed income investing. The strategy seeks to generate competitive returns over the long term by investing in a wide range of fixed income securities including corporate bonds, sovereign debt, structured securities and municipal bonds.

Underpinning this strategy is a conviction that issuers aligned with the trend toward long-term sustainability are more likely to remain competitive in a rapidly changing business environment. These issuers could be best positioned to create long-term value that ultimately may allow our clients pursue better long-term outcomes, while simultaneously helping to solve the world's most pressing sustainability issues.

Provides multi-sector fixed income exposure	Relies on research-intensive, proprietary sustainability process
Seeks competitive long-term financial returns	Aligns with long-term sustainability megatrends

The secular sustainability shift presents compelling investment opportunities

We believe sustainability is a long-term, secular shift. Consumers are demanding change; governments are responding with new policies; businesses are adapting; and investors are adjusting their portfolios to align with long-term sustainability themes.

The shift presents compelling opportunities for investors to generate alpha and contribute to a more sustainable global economy. Opportunities exist across five key sustainability pillars—climate change, eco solutions, resource efficiency, health and well-being and sustainable growth. Furthermore, these opportunities align with the United Nations' Sustainable Development Goals, a set of 17 universal goals that serve as a blueprint for a more sustainable future.



Proprietary sustainability research framework

Sustainable fixed income investing requires a tailored, research-intensive approach. To identify sustainable investment opportunities, we developed a proprietary process to assess the sustainability of fixed income investment opportunities. The process combines internal expertise alongside external data to analyze the investment's sustainability profile.

To help determine the investable universe, a global Sustainable Investment Committee scrutinizes issuers' sustainability profiles, assigns issuers into sustainability pillars, identifies impact categories and matches each issuer's sustainability activities to the UN's SDGs.

Pursuing better outcomes and driving change

To effect positive change and influence outcomes, our Responsible Investment team engages with issuers individually and collaboratively to encourage sustainable practices and growth of sustainable businesses, which ultimately may help grow the eligible investment universe for this strategy. By aligning with sustainability themes and engaging with companies, we believe Sustainable Fixed Income can help clients pursue better long-term outcomes for their portfolios and the world around them.

Sustainability pillars



Climate change

Reducing pollution and energy waste through innovative products and services as well as environmentally conscious assets

Investable sectors:

Environmental services, SASB CMBS, REITs and green bonds



Eco solutions

Protecting and improving the ecosystem of our planet through innovative products and services

Investable sectors: Cloud-based computing technology, data center ABS, automobiles and solar ABS



Resource efficiency

Reducing finite resource use by encouraging circular economies and sustainable agriculture

Investable sectors: Sustainable agriculture, industrials and commercial property assessed clean energy (PACE)



Health & well-being Enhancing human well-being through better healthcare, nutrition, hygiene and access to educational services

Investable sectors: Consumer products, pharmaceuticals, student loan ABS



Sustainable growth

Supporting sustainable cities and communities through affordable housing, mass transit and stable and effective governments

Investable sectors: Agency MBS, sovereigns and transportation

For illustrative purposes only. Not an exhaustive list.

Sustainability-themed: Global Sustainable Equity

Investing
sustainably and
profitability are not
mutually exclusive
concepts.

The Global Sustainable Equity strategy aims to identify the best global bottom-up investment ideas, reflecting our in-depth sustainability analysis and global equity investment process. It is managed by Aegon AM UK and is available on a global and global ex-US basis.

Investing sustainably and profitably

We believe that thoughtful consideration of material sustainability factors can add alpha to a portfolio. Furthermore, this potential effect is even more powerful in mid- and small-cap stocks and in emerging markets—areas where there are numerous opportunities to uncover underappreciated and mispriced companies.

The Global Sustainable Equity strategy is a high-conviction approach to investing in innovative and disruptive companies providing solutions to today's sustainability challenges. The strategy utilizes sustainability analysis as a core part of the fundamental research process.

Focus on sustainable improvers

Research suggests companies that are improving from a sustainability perspective often outperform the existing sustainability 'leaders' which are already ranked highly. We attempt to capture alpha by investing the bulk of the portfolio in these 'improvers' and in turn, supporting their drive to continue to have a positive impact on the world's sustainability challenges.

Seven sustainability pillars

We have identified seven pillars of sustainability and categorize each of our holdings into one of these pillars, based on their main impact (although in practice they may contribute to more than one). In the chart on the right we summarize the range of themes covered by our sustainability research.

Environmental	Climate change
	Eco solutions
	Resource efficiency
Social	Health & well-being
	Inclusion
	Sustainable growth
Governance	

We begin by screening the broader global equity universe of over 40,000 stocks by applying three filters: market capitalization, minimum average daily volume and countries of domicile represented in MSCI ACWI index. Once these filters are applied, our starting investment universe is around 4,000 stocks.

Our sustainability screening and analysis then excludes around 15% of our investible universe based on unsustainable products, processes and improvement metrics. These factors limit our exposure to certain highly capital intensive, cyclical and mature sectors such as mining, defense, tobacco, oil and gas.

Next, we use our proprietary systematic investment screen to rank the universe by quintiles from best to worst based on financial strength, cash flow and technical factors. Focusing on the top quintile of the investable universe, our investment team undertakes bottom-up analysis to identify high conviction investment ideas.

When a high conviction investment idea is identified and deemed of interest to the portfolio managers, the analyst works with the ESG research team to undertake additional sustainability analysis and due diligence. On completion of this analysis we categorize companies as a sustainability leaders, improvers or laggards.

Only companies designated as sustainability 'leaders' or 'improvers' are considered for inclusion in the portfolio. Supported by empirical evidence, we heavily focus on sustainability improvers as research suggests that identifying and investing in these innovators and disrupters is one of the most effective ways to generate alpha over the long term.

Our investment conviction is ultimately determined by combining our sustainability insights with our established global equity stock-picking process. We search for the best bottom-up investment ideas and aim to enhance performance by increasing our exposure to companies with strong sustainability criteria. The result is a concentrated growth-focused portfolio of generally 35 to 45 high-conviction stock ideas.

Sustainability categories

Leaders

Meeting a high proportion of our absolute sustainability criteria and are demonstrably leaders in their sub-sectors.

Improvers

Where we have identified material sustainability issues and which are showing clear evidence of significant improvements in sustainability performance.

Laggards

Companies that are either excluded due to a combination of undesirable product exposure (e.g. tobacco or defence manufacturers), poor sustainability disclosure and performance and/or with little evidence of a desire to improve.



Impact: Healthcare Real Estate

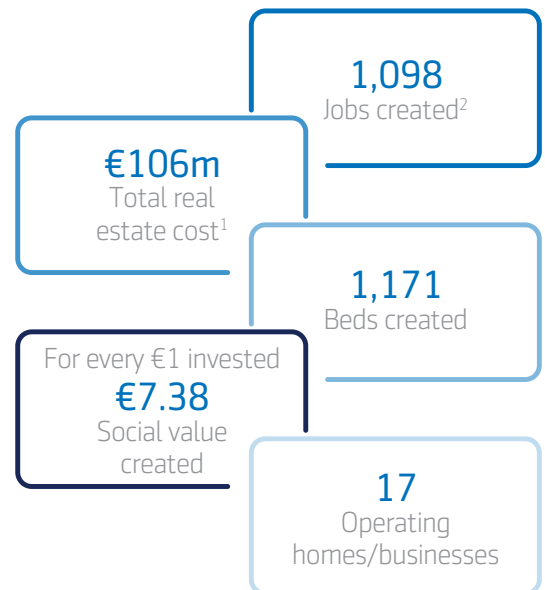
Aegon AM UK launched a healthcare real estate strategy in 2010. Working with specialist providers to the healthcare sector we saw a compelling case for a new healthcare real estate strategy. In particular:

- The potential for attractive income returns from an expanding sector;
- A growing requirement for end-of-life and high acuity care, for which spend is 'needs-based';
- Increasing pressures on state funding, enabling the private healthcare market to continue to grow; and
- By focusing on new properties, mitigating potential non-compliance and obsolescence issues.

Our healthcare strategy adopted a 'best-in-class' approach, selecting high-quality assets in established and emerging healthcare markets that we believe will remain attractive to both operators (tenants) and care home clients over the life of the strategy. We sought to:

- Provide investors with a hedge against inflation, as rental income is typically linked to the UK retail price index;
- Offer attractive income yields and the potential for capital growth;
- Help meet the growing social demand for bed spaces; and
- Benefit from a constrained supply of high-quality care homes.

As the demand for healthcare properties continues to increase, the strategy has helped to bring much-needed investment to the elderly care sector, thereby improving the provision of care for senior members of society. We invest significant time in understanding the culture of health care providers and choose to invest in only those whose values are consistent with our own.



Social return on investment (SROI)

In 2019 we analyzed the portfolio's activity to determine the social value created by these investments since inception in 2010.

This analysis uses accredited social impact calculators and considers the potentially changed circumstances of patients and family members due to care facilities now being available.

The metrics are founded on the basis of Generally Accepted Accounting Principles (GAAP) and utilize a social value calculator with the New Economy Manchester database. The SROI calculates value at two levels:

1. Fiscal - Savings (or costs) to the public sector generated by a specific project.
2. Economic - Using a cost-benefit analysis, calculates the increase in earnings or growth within the local economy from the value attached to the created benefits, such as jobs created or residents cared for against the book cost of the property.

By calculating the SROI we demonstrated that the strategy has created €7.38 in social value for every €1 invested in real estate since inception.

Source: Aegon AM UK (Kames Capital). Covers period from inception in February 2010 to December 2018. ¹Excludes one property not included in the study. ²Jobs created assumptions based on figures from BKR consultancy and homes operating at full occupancy.

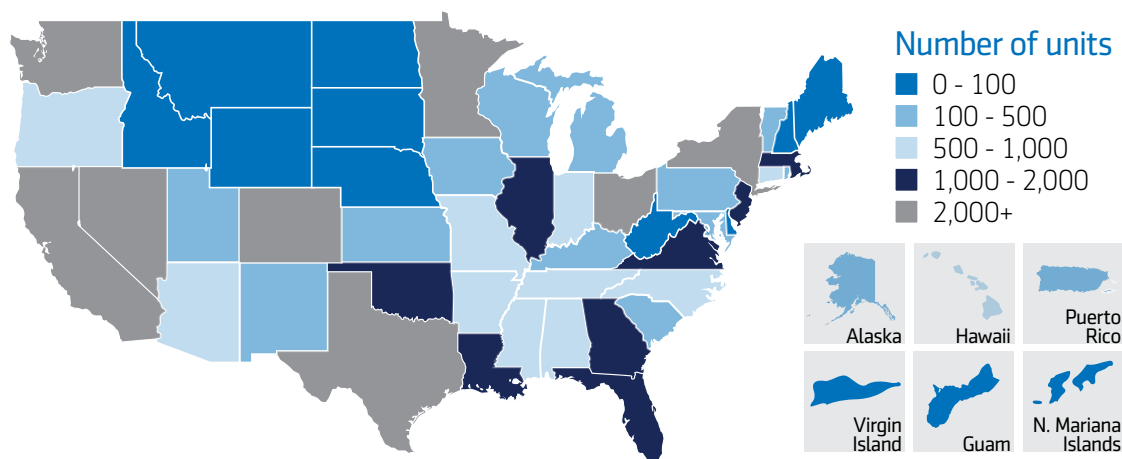
Impact: Real Assets & Affordable Housing

Affordable Housing

Aegon Real Assets US invests in affordable housing as both a direct investor and a syndicator. This is done through the US government's Low-Income Housing Tax Credit (LIHTC) program. Enacted by the Tax Reform Act of 1986, the LIHTC program allocates tax credits to states based on population, then agencies award tax credits for the acquisition, rehabilitation, or construction of rental housing targeted to lower-income households.

Since 1987, we have been managing and investing in tax credits to support affordable housing. As of December 31, 2019, our direct investments cover more than 300 separate properties, providing housing for families earning an average of no more than 60% of local area median household incomes.

Real Assets platform – number of LIHTC units managed



Investing for impact within real assets

Our Real Assets platform has a long history of responsible investing seeking positive social and environmental impact.

14.8k and 6.2k
family and senior living units created,
respectively, over the last five years through
affordable housing deals

30+ years
investing in affordable housing via our LIHTC
Equity business

EUR 5.5 billion
Tax credit real estate equity investments acquired
for clients since 1987


430+
tax credit partnerships managed within our US
portfolio

1.7k and 1.3k
family and senior living units created,
respectively, during 2019 through affordable
housing deals

125k
units of affordable housing created historically in
all 50 states

59
LIHTC institutional client portfolios with EUR 4.2
billion invested since 2003

Source: Aegon AM as of December 31, 2019. Number of units includes deals managed directly by Aegon Real Assets, and investments in which Aegon Real Assets affiliates hold an interest but are not managed directly by Aegon Real Assets.



Impact: Subordinated SME Loans

Financing small and medium enterprises

Our Subordinated SME Direct Lending strategy managed by Aegon AM NL provides financing to small and medium enterprises (SMEs) in order to boost their investment and growth. The idea was born from a collaboration between the Dutch government and Aegon in 2016. The strategy has the potential to stimulate economic and social development in the Netherlands as it allows SMEs to increase their access to financing without loss of control.

Using a bottom-up approach, the strategy invests in subordinated loans to Dutch SMEs. Every loan disbursed under the strategy is covered by a guarantee provided by the European Investment Fund (EIF) under their InnovFin program. The guarantee¹ provides a 50% downside protection in case of a default. The combination of the potential for strong downside protection and the subordinated character of the loans provides a potentially attractive investment opportunity.

The loans can serve as financing for growth, succession, management buy-outs, management buy-ins and takeovers. As every loan needs to be supported by a partial guarantee under the InnovFin program, the companies need to have recently demonstrated growth or innovation, meeting at least one of the InnovFin innovation criteria.

Differentiated impact investment opportunity

The SME Direct Lending strategy caters to a niche market for subordinated loans to Dutch SMEs with a guarantee from the EIF, since the more 'traditional' lenders, or banks, are less active in this segment. The relative dearth of competition allows us to source unique assets with an attractive risk/return profile. The strategy is supported by a firm infrastructure with in-house legal counsel and risk management and by a global network of sector specialists to provide insight in the latest trends that are driving economic activity.

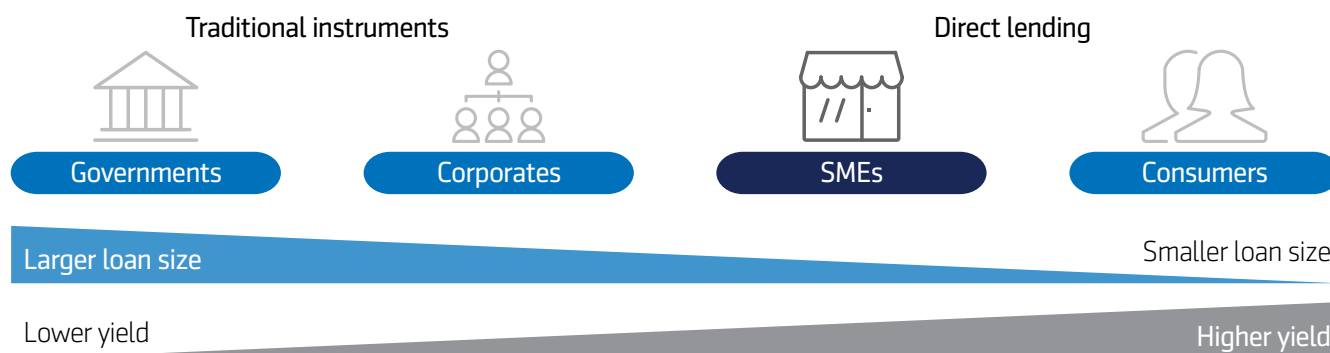
Distinctive direct subordinated lending strategy

- Established origination platform
- Strong relationships with banks and private equity firms
- Experienced credit investment team
- Niche strategy provides subordinated loans to SMEs
- Loans partly guaranteed by European Investment Fund

¹Additional information on the guarantee can be found here: https://www.eif.org/news_centre/publications/eif_flyer_innovfin_sme_guarantee_en.pdf

Diversification benefits of SME lending

Besides its risk-return profile, the strategy provides a platform for investors to get direct exposure to Dutch SMEs. This allows investors the potential to diversify beyond sovereign debt and listed corporate debt. Apart from potential diversification benefits afforded by Dutch SMEs such as lower exposure to economic trends and global trade, the assets typically offer a substantial illiquidity premium versus more liquid asset classes.

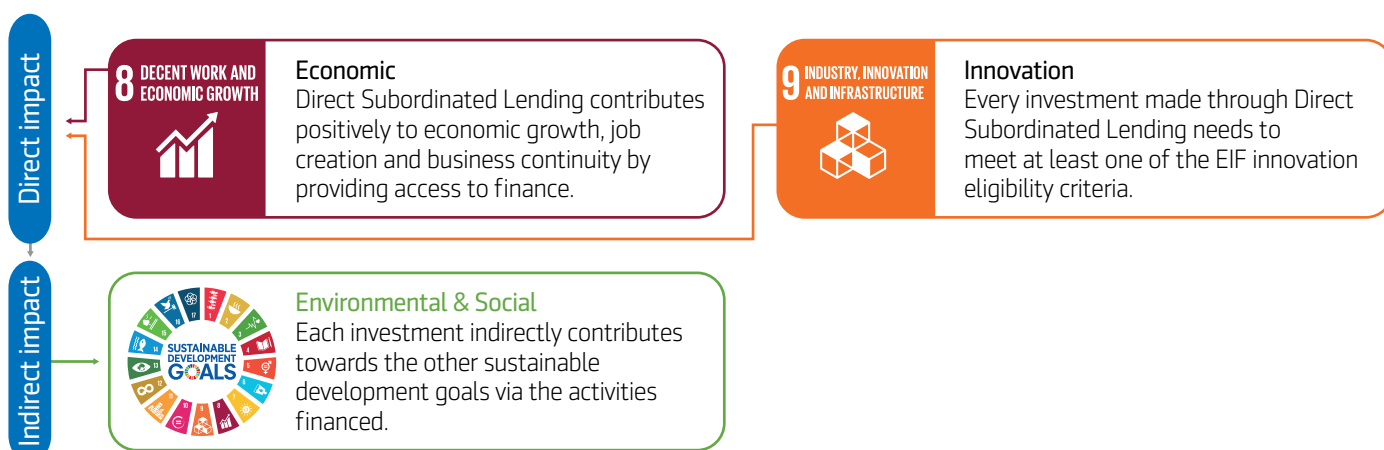


Assessing potential impact

The potential impact delivered by the strategy's investments is three-fold. First, by complementing bank loans and providing capital to SMEs, we seek a direct economic impact that has the potential to translate into higher economic activity, job creation and financial security. This relates to SDG 8—Decent Work and Economic Growth. This is complementary to investments in listed corporates, as SMEs form the backbone of the Dutch economy and generally have less access to capital. We monitor this impact through the performance of companies in which we invest, for example the number of jobs created and the increased turnover from new activities financed.

Second, the Subordinated SME Direct Lending strategy enables innovation, as loans must meet innovation criteria set by the EIF. Financing delivered by the strategy therefore supports innovation in the company's activities. This relates to SDG 9—Industry, Innovation and Infrastructure—which explicitly mentions SMEs in the context of sustainable industrialization and innovation. Measuring innovation is complex, especially at the company level. To this end, we must rely on the measures most appropriate to each company, depending on its activities and the innovation financed.

Finally, the increased activity enabled by SME financing may have an impact on environmental and social factors, stemming from either the increased supply of impactful products, or improvements in production processes. This impact depends highly on the company's activities and is monitored and measured on a case-by-case basis. When evaluating an investment opportunity, we assess this second-order impact of our investment and decline opportunities that we believe would result in a net negative environmental or social impact.



Multi-manager Solutions

Multi-manager solutions

Responsible investing is an integral part of our investment process within our multi-manager solutions. At Aegon AM NL, we believe it's important for external managers to have high standards and values when it comes to responsible investing. As a result, ESG criteria are a critical component of our disciplined multi-manager selection process.

Using a disciplined approach, we select various asset managers based on traditional investment criteria and ESG-focused factors. First, we investigate whether ESG integration is supported by an appropriate firm-wide culture. Second, we assess whether ESG is an integral part of the team culture. Third, we analyze how ESG-integration is formalized in the investment process of the particular strategy. Finally, we look into the ESG profile of both the historic and actual portfolio, and ask for examples of active engagement on non-financial issues with investee companies.

After initial manager selection, we continue to monitor the asset managers' ESG practices as we seek to ensure that our clients' assets are being invested responsibly. We also engage in dialogue with our clients in order to understand their expectations when it comes to responsible investment solutions. Together, we seek to deliver better long-term outcomes for our clients.

Multi-manager strategies

Aegon AM NL provides a broad range of investment products with a greater focus on ESG. Below we feature two of our multi-manager strategies.

Multi-Manager Long-Term Investment Strategy

The Multi-Manager Long-Term Investment strategy invests primarily in equities from both developed and emerging countries. The strategy typically has a low turnover with an emphasis on quality and sustainable development. The external managers look beyond the ubiquitous noise that overwhelms financial markets on a daily basis. They have a stewardship approach to investing, considering themselves responsible co-owners of companies rather than of securities.

Using a sustainability-themed approach, they select companies identified as frontrunners in health and nutrition, energy-efficient components, climate-friendly infrastructure and better healthcare. One manager primarily focuses on companies with sustainable products and services, another manager on innovative companies that supports sustainable development by technological breakthroughs. The overriding selection criterion is that those products and services seek to achieve the UN Sustainable Development Goals and are produced in a responsible manner.

Sustainability investment examples

The strategy supports various sustainability themes such as healthcare, sustainable agriculture, climate change and eco solutions, for example:

- **Genome-sequencing technology** companies supporting the development of personalized therapies to fight cancer for each individual patient.
- **Healthcare technology companies** providing remote-assisted surgical equipment, non-surgical replacement of heart valves as well as glucose monitoring devices for diabetes patients.
- **Clean transportation** companies leading the development of electric vehicles.
- **Plant-based food producers** as well as providers of natural ingredients to the food and pharmaceutical industries.
- **Eco solutions and recycling companies** including those creating reusable loading systems such as pallets and crates as well as reverse-vending machines which collect glass and plastic bottles in supermarkets throughout the world.

European Real Estate

Using a best-in-class approach, this fund-of-funds product invests in European property through interests in non-listed property funds and joint ventures. Investments include housing, offices, retail units, industrial premises, car parks, and hotels with diversified holdings across countries and sectors.



Five-star assessment by GRESB¹

For the second consecutive year, our European Real Estate strategy obtained the maximum rating of five stars in the Global Real Estate Sustainability Benchmark (GRESB) Assessment, placing the strategy in the top quintile, or 20th percentile, for ESG integration in real assets worldwide.

GRESB is the global standard for ESG benchmarking and reporting for listed property companies, private property funds, developers and investors that invest directly in real estate. The assessment evaluates performance against seven sustainability aspects and contains approximately 50 indicators, including energy consumption, greenhouse gas emissions, water consumption and waste.

GRESB assigned European Real Estate a score of 87% in 2019 – representing a 3% increase from the year before. In comparison, the peer group of non-listed European real estate strategies obtained an average score of 72%.

We believe the GRESB assessment is a testament to the full integration of ESG criteria in our fund selection and our active engagement with fund managers. For example, we achieved improvements in energy consumption coverage in the portfolio via proper implementation and measurement. This is an important precedent in order to achieve real reductions in energy consumption, and consequently, a contribution towards a more sustainable world.

¹Past rankings are no guarantee of future rankings. Please refer to disclosures for important information on ratings/rankings. The GRESB score was 87 out of 100, or 87%, as of 2019. A score of 87% aligns with the top quintile which equates to a five-star GRESB rating.



Active Ownership

Engagement Highlights

564
company engagements
in 2019

57%
increase in engagements
from 360 in 2018

Active management, active ownership

As active asset managers, our responsibility extends beyond today's investment opportunities. With a long-term focus, we have built a robust active ownership program that includes exercising shareholder voting rights in the best interest of our clients and engaging with bond or equity issuers in an effort to mitigate ESG risk, to help better understand the opportunities that companies face and encourage more sustainable practices. Our dedicated Responsible Investment team leads the firm's active ownership program alongside our portfolio managers.

Engagement

At Aegon AM, 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 changes that align with responsible investment priorities. Successful engagement can create new investment opportunities. Where possible, we vote in line with our engagement activities.

Aegon AM's engagement activities can be divided into three types:

1. **Policy-based engagement:** This entails companies that are considered to be in breach of client standards and policies. For example, companies that are non-compliant with the UN Global Compact Principles, OECD guidelines for Multinational Enterprises or UN Guiding Principles for Business and Human Rights. We also engage with those that are considered to be at risk of breaching these minimum standards.
2. **Thematic engagement:** We identify long-term financial risks arising from ESG issues as part of our research process. This may lead to engagement and continuous monitoring on topics such as corporate governance, climate change, health and diversity.
3. **Product support:** Proactive engagements flagged by analysts as part of an investment strategy requiring specific corporate disclosures to support the research and investment selection process, or targeting ESG performance improvement.

Reasons for engagement

- Exercise our stewardship responsibilities;
- Fulfill client expectations with respect to their RI policies;
- Better understand the companies we invest in and support their long-term financial performance;
- Monitor, manage and work to mitigate investment risk;
- Attempt to maximize positive ESG outcomes.

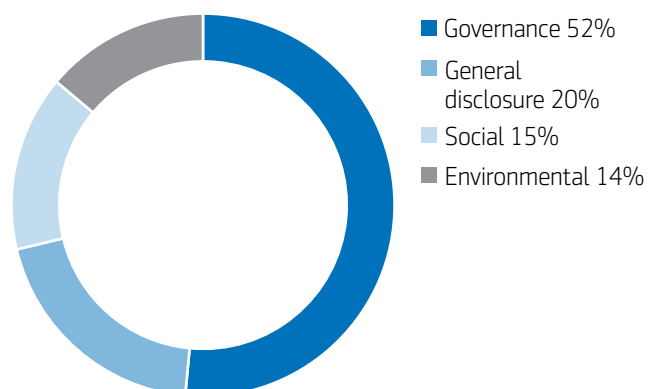
To support more robust engagement reporting and monitoring, we divide our engagements into the following categories:

- **New** means that we have flagged our concerns with the company and are in early stages of the engagement.
- **Ongoing** is when the dialogue has started and is still ongoing.
- **Completed** includes engagements in which the engagement goal has been achieved as well as some cases in which our assessment changes and, after dialogue with the company, we may decide to no longer pursue the engagement.

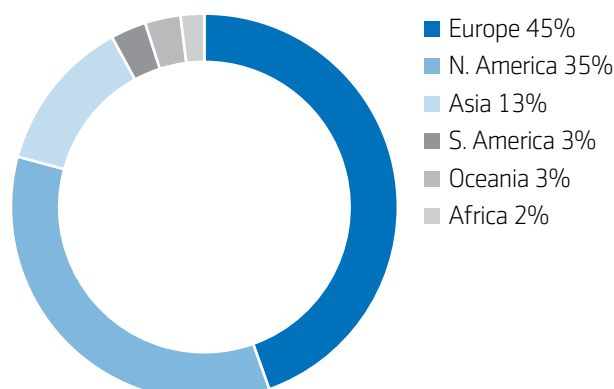
Engagement progress in 2019

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. That's why we stepped up our engagement activities in 2019, increasing the number of companies we engaged with from 360 in 2018 to 564 in 2019.

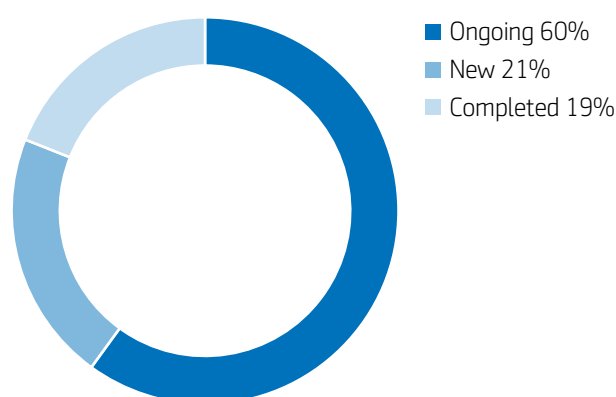
Engagements per topic



Engagements per region



Engagement status



Key engagement themes

In 2019, we selected key ESG issues that pose long-term financial risks to our investment portfolios, such as health and well-being and climate change. This led to proactive engagements on these themes, often in collaboration with other investors and organizations.

Example engagement themes

Health & well-being



According to the UN, at least half of the global population still does not have access to adequate health services. To avoid situations in which health emergencies push people into bankruptcy or poverty, we believe it is crucial to strive for universal health coverage and sustainable financing for health. Additional important health issues include antimicrobial resistance, better nutrition and availability of medicine for orphan diseases.

Through our engagement activities, we are addressing the opioid crisis via Investors for Opioid and Pharmaceutical Accountability (IOPA) and conducting bilateral engagements with big pharmaceutical companies to improve access to medicine. Additionally, we are engaging with Farm Animal Investment Risk & Return (FAIRR) to mitigate ESG risks, such as antibiotics usage, linked to intensive animal production within the broader food system and conducting bilateral engagements.

Climate change



Climate change mitigation efforts made thus far have proven insufficient as greenhouse gas (GHG) levels continue to rise. Worldwide action is required to reduce GHG emissions by 45% by 2030 on the way to net zero by 2050 in order to limit the global temperature increase to 1.5°C and avoid catastrophic consequences.

By supporting Climate Action 100+, we aim to encourage the world's largest corporate GHG emitters—including intensive sectors such as oil and gas, utilities and steel—take necessary action. We are also working with ShareAction on the Investor Decarbonization Initiative and with the PRI on engagements to reduce methane emissions with energy and utility companies and on moving companies to 100% renewables. Further, we conduct bilateral engagements on GHG emission reduction and water usage.

Corporate governance



We believe that investing in companies with high governance standards is more likely to lead to better financial performance. We invest in companies listed in many different markets and operating under significantly differing conditions. Therefore, we endeavour to be pragmatic and reasonable in our approach to monitoring and engagement, encouraging all companies to strive towards best practice in many areas including: board structure; remuneration; capital structure; shareholder rights; auditors; and related-party transactions.

Where we feel there is insufficient progress on issues we have raised with companies, we follow up in our voting actions at the next available opportunity.

Collaborating for greater engagement impact

To effect change on a large scale, we collaborate with other investors and non-governmental organizations. While engagement is undertaken both individually and collaboratively with other investors, Aegon AM prioritizes pre-competitive collaboration: working together with other influential long-term institutional investors to achieve positive results. In addition, we collaborate with other stakeholders and influencers around responsible investment objectives.

Noteworthy collaboration developments

Combating climate change: In alignment with our responsible business principles, our voting activities included climate-positive resolutions filed at oil and gas companies. The oil and gas industry is a critical energy source with considerable climate impacts—and, unlike utilities, is largely outside the direct regulation of government.

Investors for Opioid and Pharmaceutical Accountability (IOPA): Our participation in the IOPA collaborative engagement entails fighting the North American opioid crisis (addiction to pain relievers such as fentanyl or oxycodone). We helped develop the Governance Principles for a Sustainable Pharmaceutical Industry which are meant to help companies better understand investors' expectations, especially with respect to responsible governance.

Accounting firms: Our participation in engagements focused on efforts to include climate risks in the audit process. This could mean adding climate considerations to risk management, accounting judgements and stress testing, as well as having them audited.

Examples of memberships and collaborative bodies



Taking responsibility as an investor also means being a truly active owner, not just as a shareholder, but as a financier more broadly.



Overcoming engagement challenges

Engagement with companies can unlock value and mitigate reputational risks. It can, however, take multiple years before success can be observed and it can be a complicated endeavor. Last year, we discussed that it is difficult to strike the right balance between being positive and encouraging while also firm and fact-based in our dialogue with companies. Striking this fine balance is tough, but there are other challenges involved in engagement that make for an interesting discussion. We therefore continuously revisit our engagement methods and ask ourselves challenging questions.

A changing regulatory environment

The last year saw many changes in regulation. Asset managers and asset owners alike are increasingly expected to be more transparent, so that they can be held accountable for their investment decisions and demonstrate their contribution to mitigating the consequences of the climate crisis. We work to stay ahead of the regulatory changes and aim for transparency when it comes to our engagement disclosures.

One example of such changes is the amendment to the Shareholder Rights Directive (SRD II), a European Union directive to encourage long-term engagement. The directive sets out to improve transparency and facilitate better dialogue between investors and companies. The Shareholder Rights Directive mandates us to regularly report to our clients on how we implement our engagement policy and to disclose how the main components of our equity investment strategy contribute to the medium-to-long-term performance of our assets.

Other important regulatory requirements for us are the UK and Dutch Stewardship Codes. We endorse the principles and apply our best efforts to comply with these principles when engaging with companies in our portfolios, as appropriate. This acknowledgement comes with the responsibility to engage in regular dialogue with the companies and cast informed votes at annual general meetings. As an active member of Eumedion and the UK Investor Forum, we play an active role in applying the Codes to promote long-term value creation of investee companies. This includes continuous company dialogues, exercising our voting rights and speaking at annual general meetings.

Evaluating success and measuring results

Evaluating success

What is engagement success and are there specific factors that can increase the likelihood of success?

Although corporates and investors may have different definitions of engagement success, we have found that engagement success can be more easily tracked when linked to a clear, specific and measurable goal. Engagement goals can vary from ‘becoming compliant with the UN Global Compact Principles’, to ‘disclosing carbon emissions and setting targets in line with the Paris Agreement’.

Once these goals are achieved, a whole new set of questions arises. Can we claim this success to be ours? What made this engagement more successful than others? There is one possible answer to this question—ask the company. To get to the bottom of these questions, we are involved in a research project that investigates this from both the corporate and investor perspective. One of our team members became a fellow at the Platform for Sustainable Value Creation at Erasmus University, to study engagement success and try to pinpoint the drivers of engagement success.

Measuring results

What is an acceptable timeframe in which a company should demonstrate willingness to change?

According to academic research¹, an engagement can take on average three years to reach its objective. Nevertheless, this depends on the complexity of the engagement. For example, disclosing an ESG indicator, which a company already tracks internally, may take two years, depending on their reporting cycle. However, disclosing an ESG indicator that is not yet measured and setting science-based targets for this indicator may take at least three years.

In our opinion, regardless of complexity, a company should at least demonstrate willingness to have a constructive dialogue. In some cases, however, reaching a company may be more difficult than initially foreseen. This often happens with companies who are not used to talking to their investors, which poses a new challenge altogether. We may attempt to get in touch by calling the corporate headquarters or may decide to contact relevant stock exchanges or other investors to overcome such obstacles, particularly with companies in regions where our presence is less strong. If we exhaust all of our options, we may decide to recommend to our clients that a company be excluded after a certain point in time and numerous efforts to engage.

¹Hoepner, Andreas G. F. and Oikonomou, Ioannis and Sautner, Zacharias and Starks, Laura T. and Zhou, Xiaoyan, ESG Shareholder Engagement and Downside Risk (August 10, 2018). AFA 2018 paper. Available at SSRN: <https://ssrn.com/abstract=2874252> or <http://dx.doi.org/10.2139/ssrn.2874252>



Engagement Case Studies



Policy-based engagement: Labor rights

Issue

A global, private security company was flagged by our UN Guiding Principles (UNGP) screening for alleged anti-union practices. What was of particular concern is the duration, breadth and recurrence of the company's alleged labor and human rights violations. Our concern was that there may be systemic issues in appropriately addressing labor risks in their Latin American operations. This was especially worrying, in light of the complaint that was filed against the company with the government of Spain for alleged ongoing violations of OECD guidelines for multinationals in January 2017.

Engagement

Our goal was to better understand the business and the allegations to help ensure that they are, or become, UNGP compliant. We sent an engagement letter addressing labor rights issues and inviting them for engagement. This led to an engagement call with investor relations and the head of labor relations to discuss our concerns. The company was considerably forthcoming.

Outcome

The alleged anti-union practices seem not to be based on any facts and the allegations are made by one union group with their own agenda. The additional due diligence that was conducted did not find any labor rights issues. Union membership statistics are above average, especially for Spain. We have therefore completed the engagement.

Corporate governance engagement

Issue

A company providing voice, data and mobile services is listed on the UK junior market, the Alternative Investment Market. As such, we had been engaging with them since 2018 on a number of corporate governance issues and were encouraging the company to make changes to align with established best practice in the UK.

Engagement

One of our key concerns was the number of external responsibilities of the Chairman. We sought to either reduce his commitments or understand the succession plans if this was not possible. We spoke to the company secretary on a number of occasions and then followed up with a face to face meeting with the Chairman about his intentions. We clearly articulated our concerns regarding the amount of attention required and how it may impact the company if an issue arose at any of his other company commitments.

Outcome

The Chairman resigned from two of his other roles. We still believe he has a heavy workload, but it is progress and we will closely monitor the situation. The engagement has been marked as completed.





Product support: Sustainable Fixed Income

Issue

A large, global paper and packaging company's operations have adverse effects on the environment such as deforestation and high water usage. While improving, the company's efforts to certify virgin fiber as responsibly sourced are relatively low. In addition, the company lacked specific sustainability goals regarding responsibly sourced materials, greenhouse gas reduction and water usage.

Engagement

Our engagement goal was to encourage the company to certify more virgin fiber as responsibly sourced, with a stated goal that they need to meet in this objective. To engage, we exchanged several emails with the company.

Outcome

The company recently published progress against the 2020 goals, highlighting improved usage of certified, responsibly sourced fiber at 44% which is above the requested goal of 35%. Further, the company published their 2030 goals which includes encouraging objectives such as 100% fiber sourced from sustainably managed forest, a 35% reduction in greenhouse gases, a 25% reduction in water usage and a focus on advancing circular solutions. We have completed the engagement.

Thematic engagement: Climate change in the oil and gas industry

Issue

An integrated oil and gas company is on the target list of the Climate Action 100+ collaborative engagement initiative of which we are a member. We also are engaged in regular dialogue with the company on its climate strategy, lobbying activities and link between emission reduction and executive remuneration.

Engagement

We sought out to encourage the company to set and publish targets for greenhouse gas (GHG) emissions in line with the Paris Climate Agreement and publish an annual Industry Association Report to increase transparency on the company's lobbying activities.

As a continuation of prior dialogue, we discussed concerns regarding the company's lack of alignment with the Paris Agreement with the goal of working towards a commitment rather than an ambition. To enforce our engagement requests, we supported a shareholder resolution and published an investor statement to oil and gas companies.

Outcome

The company announced the ambition to reduce the net carbon footprint (NCF) of its energy products by around half by 2050, and by around 20% by 2035, in step with society's drive to meet the goals of the Paris Agreement. This is to be applauded, but there is also a clear need to set a target that complies with the Intergovernmental Panel on Climate Change (IPCC) pathway and not to only set out an ambition based on its own pathway. Regarding our request via the Climate Action 100+ group to disclose their lobbying practices, the company published their first "Industry Association Membership Review" in 2019. We applauded the disclosure and acknowledged that it needs regular review. The engagement is still ongoing.

Voting: Exercising shareholder rights

Aegon AM also uses its voting rights to promote responsible investing standards. Similar to engagement, our voting activities seek to ensure our voice as investors is heard, in an effort to improve companies' performance and to pursue competitive returns for our clients. Our approach to voting is also informed by engagement.

In 2019, we voted on 2,321 meetings globally, up from 1,373 in 2018. Approximately 91% of votes were cast with management and 9% were against. The percentage of meetings with at least one vote against management was 48%, or 1,112 out of 2,321. Votes cast spanned multiple regions and countries across Europe, North America, Asia and Australia with no one country comprising more than 20% of the activity. Most of the votes cast against management were related to resolutions on corporate governance, and also voting on environmental and social issues, as these matters become more material to companies and investors.

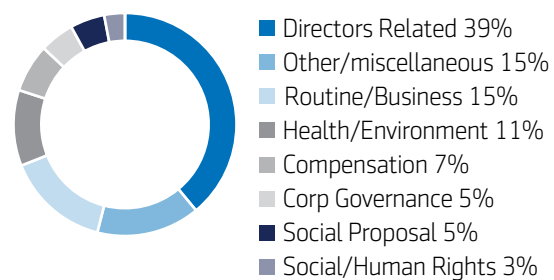
In the event Aegon AM casts a vote against or withholds a vote on a management proposal, we are prepared to explain the reasons for this voting behavior to the company's board either pro-actively or per company request. As with the votes against management, most of the shareholder proposals we supported relate to directors (i.e., election).

Our parent company, Aegon N.V. has had a global voting policy in place since 2008. This policy sets out company-wide principles for all business units. It is supported by more detailed local policies in the Netherlands, UK and US. Voting policies are reviewed regularly to ensure they reflect new regulation and the latest developments in the investment industry.

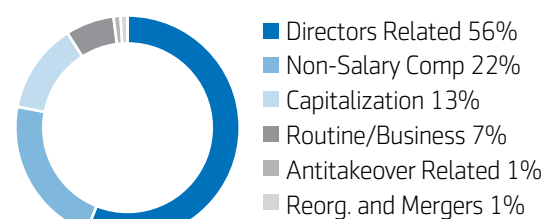
Voting activities in 2019

Voted on 2,321 meetings globally in 2019, up 69% from 2018

Votes on supported shareholder proposals



Votes against management proposals



Source: Aegon AM as of December 31, 2019.

Corporate Social Responsibility

Our commitment to sustainability

The investment products and services we provide aim to deliver value to our clients over many years. This demands that we take a long-term and sustainable approach to managing our own business. We believe that doing business in a responsible way can help create sustainable positive financial, social and environmental results that can serve all stakeholders. From employees and clients to our business partners and society, we seek to create value and encourage social and environmental responsibility.

We aspire to meet the same standard for our business that we demand of the companies in which we invest. Just as we embed ESG factors into our decision-making process, ESG principles are fully ingrained into our global business strategy and corporate culture. Our focus is growing our business in a manner that helps us to meet or exceed our clients' expectations while also having a positive effect on society, the communities where we live and work, as well as the environment. Simply put, sustainability is central to our purpose, corporate strategy and culture as we strive to build a resilient, long-term business.

Social responsibility

In an effort to serve and strengthen the communities where we do business, we encourage employees to support local communities through charitable programs and volunteer work. We firmly believe that supporting local communities can help engage employees while providing a deeper sense of purpose. Further, community engagement can also help attract, motivate and retain talented people. Acting in a socially responsible manner is also in the best interest of our clients as we put our responsible business philosophy into practice.

Building on our long history of working with and investing in, communities through local charities and volunteer programs, we launched a new charitable donation program in 2019 in the US, which encourages volunteering activities with a focus on education and financial literacy. As part of the broader Aegon N.V. organization, we support more than 500 local charities and good causes. We are active volunteers in our local communities and encourage employees to volunteer. The vast majority of staff can claim paid time-off to volunteer. In 2019, Aegon N.V. employees volunteered approximately 19,500 hours. Our charitable matching program invites employees to support community investment and fundraising activities.

Environmental responsibility

In support of the transition to a low-carbon economy, Aegon AM has launched various initiatives designed to lower our carbon footprint and operate in a more environmentally friendly manner. Examples of recent projects include:

Efficient buildings: To improve the energy efficiency of our buildings, we've implemented building automation and energy controls to help better regulate HVAC systems. In our Chicago office, we use daylight responsive lighting controls and operate in an LEED certified building. In our Cedar Rapids office, we are conserving water by recycling water from rain and using lake water to irrigate our lawns.

Waste reduction and recycling: We reduced waste from disposable cups and water bottle usage in our offices by providing employees reusable mugs. To support recycling, we encourage employees to deposit recyclable materials in available containers located throughout our offices.

Promoting our green spaces: Our UK head office is now home to four bee hives, which were installed in the summer of 2019 and are now home to over 100,000 honey bees. This was a suggestion by a staff-led group which oversees a range of social and environmental initiatives. Bees have been under threat throughout the last decade due to a variety of factors. Installing hives is a great partnership that will not only help the bees, but will also help regenerate the biodiversity in our grounds and the wider environment.

Carbon-neutral operations: Our main operations in the Netherlands, US and the UK have been carbon neutral since 2016 by reducing facility-level emissions and supporting offset projects in cooperation with the NGO ClimateCare. In pursuit of building a sustainable business and reducing our environmental footprint, we've purchased renewable energy credits and offsets to carbon emissions.

Inclusion & Diversity

We are committed to creating an inclusive work environment that embraces diversity to help us evaluate investments from different perspectives.

As a global company, we value the range of perspectives and skills a diverse and inclusive workforce brings to our business. Acknowledging, understanding and appreciating different backgrounds and perspectives can help us to evaluate investment opportunities from various angles and ultimately position us to better serve our clients. For our employees, we aim to create an inclusive work environment.

We are committed to a work environment that embraces employee individuality, working together and strong performance. When our employees are able to bring their authentic selves to work, they feel valued, and in turn, are most creative. Our client base is global, diverse and multi-cultural. Aegon AM believes that we make better decisions for our clients if our employee base has a strengthened understanding of our customers' values.

Taking action to evolve the industry

As we aspire to become a recognized leader in inclusion and diversity, and evolve the industry, we established tactical initiatives to enhance inclusion and diversity in our workplace.

Global steering committee: Aegon AM has an inclusion and diversity steering committee whose mission is to move forward ideas that promote diversity and inclusion. Annually, a new strategy is developed that focuses on highest needs within the company and is primarily generated from the ideas of employees.

Diverse recruiting: Focused efforts are being made to build a pipeline of qualified candidates for current and future vacancies. These efforts include targeted recruiting programs, such as sponsoring university organizations encouraging and promoting women in finance and business professions. Targeted diversity recruitment goals for all levels and functions of our business help ensure our recruitment efforts support our diversity ambitions. These include, but are not limited to, requesting hiring agencies to provide an equal gender split of candidates and creating interview panels that reflect the organization's diversity in the selection process.

Unconscious bias training: Unconscious bias training is required for all staff. This training provides us an important basis in engaging employees not only in identifying bias, but developing a common understanding of why and how the inclusion and diversity initiatives of the firm are critical to our success. Another example is our partnership program where we connect members of our management in pairs to discuss experiences that can help change the bias of both parties. To this end, we are strengthening self-awareness to avoid biases, build on our sense of belonging and encourage inclusivity.



Expanding the candidate pool: At Aegon AM, we realize that diversity is an industry-wide issue. In asset management, the candidate pool is simply not diverse enough, but we are committed to changing that dynamic. In developing programs that are more visible in secondary schools and contain a high-quality curriculum, we hope to encourage more diverse candidates to select this industry for their career. By creating partnerships with secondary schools and universities, we can help foster changes that have previously created barriers for females and racially diverse students and we plan to be there for every step of their educational journey.

Vendor due diligence: We extended our expected inclusion and diversity standard to our vendors by including this important topic within our due diligence reviews.

Engagement: Diversity is an important engagement topic and a key theme of our active ownership program. With board room diversity becoming ever more important, and in some cases mandatory, we engage to encourage positive change.

Working groups and employee resource groups: Aegon AM has an abundance of working groups and employee resource groups aimed at supporting inclusion and diversity. Working groups include, but are not limited to: recruitment and early years career progression; lesbian, gay, bisexual, transgender and queer (or questioning) and others (LGBTQ+); workplace returners; smart working; disability; gender; and ethnicity. These working groups and employee resource groups are formed from a cross-section of interested employees across the organization and feed ideas into our global inclusion and diversity group.

Grass roots ideas already implemented include participation in industry forums and projects, such as The Diversity Project UK; in the Netherlands, hosting the annual Agora Network gathering for diverse and inclusive companies across the Netherlands. Company-wide, Aegon AM supported International Coming Out Day, with the focus this year on showcasing the role of allies in helping LGBTQ+ individuals be their authentic selves at work.



Appendix

Responsible investment policy

A responsible investment policy guides our responsible investment approach. Aegon N.V. has a responsible investment policy that is applicable to the general account assets managed on behalf of affiliated insurance companies. The policy and its underlying frameworks guide Aegon AM's overall responsible investment approach and the principles are incorporated into fundamental securities research.

Aegon N.V.'s responsible investment policy draws heavily on the following international frameworks relevant to responsible investment:

- Principles for Responsible Investment (PRI)
- Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises
- United Nations Global Compact
- UN Guiding Principles on Business and Human Rights

While the principles in the policy guide our approach, Aegon AM manages third-party client accounts based on client guidelines and preferences. Furthermore, the firm adopts processes and practices that are appropriate for each asset class.

Responsible investment governance

Policy oversight

The Responsible Business and Investment Committee (RBIC) oversees the implementation of the Aegon N.V. responsible investment policy that applies to the proprietary assets of Aegon entities, and advises Aegon's Executive Board which is ultimately responsible for the adoption and implementation of the policy. The Committee includes representatives from various departments and business units across Aegon N.V., including Aegon Asset Management. The Committee meets on a quarterly basis and serves as an advisory body to the Aegon Management Board for best practices concerning responsible business and responsible investment activities. The Committee also advises business units across Aegon on responsible business and responsible investment concerns that may require cross-functional input. This includes ESG integration, controversial activities and engagement priorities across the business units.

The Aegon Asset Management Responsible Investment Committee (ARIC) oversees the implementation of Aegon Asset Management's Engagement Policy as well as local

Responsible Investment policies, and advises Aegon AM's Management Board which is ultimately responsible for the adoption and implementation of all Aegon Asset Management Responsible Investment policies.

Responsible investment program oversight

Aegon AM's Responsible Investment team acts as an advisor and central point of contact for all responsible investment matters. Using a company-wide responsible investment framework including ESG integration, active ownership and dedicated responsible investment solutions, the team is responsible for maintaining an overview of all responsible investment activities. In addition to providing research and guiding the company on best practices, the Responsible Investment team manages the majority of ESG-related engagement activities, regularly reviews and creates exclusions lists according to clients' criteria. With a focus on innovation and continuous improvement, the Responsible Investment team also partners with investment teams to enhance ESG integration practices and ensure consistency in dedicated responsible investment solutions.

ESG integration oversight


Aegon AM's investment teams are directly responsible for ESG implementation. Research analysts identify and analyze relevant and material ESG factors while portfolio managers have final decision-making authority regarding the creation of a client's portfolio. Because we view ESG analysis as part of the typical fundamental research process, there is no explicit ESG integration governance process. However, we have multiple oversight functions in place that seek to preserve the quality of our ESG research process.



Looking ahead

As part of our global integration, in 2020 we are combining all local Responsible Investment policies, standards and guidelines into one global Aegon AM Responsible Investment Framework covering all our businesses. We are also considering the most effective governance for Aegon Asset Management's Responsible Investment policies going forward, with a re-examination of the role of ARIC and accountability potentially returning to the Management Board directly itself.

Memberships and collaborative bodies

	As You Sow	As You Sow is a shareholder advocacy group, promoting environmental and social corporate responsibility. Aegon AM is part of As You Sow's Plastic Solutions Investor Alliance, launched in 2018. As part of the Alliance, we have signed the Investor Declaration on Plastic Pollution.
	CDP (formerly Carbon Disclosure Project)	CDP encourages increased disclosure on environmental impact from investors, companies and government. Aegon has been a member at Group level since 2009.
	Ceres	The Ceres Investor Network focuses on climate risk and sustainability; the network comprises 163 institutional investors around the world – and organizes regular corporate engagement on sustainability issues.
	Climate Action 100+	Climate Action 100+ is an investor initiative aimed at ensuring the world's largest greenhouse emitters take necessary action on climate change. Aegon AM joined Climate Action 100+ in 2017.
	Eumedion	Aegon AM is an active member of Eumedion – a forum for institutional investors on corporate governance and sustainability topics.
	FAIRR – Farm Animal Investment Risk & Return	FAIRR works on ESG issues related to farming and agriculture. Aegon AM joined FAIRR in 2016. In 2018, we took part in FAIRR's engagement on sustainable protein.
	Global Impact Investment Network (GIIN)	Aegon is a founding network member of GIIN, which works to improve the effectiveness of impact investing.
	Institutional Investors Group on Climate Change (IIGCC)	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.
	Interfaith Center on Corporate Responsibility (ICCR)	ICCR brings together more than 300 institutional investors; its objective is to engage companies directly on ESG issues. In 2018, Aegon AM took part in ICCR engagements on opioids and water management.
	Investment Leaders Group (ILG)	ILG is a network of pension funds, insurers and asset managers working for responsible investment. ILG is supported by the Cambridge Institute for Sustainability Leadership. It publishes regular research and acts as a platform to engage with regulators, lawmakers and other investors. In 2018, ILG discussed the EU's sustainable finance action plan directly with the European Commission.
	Investors for Opioid Accountability (IOA)	IOA is a coalition of institutional investors, established in 2017. The IOA engages with manufacturers, distributors and retailers on ways to tackle the current opioid crisis in the US.
	Principles for Responsible Investment (PRI)	Aegon AM has been a signatory to the UN's PRI since 2011 (Kames Capital since 2008). Membership commits us to upholding the six principles for responsible investment and reporting annually on our progress. We are active in the PRI's methane working group.
	Principles for Sustainable Insurance (PSI)	Aegon is a founding member of PSI, launched in 2011. PSI members commit to incorporating ESG into their business and investment decisions.
	ShareAction	ShareAction promotes responsible investment and works to improve company performance on ESG issues.

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. In addition to those above, Aegon AM is also a member of various other national organizations such as the UK Sustainable Investment and Finance (UKSIF) and VBDO (Dutch Association of Investors for Sustainable Development).

Disclosures

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This report includes ratings and rankings for Aegon Asset Management's responsible investment activities. The rating or ranking is not indicative of future performance or ratings and may not be representative of any one client's experience because the rating reflects an average.

The Principles for Responsible Investment (PRI) rating of A+ is as of April 2019 and is reflective of Aegon NV's rating on the Strategy and Governance module. Approximately 25%

of signatories received an A+ score for the PRI strategy and governance module in 2019, a mandatory module within a set of ten modules. The Strategy and Governance module assesses the firm's responsible investment policy, responsible objectives and strategies, governance and human resources, responsible investment promotion activities and incorporation of ESG issues in asset allocation. The activities presented in this module are reflective of Aegon NV's asset management business conducted by Aegon Asset Management companies. Indicator scores are assigned to one of six performance bands and assigned a letter rating ranging from E to A+ (worst to best). A rating of A+ corresponds with a score of > 95%. PRI does not require an explicit rating fee, however all PRI signatories pay a general annual contribution fee.

The Sustainalytics ranking of 100/100 is as of April 2019 and is reflective of Aegon NV's responsible investment program and responsible investment policy. Approximately 14% of 1,656 participants received a score of 100/100 for their responsible investment policy and approximately 17% of 1,147 participants received a score of 100/100 for their responsible investment program in 2019. Sustainalytics evaluates companies on various ESG issues and assesses the company's individual performance in relation to industry peers. The assessment identifies key issues for each company. For Aegon NV, the key ESG issues include human capital, ESG integration and product governance. Within each ESG issue category, Sustainalytics identifies key indicators. The ESG integration category includes the Responsible Investment Policy and Responsible Investment Program indicators which are reflective of Aegon NV's asset management business conducted by Aegon Asset Management companies. Company scores can range from 0 to 100 (worst to best). Sustainalytics does not require a fee for providing this ranking.

The MSCI ranking of 9.3 out of 10.0 is as of May 2019 and represents the score for Aegon NV's responsible investment platform. Within MSCI's Life and Health Insurance category, Aegon NV ranks 2nd for its responsible investment score out of 78 insurance companies. MSCI evaluates companies on three primary areas including ESG pillars. Within each pillar, MSCI assesses companies on eight key issue categories, one of which is Responsible Investment within the Social pillar. The Responsible Investment portion of the MSCI company assessment for Aegon NV is reflective of the firm's asset management business conducted by Aegon Asset Management companies. MSCI's assessment of Aegon's responsible investment activities may include, but is not limited to, an analysis of the firm's approach to ESG integration, an evaluation of engagement practices,

an assessment of ESG risks in the investment portfolios, opportunities for the firm to provide ESG-related investment solutions, commitment to responsible investing through policies, procedures and industry group memberships, as well as overall management of ESG risks in the asset management business. Rankings can range from 0 to 10 (worst to best). MSCI does not require a fee for providing this ranking.

ShareAction conducted a survey ("Point of No Returns", March 2020) of 75 of the world's largest asset managers across 17 countries (based on AUM as of December 31, 2017 according to IPE's 2018 Top Asset Managers List). The survey results are based on responses from the asset manager and do not reflect the experience of the clients individually or collectively of any company of Aegon N.V. Rankings were not based on the performance not indicative of future results. Aegon Asset Management did not pay a fee to participate in the survey. The assessment includes the ranking and analysis of the manager's performance on stewardship, transparency and governance. The themes covered in the survey include responsible investment governance, climate change, biodiversity and human and labour rights, a development from previous AODP assessments that focused solely on climate change. The questionnaire was developed with input from external experts and mapped to the structure of the TCFD recommendations for all themes. For additional information, please visit ShareAction's site: <https://shareaction.org/research-resources/point-of-no-returns/methodology/>.

The European Real Estate strategy received a total GRESB score of 87 out of 100, or 87%, as of 2019. A score of 87% aligns with a five-star GRESB rating. The GRESB scores are depicted in quintiles - from 1 to 5 - with each quintile containing 20% of the participants. If the entity performs in the top quintile, it receives a rating of 5 and is called a "GRESB five-star rated entity". The assessment also considers portfolio impact with respect to energy consumption, greenhouse gas emission, water usage, waste management and renewable energy. The score is based on a Real Estate Assessment structured into seven sustainability aspects across a wide range of indicators: management; policy and disclosure; risks and opportunities; monitoring and EMS; performance; building certifications; stakeholder engagement. The weighted combination of scores for each aspect generates the GRESB score. The assessment used data from more than 1,000 participants, but the exact number was not disclosed. Aegon AM NL's paid GRESB membership includes an assessment.

Disclosures

Aegon AM US is an affiliated solicitor and acts on behalf of Kames Capital plc (referred to as Aegon AM UK throughout this document) with respect to the promotion of its strategies to US based Institutional Investors. Kames Capital plc is authorised and regulated by the Financial Conduct Authority (FRN: 144267) and is additionally a registered investment adviser with the United States (US) Securities and Exchange Commission (SEC). Aegon AM US and Aegon RA are both US SEC registered investment advisers. Aegon AM US is also registered as a Commodity Trading Advisor (CTA) with the Commodity Futures Trading Commission (CFTC) and is a member of the National Futures Association (NFA). Aegon Investment Management B.V. is registered with the Netherlands Authority for the Financial Markets as a licensed fund management company. On the basis of its fund management license Aegon Investment Management B.V. is also authorized to provide individual portfolio management and advisory services in certain jurisdictions. Aegon Investment Management B.V. has also entered into a participating affiliate arrangement with Aegon AM US.

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