AEGON Asset Management

The UK Stewardship Code 2020 Compliance Statement

March 2021

Beyond borders™

This report represents Aegon AM's compliance submission for The UK Stewardship Code 2020. Our application is being reviewed by the Financial Reporting Council, who will publish a list of signatories in the summer of 2021.

Contents

Foreword

Evidence suggests that companies which rank among the leaders in governance and sustainability tend to outperform as investments over the long term. We believe it is our responsibility to encourage companies to maximise investment returns through good governance practices, including respect for society and the environment. As a significant holder in the equity and debt of many companies, we are well-placed to promote best-practice in environmental, social and governance matters on behalf of our clients.

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 pandemic, which has caused a tragic public health crisis and unprecedented disruption to the global economy.

As asset managers and custodians of our clients' assets, we are not immune to these challenges and threats. In 2020 we 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. We 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 capitalise upon 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, to:

- Deliver the highest-quality investment solutions to our clients;
- Pursue competitive long-term results through active investment management;
- Provide our employees with fulfilling careers, financial stability and a safe, inclusive and diverse workplace; and
- Commit to responsible investing and sustainable business practices.

We have a long-established culture of responsible investing stretching back over 30 years. It 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 impacts. Innovation within the asset management industry will also continue, as investors aspire to effect positive change with their investments.

Stephen Jones
Chief Executive
Aegon Asset Management UK plc

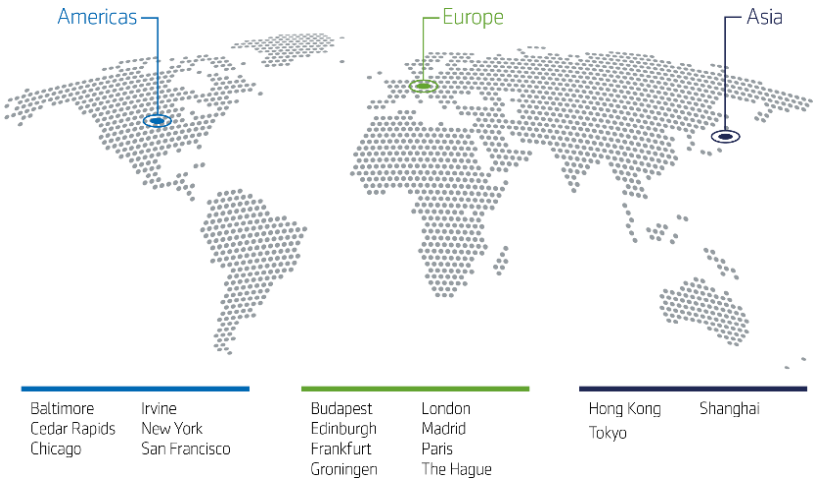
Principle 1: Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society

Company overview

Aegon Asset Management ('Aegon AM') is an active global investor. Our 376 investment professionals manage and advise on assets of £348 billion (as of 31 December 2020) for a global client-base of pension plans, public funds, insurance companies, banks, wealth managers, family offices, charities and individual investors.

We organise our investment capabilities around four focused investment 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 committed to maximising client benefit from their specialist areas. These platforms are supported by teams dedicated to responsible investing and multi-management.

By organising our investment teams globally, we harness our expertise and research resources across regional boundaries. We believe this enhances our performance potential and generates better investment outcomes for clients.



Across platforms, we share a common belief 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 area of focus.

We are a global business: Our 1,200 employees work across Europe, the Americas and Asia. We invest globally and serve clients locally.

Aegon Asset Management is a wholly owned subsidiary of Aegon N.V., a leading global financial services business. Aegon N.V. is a public company listed on Euronext Amsterdam and the New York Stock Exchange.

Our purpose

We use our investment expertise to help people achieve a lifetime of financial security. We are committed to providing exceptional global research and asset-class expertise, striving for consistent long-term outperformance, and offering superior local servicing to meet and exceed the needs of our clients. These goals are best realized within an inclusive work environment driven by a diverse, global workforce. Through our comprehensive responsible investment research and engagements, we help our clients achieve better long-term investment outcomes.

Our mission

We are active global investors. In a complex world, we think and act beyond traditional borders. We organize our teams by asset class, to bring the breadth and depth of our global research and investment capabilities together to exceed client expectations. Across markets, we believe in the investment benefits that come from responsible investing. Whether by asset class, geography or conventional thought, we invest beyond borders.

Our culture

For over 175-years we have been advancing beyond borders, expanding our knowledge, broadening our horizons and seeking investment opportunities for our clients. Today we are a global business that is vibrant, diverse and inclusive. We embrace different backgrounds, ideas and ways of thinking. We are positive and outward-looking, with a shared responsibility to our clients, the environment and the communities in which we live, work and invest.

Investment capabilities

We organize our investment capabilities and resources around four global investment platforms where we have deep asset-class expertise: Fixed Income, Real Assets, Equities and Multi-Asset & Solutions. Each of these platforms is headed by a global chief investment officer, who is represented on Aegon Asset Management's Global Management Board.

Across asset classes, our investment teams share a common belief in fundamental research, underpinned by effective risk management and a commitment to responsible investing. In the table below we summarize the four investment platforms:

Investment platforms	AUM[1]	Investment professionals[3]	Capabilities
Fixed Income	£167 billion	136	• Traditional fixed income • Alternative fixed income • Customized solutions • Responsible investment solutions
Real Assets	£19 billion	120	• Real estate equity • Real estate debt • Private equity energy • Affordable housing tax credit equity • Agricultural debt
Equities	£17 billion	27	• Growth • Income • Sustainable & ethical strategies
Multi-Asset & Solutions[2]	£48 billion	32	• Diversified growth • Diversified income • Investment solutions • Fiduciary services

[1]Assets under management/advisement excludes joint ventures and multi-manager assets as of 31 December 2020. [2]Includes equity, fixed income and real assets allocations within multi-asset portfolios that are managed by specialist investment teams across the firm. In this view these assets are included in the Multi-Assets & Solutions Platform. [3]Does not include all investment professionals. Real Assets investment professionals include individuals providing investment advisory services and those involved in investment-related activities.

Our Multi-Asset and Solutions platform includes our dedicated Fiduciary services team serving leading pension funds and other institutional parties with a full suite of fiduciary advisory services. We also have additional teams within our investment operations, which support the investment platforms or provide specialist services. These include:

- Multi-management investment
- Responsible investing
- Dealing and implementation governance
- Derivatives, trading, and hedging

Responsible investment

Aegon Asset Management is a global leader in responsible investing.

We believe responsible investment practices can generate value over the long term. Consideration of Environmental, Social and Governance (ESG) factors is a core element of our investment analysis and decision-making process as well as our stewardship activities.

Our 14-strong Global Responsible Investment team supports ESG integration by our research and investment teams, leads our active ownership activities, develops innovative products and promotes responsible investing best practice across the organization.

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.

As active investors with responsible investing roots dating back over 30 years, we developed a robust responsible investment program consisting of three pillars:

ESG integration	Incorporating ESG factors into the investment decision-making across our investment platforms to mitigate risk and uncover opportunities.
Active ownership	Addressing sustainability issues by exercising shareholder rights and actively engaging with issuers and investee companies.
ESG solutions	Providing 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.

Principle 2: Signatories' governance, resources and incentives support stewardship

Aegon AM's stewardship activities are governed by our **Active Ownership Policy**, which outlines processes and standards applied for our stewardship activities. Ultimate accountability for Aegon AM's Active Ownership Policy and its implementation rests with our management board.

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

Engagement activities are by default conducted by members of the investment and responsible investment teams in partnership. Engagement on purely financial matters may be conducted by the investment team alone, whereas engagement on certain ESG issues that may not be immediately financially material may be conducted by the responsible investment team members only. For fully discretionary mandates voting decisions are always taken jointly by the responsible investment and investment teams working together. Voting decisions in mandates where we have limited discretion are taken by the RI team alone or in consultation with the respective clients.

The integration of environmental, social and governance factors into investment decision making, including stewardship, is incentivised through the inclusion of a discrete objective in annual performance targets of each equity investment team member. Their performance is appraised against this and it influences their remuneration.

The objectives for responsible investment team members involved in stewardship activities also include targets to ensure stewardship information flows appropriately to investment team colleagues for integration in investment decision-making. Within our fixed income team the majority of the team have ESG factors explicitly identified in objectives.

Portfolio risk management

At present we do not consider ESG as a standalone portfolio risk component. Instead, these are considered within risk committees alongside other risks such as diversification, volatility and liquidity.

We have recently recruited an additional member of our team to develop a dedicated ESG market risk framework. This will cover all asset classes and bring portfolio risk analytics via an ESG lens, for example by introducing specific ESG factors into Value at Risk, volatility and tracking error. We will also undertake climate stress-tests on portfolios, breaking the fund risk profile down by ESG ratings. This will tell us the degree to which lower ESG ratings add more to volatility, whether ESG ratings are correlated, and ESG factor performance.

The Sustainable Finance Disclosure Regulation (SFDR) Level 2 requires asset managers to introduce ESG risk into their existing risk framework. We are working towards the end of 2021 Q2 to propose our ESG market risk plan, including how this would be achieved for data, internal and third-party systems, and timelines for implementation.

Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

We require all Aegon AM employees to read and adhere to our Conflicts of Interest policy and to promote the best interests of our clients at all times, avoiding any actual or perceived personal conflicts of interest. Our policy outlines:

- The scope of services and activities. AAM affiliates do not trade for their own account, produce investment research for external publication or carry out corporate finance.
- The clear segregation of duties between relevant functions.
- Information barriers, such as restricted stock lists and the use of temporary Chinese walls, where required.
- Remuneration policies and practices, which are designed to ensure that the interests of all employees are aligned with that of the long-term business strategy, risk tolerance and the interests of clients.
- Reporting and challenging at control groups, where conflicts of interest is a standing agenda item for all global control meetings.
- Employee education and training.
- Periodic reviews, which are conducted by our compliance team.
- A requirement for employees to complete a conflicts of interest attestation designed to capture personal relationships or arrangements in which a conflict could arise.

Our global compliance team update our conflicts of interest policy at least annually, and failure to adhere to our policies may lead to disciplinary action and a breach in conduct rules. Aegon AM's senior leadership team is responsible for establishing and promoting a culture of conduct that comports with our policies.

In instances where we are unable to implement sufficient controls to prevent damage to our customers' interests, we seek to avoid activities that create the conflict, or we will disclose any material conflicts to our clients. We consider disclosure of conflicts as a last resort and we do not rely on this as an effective method of managing conflicts of interest.

Any communication will be in a durable format and contain sufficient and clear information - reflecting the nature of the client - to enable the customer to determine if they wish to proceed with the service. We highlight the risks of proceeding and the measure Aegon AM has taken to mitigate these and why these measures have not worked.

We recognise that a key component of effective stewardship is the management of conflicts of interest. Aegon AM UK's conflicts log captures the identified potential conflicts, listing the mechanisms we use for management of the conflict, control mechanism and the responsible person. Those potential conflicts relating to stewardship are evidenced in the following table, along with their mechanisms for the management of the conflict.

A summary of our conflicts of interest policy is available on our website (www.aegonam.com) and the full policy is available on request.

On the following page we highlight potential conflicts and explain how we manage these.

Conflict / potential conflict	Mechanisms for management of conflict	Control mechanism
Where a portfolio manager may wish a vote to be made in a particular direction to favour their funds at the expense of other funds / clients	The Responsible Investment team is segregated from the Investment Team and has responsible for voting. The Active Ownership Policy sets out the basis on which we vote, with reasons for voting being recorded on the voting database. There is an escalation route to the appropriate Global CIO should a difference of opinion occur. Such matters are reported to the relevant Investment Management Control Committee, formally ratified and recorded in the meeting minutes. A summary description of the voting strategies and details of the actions taken on the basis of those strategies is made available to investors on their request.	Segregation of duties Implementation of policies & procedures
Enhanced analysis of investee companies could result in Aegon AM UK employees becoming insiders.	• Market Abuse Policy • Market sounding and restricted list process • Market abuse training and awareness sessions provided to key staff	Implementation of policies & procedures
Increased voting in relation to client holdings could cause conflicts if matters impact a parent or affiliated company.	• Active Ownership Policy and Responsible Investment Framework • Signatory to the Principles for Responsible Investment (PRI).	Implementation of policies & procedures
Potential conflicts could arise when voting at parent companies, affiliates or vendors, or in clients of and companies who share directors with Aegon AM UK.	• Active Ownership Policy and Responsible Investment Framework. • Signatory to the Principles for Responsible Investment (PRI).	Implementation of policies & procedures

We identify potential conflicts in a number of ways:

- Reporting and challenging at control groups (conflicts of interest is a standing agenda item for all Global Control Meetings);
- Employee education and training;
- Periodic reviews conducted by our local compliance teams; and
- Employees are required to complete a conflicts of interest attestation, which is designed to capture personal relationships or arrangements in which a conflict could arise.

Should conflicts arise, we escalate the final decision-making on stewardship issues to the appropriate Global Chief Investment Officer. Where decisions involve a deviation from our Active Ownership Policy, we record this and document the rationale for the decision. We report such matters on a quarterly basis to the relevant Investment Management Control Committee. Such actions are formally ratified by the Committee and recorded in the meeting minutes. Our legal and compliance teams may also be consulted as appropriate.

Aegon AM does not vote shares that it may hold in its parent company, Aegon NV.

Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

A well-functioning financial system requires stable, safe running market participants to achieve this goal. Aegon AM is committed to our role in this by maintaining a strong capital position, resilient to market stresses and honouring our regulatory obligations. We achieve this primarily through our Internal Capital Adequacy Assessment Process (ICAAP), which supports the evaluation of the risks we run, both from a top-down strategic perspective across the full suite of our financial and non-financial risk taxonomy, coupled with our bottom-up risk analysis aligned with to our business activities and processes.

The bottom-up risk assessment is underpinned by a comprehensive risk control self-assessment process, recorded and rated in our global risk control tool (OneSum X), monitored by our second line Enterprise Risk Management (ERM) team, with regular reporting through our governance structure.

Additionally, our role in influencing industry standards is varied and tailored to our concerns or relevant shared experiences as a market participant. We work as an active member on several Investment Association committees, sub-committees, working groups and discussion groups which are relevant to our business model, ranging from the Fixed Income Committee, Culture and Conduct working groups through to the Fund Investment Risk Group. Through our participation and engagement we support our trade body in lobbying for change where our experience indicates a need for more clarity. We have successfully influenced several consultation papers and have found partnering with our trade body most effective to have our opinions heard.

We also have an open and transparent relationship with our primary regulator, the Financial Conduct Authority (FCA). This included engaging in proactive discussions on our implementation of the Senior Manager and Certification Regime, specifically around its adoption by our firm as we transformed to a global asset manager. This is a critical piece of the regulatory framework to ensure our business is well governed and the conduct of our people is of the highest standards. This only serves to support public trust and confidence in the industry. Through our interaction we have been able to adopt the new regime seamlessly and in accordance with our global operating structure.

Equities

Observation and action around market developments is at the core of our active equity approach across our global investment platforms. We assess both shorter term tactical and liquidity-based decisions as well as longer term strategic and systemic considerations.

We do this in many ways: through extensive engagement with the companies in which we invest on behalf of customers; through broad engagement with other market participants; and the execution of team-wide assessments on issues and threats for asset classes. In addition, we dedicate resource and time for the creation and promotion of thought leadership and opinion setting content which we distributed widely.

It is in the longer-term decision-making context that most weight is given to market wide structural and systemic risk issues. Bottom up, single company-specific risks and issues all too readily aggregate up to sector or market wide impacts, just as top-down societal impacts quickly cascade through markets overall into individual stocks and entities within them.

2020 has seen significant examples of both top down and bottom-up issues emerging where we have engaged, acted and contributed to the ongoing provision of capital and liquidity to companies through financial markets, (please see Principle 9 for further detail on these engagements) and through engagement with various industry bodies with the provision of advice and observation of emerging issues, notably COVID19 impacts.

Aegon Asset Management has worked through external bodies such as the UK Investment Association to reflect on the reactions and issues raised by the declaration of global pandemic over 2020. Our internal market assessment and monitoring was coupled with robust crisis management, remote-working planning and engagement with regulators, industry bodies and importantly customers to maintain market function and ongoing capital allocations. This allowed us to mobilise money effectively into fund raises in the debt markets and recapitalisations in the equity markets for the benefit of numerous stakeholders.

Away from COVID risks prominent themes have included climate change and the promotion of a well-functioning and balanced financial system through action on inclusion and diversity. We have through some of the direct engagement instances been keen to focus on sector specific climate issues with questioning of management and capital allocation sponsorship that actively promotes less harmful impacts in the environment.

In our Inclusion & Diversity (I&D) activity we continue to pressure through engagement for diversity in boards from a broad range of candidates. We have recently hosted our second annual Women in Fund Management Forum which this year used a virtual format to engage with the wider industry around the gender gap in asset management. This has complemented internal initiatives to address I&D issues and to widen the understanding of their importance among our employees. While there remains work to be done here, we are seeing positive steps being taken in boardrooms, across the asset management industry and internally at Aegon AM.

Transparency and reporting play key roles in highlighting systemic and markets risks, ensuring that all markets and market participants adequately reflect both on the issues and the progress being made to address threats and imbalances in financial markets participants structures.

Fixed income

We entered 2020 with our fixed income strategy view that government bond markets were still 'fairly' valued and credit markets had become 'overvalued'. This was the output from our regular monthly strategy meeting, weekly review meetings and daily updates. In January we sought to mitigate some credit exposure through selling risk assets, but also combine portfolios with overweights in rates markets as a risk mitigator. We identified COVID19 as a risk, although not sufficiently, so portfolio positioning suffered in March as the pandemic took hold in western Europe. Our increased exposure to duration markets (and reduced exposure to credit markets) was wrongly positioned for the days from 9-18 March, with the unprecedented illiquidity that saw all assets fall (15-year Gilts moved 75 bps higher in yield from 0.30%). However, we maintained our positioning, which benefitted portfolios, but also saw no material outflows.

Liquidity, which is an integral part of our fixed income process, was the biggest concern in our portfolios during March 2020. We instituted a daily update with our risk and legal teams in March to monitor redemptions, discuss market liquidity and we re-instated our custodian's bond tolerance report. This report was shared with our portfolio managers to assess how the accuracy of our custodian's valuations compared to our fund managers' observed market prices. This infrastructure is tried and tested during previous stress periods and redemptions. As we engaged with core stakeholders, following Central Bank liquidity provision, market conditions improved, but importantly we were able to share concerns with stakeholders outside our organisation such as the Investment Association along with supervisors of our open-ended funds. Our Portfolio Risk oversight team are adopting the Bloomberg methodology of liquidity assessment to ensure greater transparency, but market practitioners were aware of the mismatch between screen versus true liquidity during times of stress.

Communication of market conditions to investors is an integral part of our responsibility. We were able to write weekly updates on our BondTalk blog (www.aegonam.com/bondtalk) to explain some of the dramatic market moves during March and beyond. We were able to engage through various online briefings to ensure investors were able to access information and, where required, fund managers were able to directly talk asset owners about market conditions. We encourage dialogue between fund managers and fund owners as a strong connection ensures assets are manged with a broad understanding of investors' expectations.

Aegon AM has materially benefitted from a realignment of resource and focus around ESG investing. Fixed Income teams have benefitted from the coordination of our Responsible Investment team and their activities. As importantly, our work to ensure all credits in our portfolio have an ESG assessment was all but completed in 2020. Further details are elsewhere, but our Responsible Investment engagement has materially increased during 2020.

The fixed income team has a quarterly meeting with the Responsible Investment team to understand implicit ESG factors. The aim is to ensure that ESG risk factors were understood and not duplicated at a portfolio level; implicit themes across issuers and sectors rather than relying solely on bottom-up analysis of individual issuers. Carbon reduction has become more relevant and we provided our first CO^2 reduction model portfolio to a client.

Real estate

The task of identifying and recognising the warning signs of market-wide and systemic risk is becoming increasingly challenging in that the financial marketplace continues to become more complex, integrated and globally interconnected. In commercial real estate the risks associated with climate change are increasing in understanding and public profile.

Financial markets capture and collate information on climate change and how investors are responding to these risks when considering capital allocations. Aegon AM has brought together a Responsible Investment team in response to this challenge – to nurture expertise, insight, and analysis on this topic. This includes the consideration of the issues to be addressed with regard to the Task Force on Climate Related Financial Disclosures (TCFD), as established by the Financial Stability Board.

Working with other stakeholders

The financial landscape has become defined by low interest rates, reduced yields, and a static economic outlook. This has prompted institutional investors to invest in illiquid assets (such as real estate) which have their own distinct risk profile. This transition by investors to illiquid assets has been responded to by Aegon AM in the strengthening of oversight and further increases in disclosure.

The real assets business in the UK continues to engage with a broad suite of stakeholders to ensure a cohesive and informed approach and response to market stress and tension. These stakeholders provide representation from all aspects of the built environment sector and include the Bank of England Commercial Property Forum, Investment Property Forum Research Group, and UN-backed Principles for Responsible Investment. We also participate in the following four working groups as members of the Associated of Real Estate Funds (AREF).

Corporate Governance Committee	To define, promote and keep under review, high levels of corporate governance in the management of unlisted real estate funds; and to ensure that member funds, and firms involved in their management, agree to comply with those standards.
Investor Committee	To enable a representative cross-section of member funds' investors, advisers and industry bodies to share views, experiences and requirements objectively and openly with each other. Through the chair, and in consultation with other AREF committees, assist AREF in promoting best practice in corporate governance; the provision of the highest quality information and data to both existing and prospective investors; and AREF membership as an acknowledged quality standard.
Research and Information Committee	To represent the interests of AREF members and investors in ensuring the positive development of the: • AREF/IPD UK Quarterly Property Fund Indices (UK QPFI) • Property Fund Vision (PRV) Handbook and initiate and oversee research and statistical analysis of data provided for the index and the PRV Handbook.
Education and Training Committee	The objective of the committee is to build a more extensive education and training programme for AREF members engaging with a much wider audience of industry participants and investors, with an emphasis on 'next generation'.

The stakeholder-assigned working groups identify and capture a broad spectrum of related issues, which when brought together provide the basis for informed decision-making and good practice. The consensus of opinion then provides the basis of feedback to the regulating bodies to provide market insight and thought leadership. The process of engagement across the stakeholder community further assists in the enabling of forward-looking and considered legislation and promotes the positive participation with policy makers and regulators in offering these governing bodies insight and informed opinion on market trends and investor behaviour.

Industry initiatives

A joint review was initiated by the FCA and the Bank of England on open-ended funds and the risks posed by their liquidity mismatch. Aegon AM contributed to this consultation as manager of a Property Authorised Investment Fund (PAIF). The Bank of England's Financial Stability Report stated that the mismatch between the redemption terms and the liquidity of some funds' assets "has the potential to become a systemic issue".

We made a contribution to this initiative, which encompassed:

- Non-resident capital gains tax and its potential impact on fund outflows;
- The issues for consideration with regard to procedures governing the rapid sale of assets; and
- The application of Fair Value Adjustments.

The consideration of Fair Value Adjustments was undertaken by Aegon AM on a broad-spectrum basis and in line with industry best practice. It adopts the principles of being comprehensive, consistent, appropriate and subject to governance, oversight with the application of the appropriate methodologies to ensure a fair and transparent outcome. The Fair Value Committee consists of attendees from all the related business functions; compliance, risk, legal, client management, third-party administrators (TPAs), operations and fund management.

Aligning investments

Climate change has driven a greater impetus to due diligence in the selection of property assets. In the UK this principally relates to the assessment of flooding and inundation risk. This due diligence is undertaken by a specialist consultant and with guidance the property insurer and the resultant findings and information issued as a formal environmental report, with an associated risk rating. The risk rating requires to be no greater than low-to-moderate to be considered by the funds and is aligned to the requirements of insurers and where appropriate the relevant fund depositary.

Effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets

Aegon AM's fund managers have played an active role in the AREF Retail Funds Liquidity Working Group, which has been liaising with the regulator to introduce rule changes to bring greater stability to open-ended property funds.

Rapid outflows from these vehicles creates pressure to sell assets quickly, which can undermine pricing across the asset class, prompting greater levels of outflows from the sector.

Aegon AM staff have been active in creating the product solutions that have been presented to the FCA, which were the template for the proposals set out in the recent FCA consultation on open-ended property funds. This was produced by a small AREF committee, with each member helping to draft the proposals and refine the solutions based on industry experience. The committee then published a documented position in April 2020, ahead of the consultation that was launched in August 2020. The Aegon AM Real Assets team engaged with and was supported by the regulatory team through the duration of the process.

An additional issue impacting the stability of these vehicles has been changes to the Capital Gains Tax rules. Many investors became forced sellers of property funds held in offshore wrappers. The Aegon AM team has been active within AREF is seeking HMRC support to reconsider these rules, due to the impact on clients and the outflows this has caused. HMRC are now consulting on granting a portfolio exemption for UK property funds to ensure that investors can continue to hold these vehicles without a taxation impact.

Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities

This Policy will be updated to reflect any relevant new regulations or internal policies, new best practices and evolving client demands. We adopt policy updates upon endorsement of the AAM Management Board.

We have an embedded 'three lines of defence' governance framework, where maintaining effective stewardship is a key constituent of that framework.

First line	The first line of defence has direct responsibility for the management and control of risk. All Aegon AM UK management and staff working within or managing operations are responsible for managing operational risks. The global controls and management information function manages the control environment across Aegon AM to ensure that control objectives and expectations are met.
Second line	The second line of defence co-ordinates, facilitates and oversees the effectiveness and integrity of the risk management framework. It does so the through provision of tools and guidance and co-ordination of the Risk and Control Committee. The second line comprises: • The Enterprise Risk Management team, which is responsible for the maintenance of our risk taxonomy and facilitation of risk identification and mitigating controls across our organisation. • The Portfolio Risk Management & Control team, which is responsible for the daily monitoring and reporting of investment risk within our funds and the escalation of any mandate breaches that may arise. The team also challenges the fund managers by identifying and modelling risk factors across strategies. This includes strategies with explicit ESG criteria, which are monitored and reported by the same processes. • The Compliance team is tasked with objectively and actively monitoring our business activities to ensure they continue to adhere to regulations, policies and industry best practice.
Third line	The third line of defence provides independent assurance and challenge in respect of the integrity and effectiveness of the risk management framework. Our policy suite is maintained and overseen by our compliance team, who manage this while monitoring external developments in the market. They also monitor changing expectations and ensure disciplined reviews take place in collaboration with our policy leads, which helps to drive the continuous improvement of our polices. Most recently we reviewed policies in preparation for the Sustainable Finance Disclosure Regulation (SFDR) implementation in the UK, which have included enhancing our remuneration framework.

Our approach to ESG and the supporting control framework has been subject to both a compliance monitoring review and internal audit review in the past 12 months. These areas continue to be part of the universe for compliance monitoring and internal audit, and so are subject to a risk-based review frequency. We do not share the outputs of these reports externally, however, through independent reporting lines to executive management and our board, we ensure that actions are logged and tracked to make the necessary improvements to address relevant findings.

This model provides a robust framework for overseeing our stewardship practises. We supplement this with key controls, such as trading through approved counterparties and company engagement reviews being tested as part of our ISAE 3402 and AAF 01/06 report on internal controls, opined by PWC, our external auditor. No exceptions were identified as part of this assurance in our most recent report to the year ended 30 September 2020.

Historically, we have obtained external assurance over our compliance with the Stewardship Code as part of our Report on Internal Controls (ISAE 3402 & AAF 01/06). Following the adoption of the 2020 code this was no longer an option provided by PWC, given the extended requirements of the new code. As such, we elected not to postpone external assurance until the market expectations are more clearly established, and assurance providers could demonstrate an approach that would enhance value for our customers. For the time being we rely on our internal frameworks as described above to maintain transparency and believe this to be sufficient.

To ensure our report is fair, balanced and understandable, it will follow our standard Financial Promotion review cycle, which includes a review from our experienced Legal and Regulatory team, segregated from the production of any content. Comments will be incorporated to address any areas of weakness. Additionally, the report will be reviewed and authorised by Stephen Jones, our Chief Executive Officer as a final endorsement of its efficacy.

Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

We combine a global perspective with a focus on local relationships. This helps us to understand changing markets and the evolving needs of our clients across the UK, Continental Europe, the Americas and Asia.

We are proud to serve our diverse and global client-base of pension plans, public funds, insurance companies, banks, corporate entities, fiduciary managers, charities, sub-advisory, family offices, wealth managers and individuals.

We engage with clients in multiple forums, both formally and informally and take the opportunity to gather thoughts and feedback on stewardship issues and reporting requirements. Client feedback is shared with the appropriate investment teams and our specialist Responsible Investment team and helps to form our position on relevant issues.

On a bi-annual basis we formally seek client feedback through our ethical and sustainable investing survey. Every two years, we formally review the exclusionary criteria applicable to our ethical strategies by asking our clients for their feedback on our approach.

For mandates where we have limited discretion on stewardship activities the client's views and requirements are discussed and incorporated in the Investment Management Agreement. An example would be clients who wish to apply an engagement overlay or their own voting policy - the responsible investment team is solely responsible for implementation, according to instructions outlined in client mandates.

We publish a Responsible Investment report on an annual basis. The report describes our responsible investing framework by asset class, policies and procedures. The report also contains details on specific responsible investment issues, including company engagement and active ownership. As part of our client service we provide clients with bespoke stewardship reporting in accordance with their requirements and timelines.

Outcome

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 in response to client feedback. 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.

Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

Equities

Aegon AM's equities team are long-term responsible investors, constructing concentrated portfolios utilizing our in-house fundamental stock research. Environmental (including climate change), social and governance issues are all explicitly considered in our fundamental research, as we know that they each have the potential to materially impact both the financial performance and the valuation of our investee companies.

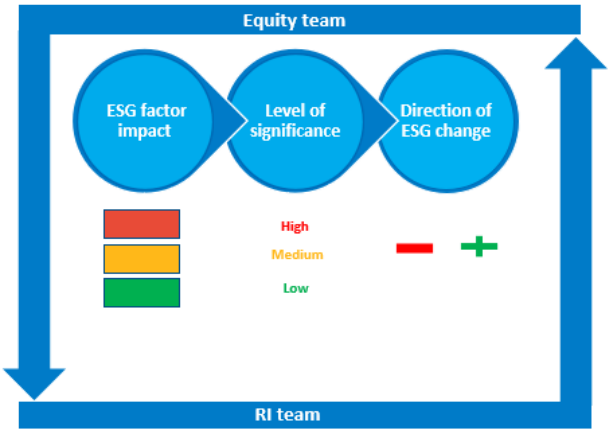
Unless a fund is explicitly mandated to do so, we do not seek to make ethical value judgements, nor do we impose ESG-related restrictions on the investment universe. Rather, the judgement we make reflects the extent to which we believe ESG issues impact a stock's investment case, either positively or negatively. To do that, our equity fund managers / analysts draw upon the expertise of our dedicated responsible investment team with whom they work closely. Company engagement is regularly shared with the responsible investment team, and key ESG issues and questions are agreed and discussed on a per-sector basis.

As fundamental investors assessment of ESG issues has always been integral to our investment approach. Processes evolve and we are enhancing our internal monitoring and reporting of the equity team's ESG assessments. Nevertheless, when researching the investment case for a company it is the responsibility of our fund managers to form a judgment on ESG issues and leverage the responsible investment team for its expertise.

We assess 'E', 'S' and 'G' factors both from a risk and opportunity perspective and tailor this to the specific circumstances of a company, rather than taking a blanket approach. Company engagement is regularly shared with the responsible investment team, and key ESG issues and questions are agreed and discussed on a per-sector basis to reflect a more considered approach and nuances between companies.

Importantly, when evaluating ESG factors in the fundamental analysis process, our fund managers / analysts look across the ESG spectrum with support from our responsible investment team to ensure that ESG analysis is comprehensive and robust. Examples of areas we assess include: a company's range of products and their implications for ESG outcomes; climate change policies and impact; tax transparency; carbon emissions; governance structure; management board structure and compensation; social policies; how a company is positioned for the transition to a greener economy; and its resource efficiency.

To bring this together, our equity team uses a three-stage ESG framework to determine the materiality of the identified ESG factors from a risk and return perspective. The chart on the right illustrates this framework:



Stage 1 involves identifying the most important ESG factor impacts for a given company.

Stage 2: When evaluating a given ESG factor, we ultimately want to determine its level of significance relative to other considerations. What is the overall impact upon the investment proposition? Is it a headwind or a tailwind to business performance or valuation?

Stage 3: We then look at the direction of a given ESG change and a company's overall ESG profile. Is exposure to these ESG risks or opportunities improving? We believe this consideration is critical, as ESG considerations, cannot be viewed in a static manner, and as a firm we value and support ESG improvement over time.

Importantly, all information related to research, company meetings notes and responsible investment team engagement activity is centrally stored to provide easy access to all team members, reflecting our one-team culture.

We have a number of examples where the investment team have started to look at an investment proposition and decided that the ESG is the driving force to either invest or not in the stock. For example, the governance arrangements at the Hut Group, where the founder and chief executive owns the real estate of the company among other concerns, meant that we did not partake in the IPO.

Conversely, Giant manufacturing benefits from the move to healthier living with the penetration of micro-mobility trends and growth in e-bikes meant that it was an attractive investment.

Engagement with companies is a central part of our research. This ranges from traditional investment factors such as strategy, asset allocation, as well as ESG and climate change.

The responsible investment team's engagement is well-suited to advancing broad themes such as diversity and inclusion which, in aggregate, are key to the functioning of the financial system. Climate change has been another area of the team's engagement. The fundamental equity analysts' focus is more specifically upon the strategy of the company to deliver sustainable long-term returns to shareholders. Our analysts directly engage with management to better understand the risks, opportunities and materiality of ESG factors, and how companies are adapting their strategies to manage those issues.

Fixed Income

Stewardship for corporate fixed income

Engagement is integral to our responsible investment approach in fixed income and is integrated into our credit research process. Credit research analysts perform ESG risk analysis as part of the research process, including accessing multiple specialist ESG research sources and notes from any engagements undertaken with the respective issuer in our centralized research platform. Analysts consider a range of issues in formulating ESG categorisations, with controversial weapons leading to the lowest ranking scores and exclusion from portfolios.

Engagement has progressed on governance issues, which remain important to ESG assessments with board structures, remuneration policies, taxation status and diversity being highlighted. Issues around biodiversity and waste have become more commonplace, while client requests have driven increased scrutiny of CO_2 footprints, greenhouse gas emissions and renewable energy progress.

Proprietary ESG credit research framework	
Category	**Description**
1. Responsible leader	A leader in sustainable business practices or positive ESG practices are combined with pursuit of UN Sustainable Development Goals.
2. Minimal risk	Fundamentally low exposure to ESG risks or policies in place that mitigate most ESG risks.
3. Event risk potential	ESG risk exposures could negatively affect the company, although the effect is not measurable and the timing uncertain. The company's response is likely to influence the severity of such risk.
4. 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 of the credit rating.
5. 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.

Taking into consideration their in-depth knowledge of the issuer and sector, our credit research analysts develop their own view of ESG risk for each issuer, summarized in one of five categories according to the pertinence of ESG risk towards that issuer's creditworthiness and categorisation along with inputs from the responsible investment team.

For reference our categorisation is reflects in the table on the right.

In light of this ESG risk categorization and the respective analyst's opinion, he or she may then recommend further engagement on topics of concern, flagging the issuer to our responsible investment team. There are many triggers that may start and develop engagement. Engagements typically last over several quarters, with milestones for improvement monitored or fed back to the company and portfolio managers for further consideration.

Triggers may be an event or, for example, a UN Global Compact issue. The following is a stylised milestones summary of our engagement process:

Milestone 1	We have flagged our concerns to the company.
Milestone 2	The company responds (letter, email, phone call) and the dialogue starts.
Milestone 3	Concrete steps are taken to resolve our concerns.
Milestone 4	Engagement goal has been achieved.
No further action required	In some cases, the assessment changes and (after talks with the company) we may decide to no longer pursue the engagement. This also includes engagements where the goal was not to encourage change, but to gather more information to complete our ESG assessment.

Our responsible investment team updates analysts and portfolio managers of unsatisfactory answers at Milestone 2 or 3. This includes updating our centralised data bases and making direct contact to ensure interested analysts are kept fully informed.

We communicate any closure of an engagement process. Should there be no progress we may escalate the engagement through collaboration, speaking with senior management, or recommending divestment. While successful engagement is our preferred outcome, it may be that we decide to reduce partially or completely investments. Poor engagement outcomes would also dissuade us from initial investment.

The responsible investment team will also share engagement where they believe the most effective influence can be achieved through concerted group activity. Aegon AM supports Climate 100+ and that engagement has been influential to keep fixed income analyst and portfolio managers comfortable with increasing the pace of pressure regarding adherence to the Paris Climate accord along with transparency and reporting consistent with TCFD.

Examples

For a number of portfolios this has supported ongoing investment theses for **EON** and **EDF**, with increased exposure to EON being an outcome.

Direct engagement lead by the responsible investment team has supported investment theses for **Bayer**. Product safety and accountability have been a focus with our engagement with Bayer dating back to 2019. The responsible investment team provided mixed feedback during the milestone process, during which the responsible investment analyst identified that there was insufficient progress in terms of shifting towards a more ethical and/or sustainable way of agriculture. Understanding the management of the glyphosate law suits due to the Monsanto acquisition were important to mitigate financial risk and initial engagement proved disappointing. Nonetheless, despite mixed messages of denials around product safety while discontinuing sales of that product, we felt through engagement that there was a greater recognition to lead the business to a more sustainable approach to agriculture.

More recently, this has given us some confidence to marginally increase portfolio exposures, albeit from a low level. Environmental damage can take many forms and issues and a more mundane but material example of environmental damages and spillage has been raised by our analysts in connection to fluid leakage from cables owned and managed by **ESB Ireland**. The analysts, in conjunction with the responsible investment team specialists, identified and engaged with the company during 2020 which provided confidence to increase our exposure to the issuer.

These are few examples of the milestones and interactions between responsible investment specialist, then analysts and engagement initiated with the company. The dialogue with the issuer is conducted in an integrated approach, with both the analyst and the ESG specialist present. We believe that this not only enhances our credibility with the issuer, but it also facilitates a more detailed and mutually beneficial discussion. The has enhanced the analyst's knowledge of the company and has led to a more consistent and approach to our stewardship and investment-decision making.

We document summary notes in our proprietary engagement database, with a feedback loop being provided by contact with analysts or to the broader team via our centralized credit research platform. We also map the engagement notes to company tickers, meaning that they are immediately visible to (other) analysts when they are researching sectors or issuers. This centralised sharing of information ensures continuity and documentation for further research work in the future.

Going forward, we are looking to further enhance our fixed income engagement program by systematically engaging with issuers, given the highest ESG risk categories by our credit research team for Category 4 and 5 ranked issuers. Although we continue to engage with other rating categories (1-3) on a case-by-case basis, we deem these categories to be a priority due to the material ESG impact.

Stewardship for securitized fixed income

Based on our Securitisation ESG materiality matrix, we have created customised ESG questionnaires for each sector used in our engagement process. The investment team (analysts and portfolio managers) is responsible for engaging with issuers. Triggers for engagement are:

- Gather additional information.
- Improve their ESG policies.
- Influence the transaction when feasible.

Results of the questionnaires are a fundamental input to assess and score the ESG originator, ESG collateral, and ESG structure risk.

Stewardship for sovereign fixed income

We currently do not systematically engage with sovereign issuers beyond traditional new issuance meetings.

Case study: Tax transparency in the water sector

The transparency of tax reporting is a key consideration when investing in companies in the water sector. We felt that a historic lack of transparency and the continued use of offshore-domiciled entities for the issuance of debt was obscuring otherwise strong ESG practices. In early 2018 we engaged with **Thames Water, Anglian Water** and **Yorkshire Water**, three companies in which we had significant holdings. The purpose of our engagement was to encourage the closure of these offshore entities, offering our support as stakeholders. Subsequent to this, the companies that we had engaged with closed their offshore entities and transferred debt (where applicable) to a UK-domiciled entity.

In the case of Welsh Water, we did not hold significant amounts of the company's debt at the time of the early engagement. Though the company otherwise had strong performers across ESG factors, again tax transparency was a key issue, and a contributing factor in relatively low holdings of company debt. We were aware that they had also used offshore structures, which had come under criticism due to their lack of transparency. Welsh Water moved to transfer their debt from an offshore entity to a UK-domiciled Issuing entity, Dwr Cymru (Financing) UK Plc and the transfer of debt to the UK domiciled entity was completed in August 2019. The company subsequently came to the debt markets with a new issue in early 2020.

We continue to focus on absolute tax transparency. With the above transfer now in place, we purchased significant holdings of both tranches of the company's debt issue. We recently engaged with the company on the closure of the now redundant Cayman vehicle. From our engagement with the company we are comfortable that they are progressing the liquidation process for Dwr Cymru (Financing) Ltd under Cayman law in a timely manner.

Principle 8: Signatories monitor and hold to account manager's service providers

To effectively manage relationships with service providers Aegon AM has a third-party risk management policy that defines the minimum acceptable requirements to manage services provided by an external party. During the procurement and on-boarding process we uses a segmentation model that categorises vendors into four tier levels. This segmentation tier is derived from criteria including regulatory requirement (outsourced service); inherent risk (information security, data privacy); business criticality (disaster recovery); ease of replacement (business continuity) and spend.

Thresholds in each of these criteria are set by the relevant subject-matter experts within Aegon AM. By employing this segmentation model we ensure that we apply an appropriate and proportionate amount of attention, focus and intensity for each vendor / service within Aegon AM's vendor universe.

After segmentation, a vendor management procedure is applied that describes for each tier level the applicable vendor management activities and the frequency of those activities proportionate to each vendor / service in that tier. Within Aegon AM there are three further classification of supplier:

1. Outsourced infrastructure and IT services;
2. Outsourced operational services; and
3. Other services, such as data and software vendors.

The Procurement and Vendor Management team provides guidance to conduct the following activities to be carried out, depending upon the materiality of the relationship, through our vendor management procedure. This includes an annual health check, which covers:

Corporate structure and organisation	To assess whether there have been changes to the organisation and management structure that affects the on-going credibility or compatibility with our objectives of outsourcing.
Financial status and integrity	To assess whether the organisation continues to provide a sound financial basis for a stable business relationship.
Operational environment	To assess changes to the organisation's operational capability to provide the necessary services to the requisite standards (incl SOC/ISAE reports)
Legal and regulation	To assess changes in the organisation's legal/regulatory profile, and the actions required to strengthen controls.
Contingency Arrangements	To assess changes, and robustness, of the outsourcer's Business Continuity / Disaster recovery Plans and Exit plans.
Financial Crime & Information Security	To assess the outsourcer's approach to risk of fraud and information security protection.
Supplier's 3rd party risk management process	To assess our suppliers' ability to manage and monitor the key suppliers who support the delivery of services to Aegon AM
Report of the Relationship Manager	To provide a summary of the completed questionnaire and overall assessment of continued suitability of outsource provider.

The annual health check is supplemented by:

- Local governance meetings
- Supplier performance / service review meetings
- Risk and control review meetings
- Vendor scorecard
- Change review meetings (dealing with, for example, amendments to service level deliverables)
- Strategic executive committee meetings

We recognise that it remains our responsibility to ensure the services provided by our strategic outsourced partners to our customers meets the high standard expected. For this reason we have a dedicated service management team in place, who are responsible for overseeing the outsourced services provided by our strategic partners and holding them to account. Where the expected standard is not achieved, we ensure remediation plans are put in place and monitoring of themes and trends.

The key oversight controls are carried out by our service management oversight teams (IT and non-IT), in collaboration with our procurement and vendor management (P&VM) team. Each relationship manager within these team must ensure that effective relationships are maintained, and the quality of service meets the contractual agreements as defined in the service level agreements (or equivalent). This is achieved by a combination of the following activities (in addition to those mentioned above):

- Effective communication of strategic goals and priorities to / from partners and stakeholders.
- Effective escalation and resolution of issues (performance / delivery and risk / quality) in a timely manner.
- Regular interaction with operations teams to monitor performance and any issues.
- Facilitation of and attendance at meetings with partners: service review, senior management governance, change governance and risk reviews.
- Regular review of KPI and risk control reports with distribution to interested parties.
- Review of management information on service delivery performance and key issues.
- Annual review that all service level agreements contain relevant deliverables and key performance indicators and key risk indicators.
- Annual review of independent audit reports, such as System and Organisation Controls (SOC) and ISAE/AAF reports by members of the SM & P&VM teams. Include any relevant subject-matter experts within Aegon AM to ensure sufficient and effective controls are in place, and an understanding of how these interact with our own internal controls.
- Annual review (and testing) of business continuity, disaster recovery and exit plans.

Vendor relating to responsible investment activities

The Responsible Investment team has regular update calls with data providers such as MSCI, Sustainalytics, ISS and Boardex. At these meetings we discuss our requirements and any changes to the data supplied or methodology in calculating data sets.

In the case of ISS, there is an annual roundtable where we actively participate in the consultation process for updating of the voting policies and help shape those policies. For example, we were in favour of changes made to the voting recommendations on Japanese companies regarding the dividend policy, changes to the US policy regarding board composition and European companies regarding voting rights.

Principle 9: Signatories engage with issuers to maintain or enhance the value of assets

Engagement with companies is at the heart of what we do. The responsible investment team conducted 575 separate engagements in 2020. This is in addition to 1,200 company meetings conducted by the equity and fixed income teams. They are a key component of our research, as well as our ongoing stewardship of the assets we manage.

The equity and fixed income team regularly engage with the companies we are invested in to discuss strategy, capital allocation and material ESG issues. These meetings are routine meetings with the executive members of the board.

For the responsible investment team the engagements are typically initiated following one of three potential triggers. Firstly, we engage when we identify long-term financial risks arising from ESG issues as part of our research process or through separate monitoring on topics such as climate change, health and diversity. Secondly, we engage with companies that do not comply to our clients' standards as outlined in specific mandates or where we have particular concerns arising out of voting activity. Finally, engagement is also conducted in relation to specific responsible investing strategies that actively seek to encourage certain corporate ESG behaviours.

Engagements by geography

Europe	262	46%
North America	233	41%
Asia	49	9%
Oceania	13	2%
South America	12	2%
Africa	6	1%

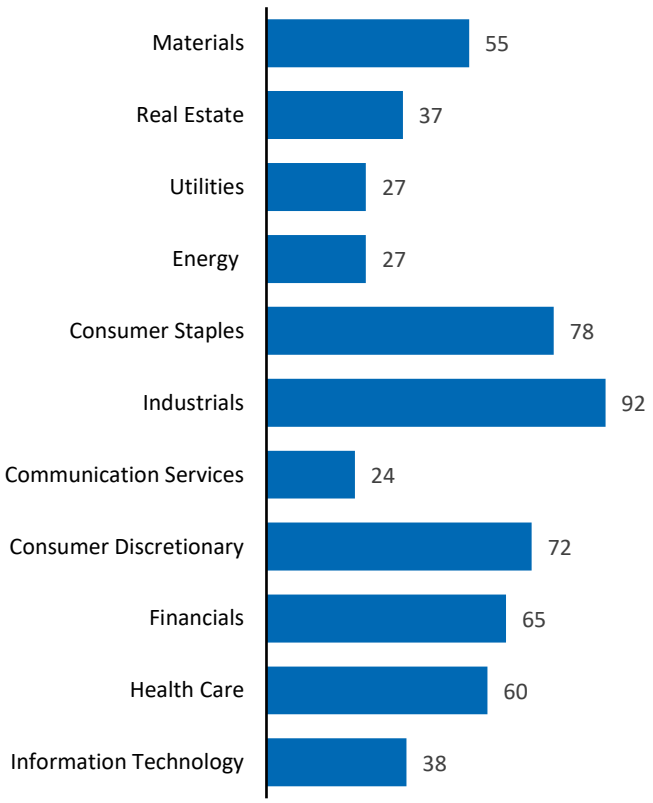
Breakdown of engagements by theme

Governance	49%
Environmental	24%
Social	20%
General disclosure	7%

Breakdown of engagements by method

Letter	68%
Meetings & calls	17%
Email	14%

Engagement by sector



2020 was an unusual year due to COVID19, which had an impact on our engagement methods as companies and our team settled into a working-from-home environment. Conference calls and meetings were merged as technology meant there was no difference in these for most of the year. The dependence on written communication increased, due to the difficulties in reaching people directly at the beginning of the pandemic. All these methods were effective and our team proved highly adaptable in such extraordinary circumstances.

Each engagement has a specific objective stated at the outset, which are formulated according to the engagement trigger. These stem from the ESG issue identified in the research process, the AGM ballot, or an ESG criterion in a client policy. We contact the most appropriate person in the company to discuss the issue with, which could be the chair, another non-executive director or someone else entirely.

After engagement, we endeavour to closely follow the progress made by the company. We report on our engagement activities on a regular basis to our clients and on our website. Systematic screening, up-to-date recording of our activity, and reviews of our objectives allow us to measure progress. We formally review our engagement activities each year as part of our obligations under the Principles for Responsible Investment, EU Shareholder Rights Directives, Dutch and UK Stewardship Codes, and updates on our engagement activity are regularly provided on our website.

We systematically share our engagement progress among the responsible investment team, research analysts and investment managers to ensure investment decisions are taken based on the most comprehensive information possible.

Engagement intensity in 2020

Milestone 1	Contact with the company	22%
Milestone 2	Contact acknowledged	38%
Milestone 3	Company begins to make progress	23%
Milestone 4	Engagement completed	8%
No further action	Result of information gathering	10%

Engagement on ESG issues is largely asset-class agnostic. The material ESG factors impacting companies such as climate change, supply chain standards and diversity are not overly dependent on whether we hold bonds or equity. We are encouraging best practice in these matters because they will result in a sustainable company that will have better shareholder returns and will be able to service the debt they have to bondholders.

When it comes to such matters as capital allocation and strategy, there will be a difference in approach to engagement with the management of these companies, depending on the varying requirements and efficacy of stakeholders in the debt or equity instruments.

As stated in the first principle, we believe that companies which rank among the leaders in governance and sustainability tend to outperform as investments over the long term. We use our influence as shareholders to encourage companies to maximise investment returns through good governance practices, including respect for society and the environment. We have been active in this space for over three decades and with regular feedback from clients and external bodies such as the PRI, we are comfortable that this serves our clients well.

On the following pages we provide some recent examples.

Engagement example: Center Parcs

There have been two separate engagements with this UK leisure company over the past 12 months.

Timing	July 2020
Objectives	Center Parcs was seeking a consent solicitation to waive some of its maintenance covenants.
How we engaged	Because the Center Parcs business is structured as a whole business securitisation, the indentures have maintenance not incurrence-based covenants. This means that leverage and interest coverage tests must be maintained below a certain level at all times (not simply if they want to incur more debt). Due to the UK national lockdown, the business has been severely impacted, resulting in a material breach of these maintenance tests.
Outcome of engagement	• Temporary waiver of the testing of the 1.1x Class A and 1.0x Class B FCF DSCR (debt service coverage ratio) covenants in respect of the financial covenant test dates falling August 2020, February 2021 and August 2021 (the next three testing dates). Center Parcs will continue to calculate and report the covenants throughout the waiver period. • Testing will reconvene in February 2022. For the February 2022 test date, free cash flow (FCF) will be amended to allow Center Parcs to add equity proceeds received during the testing period to EBITDA in order to pass the covenant tests. • Amendment of the Class A IBLA (Issuer / Borrower Loan Agreement) to allow proceeds of up to £75m raised via Class B issuance to be available to make payments on Class B loans/notes without being subject to the Class A Restricted Payment Conditions (including 1.35x Class A FCF DSCR) during the waiver period. • For the period that the temporary testing suspension of the Class A and Class B FCF DSCR covenants is in place, the Obligor Group will not make any dividends or other restricted payments
Action	Center Parcs paid us a fee of 10 bps for supporting the proposed action as well as injecting fresh equity into the business.

Timing	September 2020
Objectives	We were brought inside to discuss underwriting the refinancing of a portion of Center Parc's capital structure.
How we engaged	As large investors within the debt complex, we were approached (and brought inside) by their key relationship bank's syndicate desk (Barclays) to determine appetite for a proposed refinancing of their Class B 2022 notes. We discussed a variety of subjects, such as the capital structure, balance sheet, liquidity needs, current trading and outlook to determine a short and long-term outlook for the business as bondholders.
Outcome of engagement	With our support, the business launched a new 6.5% 2026 note to partially call the existing 2022 bonds.
Action	We provided fresh support for the new bond and were allocated a £25m position by Barclays taking our total capital involvement to over £60m.

Engagement example: Rio Tinto

In May 2020 the company faced outrage in response to its destruction of 46,000-year-old caves in the Juukan Gorge as part of the expansion of its iron ore mine in the Pilbara. Rio Tinto was criticised for its initial response and resistance to accept responsibility.

On 12 June 2020, Rio Tino published its board-led review of the incident, which revealed systemic failures in its cultural heritage management system over an extended period. The remuneration committee revealed that three key executives, including the CEO, would leave the company and receive no short-term incentive plan for 2020. We were pleased to see accountability at executive level, but felt this was a short-term view on an issue requiring long-term systemic change.

Timing	June 2020
Objectives	To engage with various peers and stakeholders, ensuring we gain a balanced account of the events. To ensure a consistent message is relayed to the company in terms of our view of the situation so far, and what we would like to see going forward. In addition, due to the company's perceived leading approach to corporate social responsibility in the mining industry, we felt it was important to send a signal to the wider industry that such systemic failings would no longer be tolerated by investors.
How we engaged	We decided it was prudent for Aegon AM to engage with Rio Tinto on this particular issue, due to the severity of the impact and the context in which it took place. The failings in the processes that led to the event and weaknesses in the consultation and communication process with the traditional owners raised concerns for us as investors that go beyond this specific incident and point to more systemic weaknesses in the company's approach to human rights. Engaging with Rio Tinto through a conference call enabled us to put questions directly to the company. We also sought further guidance directly from the Australian Centre for Corporate Responsibility, who were also leading a collaborative engagement with the company in Australia. Through engagements facilitated by an Australian third-party, we gained insights from professionals with expertise in the development of native title law, a senior Aboriginal leader, and traditional owners in Western Australia. Engaging with various stakeholders throughout helped us gain a balanced account of the situation. These insights will inform our stewardship activities with both Rio Tinto and the wider mining industry going forward.
Outcome of engagement	We welcomed the further action taken by the Rio Tinto Board in the removal of three Executives, due to the lack of accountability shown throughout. We believed this response was adequate in addressing the systemic failures that led to the Juukan Gorge disaster. The company is now better placed to confront the remediation necessary in its cultural heritage and risk processes. We have joined a wider collaborative engagement including investors across both Europe and Australia, led by the Church of England Pensions Board. The Juukan Gorge disaster highlighted that investors do not have the full picture around how companies in the sector are managing cultural heritage. We needed to better understand where companies are now before deciding what best practice looks like. A letter was sent to 71 mining companies, including Rio Tinto, requesting more detailed information on their approach to managing cultural heritage and indigenous community relations. This engagement is still ongoing. We also continue to monitor Rio Tinto's approach to community and social factors and will engage further in 2021.

Engagement example: Diversity

Target companies	Companies with poor levels of diversity in the UK and US.
Objectives	To understand the issues facing the companies with regards to diversity in the workforce, particularly in the management pipeline. To encourage companies to improve the diversity of the management of their companies and the reporting around the issue.
How we engaged	This has been an ongoing project since 2018, when we decided to take a more systematic approach to diversity engagement. With relatively limited information, we initially screened our UK holdings for companies that had low levels of gender diversity at board level. This led to a list of around 60 companies to investigate further. From there we contacted the chair of the companies in writing, asking for an understanding of what their organisation looks like in terms of diversity (including all measures such as gender, race, ethnicity and sexuality), what their strategy was to tackle the issue, what practical steps they are taking to implement that strategy and the challenges they face. We had responses via email and letter, leading to in-depth conversations with 15 companies. These tended to be the companies with the most significant challenges, reflecting the industries they operate in. In 2020 we repeated the exercise, this time including US companies. This led to a list of around 50 companies to investigate further. We followed the same method as previously and received responses from 30 of these companies and will continue to prompt others for a response.
Outcome of engagement	We have been speaking to UK companies for several years now and have seen some real progress in terms of gender diversity. There is a real appetite to increase in gathering information and disclosure around other aspects of diversity. We have had many interesting conversations on innovative programmes being implemented in some of the companies. For example, **Aveva** have a programme to retain women in India after they leave to start families, while **Softcat** have got a good story on diverse social backgrounds and are making real progress in other areas. Some companies are really focussing on neural diversity and mental health. These conversations are not over, there is still much work to do and we will continue to encourage progress. In the US, companies have traditionally been far more reticent to discuss diversity. However, the events of May 2020 led to a complete change. We have had far more fruitful conversations in 2020, showing a willingness to increase disclosure and talk about where they have challenges. The conversations are at a far earlier stage than we would have in the UK, but we look forward to continuing these conversations in the future.

Engagement example: Remuneration

In addition to Aegon AM initiating engagements, we are frequently approached in advance of publication to consider company proposals, predominantly around remuneration. This will initially take the form of a letter and will then typically be followed up with a meeting or call. Involvement at this stage enables us to assess their approach to pay and how it supports and develops the companies underlying corporate strategy and direction.

Should we not agree with a proposal we are clear in our feedback and offer suggestions to help alleviate concerns to result in proposals being agreeable to both parties. Should proposals be submitted which we fundamentally oppose on grounds of quantum, lack of challenge or general inappropriateness we encourage companies to withdraw them. Should companies proceed irrespective of our feedback, we vote against the proposal when submitted for shareholder approval.

We had 25 consultations on remuneration matters in 2020. There were a number who responded to our feedback and made changes to the structure of the remuneration, mostly in terms of quantum of awards or alignment of pension contributions. An example was **Dechra Pharmaceuticals**, where the pension contributions of the executives were far higher than that of the general workforce. After engaging on other aspects of the remuneration structure we strongly advised the company to align these contributions. The result was a reduction in the executive contribution and an increase in the workforce contribution so that they will be fully aligned by 2022.

Some engagements on remuneration structure can take longer. For several years following the merger of **Standard Life** and **Aberdeen Asset Management** we had concerns about the structure of remuneration. The long-term incentive plan although long-term in nature, was complicated and opaque. We could not see how it motivated and aligned the executive interests with our own as minority shareholders. In 2019 a new non-executive director was appointed as the chair of the remuneration committee. We raised the subject, encouraged a review at the next AGM, and our advice was accepted. The company implemented a new and simpler remuneration structure that we supported at the 2020 AGM. It received overwhelming support from shareholders, whereas previously they had received a large level of dissent.

There were others who pushed ahead with proposals that we did not believe to be appropriate and have been subject to sizeable opposition to their proposals. An example is **Informa PLC**, where they changed the structure to a restricted share plan with insufficient reduction in quantum and underpins that were not challenging enough. The result was a 40% vote against the approval at the AGM.

Engagement example: Covid equity-raises and wall-crossed engagement

The COVID19 pandemic came to dominate our engagement with companies around strategy in 2020. The lockdowns that began in March 2020 caused severe financial pressure for certain industries and companies, precipitating the need for new equity issuance. As responsible long-term stewards of our clients' investments we took each situation on its own merits, balancing the urgent needs of companies with the risk and potential rewards of investment.

Engagement played a significant role in those assessments, enabling us to explore various potential scenarios in a period of extreme uncertainty. Our focus was to support those businesses with strong franchises that were only temporarily impacted by the pandemic. Our goal was to understand the financial requirements of those companies under different scenarios: to ensure that equity issuance was sufficient to ensure survival, and that new investment offered a return potential commensurate with the ongoing risks.

We have always made clear to our investee companies that we are keen to discuss significant developments in strategy, including equity raises ahead of public announcements. Being 'wall crossed' means our short-term ability to trade is restricted, but our ability to influence and assess strategy is increased. We can pre-commit to participating in raises, giving greater certainty and security to the issuing companies. In one example we specifically made our potential interest known to a non-held company (**J.D. Wetherspoon**) and its advisors, leading ultimately to a 'wall-crossing' and our participation in their capital raise. During our regular engagement with the management of **Trainline** we also offered our opinion that, while not critical, a small equity issuance was in the longer-term interests of shareholders.

During 2020 we were 'wall crossed' on 69 separate occasions. Where our investee companies sought funds, and we were satisfied of the long-term merits we provided fresh equity. One example was **Hotel Chocolat**, with whom we engaged in the very early stages of the crisis, before government-sponsored credit facilities and furlough schemes were announced. As the company was not indebted, it lacked sufficient banking facilities for the unprecedented situation in which it found itself. We agreed with management that raising fresh equity was the right solution, allowing the company to continue to pursue its growth agenda despite the dramatic impact of lockdown.

We did not participate in around 30% of the issues for which we were wall-crossed. In one example we supported the strategy of a professional services company, although found the valuation unattractive for new money. On another occasion we had fundamental concerns over the strategy, and specifically cash-generation of a credit hire and legal services company, which were not assuaged by our engagement. We deemed one innovative developer of fuel cells as too immature to fund, although the strategy was interesting and we continue to monitor the company.

Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers

As we have outlined in the previous principle, we believe that actively engaging with companies to improve ESG performance and corporate behaviour is one of our core responsibilities as an asset manager. We do this through a combination of direct engagement, but we also see the value in participating in collaborative engagements with other like-minded investors and stakeholders. This can be beneficial for a couple of reasons.

1. Where there is a specific theme we would like to engage on and an organised campaign through an organisation makes the most sense. Some focussed organisations have a depth of knowledge we can rely on in a particular subject matter.
2. Where we recognise our shareholding on its own is not sufficient to influence change. This route is often used as part of an escalation.

Wider engagement with other stakeholders, such as employee unions and non-governmental organizations, may also form part of our engagement activities. This can involve collaborating directly with a small group of like-minded investors to engage with a company on a specific issue. In others it involves participating in international initiatives, often based on a multi-sectoral approach. This helps us to increase leverage to influence investee companies to carry out their business responsibly. We have focused on the following topics in 2020:

Climate change	Institutional Investors Group on Climate Change and its CA100+ initiative.
Biodiversity	The investor engagement managed by FAIRR
Good health & wellbeing	We partnered with the Access to Medicine Foundation, while on COVID-19 related workplace issues or the opioid epidemic, we partner with ICCR.

In 2020 we were involved in 161 collaborative engagements on a number of different issues. Participation style varied from the very active participation in the FAIRR engagement outlined below and the Rio Tinto engagement outlined in Principle 9, down to taking a more passive role in the opioid engagement with the ICCR as the COVID-related engagements took precedence. The examples below are focussed on our Equity and Fixed Income holdings. Please see Principle 4 for information on the work done by our real assets team with AREF.

Engagement based on the Coller FAIRR protein producer index

Type of engagement project and involvement

We launched the bilateral engagement project in October 2019, aimed at exposing and addressing the shortcomings in the protein producer companies we have invested in. For this purpose, we used the comprehensive Coller FAIRR Protein Producer Index, which benchmarks intensive livestock and fish farming on ESG issues. This highlighted areas of best practice and exposed critical gaps. We identified the gaps for the 13 companies we are exposed to and started dialogue. Some were leaders in the space, but in other cases there is room for improvement in ESG risk management. We expect this project to last several years, given the complex elements and lack of data for investors and companies alike. Nevertheless, this sector needs to become more transparent and take responsibility for their footprint.

This is an asset-class agnostic, bilateral engagement project, strengthened by collaborative efforts on some of the ESG risks (via FAIRR). We believe that we can make more of a difference by engaging with the entire livestock supply chain, as they all need to move forward together. The bilateral engagement project targets about 13 companies.

Importance

The animal protein sector is increasingly scrutinized, as it is not only responsible for 14.5% of global anthropogenic greenhouse gas emissions, but also linked to the antibiotics crisis and many more ESG risks. The COVID-19 crisis has further exacerbated concerns regarding this industry, especially those relating to working conditions, food safety and antibiotics usage.

Objectives

For companies to improve their ranking in the Coller FAIRR protein producer index. This means that they need to improve on any of the relevant ESG risks.

Engagement outcomes

About half of the companies have replied. For those companies, we expect their ranking in the index to improve. Below are three cases below.

Fonterra	Fonterra acknowledged that they can improve the scope of their emission targets. The company is considering a number of changes to further improve its score. For deforestation, a CDP report ranked it 11 out of 22 companies, due to its low(er) exposure. It has been doing work on greenhouse gas emission reduction targets. As part of the work in this space a New Zealand zero carbon bill was introduced in 2020. In pursuit of this, Fonterra has been trying to get a science-based target. It is also working with DSM and has started a two trial with seaweed in Australia. Furthermore, Fonterra is part of an industry group in New Zealand which looks at agricultural industry emissions and science-based targets. Government has set a range to be achieved by 2050. Off the back of that, companies can set targets. For Fonterra to set a target ahead of that, does not make that much sense. We expect their ranking to improve when the next assessment comes out.
JBS SA	The company recently announced an elaborate supplier monitoring system to mitigate deforestation in the Amazon. We are content with their deforestation initiatives and expect their ranking to improve. The initiatives are: • The JBS Green Platform is a blockchain platform that will enable the Company to track the suppliers of its cattle suppliers by 2025. • Sharing of the company's supplier monitoring technology and its responsible sourcing policy with the value chain, including the entire food industry, livestock producers, family farmers, financial institutions, and the agribusiness sector. • They will provide suppliers with environmental, animal husbandry education and legal support to help producers improve the stewardship of their land. JBS will expand its sustainability educational activities for livestock suppliers and increase investments to develop digital platforms that help ensure properties can gain compliance with the company's policies, as it already does in the states of Mato Grosso and Pará.
Hormel Foods	Hormel Foods has started a significant renewable energy project and is in contact with a third party about measuring their scope 3 emissions. Regarding antibiotics, they are doing a pilot project to work on reporting and hope to publish antibiotics data in 2021. This is difficult, because of a lack of industry framework and standards. For deforestation, specifically in areas with more risk, such as palm oil and south American beef, they have additional policies and work with those suppliers on one-on-one basis. They are currently working with suppliers to utilize satellite images and tracking. On the palm oil side they are working on traceability to the plantation level, which is extremely challenging. They work with peers in different industry groups and try to have alignment.

In addition to the engagement project above, we are also part of several collaborative efforts organized by FAIRR. For example, these efforts include starting a dialogue with companies that are sourcing from the protein producers above.

Engagement example: Climate Change through Climate Action 100+

Target company	ArcelorMittal, a steel and mining company headquartered in Luxembourg.
Objectives	Calling on ArcelorMittal, a systemically important greenhouse gas emitter to help achieve the goals of the Paris Agreement and take ambitious action for a low-carbon future**.**
How we engaged	Engagement with the company was co-led by Aegon AM, as an active member of the CA100+ IIGCC Working Group. It is in line with our commitment to the Dutch Climate Agreement and Responsible Investing Policy. To date we have had a number of meetings with ArcelorMittal management and the company joined an IIGCC convened roundtable on decarbonisation of the steel sector. We have also engaged them on the Climate Action 100+ Net Zero Company Benchmark, which will be launched in 2021.
Outcome of engagement	Progress to date has included: • A commitment to be carbon neutral by 2050, building on the 2019 commitment for its European business to reduce emissions by 30% by 2030 and be carbon neutral by 2050. • The release of a lobbying review of its trade association memberships, taking into account investor feedback. • Working on various pilot technologies for carbon-neutral steelmaking and will be producing steel with hydrogen from renewables from 2020. • Joined the Energy Transition Commission and is a driving force in the net zero pathway. • The publication of a Climate Action report, which included scenario analysis.

Engagement example: Fossil Fuel funding through the Investor Forum

Target company	Barclays Bank PLC was identified as the largest fossil fuel funder in Europe by the Banktrack report. This led to a shareholder resolution being tabled at the 2020 AGM by ShareAction.
Objectives	To convey a collective view that climate concerns was seen as a material business issue for Barclays and that the company needed to show leadership commensurate with its position as one of the UK's leading investment banks. In addition, to encourage the company to set clear climate ambitions and to engage with ShareAction.
How we engaged	Investor Forum collated opinion on how this topic should be tackled by Barclays and wrote to the board and engaged extensively with the Chair in a series of constructive conversations. They also worked with ShareAction and shareholders to encourage ambitious climate commitments, to try and avert a proxy battle. Conversations continued after the AGM to provide input to help the bank deliver against the commitments made.
Outcome of engagement	• Barclays outlined landmark climate ambitions ahead of the AGM, with the commitment to provide a clear strategy by the end of 2020. • Barclays tabled its own climate-related resolution at the AGM, the first such resolution by a major bank. This received overwhelming support of 99.9% • In November, Barclays outlined its strategy with clear targets for 2025. It also explained methodology for monitoring emissions and committed to greater disclosure in 2021.

Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers

As outlined in Principle 9, we track each engagement according to objectives set. Progress on engagements is regularly monitored and discussed internally. If. following engagement, we still have concerns, we may escalate our activities to include additional meetings with executive management, meeting with non-executive board members, expressing concerns through the portfolio company's advisors and voting against the portfolio company's recommendations at its annual general meeting or extraordinary general meeting.

We may adapt our approach by seeking collaboration with other like-minded investors. In some instances, we may even reduce or sell our holding, subject to appropriate client approvals in nondiscretionary client mandates. The example of **Rio Tinto** in Principle 9 shows where engagement has been escalated to collaborative engagement when we were unable to gain enough traction at an individual level.

This approach is adjusted for the fixed income engagements where there is no ability to vote at meetings. Fixed income escalation may take the form of public statement, legal protection of our rights or divestment.

Engagement on behalf of Real Assets is limited and escalation methods even more so. This is something we will seek to build on in the future.

Engagement example: Governance standards

Target company	Tetra Tech, a consultancy and engineering firm that we bought into in 2017
Objectives	There were governance issues we identified that we would like to see improved, namely: • Independence of the board • Removal of supermajority to approve changes to the charter • Remuneration structure • Diversity • Introduction of Proxy Access Provision
How we engaged	We contacted the company the first time we voted at an AGM. While it had good environmental and social credentials, governance was lacking. We first contacted by letter and have had subsequent regular dialogue by telephone and video conference over the past few years. We have discussed these issues and see steady progress on these matters: • The board is now 50% independent. There is still an issue with a non-independent director sitting on the audit committee, but we have discussed this with them and have taken voting action against him for the past three years. • The supermajority vote requirement to change charter was removed and is now a simple majority. • The remuneration structure was previously majority based on time-based vesting. Over time this has changed, so is now majority based on sufficiently challenging performance criteria. In addition, the change of control provisions changed so that they only vest as a result of a beneficiary losing their job. Finally, the disclosure surrounding the structure and benefits has improved greatly.

	• Before 2020 the discussion surrounding diversity was very high-level and mostly platitudes. There was a major change once the Black Lives Matter movement occurred in the US and in 2020, our conversation was far more meaningful, outlining their thought process on disclosure of data and how they are setting out a strategy to improve diversity throughout the organisation. • Proxy Access has been an area where the company have been reticent to move. It is now majority practice in the S&P 500, but they seem nervous that this may open the company to activist attention. We will continue to encourage adoption of this provision and we have taken voting action against the Chair of the Governance committee to signal how seriously we would like this considered.
Outcome of engagement	While we are pleased to see slow and steady progress on a lot of these matters, the issue of the independence of the audit committee and the lack of adoption of proxy access are still ongoing. We have escalated voting action on the non-independent director and also the Chair of the Governance committee, as we believe that is where responsibility sits for such governance matters. We will continue this engagement.

Engagement example: Defending creditor rights

Target company	UK automotive company
Objectives	• Re-underwrite the business risk and investment case. • Block the collateral stripping transaction to prevent the material increase in credit risk for existing investors. • Bring the company to the negotiating table with the creditor group to: – Enhance bondholder documentation to improve credit support for existing investors. – Gain new equity investment from shareholders, rather than new debt capital, or find a capital structure solution approved by the existing bondholders.
How we engaged	Due to a Covid-19 induced liquidity event, the business planned to move assets out of the restricted group and therefore remove that credit support for the existing bonds. The company subsequently planned to raise debt against those assets to improve its liquidity, which would effectively subordinate bondholders to the new debt. As these assets were also substantially all the firm's tangible assets, Aegon AM worked with existing bondholders to oppose this transaction. Scale in bondholder groups is key to have credibility, as well as to ensure voting and blocking power. Aegon AM's position was important to achieve the thresholds required to block this transaction. We joined with a group of like-minded bondholders to discuss this with the company.
Outcome of engagement	Despite attempts to engage with the company as a bondholder group, the business was initially reluctant to engage. This required immediate escalation to protect investors. The company attempted to circumvent its existing bondholders by applying to the court to instruct it to release security pledged to the bondholders. This would have effectuated the transaction without our consent. Furthermore, the company applied to have an accelerated timetable to push the transaction through.

	Through the group's legal representation, the bondholders appointed a representative to attend the proceedings on our behalf. The group's arguments were strong and included several key points from the legal documentation governing the bonds. Our position proved robust and we were able to delay the firm's ability to attempt to push through the transaction. The creditor group had therefore effectively blocked the transaction in court. This brought the company back to the negotiating table with the group. As a result, we were able to negotiate and confirm several key investor value outcomes: • The collateral stripping transaction was blocked. • The legal documentation governing the bonds was materially improved, restricting the business from taking certain actions without our consent or requiring them to pay down debt. Importantly, the most valuable assets underpinning credit support were explicitly protected from being transferred out of the bondholder's control. • Shareholders invested new capital into the business and no new debt was required. Ultimately, as part of this bondholder group Aegon AM was able to proactively work to defend creditor rights, minimise downside risk, and to maximise value for our investors.

Engagement example: Non-compliance with Global Compact Standards

Target company	A company active in a range of petroleum-related products, services, and activities in Mainland China as well as internationally
Objectives	To investigate whether we agree with the opinion about a data provider as to the non-compliance with UN Global Compact (where Principle 2 states that businesses should ensure that they are not complicit in human rights abuses). The company's lengthy track record of alleged human rights violations indicated structural compliance problems. We were particularly interested to see evidence of a formal management system or human rights policy that aims to avoid or minimize the risk of becoming complicit in human rights violations in countries of operations.
How we engaged	We made contact via letter, but the company was not sufficiently reactive.
Outcome of engagement	• The company was sent an official engagement letter, as well as several reminders • They did not respond, which we deemed to be a serious red flag, especially in combination with the lengthy track record of alleged human rights violations. • We sent them another official letter to notify them that they were to be added to the exclusion list and we would divest. Eventually we received a response, although due to the severity of the issue and the erosion of confidence in the ability of management to manage these risks, we still added them to our exclusion list.

Engagement example: Environmental and social issues

Target company	Peloton, an exercise equipment company
Objective	To understand the company's approach to various subjects, including supply chain standards, recycling and data security.
How we engaged	Contact was made via email, followed up by a lengthy conference call.
Outcome of engagement	The company failed to give sufficient information on such matters as end-of-life recycling, auditing of workers conditions in the supply chain and protection around user data. We gave adequate time for a more complete response. Having failed to get a satisfactory response to our queries, we decided it would not be a suitable investment for our global sustainable equity strategy.

Principle 12: Signatories actively exercise their rights and responsibilities

At Aegon AM we take our responsibilities to be active owners seriously and recognise that voting is an important tool in this regard.

We use our voting rights in equities in the interest of our clients. As an active manager this means that we are generally supportive of the portfolio's company management, although we expect companies to adhere to the standards approved by the relevant stock exchange and governance codes in the country where they are listed.

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

We recognize that not all companies are the same and we strongly support the 'comply or explain' model of corporate governance. For this approach to work companies must be willing to provide good-quality and detailed explanations of the reasons for deviation from established best practice. When companies seek to adopt a different approach from the respective Corporate Governance Code, we recommend consideration of the Investment Association guidelines which can be found at: www.ivis.co.uk/guidelines. In markets where there is no defined regional best practice we look to international best practice codes such as the Organization for Economic Co-Operation and Development Principles of Corporate Governance.

Where we have a voting-related concern, within practical limits we contact the company ahead of the meeting to discuss. With respect to companies in our active internally managed equity portfolios, when we vote against or abstain on an issue, we also write to the company explaining why we have done so. There are examples included in Principles 9-11 that show these engagement activities. We view voting as a continuation of that process.

We use the voting advisory services of proxy advisors, both for the voting platform and as a research provider. The use of research of both ISS and The Investment Association's IVIS is just part of the input into the decision-making process. We also use our previous interactions with the company, the information held internally, the opinion of the relevant fund manager as well as the publicly available disclosures when formulating our opinions. Each meeting is considered on a case-by-case basis and in a pragmatic manner, with input from both the responsible investment team and our investment managers.

In 2020 we did not vote in line with ISS recommendations at 41% of meetings. This was equivalent to 7.2% of all resolutions, of which the majority were on remuneration, director elections and share issuance requests. Our voting guidelines can be found at www.aegonam.com/globalassets/aam/responsible-investment/documents/aegon-am-active-ownership-policy.pdf.

We are influential in effecting change at an industry level as well as at corporate level. We are active members of the Investment Association & Eumedion's committees on stewardship and sustainability and act as chair to the Investment Association Share Schemes Committee. In 2020 the Investment Association was effective at achieving a far higher degree of alignment of pension contributions between executives of UK-listed companies and their general workforces.

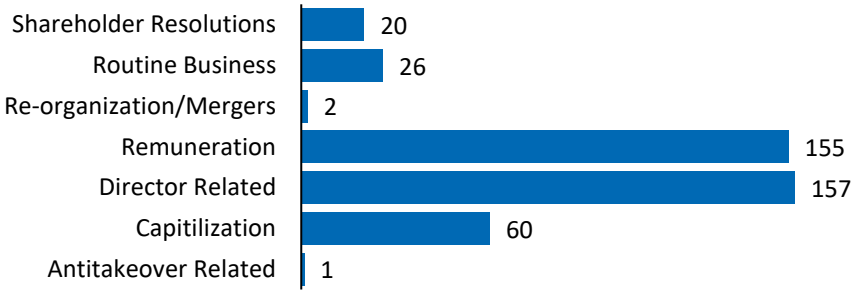
We record all votes cast and other relevant responsible investment activity. These records allow us to monitor each company's progress towards compliance with the appropriate governance codes and to demonstrate to our clients the approach we have taken.

We report our voting records, complete with the rationale of the most significant votes. Our definition of a significant vote is one against management or abstention, as well as any vote on a shareholder resolution. The most recent voting report is updated quarterly and published at www.aegonam.com/globalassets/aam/responsible-investment/documents/proxy-voting-report.pdf.

Where appropriate, we attend the general meetings of the companies in which we invest. Where we exercise our right to submit a request for convening an extraordinary general meeting or for tabling a shareholder resolution at a general meeting of a portfolio company, we consult the company's board prior to exercising this right. We ensure a member of the team is present or represented at such meetings to explain the respective resolution.

Our normal practice is to agree engagement and significant voting decisions between our RI team and the relevant investment manager. Where controversial issues are identified or there is disagreement then we escalate the issue to the appropriate Global Chief Investment Officer and their decision is final.

Votes of non-support by category

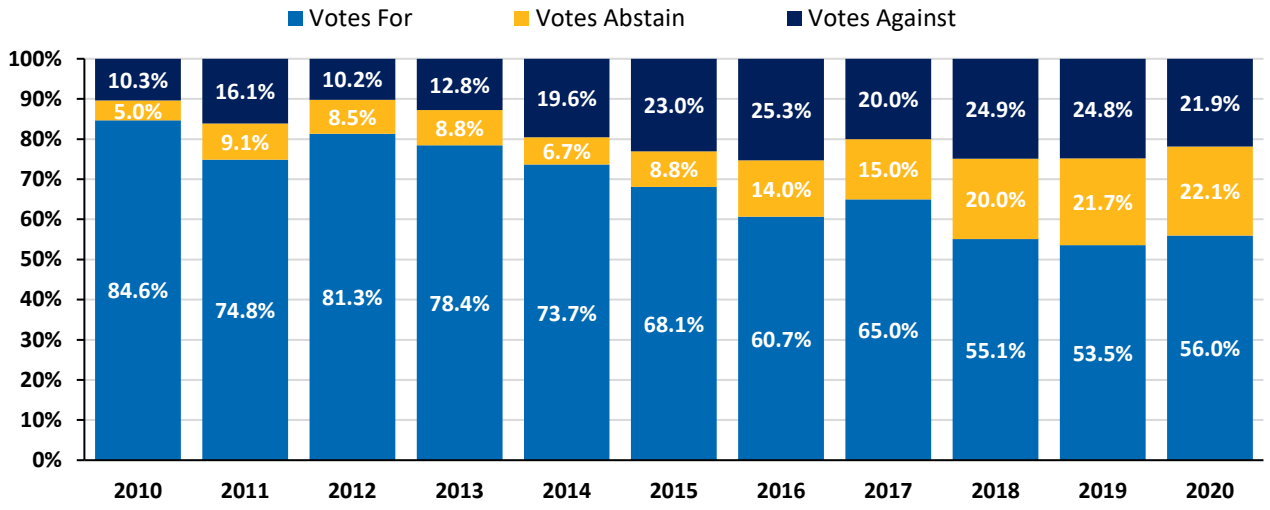


Votes by country in 2020

United Kingdom	208
USA	140
Japan	33
China	26
Netherlands	21
Australia	16
Guernsey	13
France	13
Ireland	12
Sweden	11
Germany	11
Jersey	9
Cayman Islands	9
Luxembourg	8
Canada	8
Taiwan	7
Denmark	7
South Korea	6
Italy	6
Hong Kong	6
Brazil	6
Switzerland	5

Spain	5
Singapore	4
Belgium	4
South Africa	3
New Zealand	3
Indonesia	3
India	3
Turkey	2
Russia	2
Portugal	2
Poland	2
Norway	2
Israel	2
Isle of Man	2
Greece	2
Bermuda	2
British Virgin Islands	1
Mexico	1
Liberia	1
Finland	1
Austria	1
Argentina	1

10-year voting activity



During 2020 we did not lend stock on behalf of our clients, however some of our clients had their own stock-lending policies beyond our control. We have some mandates for which we do not have the discretion to take voting decisions on behalf of our clients. These clients may choose to retain the discretion to exercise their voting rights according to their own policies and we can accommodate these wishes by setting up procedures to allow us to implement votes in line with the client's requirements and policies.

For segregated accounts our approach to voting is agreed with the client and documented in the Investment Management Agreement. Our Voting Rights Strategy for pooled funds is disclosed in our fund prospectus and available to investors. We do not believe it is appropriate or possible to allow clients within such a vehicle to make voting decisions. We will listen to client feedback with regards our standard voting policy and make adjustments where possible to ensure the standards we adhere to are in line with client expectations.

Finally, if we have suffered losses as a result of misinformation or violations of securities laws, our portfolios are screened and class actions filed so that losses can be recouped on behalf of our clients.

Examples where voting has led to changes:

In 2018 we raised concerns with **Coca Cola HBC** about the vesting schedule attached to their long-term incentive plan. The way it was designed was 'flexed' so that a greater proportion of the award vested for threshold performance rather than rewarding excellence. In 2019 we voted against the remuneration policy as this had not been resolved, we contacted the company again to express our concerns. This led to the vesting schedule being amended to a more conventional straight-line approach, better aligning the interests of management with ours.

While engaging on diversity with our investee companies we wrote to companies with the poorest levels of female representation on the board as a proxy for wider diversity. Most of the companies responded, however, **one FTSE 100 company** refused to engage, despite numerous emails, letters and phone calls. At the next AGM we abstained on the re-election of the Chairman and sent a follow up letter explaining the reason why. We subsequently had a conversation on diversity matters at the company. Please see Principle 9 for further details of the diversity engagements.

For a number of years we had expressed concern to **BAE Systems** about the challenge of the annual bonus plan. In particular, we were concerned that the EPS targets, which had the highest weighting of the measures used within the plan, were not sufficiently challenging and rewarded underperformance. As a result, our voting escalated so that in 2019 we voted against the remuneration report. Following our vote, we engaged with the Chair of the Remuneration Committee and were assured that our concerns would be discussed within the remuneration committee and addressed. Upon review in 2020, the challenge of the annual bonus had been improved, with both threshold and target required performance set at a level above the previous year. To reflect this progress, we abstained on the remuneration report with a view to voting in favour in 2021 should the level of challenge be maintained.

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