Aegon Asset Management

The UK Stewardship Code 2023 Compliance Statement

April 2023

Beyond borders™

This report represents the compliance submission of Aegon Asset Management ('Aegon AM') for the UK Stewardship Code 2023.

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Foreword

Bas NieuweWeme
Chief Executive,
Aegon Asset Management

Evidence suggests that companies which rank among the leaders in governance and sustainability tend to outperform 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 a volatile and uncertain world. Global economies and financial markets are more interconnected, complex and more vulnerable than ever to environmental or societal disruptions. As asset managers and custodians of our clients' assets, we are not immune to these challenges and threats.

The responsible investment landscape continues to evolve, with climate action a primary focus for many industry participants and considerable regulatory change taking place to address perceived 'greenwashing'.

At Aegon AM much of our focus in 2022 was on managing climate-related risks and accelerating the low-carbon transition, areas that are increasingly integral to our investment and stewardship processes. We also continued to develop and launch innovative responsible investment solutions for our clients. This included evolving our short-dated investment grade bond strategy to focus on the long-term transition to a net-zero global economy. This is now available as the Aegon Global Short Dated Climate Transition Fund and we have classified it under Article 8 of the European Union's Sustainable Finance Disclosure Regulation.

We maintained our comprehensive active ownership program, with a special focus on public companies that are the heaviest emitters of greenhouse gases. Our prioritization of responsible investment was further reflected in the steady progress of important capacity-building projects during the year. We also enhanced our materiality framework for the analysis of ESG risks in our credit research process. And we strengthened our policies and procedures to better align with new regulatory requirements.

We also began multiple initiatives which have carried into 2023, including climate-risk assessments, the development of additional impact solutions, and enhancing our ESG reporting capabilities for clients.

In this report we details Aegon AM's key stewardship developments over the past 12 months, which include:

Increasing activity	In 2022 we had 832 contacts with 397 companies, a rise of 21% on 685 contacts in 2021.
Growth in responsible investment team	Our global responsible investment team is organised by asset-class, with specialists in fixed income, equities, real assets, and multi-asset. The team conducts in-depth sustainability and impact research, contributes to product development, supports investment teams with ESG integration, leads active ownership activities, and advises on responsible investing policies and reporting. In 2022 we expanded the team with two further appointments, bringing the total to 19 members.
Engagement on climate change	Climate remains a high priority for our engagement activity. We focus on public companies that are the biggest contributors to the problem and engage to ensure they are measuring, monitoring, and setting challenging targets to meet the goals set out in the 2015 Paris Agreement. Our Responsible Investment Team conducts these engagements directly with companies, as well as in partnership with our research analysts and portfolio managers. Given the scale of the challenge it is advantageous to join collaborative initiatives to ensure that we are influencing as many companies as possible. For example, in 2022 we engaged with a UK utility company alongside a group of other investors who are also members of CA100+.

	The focus of the engagement was to work with the company on the introduction of short-term targets and ensure their external climate policy is in line with the 2015 Paris Agreement. Our goal was to encourage the company towards emissions reductions, better climate governance, and stronger disclosures.
Launch of new climate solution	Launched in June 2022, Our Global Short Dated Climate Transition Strategy favours investments in companies with robust, credible plans to transition towards a net zero economy. Using a proprietary research framework, we assess climate transition readiness and classify issuers on a scale of 1-5 from 'leader' to 'laggard', based on their preparedness for the climate transition and net zero alignment.

We look forward to continuing our responsible investment journey by launching innovative strategies and further developing our ESG integration processes, particularly in more challenging asset classes where ESG information is more difficult to procure.

We will also continue to seek to achieve the greatest impact for our institutional investors, as active and engaged owners of corporate balance sheets. The coming year will surely bring both challenges and opportunities, but we remain committed to providing a more sustainable future for our clients.

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. We manage and advise on assets of £259 billion as of 31 December 2022. We have 1,200 employees, including 387 investment professionals, serving a global client-base of pension plans, public funds, insurance companies, banks, wealth managers, family offices, charities and individuals.

We organise our investment capabilities around four focused investment platforms, where we have extensive asset-class expertise: fixed income, real assets, equities, and multi-asset & solutions. Each platform has dedicated teams, organised globally, and committed to maximising their specialist areas. These platforms are supported by teams dedicated to responsible investing and multi-management.

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

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 organise their resources and processes to best suit their area of focus.

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

Aegon AM 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

Our purpose is to help people live their best lives through active and engaged investment, so they can meet their financial objectives and help foster a healthy and vibrant world for all.

We are committed to embedding responsible investment practices into everything we do, helping to ensure a better long-term future for our clients and society.

In a complex world, we think and act beyond traditional borders. We organize our teams globally by asset class, bringing the breadth and depth of our research and investment capabilities together on behalf of our clients. We believe in the investment benefits of responsible investing and aspire to be a force for good.

While our organization evolves to meet the challenges of changing markets, our commitments remain to:

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

Our culture

For over 175-years Aegon has been advancing beyond borders, expanding its knowledge, broadening its horizons and seeking opportunities for clients. Today Aegon AM is a global investment 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 organise our investment capabilities and resources around four global investment platforms where we have extensive 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 summarise our four investment platforms. Please note that this table excludes assets managed through joint ventures.

Investment platform	Assets under management	Investment professionals	Capabilities
Fixed Income	£134 billion	146	• Alternative fixed income / structured finance • Core fixed income • Leveraged finance • Responsible investment solutions
Real Assets	£18 billion	112	• Commercial mortgage loans • Agricultural mortgage loans • Tax credit equity • Natural resources / energy private equity • Real estate equity
Equities	£19 billion	26	• ESG • Income • Specialist
Multi-Asset & Solutions[2]	£42 billion	29	• Sustainable diversified growth • Diversified income • Alternative risk premia • Investment solutions • Fiduciary management

As of 31 December 2022. Assets under management/advisement exclude joint venture assets, totalling £53.4 billion. Multi-Asset & Solutions platform assets include equity, fixed income, and real assets allocations within multi-asset portfolios, including those which are sub-advised to specialist investment platforms. In this view these assets are included in the Multi-Assets & Solutions platform. Personnel may be employed by any of the Aegon AM affiliates. Does not include all investment professionals. Real Assets investment professionals include individuals providing investment advisory services and those involved in investment-related activities.

Responsible investment

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 processes.

Our 19-strong global Responsible Investment team (RI team) supports ESG integration by our research and investment teams; leads our active ownership activities and sustainability research; supports the development of innovative products; and promotes responsible investing best practices across the organisation*.

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 financially material ESG factors into the investment process to help mitigate risk and potentially uncover opportunities.
Active ownership	Where relevant, addressing ESG issues by actively engaging with issuers and investee companies, and exercising shareholder rights.
Responsible investment solutions	Providing focused responsible investment strategies including exclusions, best-in-class ESG, sustainability-themed and impact investments.

*Data as of 31 December 2022. Personnel may be employed by any of the Aegon AM affiliates. Responsible investment products and services may vary regionally.

Our guiding principles for responsible investment are:

Responsible investing can align with the interests of clients	As stewards of our clients' capital, we believe it is prudent to consider all relevant and material risks and opportunities, including those presented by ESG issues, as part of our comprehensive issuer research. With a focus on long-term results, we use responsible investing practices where applicable to support a holistic understanding of the investments we make on behalf of our clients.
Responsible investing can contribute to long-term value	A growing body of academic research demonstrates that sound ESG practices can enhance long-term corporate financial performance. This value can manifest itself in the form of lower cost of and access to capital, better operational performance, reduced reputational risks and, in turn, potentially superior long-term returns on investments.
Environmental and social risks can be material investment risks	Exogenous risks such as natural disasters, pandemics and conflicts can disrupt industries and threaten business models. Failure to effectively manage these risks can lead to a range of financial, legal, and reputational consequences. A company's ability to mitigate such risks can have a profound effect on their ability to create and sustain long-term value.

Integrating ESG factors can help to uncover opportunities	We believe it is important to form a holistic view of investment opportunities. To analyse future profitability and creditworthiness, we consider ESG factors alongside traditional financial metrics. By considering these factors in investment decisions where relevant, we strive to deliver better investment outcomes and long-term performance.
Active ownership is a key aspect of active management*	Our stewardship ambitions extend beyond today's investment opportunity. By leading engagement efforts and exercising shareholder voting rights, use our voice to help effect positive change, consistent with our clients' objectives. Where possible, we collaborate in engagements with other investors and stakeholders to maximize our voice.

*Active ownership is not applicable to all asset classes or affiliates.

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

Governance

Aegon AM's stewardship activities are governed by our **Active Ownership Policy**, which outlines the processes and standards which we apply to our stewardship activities. It describes how we implement stewardship on behalf of our clients, although these may vary upon instruction from clients in segregated mandates.

While our Active Ownership Policy has a global focus, there are some exceptions based on asset classes and local laws, while Aegon USA Investment Management and Aegon USA Realty Advisors are not subject to the voting requirements.

The Active Ownership Policy is part of a framework of relevant policies that includes our Conflicts of Interest Policy, which collectively guide the implementation of our stewardship with investee companies. Policies applicable to certain Aegon AM entities or defined fund ranges contain further details on specific stewardship activities conducted on behalf of the relevant entities or funds. These are publicly available alongside relevant fund documentation. The scope of our active ownership activities extends to investments in all corporate entities offering securities in public markets, including equities and fixed income instruments.

Ultimate accountability for Aegon AM's Active Ownership Policy and its implementation rests with the Aegon AM's Global Management Board, which includes the firm's Chief Investment Officer and Chief Risk & Compliance Officer.

Aegon AM Global Management Board

Chief Executive Officer
Bas NieuweWeme

Management Board	
Barbara Bakker Chief Transformation Officer & CEO, Aegon AM NL	**Lara Osterhaus** Global Head of Real Assets & Global Head of Real Assets Debt
Matt Hubbard Chief People Officer	**Rishi Santokhi** Global Chief Financial Officer
Stephen Jones CIO, Fixed Income, Multi-asset & Equities	**Chris Thompson** Head of Global Client Group & CEO, Aegon Asset Management US
Kirstie MacGillivray Head of UK Investment Dealing & CEO, Aegon Asset Management UK	**Mike Tumilty** Chief Operations Officer
John O'Donnell Interim Chief Risk and Compliance Officer	

As of 31 March 2023. Personnel may be employed by any of the Aegon Asset Management affiliates.

Aegon AM Sustainability Board

Although accountability for stewardship activities at the highest management level is commensurate with the importance of these activities at Aegon AM, we have found it useful to implement a governance structure to periodically inform management board members on such matters through discussion and agreement at lower management levels. Appropriate advice and information from representatives of different functions involved in day-to-day implementation allows for more effective and better-informed decision-making at the Global Management Board.

At the end of 2021, we formalized these advisory discussions by creating the Aegon AM Sustainability Board, which has a mandate to advise the Global Management Board and other decision-making committees on all sustainability and stewardship related matters. It is comprised of senior management representatives from each relevant Aegon AM function, including our investment platforms which have been appointed by each respective Global Management Board member. This broad representation allows for a diversity of views across all functions in the business, including data operations, reporting, human resources, investment, commercial and finance teams.

Composition of the Sustainability Board has also considered diversity across other dimensions, such as gender, in line with Aegon AM's broader commitment to inclusion and diversity which includes ensuring inclusion, representation and opportunities for all.

In 2022, the Sustainability Board inter alia recommended adoption of a climate scenario analysis tool for public investments, revisions to methodologies for reporting assets in different types of responsible investment solutions and a global policy position on excluding controversial weapons.

The Sustainability Board regularly reviews the effectiveness of our Active Ownership Policy and its associated policies, through inter-alia policy attestation results, internal audits and compliance reviews, and in the context of evolving market and regulatory expectations. It can then advise and recommend updates to these policies for discussion and approval by the CIO of Fixed-Income, Multi-Asset & Equities and the Chief Risk and Compliance Officer. We observe a regular two-year policy review cycle, although we can review the policy more frequently based on evolving market, client and regulatory demand. The policy's latest review took place at the end of 2022, following the governance outlined herein.

The Aegon AM Sustainability Board also reports to the Aegon Group Sustainability Board, where Aegon AM is represented by the CIO of Fixed Income, Multi Asset & Equities, and the co-chairs of the Aegon AM Sustainability Board. This representation allows for sharing best practices by sustainability-focused leaders across all Aegon businesses and ensures Aegon AM's approach to stewardship meets the expectations of affiliated clients within the Group.

Resources

Responsibility for day-to-day implementation of stewardship activities is shared between the appropriate investment teams and our 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. This operational practice also ensures appropriate information sharing and integration of ESG factors and stewardship findings in investment decision-making.

Engagement activities are by default conducted in partnership by members of the investment and responsible investment teams. 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 is typically conducted by the responsible investment team members only. For fully discretionary mandates, voting decisions are typically taken jointly by the responsible investment and investment teams working together.

Responsible Investment Team

Our 19-strong Responsible Investment team serves as a company-wide, global resource for responsible investment practices. Team members lend their expertise to ESG integration initiatives, contribute to responsible investment product development and lead stewardship and sustainability research activities to promote understanding of ESG issues. Furthermore, the responsible investment specialists are a central resource for education and best practice.

The Responsible Investment team has an average of 11 years' industry experience, of which an average of five years has been with the firm. The team is structured to align with our asset-class platforms - fixed income, equities, multi-asset, solutions & multi-management. This allows collaboration with the respective investment teams, in addition to a sub-team dedicated to implementing clients' responsible investment policies. The team is looking to increase its capacity to support the real assets platform, as well as increasing demands for quality assurance of ESG data across the firm.

The team is led by Brunno Maradei, Miranda Beacham, Emanuele Fanelli and Julius Huttunen.

Brunno Maradei has 25 years of experience in the sustainable and development finance industries across private and public sector institutions. Before joining Aegon Asset Management, he was a senior investment officer at the European Investment Bank, structuring finance for infrastructure projects in emerging markets and representing the EIB in the investment committee of three impact funds. He spent several years in the leadership team at EIRIS, a leading ESG data provider in London, and in the World Bank Group in Washington, where he developed sustainable investment products for emerging markets and structured blended finance for renewable energy projects in Africa.

Miranda Beacham joined the industry and the firm in 1994. Her experience includes leading engagement activities with policy makers and investee companies on issues such as board structure, remuneration, environmental impact and social practice. She is responsible for ESG integration, voting and engagement for the equity and multi-asset investment platforms and she oversees the sustainability research process for the platforms' sustainable funds. She is the Deputy Chair of the Stewardship committee and Chair of the Remuneration and Share schemes committee at the Investment Association in the UK.

Emanuele Fanelli has been in the investment industry since 2007 and leads responsible investment activities for the alternative fixed income platform. He works with portfolio managers globally to support ESG integration in investment decision making and the development of responsible investment solutions. He is a member of the fixed income sustainable investment committee, responsible for determining eligibility to impact and sustainability-themed alternative fixed income portfolios. Before joining us, Emanuele worked at the Carbon Disclosure Project, supporting institutional investors in engagement activities and ESG product development. Before that he worked at Bloomberg as an equity specialist and at KPMG as an environmental consultant.

Julius Huttunen has been in the industry since 2013 and leads responsible investment activities for the public markets fixed income platform. He oversees engagement activities for corporate credits and works with portfolio managers and credit analysts globally to support ESG integration in investment decision making and the development of responsible investment solutions. He is chair of the fixed income sustainable investment committee, responsible for determining eligibility to sustainability-themed credit portfolios. Before joining us, Julius worked at Calvert Research and Management in Washington D.C. as an ESG research analyst covering corporate issuers, building on their ESG integration process and focusing on corporate governance research.

Equity resources

In the equity team, stewardship activities are also conducted by portfolio managers. As active equity investors, Aegon AM integrates ESG into our investment decision-making to strengthen our investment conviction, support the management of our concentrated equity portfolios, and promote a long-term focus. This is an important consideration when the general trend in many markets tends to be short term. At the heart of our equity process is the teamwork that occurs between our portfolio managers and the independent Responsible Investment team, particularly on stewardship.

Outside of our dedicated responsible investing strategies, for our traditional equity strategies, portfolio managers form a judgment on ESG issues and leverage the expertise of the responsible investment team as required. There are 21 portfolio managers and research analysts that support the ESG integration process in our equity products, conduct engagement with companies and consider voting decisions. These investment professionals average 13 years of experience at Aegon AM and 21 years in investment industry.

Fixed income resources

In the fixed income team, stewardship activities are also conducted as part of our public corporate credit research process. The credit research team identifies and analyses financially material ESG and traditional economic factors. ESG analysis is included in credit research analysts' standard research reports. These reports include a dedicated ESG section containing a proprietary ESG credit impact categorization along with analyst comments on the main drivers of their ESG analysis. Engagement recommendations, if applicable, are also flagged.

In addition, the responsible investment team follows up on the issuers categorized with the highest ESG risk, initiating engagements to better understand the risks and to encourage their mitigation or management. The credit research team consists of 27 analysts and has an average of 10 years' experience with the firm and 18 years of industry experience as of 31 December 2021.

Multi-management resources

In the multi-management portfolios, stewardship activities are conducted in partnership between the responsible investment and multi-management teams. Responsible investment team members implement the engagement and oversee voting activities in line with the Aegon AM Sustainability Risks and Impacts Policy for Multi-Management Funds. Multi-management team members engage with external managers to oversee their stewardship activities across a wide range of topics on a regular basis.

Segregated mandates

In certain mandates we have limited discretion on stewardship activities, such as those from clients who wish to apply an engagement overlay or conduct their own voting policy. For those mandates, the responsible investment team is solely responsible for implementation of active ownership activities, according to instructions outlined in the mandates.

Voting decisions in those mandates are taken by the responsible investment team alone, according to client policies or in consultation with the respective clients. Dedicated staff within the Responsible Investment team are aligned to specific client mandates, to effectively implement the mandated stewardship policies of those respective clients.

Training

Investment team members undertake specialised training on responsible investment and ESG matters, typically requiring at least 8-10 hours. Further specialised training requiring 40-50 hours is recommended, particularly for portfolio managers and research analysts working on our dedicated responsible investment solutions.

Given the dearth of specialized external training for stewardship activities, the responsible investment team offers customized internal training for those involved in stewardship. This consists of e-learning sessions offered and tracked through our in-house systems, complemented by on-the-job training where senior members of the team accompany junior members through specific stewardship activities, such as voting recommendations and engagement meetings.

Incentives

Aligning sustainability risks and stewardship activities to remuneration policies is an important component of Aegon AM's compensation programmes. Our remuneration policy incorporates our global focus on integrating critical sustainability factors into multiple components of the variable compensation structure. Performance indicators are a foundational component of Aegon AM's variable compensation program. To achieve an accurate reflection of the overall performance from a long-term sustainability perspective, the remuneration policies outline limits on unadjusted financial performance indicators on both the organisational and individual level.

At an organizational level, this focus on sustainability is reflected by indicators incorporating long-term sustainability of business results, including one, three and five-year investment performance, client satisfaction, and specific improvement initiatives.

Individual objectives ensure that all associates have a direct line-of-sight to how they contribute to Aegon AM's strategy and sustainability goals. To illustrate, these indicators currently include components such as:

- An objective for all employees which incorporates key components of our culture, including embracing diversity of thought, displaying inclusive and respectful behaviours, compliance with company policies and successful completion of related trainings, and risk management components.
- Investment professional objectives include ensuring ESG factors are considered relative to the risk and return objectives of each fund while adhering to client fiduciary responsibilities.
- Executive leadership have individual objectives relative to Inclusion and Diversity goals within the organization.

Our remuneration policy also outlines the inclusion of management assessments, which are aimed at the risk alignment and sustainability of business performance. Such assessments may result in a downward adjustment of any variable compensation grant, allocation, payout or vesting. The assessments specifically include both Malus and Clawback provisions, which are described within the remuneration policy.

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.

Service providers

Good stewardship requires solid research. We benefit from numerous specialist research providers (ESG, financial and thematic) to inform our stewardship activities, which we use as inputs to our own proprietary research process. We rely on specialised and customisable systems to help us track and monitor our stewardship activity, including Factset and Aladdin.

In the UK Aegon AM conducts all engagements in-house, either directly or collaboratively with other asset managers. We rely on Institutional Shareholder Services (ISS) and the Institutional Voting Information Service (IVIS), part of the Investment Association, as research when making voting decisions, and the ISS Proxy Exchange platform to implement the voting decisions.

For certain mandates where we do not have discretion to take voting decisions, we rely on ISS to vote according to pre-determined client voting policies, although the responsible investment team still maintains oversight of the overall voting activity to ensure it continually meets client instructions.

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

Gaining and retaining the trust of clients is central to Aegon AM. This means conducting our business with integrity, fairness, and openness. All Aegon AM employees must always promote clients' interests, avoiding any actual, or perceived, personal conflicts of interest.

We recognize that potential conflicts of interest with our clients are inherent, due to the dynamic environment in which Aegon AM conducts business. Employees must always exercise good judgment to prevent situations that would suggest a conflict of interest. The Aegon AM Conflict of Interest Policy and the Aegon AM Code of Ethics aims to ensure that:

- Aegon AM is meeting local regulatory requirements regarding conflicts of interest; and
- All material business, client and personal conflicts of interest are either avoided, disclosed or managed effectively with disclosure and appropriate controls.

We provide staff with regular training on our Conflict of Interest and Code of Ethics Policies. Regular second-line monitoring and oversight of the business ensures that our conflicts are managed appropriately. We require all Aegon AM employees to read, adhere and attest to our Conflicts of Interest and Code of Ethics Policies.

Our Global Compliance team administers our Conflicts of Interest and Code of Ethics Policies, and failure by our employees to adhere to our policies may result in a conduct rule breach and subsequent disciplinary action.

Aegon AM's senior leadership team is responsible for establishing and promoting a culture of conduct that comports with our policies. These policies are reviewed regularly as part of the Global Compliance policy review schedule to ensure they continue to comply with relevant regulations and meet business requirements.

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 solely 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.

Record keeping

We recognise that a key component of effective stewardship is the management of conflicts of interest. Aegon AM must keep and regularly update a record of the kinds of service or activity carried out by or on behalf of Aegon AM, in which a conflict of interest entailing a material risk of damage to the interests of one or more clients has arisen or, in the case of an ongoing service or activity, may arise.

Aegon AM's conflicts of interest records capture the identified potential conflicts, listing the mechanisms we use for management of the conflict, and the control mechanism.

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

Identifying and managing potential conflicts of interest

We identify conflicts of interest in a range of ways, including:

- Reporting and challenging through control groups, where conflicts of interest is a standing agenda item;
- 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 with our equity proxy voting process as disclosed in Principle 12, we escalate the final decision-making on stewardship issues to the Global Chief Investment Officer. Where decisions deviate from our Active Ownership Policy, we record this and document the rationale for the decision. We report such matters quarterly 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. In 2022 there was no escalations required to the Chief Investment Officer.

Throughout 2022 we had no material breaches of our Conflicts of Interest and Code of Ethics policies or identified any unmanaged conflicts.

There were examples in 2022 where potential conflicts of interest were recognised and resulted in action being taken to avoid potential perceived conflicts of interest. These included:

External Director position held by staff member in security owned by clients	Potential conflict on stewardship and investment activities was managed through the enforced segregation of duties that ensured our fiduciary duty to our clients was complied with.
Aegon AM held equity holdings in major banks where we have commercial arrangements through firm trade counterparties	Our policies are in place to ensure that the stewardship activities are conducted independently, without regard to the extent of the business relationships and without undue influence on matters such as voting decisions. As a result, the Responsible Investment team could take an entirely independent view on the transition strategies that were submitted for shareholder approval over the past year. Each company plan was examined on its own merit and with regard to alignment with the goals in the Paris Agreement, meaning that we abstained and / or voted against where we believed it was in the best interest of our clients. For the example of the Barclays engagement, please see Principle 11.
Personal account dealing	Staff personal account dealing requests denied due to having open client orders.
Staff outside business activities (OBA)	Resolved by requesting that staff recuse themselves from certain OBA activities that may present a conflict to the staff member or our clients.

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 and secure market participants. Aegon AM is committed to maintaining a strong capital position, be resilient to market stresses, and honour our regulatory obligations across the jurisdictions in which we operate.

We achieve this by adopting a ‘three lines of defence, governance framework, which drives our risk culture and ensures effective business control.

First line of defence	The first line of defence has direct responsibility for the management and control of risk. All Aegon AM management and staff working within or managing operations are responsible for managing operational risks. They organise business processes and conduct daily business activities with the interests of Aegon AM stakeholders in mind. In view of the importance of adequate risk-taking behaviour in the business, a strong risk culture is built and maintained within Aegon AM through: • Clear and regular communication of expected risk behaviours, authorities, guidelines, and reporting, with all staff involved identifying and assessing risk assigned clear responsibilities. • Senior management leading by example (‘tone from the top’). • Learning from errors and experience (no blame culture, clear accountabilities). • Risk transparency.
Second line of defence	The second line of defence co-ordinates, facilitates and oversees the effectiveness and integrity of the risk management framework (the risk & controls committees and risk function). Responsibilities for facilitating risk measurement and assessment, risk monitoring, and risk reporting independent from risk taking. Proximity of risk management to the business for all risk management processes that are part of daily decision making (such as risk monitoring).
Third line of defence	The third line of defence provides independent assurance and challenge in respect of the integrity and effectiveness of the risk management framework (internal and external audit).

Accountability for the integrity of our risk and control supervision resides with our Governance Risk and Compliance Committee (GRCC), compromised of members of our Management Board, chaired by the Chief Risk & Compliance Officer (CRCO) and attended by the Chief Executive Officer (CEO). The primary responsibilities of the GRCC are to:

- Oversee and actively monitor risk taking within Aegon AM;
- Evaluate the effectiveness of the Governance framework; and
- Monitor the outcomes and any management action required following our compliance programme.

The GRCC oversees functional risk and control committees to monitor business as usual risk-taking. From time-to-time it will call upon additional firm resources to address specific issues or provide updates. The GRCC’s activities are supported by the risk function, as described on the following page, and internal audit. These teams and functions collaborate to ensure there is a holistic approach the management of key risks in the firm.

Risk management at Aegon AM

Our Risk function comprises of four teams:

Portfolio Risk Management	The Portfolio Risk Management team independently identifies and quantifies current and potential risk exposure levels in portfolios and funds. It analyses and reports on exposures to senior management, regulators, and Aegon AM's internal governance and control framework. The team also provides risk management services for funds and portfolios, reviewing investment proposals, fund launches, ongoing modelling and monitoring mandate changes.
Core Risk Services	The Core Risk Services team supports model risk management and model validation, policy framework and governance, manages the governance for Aegon AM's Governance Risk and Compliance committee, and provides risk reporting to local boards. Portfolio Risk and Control specialists are responsible for the daily monitoring and reporting of investment risk within our funds and client portfolios, and the escalation of any mandate breaches that may arise.
Enterprise Risk Management	The Enterprise Risk Management team assesses the operational risks within the processes to ensure these are in line with wider Aegon AM and Aegon Group policies and Board-approved risk appetite. They provide timely and high-quality risk advice and reporting.
Compliance	The Compliance team provides regulatory risk identification, assessment, independent testing, monitoring and reporting to senior management. Risk-based testing and monitoring occur throughout the year in accordance with the priorities identified in the compliance program. This is set locally according to local licenses and regulatory priorities, with global coordination.

Bringing our regulators with us

In the UK we have an open and transparent relationship with our primary regulator, the Financial Conduct Authority (FCA). In 2022 this included engaging in proactive discussions around our transformation agenda, our post-Covid financial resilience, and the evolution of our strategy as part of a global asset management business. This open conversation with our regulator allows us to demonstrate that we are considering our clients' interests in everything we do and ensuring our regulator agrees as we go.

Influencing industry bodies

THE INVESTMENT ASSOCIATION

Our role in influencing industry standards is varied and tailored to our concerns or relevant shared experiences as a market participant. In the UK we work as an active member on several Investment Association committees, sub-committees, working groups and discussion groups which are relevant to our business, ranging from the Fixed Income Committee, Stewardship Committee, Sustainability and Responsible Investment Committee, Culture and Conduct working groups, through to the Fund Investment Risk Group.

In September 2022 **Kirstie MacGillivray** (pictured), CEO of Aegon Asset Management UK, joined the Board of the Investment Association. Through our participation 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, including the most recent on the Sustainability Disclosure Requirements and have found partnering with our trade body most effective to have our opinions heard.

Aegon AM is a member of Eumedion, which represents institutional investors' interests in the field of corporate governance and related sustainability performance. We are also a member of the Dutch Fund and Asset Management Association (DUFAS), which promotes the business environment for asset managers in the Netherlands.

Enterprise risk

As an asset manager with limited direct market-risk exposures, our enterprise risk management consists primarily of operational risk management, with full consideration of top-down strategic risk assessments at our Management Board level.

Our bottom-up risk assessment is underpinned by a comprehensive risk control self-assessment process, recorded and rated in our global risk control tool (OneSumX), monitored by our second line Enterprise Risk Management (ERM) team, with regular reporting through our governance structure. However, responsibility for the identification and management of operational risk resides in the teams taking the risk. The role of enterprise risk is to advise and challenge line management on risk identification, risk-based decision making, control design and other mitigating strategies. We do this to meet the expectations of our clients and regulators alike.

Operational risk in action

In the last year we embarked on a transformation of our order management system, which included some supporting middle office activities being insourced. Given our geographic dispersion, broad asset class coverage, and nuanced ways of working, this was an extremely complex migration that required safe management. Clearly defined program governance, executive sponsorship and participation in steering committees were key drivers in the success of the program. Although implementations dates were delayed, this was necessary to manage risk to investors arising from the transformation and ensure time for sufficient attainment of exit criteria.

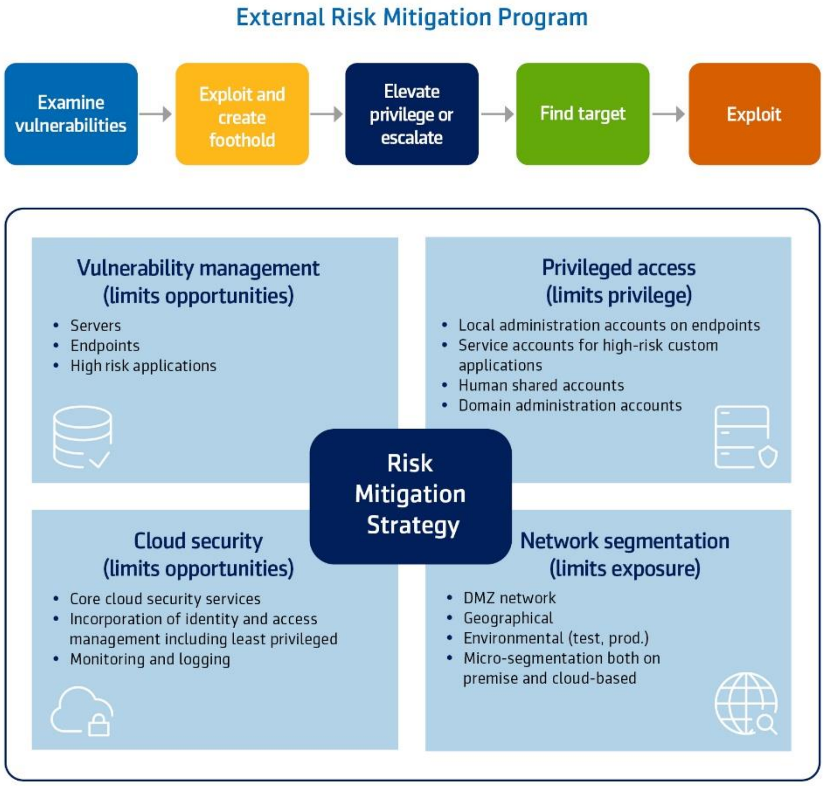
The role of the ERM team was critical in challenging the quality of the program build, supporting go live decision with clear risk-based analysis. As we move toward the end of the first quarter of the new calendar year, the platform has stabilised this has proven a well-balanced risk decision. Albeit it did result in some volatility for our client's as isolated errors were made. In line with our compensation policy, these were identified quickly, process and control gaps remedied with any client loss made whole.

Evolving threats

Cyber security and the ever-changing risk landscape with respect to technology is a continuous focus for the team. Working closely with colleagues in our Information Security department, monitoring investment and progress on the continuous improvement of our cyber defences and ensuring senior management have visibility of any residual exposures.

This approach proved reliable during the Russia Ukraine conflict, when we observed an increase in cyber-attacks, with Aegon and our Global network holding firm and any such attempts successfully blocked.

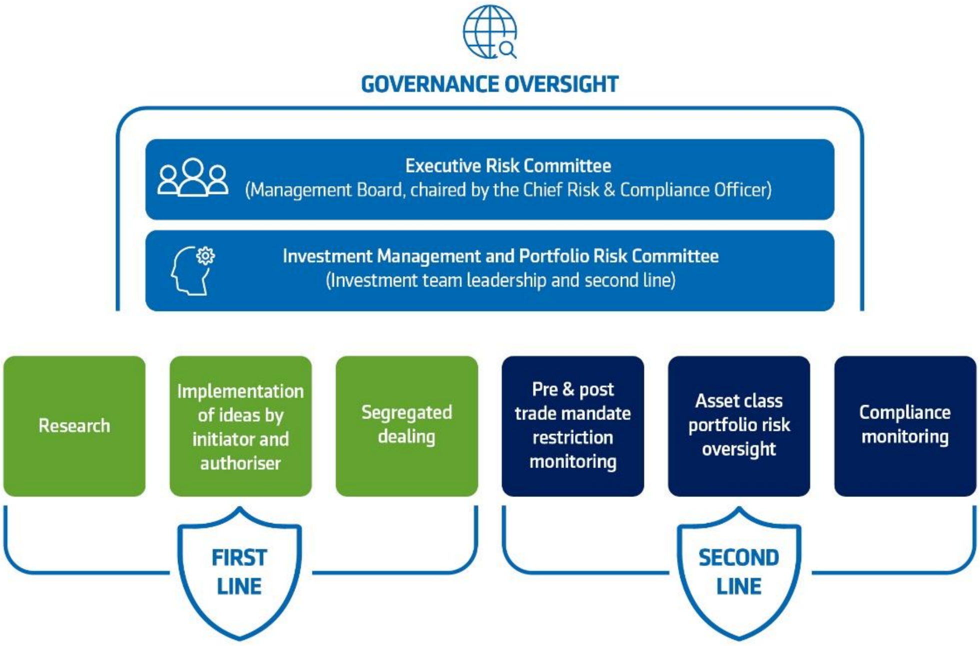
The graphic on the right depicts our external risk mitigation outlook and the activities/controls we operated to manage this risk with our appetite.



Investment risk

Oversight of investment risk begins with the leaders of our investment platforms, representing the direct managers of our investment teams and the mandates they operate to. Portfolio risk oversight meetings combine performance and risk analytics, while on-desk challenge sessions by dedicated asset-class risk specialists supplement leadership reviews. This forms the basis of our ability to fulfil the promises we make to our clients through our mandates, in terms of investment objectives, including any sustainable or ethical commitments we have made. This process is formalised through monthly investment risk and control meetings, informing an executive risk oversight and discussion on a quarterly basis.

Oversight of our investment process



Case study: Responding to geopolitical instability

As the Ukraine / Russia conflict developed, we activated crisis management teams at Group and Aegon AM levels to assess risk and necessary actions across all business activities. From an investment perspective, second-line risk management worked in conjunction with the investment functions assessing both direct exposure to Ukraine / Russia and potential contagion areas, including the former Soviet bloc countries and China / Taiwan.

Additionally, PRM undertook a range of stress-tests across our estate that applied factors, including both direct country exposure and energy market pricing, inflation and weakening GDP growth. This enabled us to proactively assess potential impacts across our portfolio range and feed this into our dialogue with the investment teams.

Equities

Aegon AM's equity platform is based in the UK. We take a long-term view to investing across our equity portfolios, while observing market developments and managing associated risks through action is at the core of our active equity approach across all strategies.

We identify, assess, and manage market-wide and systemic risks across all relevant areas of equity investment. This includes, but is not limited to, areas such as the likely impact from macro factors (such as geopolitical and policy risk), factor risk in our equity portfolios, ESG risk and liquidity risk.

Market and security-specific liquidity has been a particular area of focus for market participants and regulators for several years. This is due to significant macro crisis situations, such as the 2008 global financial crisis and the Covid pandemic, which led to liquidity risk and fund-specific liquidity events.

Over 2022 market liquidity was also tested from various sources, such as: The ongoing Russia / Ukraine conflict; bouts of heightened volatility triggered by sharp monetary policy tightening from major global central banks; and UK pension schemes experiencing extreme liquidity stress due to a spike in gilt yields, prompting forced selling of assets to meet Liability Driven Investment collateral requirements.

As part of our equity management processes, we assess both shorter-term tactical and liquidity-based issues, as well as longer-term strategic and systemic considerations. We do this in various ways, including:

- Working closely with our specialist risk management functions and equity dealing teams to assess market liquidity and volatility, stock-specific liquidity, and the capacity of our equity funds to make well-informed decisions on behalf of clients.
- Engaging extensively with companies at both the pre-investment and post-investment stage on behalf of clients.
- Carrying out broad engagements with other market participants, including other investment managers and intermediaries.
- Executing firm-wide assessments on issues and threats for asset classes.
- Dedicating time and resources for the creation and promotion of thought leadership and opinion-setting content.

Ultimately, it is in the longer-term decision-making context that most weight is given to, with respect to market-wide structural and systemic risk issues. Bottom-up, single company-specific risks and issues (including ESG considerations) all too readily aggregated 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.

2022, much like recent years provided several notable 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 details. We have also engaged with various industry bodies to provide advice and observation on emerging issues.

Aegon AM has worked through external bodies, such as the UK Investment Association on issues such as the cost-of-living crisis. Miranda Beacham, Head of ESG – Equity and Multi-Asset, chairs the Remuneration and Share Schemes Committee at the UK Investment Association. The Committee issued a 'Dear Chair' letter outlining how the Committee expects companies that Aegon AM and other peers invest in to behave with respect to pay and overall remuneration.

Elsewhere, Aegon AM applied exclusions to investment in Russian and Belarusian markets in the wake of the Russia / Ukraine conflict. This decision resulted in firm-wide work to identify not only direct exposure, but also indirect exposure to these markets in client portfolios, with action taken where relevant.

Case study: Responding to geopolitical instability

Ball Corporation, a US-headquartered company which produces metal packaging for beverages, foods, and household products, was an example of a company that was being reviewed by our North America Equity team, but the team took the decision not to invest in March 2022. This was due to the company's operations in Russia, which involved 1,000 staff and represented approximately 4% of the company's total net sales in 2021.

Subsequently, in April 2022, Ball Corporation announced that it would withdraw from Russia, at which point we engaged with management, requesting an indicative timeline around the cessation of operations and details on how the company would manage its Russia-based employees throughout the exit process. Following a positive engagement with the company, Ball Corporation was deemed appropriate for investment.

Fixed income

The task of identifying and recognising the warning signs of market-wide and systemic risk is becoming increasingly challenging as financial markets become more complex and globally interconnected.

While much of our fixed income investment process has been broadly unchanged for over 20 years, it is also sufficiently flexible to be able to incorporate additional reviews, projects or enhancements that may stem from anticipating or reacting to market-wide risks or significant market events.

As part of our regular risk management analysis, we undertake ongoing stress tests and scenario analysis for all portfolios, which include assessing the potential risks from interest-rate shocks, credit spread shocks and a range of historical scenarios.

2022 was a year where global market-wide risks drove investment returns and have been at the forefront of our risk-management considerations.

Across the globe, inflation has been elevated and problematic. This was further exacerbated by the conflict in Ukraine, which in turn impacted the energy supply complex. Related concerns over a cost-of-living crisis and anticipated recessionary conditions made it very challenging for central banks to set appropriate monetary policy and balance the heightened inflation with the future interest rate direction. Geopolitical risks were also front-and-centre, with political uncertainty and policy errors in the UK, ongoing US / China tensions, and a worsening situation in Ukraine.

As such, government bond yields and corporate bond spreads were caught between the opposing forces of higher inflation and lower future growth, and the market experienced significant bouts of higher volatility or liquidity challenges throughout 2022.

Our response to the management and mitigation of such risks is multi-faceted and leverages the deep global resources of Aegon AM.

With heightened macro risks, our longstanding process of integrating both rates and credit investment teams into our investment strategy setting is invaluable. The research input of our sovereign, rates and currency team, and our macro strategy team and the cross fertilisation of macro insights across all global fixed income asset classes has been a crucial consideration for setting investment strategy. As such, the active management of interest-rate risk, yield-curve positioning and top-down risk positioning has been a key driver of portfolio risk and returns in 2022.

Combining those macro insights with deep, fundamental research of individual companies is also key to understanding these market risks from a market and individual company perspective.

For example, the increased economic activity and supply chain challenges resulted in labour, transportation, and material cost inflation and significant research was conducted to better understand the impact on corporates. In addition to our ongoing fundamental analysis of individual companies, our dedicated credit research team conducted a broad review of sectors, identifying which industries are most impacted by inflationary pressures. They conducted a similar review at the onset of the Russia / Ukraine conflict and within sectors, they also conducted a deeper dive into the sectors expected to be most affected, such as the consumer sector.

In addition to this proprietary credit research used by portfolio managers, we also published several related thought leadership articles, summarising our key findings and sharing those views with clients.

Throughout 2022 our investment teams worked closely with our independent portfolio risk team to understand how these market stresses impact on individual portfolios, such as in the stress-testing of interest rate and credit spread movements. At our formal portfolio performance and risk oversight reviews, we formally monitor the changes in portfolio risk profiles including interest rate sensitivity, spread movement and an independent portfolio liquidity assessment.

Case study: Protecting the interests of clients during UK gilt crisis

Our management of liquidity risk was particularly evident in September 2022. Following the UK government's mini-budget announcement in September, the market saw a rapid rise in UK gilt yields. As a result, many pension funds with liability driven investments were forced to liquidate assets to meet their collateral requirements, impacting market liquidity, particularly in securitized assets.

Various measures were put in place to help mitigate the impact of these liquidity pressures on our asset-backed portfolios.

Having seen challenging liquidity conditions at the outset of Covid-19 crisis, we anticipated a degree of asset outflows before they materialised. As a result, we ran higher cash balances in our asset backed portfolios going into the UK budget events. This helped to reduce trading costs and the anti-dilution levies for our clients.

We calculated actual trading costs daily to reflect this in anti-dilution levies with our independent risk team overseeing the process. This ensured that clients who remained invested were not impacted by any redemptions and redeeming clients paid a fair price for their liquidity needs. We were able to provide our clients with the crucial liquidity they needed in a timely manner.

We also communicated extensively with clients throughout this period, with a series of articles published at www.bondtalk.com, our dedicated fixed income blog.

Greater interconnectivity between internal research/resource (including responsible investment) teams and stronger appreciation of 'non-financial' risks in overall credit assessment has played a strong part in combatting potential market risks including those listed above.

Our approach to integrating ESG factors and mitigating ESG risks is detailed in our Principle 7 comments.

Multi-asset

Our multi-asset team oversees the asset allocation framework for its portfolios, leveraging the expertise of our asset-class specialists to deliver bottom-up security selection. Asset-class specialists understand the overall objectives of the strategies, and our default approach is to give them broad latitude to determine security selection and sizing, consistent with each strategy's objective. It is here that we systematically incorporate stewardship, governance and the appropriate analysis of environmental and social issues to help shape our portfolios. At a security level the multi-asset team benefits from the work of our asset-class and responsible investments specialists, which we describe elsewhere.

The assessment and understanding of ESG risks have become more prominent in the past year and we believe the following enhancements are a material benefit to our investment capability and in the best interests of our clients.

- We have developed our understanding of Potential Adverse Impacts (PAIs) through the year and there is now a regular structured assessment of these as they affect each portfolio.
- Enhancements to the Aegon AM UK Sustainability Risks and Impacts Policy have helped to sharpen our integration of the ESG analysis within our multi asset portfolios.
- Building on this, adjustments we have made to our ESG practice within the Aegon Global Diversified Income Fund allowed this Dublin-domiciled fund to be reclassified as Article 8 under SFDR.

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

Our stewardship activities are governed primarily by our Active Ownership Policy and complemented by policies applicable to specific Aegon AM entities or fund ranges. Our Active Ownership Policy is global, although Aegon USA Investment Management and Aegon USA Real Assets are not subject to the voting requirements of the Active Ownership Policy, which may not be applicable - or inapplicable to the same degree - for all strategies.

Our standard policy review cycle is two years, with policies typically reviewed at least biannually. Policy reviews may occur outside the cycle to reflect any relevant new regulations or interdependent internal policies, new best practices, and evolving client demands. Our policy suite is maintained and overseen by our Core Risk Services team and ensures disciplined reviews take place in collaboration with our policy leads, which helps to drive the continuous improvement of our polices.

Most recently we reviewed a range of policies in preparation for the Sustainable Finance Disclosure Regulation (SFDR) implementation and adopted new policies to better control our management of sustainability risks and adverse impacts.

Active Ownership Policy updates are approved by the policy owner, the CIO for Fixed Income, Multi-Asset & Equities, who is a member of the Aegon AM Global Management Board and a member of the Risk & Compliance team~~,~~ whereas material updates to policies applicable to individual Aegon AM entities or fund ranges are approved by the respective boards of the entities offering such funds. Prior to ultimate approval, the Policy is also reviewed by the Aegon AM Sustainability Board for advice and endorsement.

As part of our policy framework, policies are subject to a periodic attestation process, whereby the key requirements of the policy are reviewed by the policy owner and evidence is provided to support compliance. The results of the attestation are reviewed by our second line of defense for agreement, and any gaps identified are logged as issues, with corresponding action plans developed that are tracked to completion.

Our Active Ownership Policy was included in the 2021 Policy Attestation cycle and the results indicated all key requirements were met. The 2021 attestation found no problems and no recommendations for change were made. The results of these attestations are also reviewed and discussed by the Aegon AM Sustainability Board, which may recommend updates to the policy owner.

The Active Ownership Policy underwent a formal review at the end of 2022 as part of its standard two-year review cycle.

To assure process and assess policy effectiveness, we have an embedded ‘three lines of defence’ governance framework, where maintaining effective stewardship is a key constituent of that framework. We described these in Principle 3.

Our approach to ESG and the supporting control framework was subject to a compliance monitoring review in 2022, and some aspects were also reviewed by our internal audit team. 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 practices. 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 in the UK. No exceptions were identified as part of this assurance in our most recent report to the 12-month period to 30 September 2021.

Each year, our stewardship activities and their effectiveness are reviewed internally as part of our Three Lines of Defence model described on page 16. Annual reporting on our stewardship activities through the Aegon AM Responsible Investment Report and other client- or fund-specific reports also allows us to receive feedback on these activities and inform our Active Ownership Program going forward.

In the Netherlands, this is formalized through an annual review meeting with our key affiliated client, Aegon NL, to ensure stewardship activities continue to align with their objectives and to inform potential adjustments to the approach on specific engagements, such as escalation, filing shareholder resolutions or divestment.

Historically, Aegon AM UK has 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 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, which we believe to be sufficient.

Compliance statement

This report has been compiled by our Head of ESG - Equity and Multi-Assets, with content and support from subject-matter experts across the firm, including but not limited to heads of investment desk, and other key functional areas. The report has been subject to our Financial Promotions process, where it is reviewed by our Regulatory experts to ensure it is fair, balanced and understandable. The report has been approved by both our Chief Investment Officer and Chief Risk & Compliance Officer.

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 international 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 regularly gather the views of clients 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.

Every two years our UK business formally seeks client feedback through our ethical and sustainable investment survey. We review the exclusionary criteria applicable to our ethical strategies by asking our clients for their feedback on our approach. The results of the latest bi-annual survey, published in July 2021 are available on our website. We recently completed our latest survey, which closed on 31 March 2023 and the results will be reported in May 2023.

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 implement their own voting policy – whereby the responsible investment team is solely responsible for implementation, according to instructions outlined in client mandates.

We publish an annual Responsible Investment Report, which 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. The latest report, published in April 2022 is available at www.aegonam.com/responsible.

As part of our client service offering, we also provide clients with bespoke stewardship reporting in accordance with their requirements and timelines.

Outcomes

Over the last three decades our strategies have evolved in response to client feedback and changing societal concerns. In 2022 we have taken a range of initiatives in response to client feedback.

- Aegon AM is a member of the Net Zero Asset Managers Initiative, a global coalition of asset managers committed to supporting the goal of net zero greenhouse gas (GHG) emissions by 2050. We support investments aligned with this net-zero emissions target and are partnering with our clients on decarbonization, helping them to achieve their own climate-related ambitions. In 2021 we made a public commitment to increase the proportion of assets we manage in line with the attainment of net zero emissions by 2050 or sooner, and in 2022 we established an interim target. By 2025, we aim to have at least 40% of our assets under management aligned to net zero objectives. To achieve this target, we are increasing our capacity to analyse climate risks, developing investment strategies with a credible pathway to net zero, engaging with a wide range of companies to encourage adoption of science-based targets, and ensuring we can better report our analyses to clients.
- In 2022 we developed a carbon-efficient short-dated investment grade bond strategy, which we initially seeded with £325 million from four UK local authorities. The strategy has since grown to £800 million (as at 31 March 2023), following strong support from UK wholesale and institutional investors.
- Our bi-annual ethical investment survey led to recommendations being implemented in 2022, principally a change to our policy on excluding companies making political donations.

- Questions regarding ESG are part of our annual client survey and results are followed up in the organisation. For example, increasing the number of Sustainable products as well as improving our reporting capabilities.
- We were early adopters of The Investment Consultant Sustainable Working Group (ICSWG) best practice on reporting requirements.
- We have been actively working with client and consultants on the PLSA engagement templates throughout 2021.
- TCFD Reporting (The Occupational Pension Schemes Client Change Governance and Reporting Regulations 2021) - Engagement is specifically called out within the ESG reports we are producing for the pension scheme legislation. Our first sub-set of funds were produced in July 2020 and distributed six monthly to institutional investors as part of our standard reporting suite. In 2022 we expanded this to 16 funds and plan to roll this out to more funds in 2023.
- We responded to feedback from clients for enhanced ESG reporting, which we reflected in our commitment to expanding our range of ESG reports. We are also currently working to introduce ESG information as standard to fund factsheets, with implementation in the second half of 2023.
- We developed a series of client webinars and videos titled *ESG Beyond Borders*, along with customised ESG briefings and training for particular client groups, such as pension funds and insurers. For examples, please refer to our website at www.aegonam.com/en/videos/esg-beyond-borders.
- During client meetings ESG is an integral part of the meeting, next to performance.

Global firm assets under management

Our global assets under management as of 31 December 2022 were £258,777 million. Below we show the breakdown by client type, client domicile, investment vehicle and asset-class investment platform.

By client type	(£m)	
Insurance	£99,958	38.6%
Corporate	£86,648	33.5%
Pension fund	£40,042	15.5%
Financial institution	£18,174	7.0%
CLOs	£4,245	1.6%
Funds	£3,663	1.4%
Wealth management & private banking	£1,631	0.6%
Foundation, endowment & charity	£1,418	0.5%
Local authority	£1,277	0.5%
Family office	£1,021	0.4%
Other	£524	0.2%
Retail	£84	
Supranational	£52	
Union & multi-employer	£43	
Religious & non-profit	£0	

By client domicile	(£m)	
Europe	£103,922	40.2%
US	£78,338	30.3%
Other	£44,646	17.3%
UK	£31,872	12.3%

By investment vehicle	(£m)	
Separate accounts	£151,789	58.7%
Other pooled funds	£75,187	29.1%
UCITS funds	£19,005	7.3%
Sub-advised pooled funds	£12,015	4.6%
Collective investment trusts	£756	0.3%
Private funds	£25	

By investment platform	(£m)	
Fixed income	£133,528	51.6%
Multi-assets	£36,897	14.3%
Real assets	£17,575	6.8%
Equity	£17,205	6.6%
Joint ventures & other	£53,572	20.7%

Source: Aegon AM. As at 31 December 2022. Please note that Multi-Assets & Solutions includes equity, fixed income and real assets allocations within multi-asset portfolios that are managed by specialist investment teams across the firm.

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

In this section we discuss our research framework for ESG, before showing how we fulfil this principle by asset class, before commenting on our approach for multi-asset portfolios. We then summarise our ESG-themed products, illustrating the range of different strategies.

Our research framework

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

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

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

Examples of ESG integration

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

Environmental	Social	Governance
• Greenhouse gas emissions • Water & wastewater impacts • Hazardous materials & air quality • Biodiversity impacts • Material sourcing • Product design & lifecycle management	• Human rights & stakeholder engagement • Data privacy • Product safety & sales practices • Health & safety • Labour management • Supply chain management	• Governance structure • Accounting practices • Remuneration • Business ethics, fraud & corruption

Considering climate risks and opportunities in our fundamental research processes

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

Equities

Aegon AM's equity platform is based in the UK. 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 financially material ESG factors into the investment process to help mitigate risk and potentially uncover opportunities. This takes place for all equity research carried out by the team and is facilitated by an ESG integration section in our standard equity analysis template. We provide more information on ESG integration in equities below.
Active ownership	Addressing ESG issues by actively engaging with issuers and investee companies and exercising shareholder rights.
Solutions	Providing focused responsible investment equity strategies within our exclusions and sustainability-themed pillars. Our Ethical Equity Fund is the main strategy in our exclusions pillar. Its ethical screening, overseen by the responsible investment team, removes companies with significant negative impacts on the environment or society from the investment universe. Our sustainability-themed strategies also feature extensive involvement from the responsible investment team, who review every stock proposed for inclusion and categorise as a sustainability 'leader', 'improver' or 'laggard'. Only leaders and improvers can make it into the portfolio, while laggards are uninvestable, meaning the responsible investment team have power of veto. Within the sustainability-themed pillar, we run a global, an international ex-US, a UK and two US strategies.

ESG integration in equity portfolios

Environmental (including climate change), social and governance issues are all explicitly considered in our equity analysis, as we know they each has the potential to materially impact both the financial performance and the valuation of our investee companies.

Unless a fund sits within our responsible investment solutions pillar as illustrated above, we do not make ethical value judgements, nor do we impose ESG-related restrictions on the investment universe. Rather, the judgement we make within our traditional equity funds reflects the extent to which we believe ESG issues impact a stock's investment case, either positively or negatively. Materiality is key here. To do that, our equity fund managers and analysts draw upon the expertise of our specialist 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, to reflect a more considered approach and nuances between companies.

As fundamental investors, assessment of ESG issues has always been integral to our investment approach and we continue to evolve our thinking in this important area to ensure that our approach remains market leading.

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.

Importantly, when evaluating ESG factors in the fundamental analysis process, our fund managers and 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.

Stage 1	Involves identifying the most important ESG factor impacts for a given company.
Stage 2	When evaluating a particular 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 ESG change (ESG momentum) and a company's overall ESG profile. Is exposure to these ESG risks or opportunities changing in a positive or negative sense? Can we see improvement or deterioration? We believe this consideration is critical, as ESG cannot be viewed in a static manner, and as a firm we value and support ESG improvement over time.

We illustrate our framework in the chart below.

	Stage 1	Stage 2	Stage 3
	ESG factor impact	**Level of ESG significance**	**Direction of change**
Aegon AM ESG category evaluation	● Red	● High	↑ Positive
	● Amber	● Medium	→ Stable
	● Green	● Low	↓ Negative

Importantly, all information related to research, company meetings notes and engagement activity by the responsible investment team is centrally stored to provide easy access to all team members, reflecting our one-team culture. Engagement with companies is a central part of our research and includes traditional investment factors such as strategy and asset allocation, as well as ESG and climate change.

Active engagement

The responsible investment team's engagement is well-suited to advancing broad themes such as climate change policies, diversity and inclusion, and executive pay and remuneration which, in aggregate, are key to the effective functioning of the financial system.

The focus of our fundamental equity analysts 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.

We have included some case studies on the following page to demonstrate how we use our ESG integration framework in practice.

Case studies on ESG integration in equity research

Below are some examples where the investment team have evaluated an investment proposition and decided that ESG is a driving force behind the investment decision.

Iberdrola

Example

Decision to remain invested due to ESG being a positive driver in the investment

Company description

Iberdrola generates, distributes, and trades electricity, as well as markets energy products in Spain, UK (Scottish Power) and Latin America.

ESG impact on investment case

The stock received a positive ESG rating (green) from our European equity team in research carried out in March 2022. Our team determined that Iberdrola's long-term strategy, which is focused on renewables and network investments, will drive future earnings.

The company is expected to increase renewable capacity across a number of countries, and this underpinned our long-term investment case. For example, Iberdrola is:

- Installing new photovoltaic plants and wind farms in Spain;
- Moving forward with plans for transmission and distribution grids and the installation of new onshore and offshore wind farms in the US and UK;
- Continuing to extend transmission and distribution grid infrastructure and investing in clean energy in Brazil: and
- Building plants to increase installed combined cycle and renewables capacity in Mexico.

The ESG integration component of our fundamental research view is shown below.

Stage 1	Stage 2	Stage 3
ESG factor impact	Level of ESG significance	Direction of change
Green	High	Positive

Koninklijke Philips

Example

No investment made, with ESG a significant risk to the investment case.

Company description

Koninklijke Philips is a Dutch headquartered technology company, which engages in the healthcare, lighting, and consumer well-being markets.

ESG impact on investment case

ESG risk was a significant factor in the consideration of the investment case for this company and resulted in our European equity team deciding not to invest in the stock.

Koninklijke Philips has been pivoting its operations to healthcare, but we have had question marks around the company's capabilities in this area and overall governance. The governance risk was borne out when the company announced issues with one of its respiratory devices in 2021 and recalled the product globally. Management was unable to deal with this problem adequately and the fallout from the issue has resulted in the company's share price falling materially (c. 56% over 2022) and shareholders voting overwhelmingly against 2021 bonus plans for management at the company's 2022 AGM.

The ESG integration component of our fundamental research view is shown below:

Stage 1	Stage 2	Stage 3
ESG factor impact	Level of ESG significance	Direction of change
Red	High	Negative

Epam Systems	
Example	The investment was sold, with ESG a significant risk to the investment case.
Company description	US-headquartered EPAM Systems engages in the provision of software product development and digital platform engineering services.
ESG impact on investment case	ESG risk was a significant factor in the investment case review for this company and resulted in our North America equity team deciding to disinvest from the stock in early 2022. 70% of Epam staff are based in Russia, Ukraine and Belarus and we reassessed the investment case for the stock following the onset of the Russia / Ukraine crisis. Ultimately, we judged that the company was exposed to significant political risk, which could lead to disruption in operations, potential sanctions, and major governance challenges with respect to managing staff across locations. The ESG integration component of our fundamental research view is shown below:

Stage 1	Stage 2	Stage 3
ESG factor impact	Level of ESG significance	Direction of change
Red	High	Negative

RingCentral	
Example	The investment was sold, with ESG a significant risk to the investment case.
Company description	RingCentral is a US-headquartered company which engages in the provision of global enterprise cloud communications and collaboration solutions.
ESG impact on investment case	ESG risk was a significant factor in the investment case review for this company and resulted in our North America equity team deciding to disinvest from the stock during 2022. Governance was a notable area of concern in this example. The company's CEO controls a significant proportion of the voting rights, via his preferential shares and the potential negative impact of this appeared to be visible in the sudden increase in senior-management turnover. We re-assed the investment case and determined that the leadership of the CEO, coupled with weakening governance structures, meant that RingCentral would be unable to react effectively to a changing market environment and increased competition. The ESG integration component of our fundamental research view is shown below:

Stage 1	Stage 2	Stage 3
ESG factor impact	Level of ESG significance	Direction of change
Red	High	Negative

Engagement is a key part of our approach to ESG, and our equity and responsible investment teams often carry out joint engagements with companies we invest in. The case study below is a specific example of the teams working together during 2022.

Trian Investors 1 Fund	
Company description	This was a London listed investment trust managed by Trian Fund Management
Engagement	This is a strong example of our UK equity fund management team and responsible investment team working together to drive positive change. Aegon AM was involved in serving notice to convene an extraordinary general meeting of shareholders in order to seek the removal of the fund's chair and certain board members as a result of changes made to the fund's investment policy. These changes related to the fund's underlying investment strategy and investment horizon, which we deemed were not in shareholders' interests. The fund's chair was removed in August 2022 and after further engagement, an agreement was reached to close the fund in September 2022, with assets being returned to shareholders. More details are provided in our response to Principle 11.

Fixed income

In recent years our fixed income stewardship has developed materially across Aegon AM. In recognition of varying client requirements, our approaches have been focused on providing solutions to varying underlying fixed income asset-class types. Below, we outline our building-block approach (as seen in the client solution section). Our spectrum of capabilities, from exclusion, best-in-class, climate transition, sustainable and impact approaches, allows strategies to build on firm-wide resources and offer opportunities to further embed our stewardship focus.

We also have sustainability research in sovereign bonds and securitized markets as well a private debt fund based on impact criteria.

Stewardship for corporate fixed income

Our fixed income investment process is built upon robust analysis of bond issuers. For corporate credit, we analyse the opportunities and risks of bonds and issuers under four principal headings: fundamentals, valuations, technicals and sentiment (FVTS). This analysis is undertaken by our global credit research team and involves both traditional business analysis and the consideration of ESG factors. Considering these metrics alongside each other allows us to fully appreciate the impact of ESG factors upon our investment decisions, with the ultimate goal of ensuring cash flow sustainability of issuers.

Considering ESG from a fixed income perspective is as much about managing risk as it is finding improved returns. Consequently, the way our ESG process is represented in our portfolios is often by those companies we do not own - that do not pass our rigorous security selection process - as well as those that do. Considering ESG as part of our investment research process helps us minimise the potential for credit rating migration and defaults.

Our ESG risk analysis draws on multiple specialist ESG research sources and includes notes from any engagements undertaken with respective issuers by our research platform and responsible investment team. Analysts consider a range of issues in formulating ESG categorisations, with controversial weapons leading to the lowest ranking scores and exclusion from portfolios.

ESG integration typically includes four main steps:

1. Identification	Research analysts identify important ESG and non-ESG factors specific to the company and the industry they operate within.
2. Assessment	Research analysts assess if each factor materially affects the issuer's fundamentals.
3. Incorporation	Research analysts incorporate the fundamental impact into the credit assessment and their credit recommendation to support a discussion with portfolio managers.
4. Integration	Portfolio managers integrate analysts' recommendations, including ESG factors, into the portfolio construction process as appropriate to the client's mandate.

The credit research team's proprietary analysis incorporates qualitative and quantitative elements to determine and assess the potential materiality of the ESG issues and the impact on an issuer's credit fundamentals. Focus is given to the potential economic impact ESG issues may have on the issuer's ability and willingness to meet debt obligations.

Materiality of ESG factors is ultimately defined according to the team's proprietary ESG categories shown in the table on the following page. We assign an ESG category to each issuer based on the analyst's determination of the materiality of ESG factors.

Climate related risks are also included within our ESG analysis through the 'Environmental' assessment, with a clear focus on the sectors deemed as higher risk sectors (Energy, Utilities, Transport, Industrials and to a lesser degree Banks and Insurance).

The assessment focuses in particular on the carbon transition and related risks, looking inter alia into physical risks, stranded assets assessment as well as political and regulatory risks.

ESG categories	
1. Leader	The fundamentals are positively affected by effective ESG practices.
2. Minimal risk	Fundamentally low exposure to ESG risks or presence of factors that mitigate ESG risks.
3. Event risk	ESG risk exposures could negatively affect fundamentals, but the effect is not measurable, and timing is uncertain.
4. Fundamental risk	ESG risks are resulting in negative pressure on fundamentals, however limited impact on credit rating.
5. Rating risk	ESG factors have resulted in a material negative effect on fundamentals, that may or may not be currently reflected in its credit rating.

Collaboration and interaction between the credit analysts, portfolio managers and responsible investment team is ongoing and formalised through monthly tri-partite meetings as a forum for discussion on key ESG themes, risks and opportunities and engagement.

Following ESG risk categorization the respective analyst may 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.

ESG Example: Corporate credit / Credit Suisse – ESG 4	
Example	ESG rating of 4 due to governance concerns. CREDIT SUISSE
Internal assessment	At the time of Credit Suisse's collapse in March 2023 our credit research analyst categorized the company as an ESG 4, based on our proprietary ESG research framework. This view was based on elevated governance risk, particularly stemming from the scandals in 2021 and earlier.
ESG impact on investment case	Before the Archegos / Greensill scandals Credit Suisse was scored as an ESG 3, meaning 'event risk', in line with other banks, such as Deutsche Bank, UBS and BNP, that see their fair share of compliance or money laundering scandals. However, in 2021, the Archegos/Greensill scandals led us to revise our internal ESG category to an ESG 4, as the governance concerns started impacting our credit outlook on the firm. In March 2021 Credit Suisse suspended $10 billion of supply chain funds that had been originated (and sold to Credit Suisse investors) by Greensill. Following the fund suspension, Greensill went into administration, suggesting serious shortfalls in its lending criteria. There are questions around risk management effectiveness, with red flags raised by risk seemingly overridden by top management as Greensill was allegedly an important client. In March/April 2021 the bank lost CHF 5.0 billion on failed hedge fund Archegos, while most peers escaped with minor losses. Credit Suisse had extended far too much prime brokerage financing and probably also acted slower in exiting once the problem became obvious. Since these scandals there have been sweeping management changes, with intentions to implement a new strategic plan, however governance risk remained elevated, and we retained an ESG 4 category. See below for more information on engagement with Credit Suisse.

Engagement, triggers and milestones

We believe that taking responsibility as an investor also means being a truly active owner, not just as a shareholder but as a financier more broadly. We aspire to influence positive change by engaging in dialogue with issuers, either bilaterally or as part of an investor consortium. This dialogue can provide opportunities to highlight ESG risks, inform management on sustainability concerns, promote growth in sustainable business lines or advocate for changes that align with responsible investment standards. Successful engagement can also create new investment opportunities. By spearheading engagement and exercising equity voting rights, we try to use our voice and actions to effect positive change.

We classify our engagements by topic: general disclosure, where we are seeking additional information from the issuer on practices or products; and by ESG headings, where we are seeking performance improvements in environmental, social or governance areas respectively. We track engagements with a milestone-based approach:

Milestone 1	We have flagged our concerns and contacted the company.
Milestone 2	The company responds (in writing or by phone call) and the dialogue begins.
Milestone 3	The company has taken concrete steps to resolve our concerns.
Milestone 4	The engagement goal has been achieved.
No further action required	In some cases, our assessment changes and - following discussions with the company - we do not pursue the engagement. We categorize the engagement as 'no further action required'.

Our responsible investment team updates analysts and portfolio managers of unsatisfactory answers at milestone 2 or 3. This includes updating our central databases and direct contact to ensure relevant analysts remain 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 our preferred outcome is successful engagement, we may decide to reduce partially or completely investments. Poor engagement outcomes would also dissuade us from initial investment.

The responsible investment team 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 in keeping fixed income analysts and portfolio managers comfortable with increasing the pace of pressure regarding adherence to the Paris Climate accord along with transparency and reporting consistent with the Task Force on Climate-Related Financial Disclosures (TCFD).

Fixed income engagement examples

Below we provide a further engagement example featuring Credit Suisse, which we profiled earlier in this section.

Engagement Example: Credit Suisse	
Example	No action due to subsequent merger.
Internal assessment	Aegon AM has been engaging with the company since 2019 on governance related to AML and tax evasion. Credit Suisse has been accused of involvement in multiple business ethics-related controversies over the past decade. Since the bank pleaded guilty in a tax evasion case in 2014 and paid USD 2.8 billion to several US regulators, it has remained under public and regulatory scrutiny for market manipulation, money laundering, insider trading, front-running, insufficient due diligence, and fraud. The bank has been involved in several judicial, regulatory and arbitration proceedings related to the conduct of its businesses. These are only a few of the reasons why Credit Suisse was listed as in the UN Global Compact watchlist. The more recent Achegos / Greensill scandals are another example of the poor governance practices surrounding the bank for years. In 2020 we held a call with Credit Suisse that allowed us to inquire about their approach to tax evasion and systemic corporate failure to good business and ethical practices. From that call we were able to conclude that Credit Suisse implemented certain programs in place to minimize client tax evasion and strengthen its compliance produces. However, given the complexity of the bank we had moderate level of confidence in the bank's ability to prevent similar incidents from reoccurring. Since the 2020 call Credit Suisse had been rather unresponsive to our request for further dialogue. However, in early 2023 we had a call scheduled with the bank to discuss the bank's new strategic plan, its 2022 annual report, risk management and controls across the group. We were eager to learn more about the banks approach to risk and compliance management (including CDD/KYC and AML-related activities), overall risk and conduct culture, and what KPIs they have in place to monitor effectiveness. The conference call was to be held on 17 March 2023 during the week of speculation of the fate of the bank and potential deal with UBS. Due to merger of the bank the engagement call was cancelled.

We conduct dialogue with an issuer in an integrated way, with both the analyst and the ESG specialist present. We believe that this not only enhances our credibility with the issuer, but also facilitates a more detailed and mutually beneficial discussion. This also enhances our analysts' knowledge of companies and has led to a more consistent approach to our stewardship and investment-decision making.

We document summary notes in our proprietary engagement database and map these to company tickers, meaning that they are immediately visible to other analysts and portfolio managers when researching sectors or issuers. This centralised sharing of information ensures continuity and documentation for further research work in the future. We are working to enhance our fixed income engagement programme 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 engage with rating categories 1-3 on a case-by-case basis, these categories are a priority due to the material ESG impact.

Stewardship for sovereign fixed income

We assess sovereign bond markets through our sustainable sovereign bond process, analysis which assesses countries based on alignment to the United Nations Sustainable Development Goals (SDGs). We aim to identify financially robust countries that show a high ambition to tackle the sustainability challenges as defined by the United Nations.

We base our sustainability methodology on the works of the BertelsmannStiftung and Sustainable Development Solutions Network (SDSN) partnership, sponsored by the United Nations. Our scoring methodology is founded on this independent and credible framework and leverages reliable data sources. By using more than 100 indicators per country we have built an SDG scoring methodology that allows us to reflect our views on sustainability in 172 countries.

SUSTAINABLE DEVELOPMENT SOLUTIONS NETWORK
A GLOBAL INITIATIVE FOR THE UNITED NATIONS

We define a sustainable sovereign issuer as a country that is making a substantial progress towards achieving the Sustainable Development Goals and whose government is managing risks to sustainable development.

To evaluate such sustainability ambitions the sovereign analyst assesses a country by incorporating both qualitative and qualitative considerations.

Scope	Points of focus
Quantitative	• **Sustainability scores:** To measure the performance of a country on a standalone basis. This helps us assess how far or close a country is to a specific SDG achievement. • **Relative sustainability performance**: To measure performance versus a country's peer group in dimensions such as income or region. This comparability helps identifying 'leaders' and 'laggards'. • **Sustainability momentum:** To assess the developments over time in scores due to policies applied in the past.
Qualitative	• **SDG achievement**: The aim of this analysis is to interpret the data and qualify, clarify and complement the quantitative assessment. It is necessary to identify the drivers behind the numbers and to estimate what can be expected in the future given the current set of policies. • **Sustainability risk:** Aims to identify any risks to a country's sustainability performance. At this stage the materiality of those risks to the financial profile of the sovereign is not yet considered. It complements the quantitative scores, as the scope of this section is wider than the SDGs.

Once we have performed the analysis, the Fixed Income Sustainable Investment Committee challenges the assessment and makes a final verdict on a country's classification (on a case-by-case basis). This is most appropriate for portfolios where investment is driven primarily by sustainability. There are five sustainable categories for sovereign issuers:

1. Leader	The country has already achieved critical SDGs and is on track to achieve others. Shows outstanding commitment to increasing or maintaining their sustainability performance. No sustainability risk or controversial policies.
2. Influencer	The country is on track to achieve some SDGs. Shows a clear commitment to sustainability. Limited sustainability risk and no major controversial policies.
3. Improver	The country demonstrates an above average performance as compared to its development peers, but still faces significant challenges in terms of SDG achievements. Improvers have sustainability risk but continue to deliver a credible promise through policy or other means to tackle its potential controversies.
4. Neutral	The country is not on track to achieve most SDGs. It shows no significant improvements in its sustainability performance and seems to have no clear ambition to do so. Average sustainability risk. Controversies need to be monitored.
5. Detrimental	Country not on track to achieve the SDGs, with no intention of doing so. Higher sustainability risk, with possible major controversies.

Case Study: Guatemala	
Our analysis	 The sovereign analyst evaluated Guatemala which was then brought up for discussion at the Fixed Income Sustainable Investment Committee. Our evaluation highlighted that the sovereign has been progress on SDG 13 Climate Action, with an increased focus on hydro and biofuels, with recent plans on adding further renewable capacity. The country has set a target to reach 80% of renewable electricity by 2030. Our analysis also found that in relative to income and regional peer groups the country is severely lagging in social aspects of sustainable development such as gender (SDG 5) and wealth inequality (SDG 10), but also ensuring access to nutritious food in preventing malnutrition (SDG 2). Guatemala is a country with poor social development and governance practices, but also significant social and infrastructure needs. Furthermore, corruption is a significant problem and the country has relatively weak rule of law. The country has a poor record of political stability and accountability, and the party system remains unstable.
Result	• The committee agreed with the analyst recommendation of Neutral due to weak sovereign governance and concerns over corruption. • The committee also noted that corruption will also deter investors to trust their capital is allocated for the right sustainable development programs going further. • The committee will evaluate the country in the future after the elections pay attention to anti-corruption proposal, programs addressing inequality and new targets related to climate transition. • The country remains ineligible for any sustainable portfolios that invest in sovereign securities.

ESG integration in securitized fixed income

Aegon AM's ABS team performs the ESG analysis of ABS by evaluating collateral data, engaging with ABS originators, and assessing the transaction structure and the country of the collateral. The analysis eventually results in an ESG category score for each specific ABS transaction we assess. This ESG assessment consists of three pillars. This ESG risk category score is the weighted average of three pillars:

Collateral	Originator	Country
Evaluation of ESG factors embedded in the collateral, such as energy-efficient housing or social aspects of residential mortgages.	Assessment of ESG factors at the level of the originator, stemming from origination and servicing practices, products, and data handling.	Assessment of ESG factors at the country level, including the policy, legal and regulatory framework.

Each of these three assessment leads to an ESG risk category on a scale of 1 to 5, ranging from the highest to the poorest ESG standards. The risk categories for all pillars have different weights, leading to a final weighted average score on the transaction level. For our ABS funds we do not invest in bonds with an overall ESG score in the categories with poor ESG standards (4 or 5).

ESG integration in securitised example: North Westerly CLO*	
Description	We invested in a new CLO from a Dutch manager, NIBC. This transaction pushed the ESG standards within the CLO market a step further by focusing on a fully compliant ESG CLO. In addition to the negative screening, which is similar to other ESG CLOs, it also assigned ESG scores to each underlying leveraged loan. These scores will be monitored on an ongoing basis and any deterioration in score is used in the decision (among other factors) to sell such loans. ESG in CLOs is still under development, although we appreciate the steps this manager is taking to push ESG to a higher level. An additional benefit for this transaction is that the ESG element was not really priced-in, meaning that we invested in a best-in-class ESG CLO without giving away yield.
Our ESG analysis	We reviewed the processes in place with the CLO manager on selecting leveraged loans that perform well on ESG. This CLO manager uses its own scoring methodology for each underlying leverage loan, ranging from -1 (negative) to 7 (maximum). The CLO manager's objective is to maintain a weighted average ESG score of no less than 5 (high). This score is based on input from, amongst others, independent industry experts, professional publications and articles, interviews with the management of the underlying companies, and reviews of the ESG factors in the policies of the underlying companies. Any loan purchased by the CLO manager will include at least quarterly ongoing ESG due diligence. This includes, bad press checks, monitoring of industry and regulatory developments and attending company shareholder and management meetings where possible.
Result	Our ESG analysis resulted in the second highest achievable ESG category. We did not classify this CLO as the highest possible rating, as we believe this is still a developing field, with some room for improvement. As mentioned above, leverage loan CLOs are not an easy asset class to be leading on ESG, relative to sectors such as renewable infrastructure. The structural features of this transaction were similar to broader market practices and there was still significant overlap in underlying loans with other CLOs. Nonetheless, this transaction remains one of the most ESG-conscious CLOs out there and we want to encourage developments in this direction.

*Please note that this analysis was initially conducted in March 2022. Subsequently, on 26 April 2023, Aegon AM announced that it is to buy NIBC Bank's North Westerly European Collateralized Loan Obligation management activities. For more information please refer to the news story on the Aegon AM website.

Stewardship for securitized fixed income

Before investing in an ABS transaction, the investment team actively engages with relevant transaction parties in ABS, CLOs, CMBS and RMBS. Relevant transaction parties are the seller, sponsors, originator, CLO manager and the servicer and other transaction parties. Based on the ABS sector materiality relevance we have created different ESG questionnaires per sector, used in our engagement process. The results of the questionnaires are an important input for our ESG analysis of the originator, collateral, and structure risk. The ESG score of the specific transaction is again based on this ESG analysis.

Furthermore, the dialogue with the relevant transaction parties can provide opportunities to highlight ESG risks, inform the relevant parties on sustainability concerns, promote growth in sustainable business lines or advocate for changes in transaction structures that align with responsible investment standards.

Engagement example: Various RMBS and Auto ABS issuers	
Background	Residential Mortgage-Backed Securities (RMBS) are securitizations of residential mortgages. Auto ABS are securitizations of auto loans and leases.
Timing	2022
Objectives	The objective these engagements is to increase availability of ESG-related (loan-level) data. For us to make a proper and meaningful ESG analysis of the collateral, it is essential to have access to specific ESG related data, like energy performance certificates of houses in case of mortgages, co2 emission data about cars in case of auto loans. This is often not available and we urge parties to make this specific data available.
How we engaged	As is our common practice, we start with sending the ABS issuer our ESG questionnaire specific for RMBS and consumer loan ABS. Then we have several meetings with senior management to discuss the answers to the questionnaire and express our recommendations. A very common recommendation for the originator is to increase the availability of ESG-related data. These engagements are led by the portfolio managers.
Outcome of engagement	Over the last year the availability of ESG-related data across European RMBS / ABS originators is growing, although remains limited. The availability of EPC data (Energy Performance Certificates) remains the main challenge to investors incorporating ESG factors in their RMBS assessments. This is also one of our most important engagement topics. Dutch and UK originators typically perform better, whereas southern European originators tend to lag. French originators are showing an improvement in data availability.

Real assets

ESG factors are systematically integrated into our investment process for real assets. By considering ESG issues alongside other economic factors, the investment teams seek to identify financially material ESG factors to arrive at an independent, comprehensive view of the investment.

During sourcing and underwriting, we screen properties for high-risk activities and any potential conflicts with our exclusion list. We review ESG factors during the due-diligence provided by our engineering and environmental departments, as well as during the insurance review, site inspections, appraisal and sponsor review.

Risks and mitigation measures are determined and brought forward during investment committee review. Following approval, the due diligence teams perform a hand-off for each investment between the loan or acquisitions officers and our debt and equity asset management groups to communicate monitoring and compliance requirements for ESG issues during the investment. Our asset management groups follow through on these requirements, as well as monitoring standard issues (such as flood insurance) and follow up with internal subject matter experts and/or third-party consultants, such as those in our legal and environmental and engineering departments as needed.

Multi-asset

Our multi-asset team oversees the asset allocation framework for its portfolios, while leveraging the expertise of our asset-class specialists to deliver the bottom-up security selection.

Asset-class specialists understand the overall objectives of the strategies and our default approach is to give them broad latitude to determine security selection and sizing consistent with a strategy's objective. It is here that we systematically incorporate stewardship, governance and the appropriate analysis of environmental and social issues in helping to shape our portfolios.

At a security level the multi-asset team is therefore the beneficiary of the work of our asset-class and responsible investments specialists, which is described elsewhere in this statement. The assessment and understanding of ESG risks have become more prominent in the past year and we believe the following enhancements provde a material benefit to our investment capability and are in the best interests of our clients.

- We have developed our understanding of Potential Adverse Impacts (PAIs) through the year and there is now a regular structured assessment of these as they affect each portfolio.
- Enhancements to the Aegon AM UK Sustainability Risks and Impacts Policy have helped to sharpen our integration of the ESG analysis within our multi asset portfolios.

Building on this, adjustments we have made to our ESG practice within the Aegon Global Diversified Income Fund allowed this Dublin-domiciled fund to be reclassified as Article 8 under SFDR.

Working with clients to develop focused and relevant investment solutions

Integrating ESG analysis into our investment process is only one part of our responsible stewardship approach for clients. We aim to be a market leader in developing effective solutions that help our clients meet their responsible investment needs and goals. We segment our responsible investment capabilities into five categories, as set-out in the table below. These solutions serve as building blocks that can be combined to create customized client strategies.

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

Exclusions and ethical solutions

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

Best-in-class ESG solutions

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

Climate transition solutions

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

Sustainable solutions

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

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

Impact investing solutions

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

Case studies of solutions

<table>
<tr><th colspan="2">Case Study: Aegon Global Short Dated Climate Transition Fund</th></tr>
<tr><td>Example</td><td>Climate transition and ESG best-in-class.</td></tr>
<tr><td>Details</td><td>SFDR Article 8 classification assigned on 15 July 2022.
Global, short-dated, alpha-driven and high-conviction corporate bond portfolio targeting LIBOR +125bps.
Investments directed to companies with robust, credible plans to transition towards a net-zero economy.
Using a proprietary framework climate transition risks are assessed and issuers are classified by preparedness for climate transition and net zero alignment (considering factors such as emission targets and performance, management policies, and strategic alignment) based on a 1-5 scale from Leader to Laggard.
Selecting 'best-in-class' issuers rated 1-3 through ESG proprietary scoring framework.
Portfolio aims to maintain a lower weighted-carbon-intensity than the benchmark.</td></tr>
</table>

Carbon transition process	• From a climate transition perspective, we categorize sectors into high influence, or low influence. We define high influence sectors as having higher ability to influence the energy transition, either through greater current emissions or through the financing of current high emission sectors. • High-influence sectors include energy, utilities, transport, autos, and banks. Low influence sectors include telecommunications, healthcare, and food & beverages. Companies in low influence sectors get a base assessment of their climate transition preparedness based on a range of measures, including emissions targets and historical emission performance, as well as management policies and strategic alignment. • We then classify companies as either 'prepared', 'transitioning', or 'unprepared'. Companies in high influence sectors get the same base assessment, plus a more detailed sector-specific analysis, which will vary from sector to sector. We will then classify companies as either 'leading', 'prepared', 'transitioning', 'unprepared', or 'laggard'. • There is no deliberate skew within the portfolio towards high-influence sectors. We are not specifically targeting companies in these sectors; we are simply conducting more detailed analysis on them as we believe they play a more important role in shaping how climate transition will develop. By doing detailed analysis we want to identify and support those companies (across both high and low influence sectors) that we believe are best positioned to manage the climate transition process. • We place limits on the exposure to companies rated 'unprepared' or 'laggard', and these limits will decline over time. For example, up until the end of 2024 we have a limit <10% exposure to 'laggard' and <40% exposure to 'unprepared', which will fall to <5%, and <30% from the start of 2025, and 0%, and <20% from the start of 2030.

Case Study: Aegon Impact Venture Credit	
Example	Impact investment
Details	• Impact Venture Credit invests in businesses offering products and services that are helping solve the world's most pressing environmental and social problems. • Each potential borrower must be initially vetted by Aegon AM's Sustainable Investment Committee (SIC) for positive impact prior to entering into a term sheet with the borrower. • After executing a term sheet, the SIC conducts more extensive impact diligence and develops a set of environmental and/or social impact metrics that the company must report to Aegon AM on a quarterly basis. • Reporting the impact metrics to Aegon AM is then written into the definitive loan agreement with the borrower as an affirmative covenant. Failing to report them to Aegon AM becomes an event of default. • In the future, Aegon AM will aggregate these impact metrics across the portfolio and report them to its clients as the portfolio develops.

Case Study: Ethical fund range	
Example	Negative screening
Details	• Our ethical funds are some of the longest-running active ESG solutions in the UK market, in their respective asset classes, with the range dating back to 1989. • The strict ethical screening adopted removes companies with significant negative impacts on the environment or society from the investment universe. • The screening process is overseen by the Responsible Investment team and is independent of the fund managers. • Client preferences are at the heart of our screening and we conduct a biannual survey to gauge investors' views on whether the screening thresholds continue to be appropriate for each category. • The funds also look to gain exposure to positive sustainability themes through their selection process.

Case Study: Sustainability-themed strategies	
Example	Sustainable funds
Details	• Our sustainable fund range seeks to invest in companies that demonstrate strong sustainability characteristics and alignment with certain sustainability themes. • The Responsible Investment team are heavily involved, overseeing the initial sustainability screening and conducting bottom-up sustainability analysis on every asset proposed for the portfolio. • The Responsible Investment team's analysis looks at the sustainability of a company's products and practices, as well as the actual or potential improvement in those factors over time. • The output of the analysis is that each asset is categorised as a sustainability 'Leader', 'Improver', or 'Laggard'. Only Leaders and Improvers may be added to the portfolio, laggards are automatically excluded. • This process is not static. Sustainability analysis for portfolio holdings must be reviewed at least once per annum and the Responsible Investment team have sole discretion to change the rating as part of that review. A downgrade of an existing holding to 'laggard' status would require the position to be sold as soon as is reasonably practicable by the investment team. • Engagement is a key aspect of the strategy, as we look to engage with investee companies on the areas for improvement that we have identified. We set KPIs to help track this progress over time.

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

To effectively manage relationships with service providers Aegon AM has a Procurement Policy and a Third-Party Risk Management (TPRM) Policy that define the minimum acceptable requirements to on-board and manage the delivery of services provided by an external party to Aegon AM. Our overriding objectives are to manage and mitigate risks, ensure compliance with legislation and regulations, and deliver value for money. To ensure compliance to these policies and to meet our legal and regulatory obligations, Aegon AM has a Global Procurement Procedure and a Global Vendor Management Procedure that both define the steps that must be taken to achieve these objectives.

The onboarding process is broken down into four key stages: planning, due diligence, contract execution and transition execution (collectively procurement). During the procurement/ onboarding process, Aegon AM uses a segmentation model that categorizes vendors into five tier levels. The segmentation tier is derived from several due diligence criteria, including regulatory requirement (outsourced service); inherent risk (financial, information security, data privacy); business criticality (disaster recovery); ease of replacement (business continuity); ESG (including Sanction check, Vendor Code of Conduct, AML Policy, D, E & I) 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.

The 5 Segmentation Tiers are: Material Outsourcers, Tier 1 (incl. Non-Material Outsourcers & Intra-group), Tier 2, Tier 3 and Tier 4

Within Aegon AM there are three further classifications of supplier for our outsourced service providers:

1. Outsourced infrastructure and IT services;
2. Outsourced operational services; and
3. Outsourced SaaS cloud services.

As part of the Procurement Procedure, it is mandatory for all new suppliers to sign a Vendor Code of Conduct (VCoC) declaration, by which they acknowledge that they will adhere to the Aegon VCoC; or they are required to provide a copy of their own policies so that we can assess their standards meet at least our minimum requirements. Key suppliers are also invited to share their own Vendor Code of Conduct and how they in turn work with their third-party and our fourth-party suppliers. For our critical suppliers we have included ESG monitoring and targets such as carbon emissions and diversity and inclusion into our RFP and ongoing vendor management programs.

The Vendor Management procedure describes for each tier level the applicable vendor management activities and the frequency of those activities proportionate to each vendor / service in that tier. The Global Procurement and Vendor Management (GP&VM) team provides guidance to the business owners, depending upon the materiality of the relationship, which activities need to be performed to meet our objectives.

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 dedicated teams, who are responsible for overseeing the delivery of the outsourced operational services provided by our strategic partners and that those services meet the terms set out in our contracts and service level agreements.

To do this we have regular operational, tactical and strategic reviews, described below:

Operational meetings (daily, weekly, monthly): All Tiers

In these meetings the day-to-day activities, performance, issues etc. are discussed on an operational level. A detailed discussion about the delivery of daily, weekly, monthly tasks in line with Contract / SLA requirements. To facilitate these discussion, detailed MI is provided and analysed to ensure deliverables (KPIs) and controls (KRIs) are monitored, reviewed and any negative trends are recorded. A running list of issues / discussion items is maintained to monitor and document progress. Escalation is provided to senior management and all risks events are recorded in the Aegon AM risk management tool. SLA breaches, and risk events are tracked, and action plans put in place and tracked to resolution via these operational meetings. Separate meetings may be necessary to monitor change projects including new or changes to SLA deliverables.

Attendees include staff and management from Aegon AM and the third-party provider who are involved in day-to-day operations, as well as the relationship managers from both sides.

Tactical meetings (quarterly): Material outsourcers, Tier 1 and Tier 2

Tactical meetings focus on the mid-term relationship and goals with the third-party provider. Agenda themes include, discussing changes to a platform or service, new implementations or upcoming projects, The review of MI and analysis of trends resulting from the operational meeting and to resolve any escalations that are affecting the day-to-day delivery of services. The meetings should be structured, have agreed upon agendas, with minutes recorded. Performance / service trends should be discussed as well as any project and risk incidents to confirm appropriate management attention is being paid to ensure any issues are resolved. Changes to SLA deliverables and MI / reporting requirements will be discussed and actions taken for implementation / resolution in the Operational meeting environment. Escalation is provided to senior management and reported as appropriate to the relevant risk committees.

Attendees include senior management from Aegon AM and the third-party provider who are involved in the engagement, as well as the relationship managers from both firms.

Strategic meetings (half year, annual): Material outsourcers, Tier 1

This is a senior management meeting (at MB level). The purpose of the meeting is to review the overall relationship and the long-term future with the vendor. Agenda topics include annual revenue / expenditure, strategy of both businesses (including D, E & I and wider ESG), the quality and delivery trends of the services being provided and the escalation of any unresolved key issues. Relevant Aegon global vendor managers will also attend as appropriate.

In addition to these structured meetings, oversight and assurance of our Material Outsourcers and Tier 1 suppliers is also provided by the completion of the following activities. The completion of these activities is coordinated by the Global P&VM team who include and involve any relevant subject-matter experts within Aegon AM to ensure sufficient and effective reviews are performed. The outcomes of these annual oversight checks are reported to our risk committees and are included in the agenda of the Strategic Meetings.

- Annual Vendor Scorecard,
- Annual review of independent audit reports, such as SOC1 and SOC2 and ISAE/AAF reports by Global P & VM team with support from SMEs to ensure 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.
- Annual Health Check, a review that covers all inherent risks and performs an assurance of the initial due diligence performed during onboarding.

Areas covered in the annual health check include:

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.
Environment	To assess the suppliers' approach and development towards compliance and adherence to international goals and standards
Supplier's third-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

Separate to these supplier / service specific activities, Aegon AM regularly reviews all the supplier risks identified in our risk management tool. Business owners are invited to monthly risk and control meetings to discuss the issue, impact, root cause, preventative measures and action plans that are in place to resolve the issue.

These meetings are hosted by the Aegon AM Risk team and attended by representatives from Operational Risk, Operational Management, P&VM, IT Management, Legal, Finance and the relevant business area for the risks being discussed. Trend analysis is performed, and actions are tracked and logged in the risk management tool.

The Global P&VM team also report significant supplier risks through the functional risk committee to CAO and GRCC as applicable.

Vendors 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.

We believe that engagement is a core part of our investment business. The responsible investment team had 832 contacts with 397 separate companies in 2022. This is in addition to over 1,000 company meetings conducted by the equity, credit and alternative 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 teams 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. While we seek to meet with all companies we have investments in, we prioritise those where we have the highest active position.

There are three potential triggers to start an engagement:

1. Long-term financial risks associated with ESG issues are identified during the fundamental research process, or through routine monitoring on key topics such as climate change, health and diversity. These engagements are initiated when they arise and are prioritised either through the level of perceived ESG risk (see explanations of how these are identified in Principle 7 by asset class), client priority of topic or active position size.
2. Companies that do not comply with our clients' standards as outlined in specific mandates or where we have particular concerns arising out of voting activity are routinely engaged with. These companies are identified by means of a screen or through the voting process. We communicate where the shortfalls are and encourage change to align with the required standards.
3. Finally, our responsible investing strategies actively seek to encourage certain corporate ESG behaviours. These companies are identified by the fund manager selecting them as an attractive investment proposition, or through the routine responsible investment analysis updates within the funds. We proactively monitor and engage with these companies to encourage improvement.

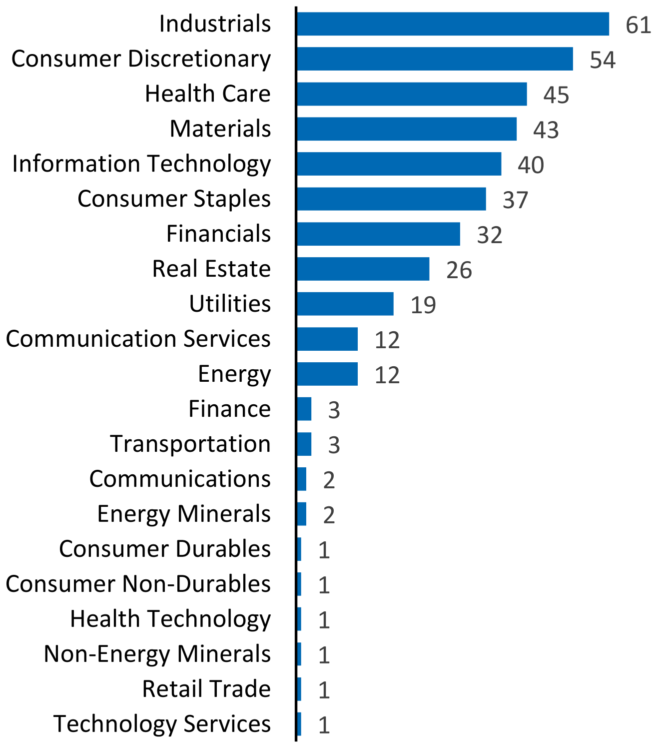
Engagements by geography

Europe	196	49%
North America	149	38%
Asia	36	9%
Oceania	5	1%
South America	9	2%
Africa	2	1%

Breakdown of engagements by theme

Governance	43%
Environmental	24%
Social	20%
General disclosure	13%

Engagements by sector



It became clear during 2022 that the working environment has changed forever post-Covid. While face-to-face meetings are less common and have been overtaken by virtual meetings, what we have lost in personal contact has been more than outweighed by the benefit of greater flexibility in the ability to reach companies and have more frequent conversations if an issue requires it. This has proved to be useful, both to us as investors, but also to the corporates we have engaged with.

To enable us to effectively track progress of company engagements, each engagement has a specific objective stated at the outset, set according to the engagement trigger. We start by contacting the most appropriate person in the company to discuss the issue with, which could be the chair, another non-executive director, the investor relations department or someone else entirely. We then 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.

It is important to note that engagement is just one of the levers we have in our stewardship activities and are not conducted in isolation. There are many complex parts to the investment system, numerous interactions and many players involved both inside the organisation and outside. It can be difficult to quantify outcomes – and some times results take a while to be identified after the engagement has occurred. Numbers don't tell the whole story.

The 2018 PRI paper on 'How ESG engagement creates value for investors and companies' sets out three positive outcomes that come from engagement:

1. Exchange of information between corporations and investors, creating 'communicative value';
2. Help to produce and diffuse new ESG knowledge amongst companies and investors, creating 'learning value'; and
3. Facilitates diverse internal and external relationships for companies and investors, creating 'political value' – these are areas that we also believe.

Some of our engagements demonstrate activities over more than one of the principles 9-12. For example:

- Barclays demonstrates direct and collaborative engagement with real escalation to voting activities (in Principle 11)
- Rio Tinto demonstrates direct, collaborative and voting included (in Principle 11).
- Jet2 demonstrates direct and escalation to voting (included below).

All of our engagements, research and voting rationales are held on systems common across the portfolio, analysts and Responsible Investment Teams so we can ensure open communication between the teams and that investment decisions are taken based on the most comprehensive information possible.

Engagement intensity in 2022

Milestone 1	Contact with the company	**121**	**25%**
Milestone 2	Contact acknowledged	**102**	**21%**
Milestone 3	Company begins to make progress	**130**	**27%**
Milestone 4	Engagement completed	**57**	**12%**
No further action	Result of information gathering	**65**	**14%**

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 should deliver better shareholder returns and / or will be able to service the debt they have to bondholders. We can therefore use our full of weight of holdings across the asset classes to exert influence in these matters.

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.

In the remainder of this section we provide a selection of engagement examples from 2022.

Engagement example: Watches of Switzerland (Principle 9)	
Background	Following the outbreak of the war in Ukraine, the company withdrew from the Responsible Jewellery Counsel (RJC) in response to its lack of action in dealing with the Russian sanctions. THE WATCHES OF SWITZERLAND GROUP
Timing	Throughout 2022
Objectives	Our aim with the engagement was to understand the actions being taken to ensure the supply chain is adequately monitored for human rights abuses. On reviewing the company, we noted from the gender pay gap reporting a stark reduction in the number of women in higher pay quartiles. The board had good representation, so we wanted to understand why the rest of the organisation was not reflecting positive gender diversity and whether this applied elsewhere.
How we engaged	We spoke directly to the Chair on this matter, who gave reasonable assurances on auditing and offered a meeting with the new Head of ESG to discuss. In the follow-up meeting the company explained its actions to step-up the auditing of suppliers in the absence of RJC participation. The company has started in-person audits and covered 5% of suppliers, with no violations. It is steadily progressing through the others and has employed the services of Ecovadis to support this. The company also mentioned there had been a change of leadership in RJC and decisive action taken, so it may be possible to rejoin, although they would not solely rely on their auditing in the future. On diversity, the new Head of ESG had also noticed this issue and has made it a priority to obtain better reporting and to understand the fall in women in the organisation, while implementing support networks to help reduce the attrition. The staff survey has a high level of engagement at 86% and the company is working to analyse the results of that. This is a work-in-progress and they will report back.
Outcome of engagement	We obtained comfort that the gap formed by withdrawal from RJC has been filled.
Action	For supply chain Milestone 3, further monitoring to ensure the whole supply chain is being actively monitored and appropriate action taken. For diversity Milestone 2, we will wait to hear on progress on diversity.

Engagement example: Bayer (Principle 9)	
Background	Bayer is a healthcare and agriculture chemical company, producing pharmaceuticals, vitamins, biotechnology and crop protection. Bayer was identified for potentially becoming non-compliant with UN Global Compact Principle 1 related to human rights, this engagement is part of our norms-based engagement program.
Timing	From 2020 and ongoing.
Objectives	The company was identified for potential non-compliance with UN Global Compact Principle 1 related to human rights. Engagement started in 2020 to understand how the company acts in relation to glyphosate-related mass tort litigation, continued use of glyphosate in its various products and related product stewardship and the company's relationship with regulators. In addition, we also considered sustainability ambitions and governance regarding product safety and sustainability.
How we engaged	During engagement conversations in 2022, the company explained how it deals with glyphosate-related mass tort litigation and related claims. Due in part, to pressure from lawsuits and regulators, it has decided not to offer glyphosate-based products to the US consumer market. The company has also improved transparency regarding product stewardship and safety. However, it maintains that the use of glyphosate-based products is safe and does not pose any carcinogenic-related risks. Several recent US court rulings in glyphosate-related mass tort litigation ruled in favor of the company. It has formulated sustainability goals and organized strong oversight via an independent sustainability council. In its sustainability ambitions, the company focuses on climate objectives, contributing to more sustainable agriculture, supporting farmers in developing countries and access to basic medicines. It seeks to align its sustainability ambitions to the UN Sustainable Development Goals. Aegon AM is positive regarding the increased transparency. However, most of the steps taken to provide enhanced transparency, product safety and end the sale of glyphosate-based products to US consumers are driven by litigation and a desire to avoid future claims. Although scientific studies show that alleged health risks associated with the use of glyphosate cannot be clearly demonstrated, the legal and social controversies are not expected to disappear soon. In addition, the EU is expected to decide in 2023 whether to renew the approval for the use of glyphosate. The health and environmental considerations, along with continued litigation, will play a key role in the company's further assessment throughout 2023.
Outcome of engagement	The Company has shifted from the US consumer market, indicating only professional use will be considered, thereby reducing the risk of future glyphosate-based litigation. With the recent US court rulings, the company also made good progress on settling some of the existing glyphosate-related cases and provision seems appropriate for future cases.
Action	Regarding Milestone 3, progress has been made but we are monitoring for further developments.

Engagement example: Ashtead (Principle 9)	
Background	We rated the company an 'improver' in mid-2022, having identified lagging diversity and inclusion (D&I) practices, based mainly on a drop off in female representation in the layers beneath the board.
Timing	Throughout 2022 and ongoing
Objectives	To understand how the company were planning on improving employee D&I.
How we engaged	We initiated engagement with the company in August 2022 after findings from our sustainability analysis indicated that they had promising diversity at board level, however in the layers beneath the board there was a large drop off. The company provided the profile of clients within the markets in which it operates and the overall broader diversity picture at the company. With the end market operating in construction, the company said that it struggled to recruit female workers, which represented 12% of all staff and 21% of senior management. Ethnic diversity is another area the company mentioned wanting to improve. The currently ethnic diversity of the company is 30%. The Company told us that it has established several initiatives, including a D&I task force that is focused on improving ethnic diversity throughout the organization, such as through a 'future leaders' mentorship programme. The company has also set-up female focus groups, with the emphasis on increasing female representation throughout the organization. They have females in office and corporate role, such as legal, finance and HR, although not many in mainstream operational roles. It also has various apprenticeship schemes, with the UK scheme the highest in the industry for female representation. The company said it is too early to know if the initiatives are effective, however it is a key focus for the company and board. It remains a KPI for us and we will continue to follow up.
Outcome of engagement	• Better understanding of the organizational and market make-up. • Better understanding of the D&I initiatives installed.
Action	Regarding Milestone 3, continue monitoring D&I initiatives and outcomes.

Engagement example: PT Bank Rakyat Indonesia (Principle 9)	
Background	PT Bank Rakyat Indonesia (Persero) Tbk. (BRI) engages in the provision of financial services. Its Microfinance services cater to underserved groups, including 'un-bankable' groups with active businesses in Indonesia. BRI is also involved in improving financial literacy in collaboration with the Financial Services Authority in Indonesia.
Timing	Began in 2021 and ongoing.
Objectives	We have been in discussion with the company on the issue of financed emissions, specifically coal financing, since early 2021. We learned the estimated size of the company's exposure and intention to reduce the extent of their coal-financing activities.
How we engaged	In early 2022 we requested an update on their progress to reduce coal-financing activities and focused on encouraging the company to accelerate its reduction and develop a clearly defined strategy for coal phase-out. The company indicated that, despite a positive trend, the transition from coal would take some time. As a partially state-owned enterprise its principal market is domestic, a developing country, where coal power is necessary to expand universal electricity supply. The company's exposure to directly financed coal is minimal, and while indirect-coal financing is more significant, it is still relatively small and well below Aegon AM's exclusion criteria for thermal coal power generation. Most importantly the loan books exposure fell by roughly one-third year-on-year. The company has established an 'ESG Implementation Strategy Roadmap', with a sectoral policy on coal-financing, which it anticipates publishing in 2023. It also shared its internal exclusion list, which shows controls over what they finance. This positive trend away from coal financing is aligned with the domestic country's 2060 Net Zero target, which focuses on accelerating the end of the operational period of coal power plants while building renewable energy infrastructure as one of the main alternatives.
Outcome of engagement	• Roadmap has been established. • The company have joined the Partnership for Carbon Accounting Financials (PCAF) and is undergoing the process of mapping financed greenhouse gas emissions. • The exposure continued to fall through 2022, and the bank has not written any new lines of credit for coal-fired plants or to coal-mining, so we expect the exposure will continue to decrease as creditors continue to draw down their existing facilities. • The company has completed mapping out scope 3 emissions and anticipate sending a commitment letter to Science Based Targets initiative (SBTi) before the end of 2023.
Action	Regarding Milestone 3, the company has taken concrete steps to resolve our concerns. If the published plan proves to be as robust as we anticipate, we will move the engagement to Milestone 4, but monitor progress against plan.

Engagement example: Whitbread (Principle 9)	
Background	In 2021 there was strike action taken at a number of Whitbread's sites over company pay structure. This was largely driven by union action.
Timing	From 2021 and ongoing.
Objectives	To understand how the company were planning on improving employee pay and relations.
How we engaged	When we initially spoke to the company it was clear that there was a lack of policy and disclosure on the subject in the annual report. It was interesting to get colour around the profile of the employees at Whitbread and the fact that only 10% of the employees are unionised, through choice rather than through any corporate pressure. This is a hospitality company and therefore a lot of their work is attractive to people seeking part time jobs to fit around other aspects of their lives. The subsequent report improved on the level of disclosure and the company has committed to pay in excess of the living wage that was announced in April 2022. Further discussions with the Chair highlighted the work that they do in ensuring the staff are paid fairly throughout the country. They took the decision to bring back in house the cleaning staff as outsourcing had meant they had less control over pay. Overall, it appears they behaved responsibly throughout covid and the most recent conversation included the measures being put in place to ensure staff are well cared for during the current cost of living crisis.
Outcome of engagement	• Disclosure and Policy improved. • Company has demonstrated the ability to pay in excess of the living wage.
Action	Milestone 3 – Continue monitoring in light of the cost-of-living crisis.

Engagement example: Rio Tinto (Principles 9,10 & 12)	
Background	2022 was the first year Rio gave shareholders the opportunity to approve their climate ambition plan.
Timing	From 2022 and ongoing.
Objectives	To encourage the Company to strengthen their climate ambitions, through both engagement and voting.
How we engaged	In 2022, Rio Tinto sought shareholder approval for their Climate Action Plan which displays the Company's ambitions on emissions targets, and actions to achieve said targets. Rio Tinto had made progress on its climate change commitments in the previous year by committing to a 50% reduction in Scope 1 and 2 emissions by 2030 and committing US$7.5 billion to support meeting this target. However, it had not applied the same ambition to its Scope 3 emissions. We felt Rio were lagging peers in this area. In 2022, scope 3 emissions composed 95% of Rio Tinto's total footprint, as such we can expect them to be leading in their scope 3 measurement and ambitions.

	We sought the opinion of external expertise on the Company's climate ambitions, as well as engaging with the Company directly. This allowed us to form a balanced view on their progress to date and whether their commitments were ambitious enough. We came to the decision that abstaining on the approval of the Climate Action Plan was the most appropriate action. Rio Tinto had made progress in numerous areas of their approach to climate management. However, the Company was still lacking in key climate disclosures, timelines, and measurable targets around scope 3
Outcome of engagement	The Climate Action Plan received 84% support at the AGM, there will be no further opportunity to vote on the climate plan until 2025. Milestone 3 - We will analyse Rio's progress against the commitments it has already made, and any further updates that strengthen its approach. Whilst we do not have an opportunity to vote on their plan for some time, we will continue to engage with the Company to encourage continuous improvement.

Engagement example: Tetra Tech (Principle 9)	
Background	Tetra Tech has been a holding in our Sustainable funds since inception. This company has great sustainable credentials in terms of what the company does, however we had some concerns with some of the governance. We have engaged throughout the holding period and have been pleased to see steady progress. TETRA TECH
Timing	From 2017 and ongoing.
Objectives	To encourage progress in terms of governance and disclosure in the company.
How we engaged	We have been engaging with the company since 2017, initially on a number of governance issues. We had seen progress in some areas, for example the independence of the board and the balance of incentives being subject to performance conditions. We were still encouraging them to make improvements in the structure of the key board committees, the diversity of the organisation and to introduce proxy access. We have also been engaging on the company's environmental performance and encouraging them to increase disclosure and introduce long-term Net Zero goals. Reporting on these topics has changed over the years, which we have highlighted as an issue for investors to track. They now appear set on the currently disclosed metrics and have started to set more ambitious goals.
Outcome of engagement	• Board level independence and diversity has improved. • The company are now in the process of adopting proxy access. • In the process of getting climate targets SBTi approved
Action	Milestone 3 – Good progress made. We will continue to monitor and engage disclosures and target setting

Engagement example: Jet2 (Principles 9 & 12)	
Background	We first reviewed this company in 2021 and had concerns over several elements of the governance structure. Having initially raised these prior to the AGM in 2021, we continued the conversation in 2022.
Timing	From 2021 and ongoing.
Objectives	To encourage progress in terms of governance in the company.
How we engaged	This is an AIM listed company and therefore is not obliged to follow some of the standards of the main market listed companies. However, we strongly believe in the highest standards of governance as a means of reducing risk to our clients and opening-up opportunities. We originally approached the company ahead of the 2021 AGM, with our concerns but did not take voting action to give them a chance to make improvements. The concerns were based on: • The directors are only up for election once every 3 years so there is a lack of ability to hold directors accountable. • The independence and diversity of the board would benefit from being improved, particularly the Audit committee. • It would be beneficial to put the remuneration report up for annual vote so that shareholders can understand the link between pay and shareholders experience and indicate support if necessary. We had a subsequent conversation with the company in 2022 and it was good to see that progress had been made. There is still room for improvement. The audit committee still has a long tenured non-executive on it and we abstained through the year and asked again for the audit committee to be comprised of entirely independent directors.
Outcome of engagement	Independence of the board was strengthened with a new Non-Executive Director appointed through the year, taking up the position of Chair of the Audit Committee.
Action	Milestone 3 – Good progress made and open communication. Will continue to monitor and encourage change.

Engagement example: Emerson (Principle 9)	
Background	As part of our sustainable analysis, we identified some issues with Emerson and set KPI's to track.
Timing	From 2022 and ongoing.
Objective	To encourage the Company to strengthen their environmental management
How we engaged	We arranged a call with the Company's Chief Sustainability Officer in May 2022. We requested that the Company increase its environmental ambitions by both strengthening its existing targets, and introducing further targets to address not only carbon, but also water and waste. We also encouraged the Company to align its targets with the Science-Based Targets Initiative and introduce a Net Zero ambition. The Company was very responsive and we had a productive conversation. In their following sustainability report published June 2022, we were pleased to see the Company announce numerous positive updates. A target to reach net zero greenhouse gas (GHG) emissions across Scopes 1, 2 and 3 by 2045 compared to a 2021 baseline. In the near term, it also aims to reach net zero across operations for Scope 1 and 2 GHG emissions by 2030, following the SBTi Net-Zero Standard, and a 25% reduction in Scope 3 by 2030.
Outcome of engagement	Milestone 3 - The Company significantly raised their ambitions and improved their environmental management. There are still areas we would like to see stronger targets introduced, for example around water and waste management. We will continue to monitor and engage with the Company.

Engagement example: Labelled debt – Apple	
Timing	2022
Objective	One of our portfolios held a green bond issued by Apple. Our engagement objective was to explain that pitfalls in Apple's allocation reporting and what improvements could be made in the next reporting cycle. We wanted to express our opinion on best-practice reporting standards and urge the company to adopt at least minimum standards going forward.
How we engaged	We reached out to the Investor Relations department and flagged our concerns on allocation reporting. Apple responded to our initial inquiry by providing links to their most recent Green Bond Report. Our Responsible Investment team reviewed the report and determined that it lacked details that are typically included in standard Green Bond Reporting. As a result, we responded to Apple outlining the shortcomings of their report.
Outcome of engagement	The company's Investor Relations team responded stating that they do not have anything further to share about their green bond allocations other than what they have published. Since this was the second time our Responsible Investment team outlined the shortcomings of Apple's report resulting in no proposed changes or improvements, the engagement was closed. This also led our Responsible Investment team to recommend divesting from Apple's Green Bond because the company showed an inability to follow reporting standards. The position was sold shortly after that.

Engagement example: Labelled debt – Big River Steel LLC	
Timing	2022
Objective	Big River Steel is a mining and metal company that focuses on sustainable steel production. The company operates the only LEED-certified steel mill, which utilizes less water and energy relative to industry peers. The company also utilizes scrap steel as the primary input to the production process, which can contribute to the circular economy and lower carbon emissions. Additionally, the company issued green bonds to finance the expansion of their electric arc furnace steel mill. We engaged the company on the timing and completeness of their inaugural green bond reporting.
How we engaged	We reached out to the Investor Relations department of the company and flagged our concern about the timing of allocation and impact reporting.
Outcome of engagement	Milestone 3 - Big River Steel LLC responded to our initial inquiry by providing their Green Bond Report. Our Responsible Investment team reviewed the report and determined that it lacked details that are typically included in standard for Green Bond Reporting. As a result, we responded to Big River Steel LLC outlining the shortcomings of their report. The company thanked us for the constructive feedback and stated that our message was shared with the applicable members of their team who work closely on their reporting. The RI team did not recommend divestment based on this, instead we will continue to monitor their reporting on an annual basis.

Case study: Labelled debt engagement - Consolidated Edison of NY	
Timing	2022
Objective	We began engaging with Consolidated Edison of NY during our labelled debt review. We found a general lack of reporting on their green bonds, compared to other utilities. Even though this was not their first issuance, we found no internal framework on green bonds. We wanted to express our opinion on best-practice reporting and urge them to adopt minimum standards.
How we engaged	We reached out to the Investor Relations department and flagged our concerns about the inadequate reporting. The company wanted to discuss these topics on call.
Outcome of engagement	The company made it clear that in current market environments they will issue no new green bonds. However, if they issue new green bonds in the future, they will review market standards and see what disclosures they should provide. The company does not currently plan to issue an internal framework and did not state it if was necessary for them to do so before issuing more labelled debt. Nor will they report the management of proceeds more transparently. As an active labelled debt investor these answers were unsurprising, but they also did not show confidence that Consolidated Edison NY would enact any best practices in green bond issuance standards going forward and would continue to do the minimum to issue green bonds that are experiencing high demand from buyers. This led our RI team to recommend divesting, given that the company showed an inability to follow reporting standards. The position was sold shortly after that.

Engagement example: Remuneration

As in previous years, we are regularly approached in advance of publication to consider company proposals, primarily around executive remuneration. We typically receive initial consultations via letter, with the offer of a meeting with the Chair of the Remuneration Committee, which we usually accept in an effort to understand their decision making.

Proposals vary greatly. Some involve a complete review of pay structures, while others describe remuneration committee decisions already taken. Should company proposals be submitted which concern us, we encourage companies to either make amendments, or withdrawal if we fundamentally oppose the structure. Our subsequent voting will reflect the extent to which our concerns have been addressed.

In 2022, we received remuneration consultations from 31 companies. Many of the companies that we initially raised concerns at responded positively to our suggestions and incorporated changes into their final proposals.

One example was **Bellway Plc**. They sought to increase the quantum available under the Long-Term Incentive Plan. While the increased amount was not inconsistent with peers, we considered the timing to be inappropriate, given the ongoing cost-of-living crisis, and the poor share price performance. While the company proceeded with the increase, it responded to our suggestions and significantly reduced the initial grant. Furthermore, it provided an undertaking that future grants would only be made at the enhanced level when the share price had recovered.

Similarly, **Kin & Carta Plc** responded positively to our constructive comments and reduced the magnitude of increase proposed to its long-term incentive program.

Others occasionally push ahead with proposals despite our initial concerns. One example was **Britvic Plc**. The Company permitted a proportion of an outstanding LTI award to vest despite not having met performance targets. The Company argued that this was because of Covid, and that the vesting outcome would not have been consistent with corporate performance. We did not concur, arguing that many companies were in the same position. We voted against the remuneration report. Given the resultant significant protest vote, the company was required to reach out to investors after the AGM to further understand shareholder concerns.

Engagement example: ESG strategy and disclosure

In our last report we highlighted an increasing number of companies seeking input on ESG strategies and disclosures. Those discussions centred around materiality, frameworks to report against, depth of disclosures, target setting and how to incorporate ESG into the remuneration structures. The number reduced in 2022, which we view as an indication that ESG is increasingly embedded in our investee companies and they no longer need to seek investor feedback on the basics such as frameworks.

There have still been a lot of companies seeking advice on transition plans (how to structure them, how to embed them) focussed on the bigger emitting sectors, such as oil and gas and banking (See Barclays example in Principle 11) There have also been companies seeking to include ESG factors into their remuneration structure. Through the role of Miranda Beacham, as Chair of the Remuneration and Share Schemes Committee, we have contributed to best practice communications to the chairs of the remuneration committees in UK companies.

Engagement example: Capital raising wall-crossed engagements

We also highlighted the special situation arising in 2021 of emergency capital raisings resulting from Covid. It is pleasing to see that these have tailed off now and the Secondary Capital Raising review has given more flexibility to UK companies in raising capital. We expect companies to consult ahead of using this and will monitor going forward.

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

As we have previously articulated, we firmly believe in the value of engaging with investments to drive change in ESG practices. This is done through a combination of direct engagement and 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 that is common to many of our investments that we would like to see market-wide change in. It makes most sense join an organised campaign through an organisation that has 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 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. A selection of initiatives where we have focused on the following topics in 2022:

IIGCC The Institutional Investors Group on Climate Change; Climate Action 100+	Institutional Investors Group on Climate Change and its CA100+ initiative. We are an active member of the platform and represented in various working groups, as well as the advisory committee. We co-lead engagements in 4 different sectors (Automotive, Chemical, Industries, Utilities).
access to medicine FOUNDATION	Together with other investors we stimulate and guide pharmaceutical companies to contribute actively to the Access to Medicine Foundation Index to do more for people living in low- and middle-income countries without access to medicine.
International RBC SER	Supporting biodiversity through being signatories of the IRBC and through the Satellite-based engagement towards no-deforestation initiative
PLWF Financials for living wage	Implementation of a Living Wage in global supply chains, together with other members of the Platform Living Wage Financials. We are predominantly focused on engaging garment companies.
NET ZERO ASSET MANAGERS INITIATIVE	Throughout Aegon group we have committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; We have identified the Top 25 emitters of our Dutch GA and engage them on setting Science based targets by the end of 2024.
CDP	We annually support CDP's Non-Disclosure Campaign, urging companies with a significant environmental impact to disclose data on climate, water and forestry. We also support CDP's science-based Targets campaign since it started a few years back.

In 2022 we had 114 contacts with 44 companies in collaborative engagements on various issues. Participation style varied from the very active in the engagement platforms, where we took a lead role for specific companies, over very client-specific asks to engage their top emitters, such as BMW Group and BASF Ltd, down to taking a more passive role in the Non-Disclosure Campaign engagements through CDP.

The examples below focus on our equity and fixed income holdings. As previously articulated, these engagements tend to span over a number of years, so some of these examples are building on progress we have made last year.

Engagement priorities

When deciding on what engagement themes we will set as priorities, we take into account the most material issues facing our investment companies alongside the focus of our clients. One such example is our internal client, Aegon NL, which gave clear guidance to us on where they would like us to focus in the engagement work during the year.

The theme-related engagements in 2022 mainly focused on the topics of climate change, health and supply-chain issues. Our focus on health continued to be of very high importance in light of the pandemic which continued into the beginning of 2022. As investors we feel we have an important role to play in engaging with pharmaceutical companies on SDG 3, which focuses on access to medicine under **SDG 3.8** "access to safe, effective, quality, and affordable essential medicines and vaccines" It was therefore beneficial to be a signatory of the **Access to Medicine Index** and leverage their expertise.

Covid-19 confronted us with a global challenge which more than ever demonstrated the need for product accessibility and equitable price-setting. This is why we decided to build on engagement with the group of pharmaceuticals identified previously. This ensured continuity of the relationships with the companies and reinforced our ask for board accountability. Concretely, we asked for more strategic considerations and related executive compensation practices around access to vaccines, medicines, diagnostics and healthcare in general. Our engagement letter even delivered input for consideration in future corporate commitments, policy development and the evaluation of the executive compensation policy, as companies said finding suitable and verifiable metrics was difficult for them.

In some but not all dialogues that followed the letter we were pleased to see that our counterparts acknowledged the relevance of incorporating access to medicine metrics into executive compensation.

Engagement example: Johnson & Johnson (US)	
Target company	The company engages in the research and development, manufacture and sale of healthcare product. It operates through the following segments: Consumer Health, Pharmaceutical, and Medical Devices.
Objectives	With respect to vaccine equity, access to medicine is not clearly addressed with a formal strategy/position that is translated to KPIs in the company. We want to make sure the topic is on the agenda of the compensation & benefits committee and would like to see global access to medicines, here vaccines, implemented into the executive remuneration.
How we engaged	Together with other insurers, we collaborated to work out a follow-up project to Covid-19 related efforts on vaccine equity.
Outcome of engagement	With respect to vaccine equity, access to medicine is not clearly addressed with a formal strategy/position that is translated to KPIs in the company. We discussed the relevance of linking executive remuneration and medicine access strategies around the globe, which would be in line with the WHO goals. The company admitted they had learned the importance of having strategies, high-quality procedures and local partnerships in place, to move fast in a situation of urgency. Coming up with their own remuneration scheme for this ambition is not what they immediately agreed to. However, they showed willingness to take our suggestions into account in the 2022 Q3 review of the executive remuneration policy.
Status and next steps	This engagement is qualified milestone 3.

Aegon AM is a member of the **Platform for Living Wage Financials**. This is a coalition of investors working to engage investee companies in the Garment & Footwear and Food Retail and Agricultural sectors, on their implementation of living wages. Ensuring a living wage is an essential aspect of decent work, according to the UN Global Compact. While governments have a role to ensure that appropriate mechanisms are in place to create a social safety net for workers, often minimum wages do not afford a decent standard of living.

A recognised impediment to the realisation of living wages is a lack of data and transparency into the supply chains of apparel and footwear brands. There has also been a lack of understanding on the part of brands about the importance of living wages in terms of negative impacts on business, but also the detrimental consequence to supply-chain workers, many of whom are women. The inclusion of living wage payments in the framework of supply chain due diligence conducted by brands is now an expectation from regulators and investors, but also increasingly consumers.

At Aegon AM we are mainly active in engaging garment companies and collaboratively we assess companies using a methodology developed with Mercer and reviewed annually. This covers eight key pillars: policy, engagement with multi-stakeholder initiatives, engagement with trade unions, assessing impacts, integrating findings, tracking performance, remedy and transparency.

In 2022, we scaled up engagement and took responsibility for engaging **GAP, Ralph Lauren** and **Zalando**, while also supporting engagement with **LVMH** and **adidas**. After reviewing the companies' public disclosures, we discussed our findings with three companies (**Ralph Lauren, Zalando, adidas**). Two companies however, refused to talk to us (**GAP**) or were unresponsive (**LVMH**). **Ralph Lauren** made by far made the most improvements on the PLWF scorecard, compared to the other ones we assessed.

Towards the end of Q3/2022, our findings contributed to over 50 living wage and living income assessments that were conducted of member's investee companies from the garment, footwear, food, agriculture and retail sectors. Key outcomes will be published in Q4/2022.

Engagement example: Zalando (Germany)	
Target company	Online fashion platform, selling both third-party and own-label garments.
Objectives	Our engagement goal was for this company to improve their score in the Platform for Living Wage Financials (PLWF) living wage assessment, which would, for example, include improving their living wage policies, as well as supply chain practices. With an annual cycle, this is a continuation of the engagement we reported in the 2021 response and which will continue.
How we engaged	With other platform members we collaborated to share knowledge and approach investee companies to address and encourage the payment of living wage in global supply chains. After the PLWF assessment, based on publicly available data, we began with multiple email contact moments to discuss the assessment with the company, an in-depth call was held together with other investors in 2021. After we finally build a relationship with the company in 2021, it seemed like in 2022 we had to start all over again. It needed various emails and a letter to the Zalando board ahead of the 2022 AGM to get their attention. With this letter, we raised our concerns about the potential risks stemming from inadequate remuneration levels of workers across the global supply chain directly to the board
Outcome of engagement	Zalando continues to report minimal living wage information publicly i.e. for their private labels, they have disclosed 100% of their 117 suppliers, 209 active Tier 1 factories and started disclosing Tier 2 factories but have other than that not significantly delivered on their promised work on ethical standards, including living wage.

Status and next steps	For the overall assessment result, it still leaves the company in the 'embryonic' stage of the framework. This engagement is qualified milestone 2. We will continue the dialogue on an annual basis.

Climate change represents both an urgent challenge and an opportunity to build a more sustainable economy. As a global financial institution, we recognise our share of responsibilities, that is why in recent years we have taken action to reduce the greenhouse gas emissions generated by our business and are committed to supporting the transition to a climate-resilient and net-zero economy.

Climate-related engagement and voting are a core element of our Active Ownership Strategy. The engagements are conducted by our Responsible Investment Team and through regular meetings with analysts and fund managers. However, this is such a big topic that we find it advantageous to join with collaborative initiatives to ensure that we are reaching as many companies as effectively as possible.

Engagement example: Climate Change through Climate Action 100+	
Target company	E.ON is a European electric utility company based in Essen, Germany. It runs one of the world's largest investor-owned electric utility service providers.
Objectives	The company is identified by CA100+ for engagement and we continue to encourage necessary action on climate change. We have taken the lead to engage with the company on full compliance with the CA100+ benchmark and hereby push for further achievements towards Net Zero 2050. In 2022 a special focus was on getting transparency of their climate lobbying activities and how their memberships in industry associations align with their climate strategy
How we engaged	To date we have had a number of calls and letters on the issue. Overall E.ON significantly improved their CA100+ Benchmark scores. This resulted from steps taken in their decarbonisation strategy, linking climate targets and remuneration and particularly on transparency around their industry association memberships. This was a first time report that assessed the companies advocacy work and review of climate policy alignment with key associations.
Outcome of engagement	• Improved decarbonisation strategy • Linking strategy to remuneration
Status and next steps	Milestone 3: While we have complimented the company, we reached out with further requests, such as more granular information of the Climate Advocacy Work, there a need for proactive lobbying to overcome policy barriers and do not see that coming yet from the company or the associations it is linked to.

Engagement example: Climate Action 100+ engagement with SSE Plc	
Target company	SSE is a focus company for the Climate Action 100+ initiative, run by the IIGCC.
Objectives	SSE Plc is held across our sustainable fund suite due to its focus on supporting the transition to low-carbon electricity systems in the UK and Ireland, and its ambitious goals to decarbonise. However, it remains a high emitter and we felt it prudent to engage with the Company on an ongoing basis. Joining the Climate Action 100+ engagement group allows us the opportunity to collaborate with a select few peers in the asset management industry on the Company's climate ambitions, and to engage directly with the Company regularly. SSE has made good strides in its climate ambitions over recent years, and most recently we were impressed that it sought shareholder approval of its first Net Zero Transition Report in 2022. In 2022 there remained a few areas across which the Company could improve. Through engagements in the form of both meetings and letters, we sought: • More specificity on short-term targets, as opposed to following a planned trajectory. • Clearer expectations of all trade association with regard to involvement in shaping climate policy. • Further work with CA100+ to find a form of disclosure on investment in low-carbon solutions which meets the demands of the benchmark.
How we engaged	Collaborative engagements among the investor group involved discussion around SSE Plc's journey to-date, and where the Company could strengthen its ambitions. We focused on encouraging the Company to address the three main issues above. The broad discussions often touched on other points key to the Company's transition, such as climate board expertise, lobbying alignment, and committing to net zero in a challenging geopolitical environment. The Company were very responsive to the group's engagements. SSE is very knowledgeable on the subject and appears keen to meet the expectations of its investors.
Outcome of engagement	SSE improved their score on the Net Zero Company Benchmark last year, most importantly across the first three factors - achieving net zero GHG emissions by 2050, introducing long-term GHG reduction targets, and medium-term GHG reductions. The end goal of the engagements, which will likely span a number of years, is to meet all the criteria as laid out in the Climate Action 100+ Net Zero Company Benchmark. Engagement priorities will be revisited and enhanced where appropriate in early 2023.

Engagement example: Biodiversity through the satellite-based engagement towards zero deforestation initiative	
Target company	Proctor & Gamble (US)
Objectives	The company had been identified by various NGOs for alleged deforestation and land clearing controversies for oil palm plantations in Indonesia. P&G's supply chain oversight on deforestations by the company's direct and indirect palm oil suppliers was considered insufficient.

	The collaborative engagement initiative targeted companies using soft commodities linked to cases of alleged deforestation, including P&G. Using satellite imagery of alleged deforestation, companies were asked to address deforestation linked to their operations and to set up robust processes to prevent future deforestation.
How we engaged	Aegon AM, acting as lead investor, engaged with P&G in 2021 and 2022 via emails and conference calls to learn more on P&G's oversight of its Indonesian palm oil supply chain and to discuss various incidents of deforestation allegedly linked to P&G's palm oil suppliers. During our conversations in 2022 we revisited alleged cases of deforestation, brought forward in 2021 and the beginning of 2022, the companies grievance mechanisms and re-entry criteria for excluded suppliers.
Outcome of engagement	• P&G provided a sound insight in its no-deforestation policies, implementation, oversight of direct and indirect suppliers, governance and escalations steps in case of any identified breaches. • The company has achieved 100% RSPO certified palm oil sourcing, indicating that based on regular operations deforestation risk should be minimized. Together with company's NDPE and procurement policies, this indicates a strong supply chain oversight and lowered risk of deforestation. It provided insight it its use of its Roundtable on Sustainable Palm Oil ('RSPO') membership, transparency as to its suppliers and the use of grievance mechanisms in case of supply chain-related incidents. • Detailed response to various alleged deforestation incidents using the company's own satellite monitoring data. Further investigation revealed that incidents either were not linked to P&G's suppliers or found to be well documented and disclosed in the company's publicly available deforestation grievance mechanisms and were subsequently being investigated. • The company's grievance tracker mechanism – using grievances identified by the company or third parties – seems to work well. However, the level of disclosure regarding grievances makes it difficult to assess steps taken in relation to excluding suppliers and any compensation or mitigating actions taken. • Following the initial engagement in 2021 with P&G, in 2022 the company provided more detailed insights in its supply chain oversight process, grievance mechanism and policies and goals to ensure a deforestation-free palm oil supply chain. • During the 2022 engagement cycle we discussed the level of detailing in P&G's Grievance Tracker, if and if so how possible mitigation or remediation were considered and what the re-entry criteria were for previously excluded suppliers. Though P&G noted that remediation was supported by a contracted party and that it was developing re-entry criteria, the investor group considered this to be too vague. • Milestone 3: With more information on P&G's oversight, management of grievances and solid evidence that the company was either not involved or has taken diligent course of action in deforestation cases brought forward by the investor group, MS 3 is well justified. P&G's Grievance Tracker does however not disclose a detailed description on how grievances are addressed or if and if so how, mitigation or remediating is considered. In addition, re-entry criteria for excluded suppliers that were identified for involvement in deforestation, were unclear. • Aegon AM, as lead investor of the investor group, will continue to monitor P&G to ensure that both breaches of P&G's no-deforestation policy and full transparency on identified cases, continue to be considered.

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

As outlined in Principle 9, we track each engagement according to objectives set and progress is regularly monitored, recorded and discussed internally. If concerns remain following engagement, we may escalate 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. These instances are prioritised through size of active position or through the seriousness of the issue at stake – this is obviously a qualitative judgement but has been successful in our experience.

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 Barclays below shows where engagement has been escalated to collaborative engagement when we were unable to gain enough traction at an individual level.IN addition, the case of Trian 1 Investors shows the progress when a small group of shareholders with a similar viewpoint can effect real change.

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.

As has previously been mentioned, there have been some changes in the real assets platform in the past year and we will be in a better position to articulate activities in the next report.

Engagement example: Defending bond-holder rights	
Target company	A US-based multi-national technology company.
Objectives	To understand how the financial controls of the company and the management failed to adequately disclosure the sudden drop in revenues quarter-on-quarter. The company also had a whistleblower complaint, and it was evident the program was not functioning properly.
How we engaged	The significant drop in revenues quarter-on-quarter was timed right after the company had issued bonds to the market with the aim to refinance its convertible debt structure about to mature. After the earnings release the situation escalated immediately, which began a run on the company. This event prompted Aegon and many other investors to lock arms and begin asking question on how this originally happened. For Aegon Credit Research and Distressed Debt Team this began a long and arduous process of discussions with the company and other large investors in the business on how to best restructure the company. During these discussions the firm stopped providing financial disclosures and the conversations on restructuring occurred behind closed doors in which only majority equity/debtholders we're able to participate in.
Outcome of engagement	The company filed for bankruptcy in early 2023, was privatized and the financial structure of the business was completely restructured based on existing bondholders needs. The investor community was able to enact significant changes to the company after the 'run on the company during early 2022. The existing management team including the CEO were all removed from their positions and the board was completely refreshed. The new CEO was hired to turn the company around and execute on the long-term business plan focused on identified growth areas with the aim to eventually relist the business. He was also tasked to hire additional key management people to support this need.

	Furthermore, the discussions also resulted in a completely new board. The new board consist of 9 members and which we're all handpicked by the investors involved in the restructuring conversations. What continues to be an ongoing question is how the whistleblower program failed to meet investors' expectations and therefore investigation has been initiated. Furthermore, the company has significant ongoing litigation which continue to headwinds for the new management and the board to turn the company around. The company is conducting an internal investigation into the misleading financials that began this whole crisis for the business.

Engagement example: Strategy and Board Structure - Trian Investors 1 (Principle 11)	
Background	This vehicle was set up with the intention of buying into an underperforming company and using Trian's activism abilities, drive changes and then the return proceeds to shareholders. The company chosen was Ferguson PLC. TRIAN INVESTORS 1 In 2021, this policy was changed to allow greater flexibility to the managers to further invest in other companies rather than return proceeds to shareholders. This received a large protest vote of 47.75% of the votes cast against.
Timing	June 2021- September 2022
Objectives	To motivate the company to give shareholders an opportunity to receive the proceeds back or change the investment policy.
How we engaged	This started after the AGM in 2021 where the fund managers met with the company to discuss the reasons for the large dissent at the AGM. There was a lack of willingness to resolve the situation. We were contacted by some shareholders who wished to collaborate after individual approaches to the Board failed. An Ad Hoc Committee was formed to reach a consensus on what approach to take, there was a common belief that the board were not effectively protecting the interests of all shareholders. The group further engaged with the board but there was no satisfactory outcome leading to a desire to requisition a shareholder meeting to change the composition of the board. While we did not co-file this EGM, we publicly supported the resolutions and voted in favour of them at the AGM. The Chairman was replaced as a result of the EGM and further engagement was opened with the board to resolve the dissatisfaction with the strategy.
Outcome of engagement	• Chairman was replaced following the EGM. • The strategy was adjusted. • The vehicle will wind up and return the proceeds to shareholders by June 2023.
Action	Milestone 4 - Complete.

Engagement example: Lack of progress on climate - Barclays Bank (Principles 9,10,11 & 12)	
Background	Barclays Bank remains the seventh largest fossil fuel funding bank in the world, according to the Banking on Climate Chaos report, launched in March 2022. We have been engaging with Barclays on climate since 2020, when they were targeted by Share Action at the AGM.
Timing	2020 to present
Objectives	This engagement has a combination of direct and collaborative engagement with the Investor Forum. The aim has been to understand their transition strategy, monitor progress and maintain pressure to improve in line with the Paris agreement. We also seek to ensure Barclays understand that this is a material business issue and that we expect them to show leadership commensurate with its position as one of the UK's leading investment banks.
How we engaged	Engagement started well with details being shared as to how they plan to meet the Net Zero commitment in 2050. including: • Focus on the Energy & Power Sectors as they are the most carbon intensive. Hard targets have been set for reduction over the next 5 years. • Setting a carbon limit per year for funding activities, so that they will need to be budgeted. • Cease funding of fracking and oil sands in Europe and enhanced due diligence in the US. Initial progress was good, with sector guidelines being implemented and commitment to roll out further sector guidelines in the future. However, when they updated investors this year it became clear that there had been a degree of backtracking because of the energy crisis. The US had been carved out of the coal commitments and the new sector guidelines around Power and Steel had minimum targets that would fail to meet their own Net Zero commitments.
Outcome of engagement	• Progress has slowed, so we voted against the progress report on the transition plan and have continued to engage post AGM to motivate the company back on to an acceptable pathway. We will monitor this one closely and will further escalate if the forthcoming transition plan update disappoints. • Milestone 3 – Progress is slowly being made but will need to maintain ongoing engagement to ensure it is aligned with the overall ambitions regarding climate.

Engagement example: Upholding exclusionary criteria of funds - Renishaw (Principle 11)	
Background	The exclusion policy for the Ethical Range of products is strict and therefore we closely monitor any changes in the holdings of the portfolios.
Timing	2022
Objective	Renishaw is an engineering company with core skills in measurement, motion control, healthcare, spectroscopy and manufacturing While they have historically not used animal testing, the screen indicated that they had started and we sought to understand whether this was the case
How we engaged	Conversation with the Head of Communications, who in turn engaged with the relevant people internally to ascertain whether testing had taken place.
Outcome of engagement	This company has a division that is focusing on medical applications that aim to improve the quality of life for people with debilitating neurological diseases such as Parkinson's, Alzheimers and brain cancers. This includes systems that can safely and accurately deliver drugs into the brain. Some of these products have moved into pre-clinical studies and as such, there is a legal requirement to test on animals ahead of human application. This company is therefore no longer eligible to remain in the portfolios and was sold shortly after.

Principle 12: Signatories actively exercise their rights and responsibilities.

As active owners, we recognize that exercising our voting responsibilities and constructive long-term engagement with companies is vital to our role as an asset manager.

Our voting rights are used in the best interests of our clients. We exercise these rights for all holdings that are actively managed. This underpins our stewardship activities. For the purposes of the response to this principle, we will focus on our voting process that we use where we have discretion to apply the Aegon AM policy. We can facilitate client specific voting policies in certain funds, and we have clients who utilise this.

Our default position is to support company management. However, in support, we expect that companies adhere to the highest standards of governance relevant to their country of incorporation. We recognize that no two companies are the same. We therefore support the 'comply or explain' model of corporate governance. This approach places the onus on companies to provide detailed explanations of any deviations. Where deviations occur, we strongly encourage companies to engage so that we may further understand the issue.

We strive to promote established best practice through regional corporate governance codes, or if there is none, international best-practice codes, such as the Organisation for Economic Co-operation and Development (OECD) principles of Corporate Governance. While we are cognizant of these regional differences, we are active in promoting best practices in our engagements as has been demonstrated in Principles 9-11

We consider, evaluate and vote all shareholder meetings of UK and Dutch companies in which we invest, and vote all other meetings in circumstances in which we own over 0.1% of the issued share capital. We believe this threshold is the minimum level upon which we can begin to influence management. This approach resulted in 57.3% of all meetings being voted.

Should we identify concerns when evaluating a shareholder meeting, we will seek to contact the company prior to voting in an effort to further understand the issue and provide the company with an opportunity to explain their decision making. Establishing such contact can be difficult in less developed markets.

Making contact will not always change our proposed voting stance. However, every time we abstain or vote against a proposed resolution (in all markets), we will write to the company fully explaining our reasoning and offering suggestions that could be implemented to alleviate our concerns.

Having identified a concern, contacted the company where practicable, and determined our vote intention, the relevant fund manager will be informed and has to formally agree with the proposed intention, prior to casting our vote. This ensures a cohesive approach within the investment function. On the rare occasion when there is disagreement, the issue will be referred to the Chief Investment Officer for the final decision.

Any year-on-year improvements resulting in a positive voting outcome, will be communicated to the relevant fund manager thereby ensuring that they are fully aware of developments.

If a company fails to respond to our engagement and previous voting, we will escalate matters to further voting, as demonstrated in the Barclays Bank example in Principle 11.

As part of our decision-making process, we take research from both ISS and IVIS (via the Investment Association). We use these purely for research purposes – the voting recommendations issued by ISS do not influence our own voting decisions. In 2022, we did not vote in line with ISS at 30.7% meetings which is equivalent to 4.2% of all resolutions voted.

In addition to using research providers, when determining our vote we give due consideration to previous company communications, together with specific knowledge offered by the relevant fund manager. Each vote is considered on a case-by-case basis and in a pragmatic manner. While we seek to apply our voting guidelines consistently, we do sometimes offer companies a degree of flexibility dependent upon factors such as whether they are new to market, transitioning to a main market or if tangible progress has been over the preceding year. This forms part our engagement process in helping companies achieve the highest standards of governance.

Our voting guidelines are found in our Active Ownership Policy, which is available at **www.aegonam.com/responsible**.

We are active members of the Investment Association and Eumedion's Investment Committees on stewardship and sustainability, and we continue to act as chair to the Investment Association Share Schemes Committee. This active industry participation ensures that we are influential in directing industry discussions on matters such as development in standards, disclosure initiatives and the developments of legislation, such as the Sustainability Disclosure Requirements regime, the final guidance for which is expected to be published by June 2023.

The remuneration and share schemes panel has been particularly active in encouraging companies to deal with the cost-of-living crisis in an equitable manner in terms of remuneration to their staff and the remuneration outcomes of the executives.

We vote our holdings through the ISS Proxy Exchange platform. We reconcile the holdings recorded on their platform against our own internal portfolio management system to ensure the correct number of shares are voted. All votes cast are recorded on the Factset system, together with the rationale of any voting against management. This is alongside the records of engagement activities, thereby enabling us to track progress against engagement objectives and to provide ease of access to the investment managers of our activities.

Our voting records, together with explanations to accompany abstentions and votes against management or votes on shareholder resolutions (our definition for significant votes) are publicly available at www.aegonam.com/globalassets/aam/responsible-investment/documents/proxy-voting-report.pdf

We attend general meetings when appropriate. 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.

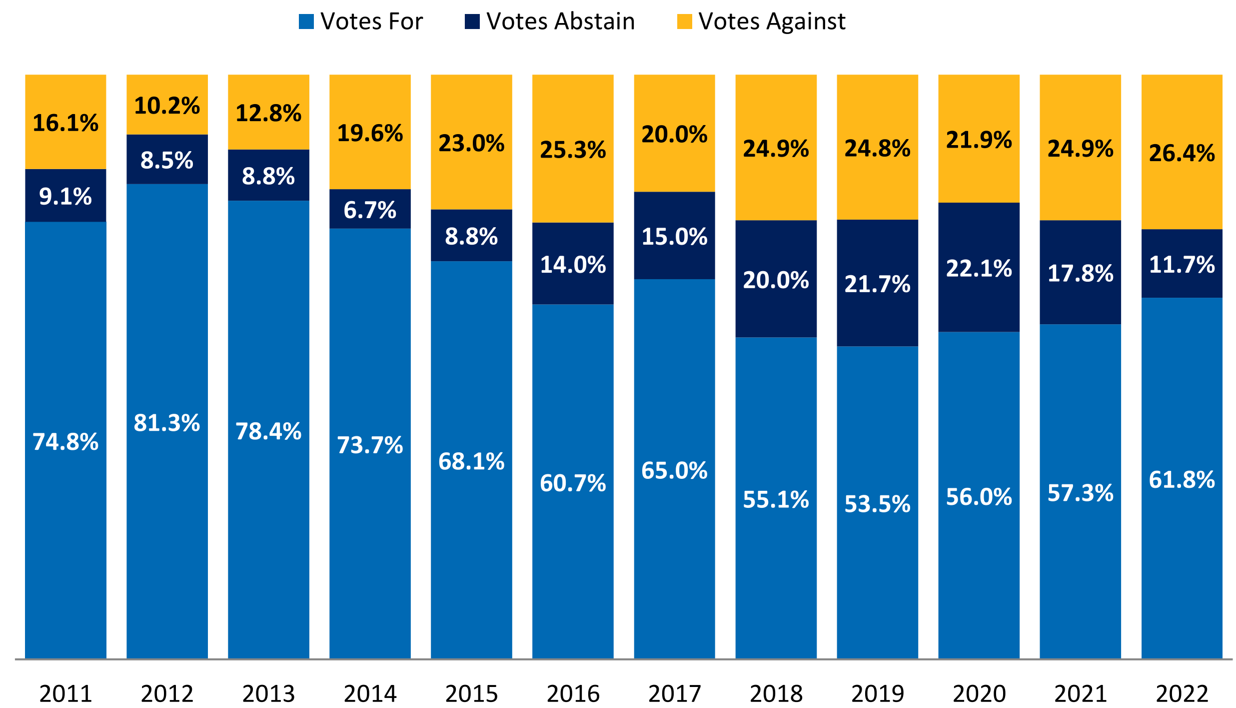
2022 votes on non-support by category

Director related	139	43.3%
Remuneration	110	34.3%
Capitalisation	30	9.3%
Routine	13	4.0%
Shareholder rights	10	3.1%
Environmental	10	3.1%
Shareholder resolutions	5	1.6%
Takeover / merger	2	0.6%
Audit	2	0.6%
Total	**321**	

2022 votes by country

United Kingdom	198	58.1%
USA	58	17.0%
Japan	19	5.6%
Guernsey	13	3.8%
Ireland	10	2.9%
France	8	2.3%
Jersey	8	2.3%
Luxembourg	8	2.3%
Australia	7	2.1%
Cayman Islands	6	1.8%
China	6	1.8%
Germany	6	1.8%
Netherlands	6	1.8%
Sweden	6	1.8%
Switzerland	6	1.8%
Belgium	4	1.2%
Indonesia	4	1.2%
Taiwan	4	1.2%
Bermuda	3	0.9%
Denmark	3	0.9%
Italy	3	0.9%
Singapore	3	0.9%
Spain	3	0.9%
Brazil	2	0.6%
Canada	2	0.6%
Isle of Man	2	0.6%
Israel	2	0.6%
Norway	2	0.6%
South Africa	2	0.6%
South Korea	2	0.6%
Hong Kong	1	0.3%
New Zealand	1	0.3%
Virgin Islands (UK)	1	0.3%
Total	**341**	**100.0%**

Voting activity by decision



We continued to stock lend within certain portfolios in 2022. However, our policy remains to recall stock lent prior to voting deadlines, thereby ensuring that we have exercised our voting rights in full. Some clients have their own stock lending policies that we will facilitate. It is their decision whether they wish to recall stock ahead of meetings and we will comply with their wishes.

Clients in Segregated accounts will agree to an approach to voting in the Investment Management Agreement. They may choose their own policy or use ours. Our Voting Rights strategy in pooled funds is disclosed in the fund prospectus and available to investors. Currently we do not offer clients in these vehicles to make individual voting decisions. However, we communicate with clients and listen to their feedback on our voting policy and make amendments to ensure it is reflective of client expectations.

Finally, if clients have suffered losses as a result of the funds holding entities that have provided misinformation, involved in fraudulent activities or other violations of securities laws, the portfolios are screened and class actions are filed so that losses can be recouped.

Examples where voting has led to change

We have continually engaged with **Informa** since the onset of covid. Our concerns initially focused on the introduction of a restricted share plan and decisions taken by the remuneration committee in response to covid. Our voting continually escalated, culminating in board changes and the appointment of a new chair of the remuneration committee. Through further subsequent engagement we have helped in shaping their new remuneration policy which we were able to fully support in 2022.

There is increasing evidence that our voting and subsequent engagement activity is leading to change within some of our overseas holdings. In Europe, having previously voted against remuneration practices, following engagement we were able to subsequently support pay resolutions in 2022 at **Teleperformance SE, Royal Unibrew A/S** and **Schneider SE**. There have also been several US companies, including **Store Capital, Host Hotels & Resorts** and **Allied Properties Real Estate Investment Trust**, that we have engaged with, initiated change and subsequently supported. Engagement issues were not solely restricted to executive remuneration, but also to board and sub-committee structures.

In circumstances when sufficient progress is not made, we continue to escalate our voting, targeting individual directors if appropriate. Following successful engagement with US companies in recent years, the majority of our investee companies now have performance targets attached to LTI awards. During 2022, we focused engagement on ensuring that these performance targets are appropriately structured to ensure alignment between reward and performance. Our future voting will reflect the degree of progress made.

In fixed income, creditors typically seek to amend indentures at two different times. Firstly, at new issue i.e. at the time the company is seeking to raise capital and the indenture is being negotiated for the first time; and secondly, when the company falls into restructuring. Aegon AM seeks to maximise creditor protections within the realm of possibility at all times, acknowledging the need to balance our leverage (which can be situational) and need to participate in financial markets as a constructive creditor for our investors.

Aegon AM’s approach in all markets utilises various resources and points of leverage. We have specialist research providers that produce detailed legal analysis of indentures, highlighting risks to creditors within the documentation. This augments our experienced credit research team, who also review indentures alongside a credit risk assessment. Points of concern are considered for materiality (severity of risk, likelihood of risk coming to bear etc.) and can lead us to engage with the issuer / syndicate banks to seek documentation changes. This can be on areas such as extension of maturity date and tightening of loopholes. This can be done either directly, but more often collaboratively with likeminded peers or through the Investment Association. Aegon AM’s representative is the current chair of the Fixed Income Committee at the Investment Association and is therefore in a good position to ensure that we are keeping abreast of all developments in this area.

As previously articulated, there have been changes to the Real Assets platform over the past year and the framework around integration and engagement is being further developed. We will be in a better position to comment on this is in the next Stewardship Code Response in 2024.

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Expiry: 30 April 2024.