AEGON
Asset Management

Aegon Short Dated Investment Grade Bond Fund

Quarter 4 2020

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Introducing Aegon Asset Management

Global client base

- Serving clients in Europe, the Americas and Asia
- Institutional, intermediary and wholesale markets

Investment offerings

- Research-driven active management
- Expertise in fixed income, real assets, equities, multi-asset & solutions
- Multi-management
- A responsible investment leader

Deeply-resourced

- 1,200 employees
- 376 investment professionals

Assets under management/advisement

- £348 billion[1]

Global offices

Americas		Europe		Asia	
Baltimore	Irvine	Budapest	London	Hong Kong	Shanghai
Cedar Rapids	New York	Edinburgh	Madrid	Tokyo	
Chicago	San Francisco	Frankfurt	Paris		
		Groningen	The Hague		

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Four global investment platforms

Fixed Income | Real Assets | Equities | Multi-Asset & Solutions

Principal strategic partnerships

LA BANQUE POSTALE ASSET MANAGEMENT

兴证全球基金 AEGON-INDUSTRIAL FUND

MAG INVESTIMENTOS

As of 31 December 2020. [1]Includes joint venture assets.

For Professional Clients only and not to be distributed to or relied upon by retail clients

AEGON Asset Management

Global Fixed Income integration

Global integration of Aegon Asset Management's investment management unit implemented 2020

Fixed income platform includes 136 fixed income professionals in investment teams across UK, Europe and US

£166 billion fixed income assets under management

Russ Morrison
Global Chief Investment Officer
Fixed Income

Led by Russ Morrison, Global Chief Investment Officer, Fixed Income who sits on the AAM Global Management Board

Our global fixed income platform

- Wider perspectives to enhance our top down positioning
- Added depth to idea generation and greater conviction in issuer selection 171
- Deeper resource to enable rigorous sector assessments & stress testing
- 14 strong, dedicated Global Responsible Investment team to maintain leading ESG position

As at 31 December 2020

Our short-dated credit credentials

It's our core business	• We manage **£6.0 billion in investment-grade credit strategies**, including **£1.9 billion in short-dated and buy-and-maintain portfolios**
Deeply-resourced team	• Highly **experienced portfolio management team** blending extensive short-dated, buy-and-maintain and absolute return experience • Leveraging Aegon Asset Management's **global fixed income and credit research platform**
Proven process	• **Investment philosophy and process** built on strong fundamental credit analysis • Exploiting **multiple sources of alpha** to deliver strong risk-adjusted performance for clients • **ESG analysis fully embedded** into investment decision making
Performance	• **Strong performance** within investment-grade corporate bond and short-dated portfolios • Successfully **avoiding credit defaults** - crucial for the buy to maturity nature of this strategy • Experience in **sourcing short-dated bonds** via well-established dealing relationships
A cost-effective solution	• Segregated mandate solutions • New **low-cost pooled fund. Daily-priced** UCITS-compliant fund
Focus on delivering for our clients	• **Strong collaboration** with clients for new segregated mandate funding to enhance yield outcome • Client engagement was key in decision to add ABS allocation to **enhance portfolio credit quality**

As at 30 June 2020

Executive summary

Why short dated investment grade credit?

- Attractive risk-adjusted returns
- Strong capital-preservation characteristics
- Attractive yield and spreads with low duration
- High visibility of future cash flows

Can be attractive for

- Pension schemes undergoing de-risking
- Wealth management clients seeking cash-plus alternatives
- Treasury investors concerned about negative real returns on cash/money markets

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Our approach

- Global remit, maximising the investment opportunity set
- Active, benchmark-agnostic
- Simple and transparent bond portfolio
- Low carbon intensity vs global short dated corporate bond universe
- Low turnover
- Short-dated portfolios not short duration
- An experienced team with a strong record of avoiding defaults and delivering superior risk-adjusted returns
- Daily-priced UCITS fund

Investing in Short Dated Investment Grade Credit

Asset class overview

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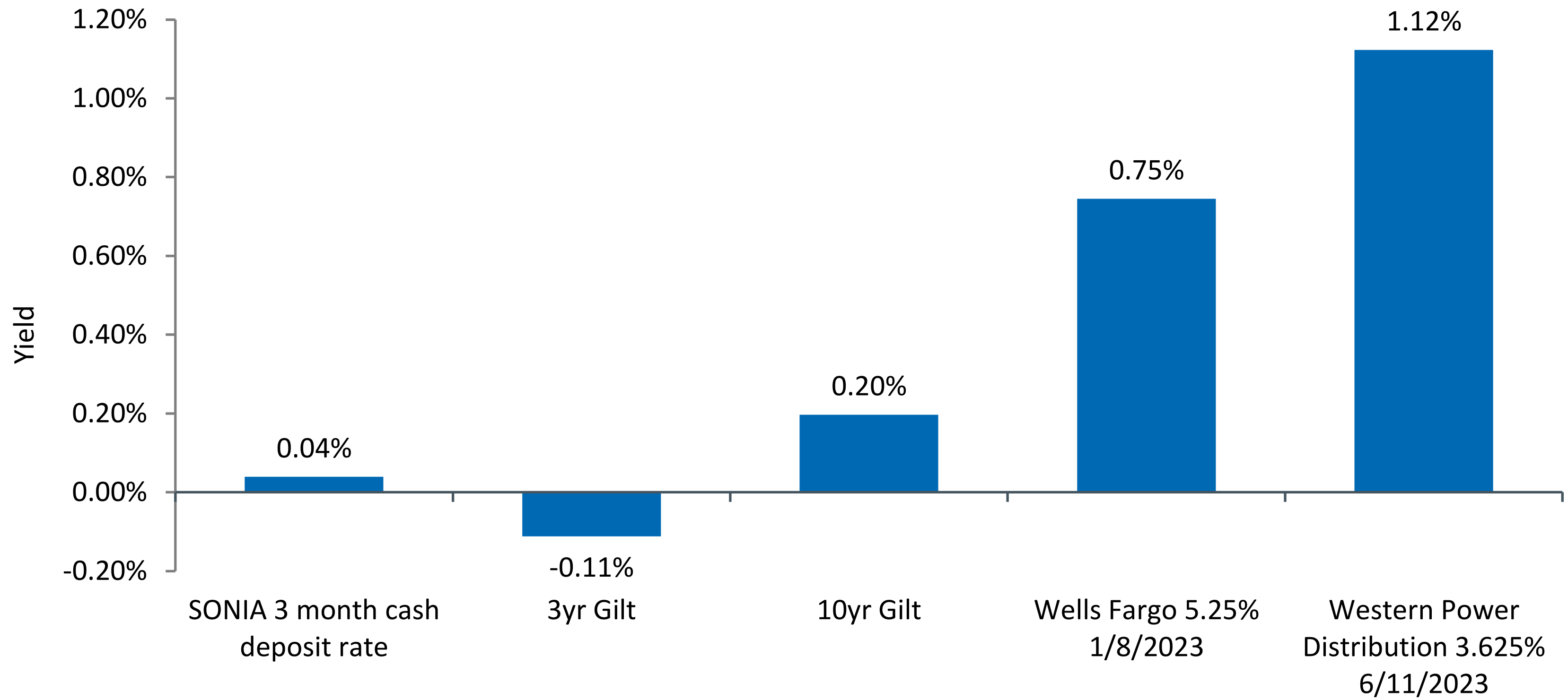
Investors are facing negative real returns

Short dated investment grade bonds offer attractive yield and spread for low duration



Duration	3 months	2.8 years	9.8 years	2.7 years	2.9 years
Rating	AAA	AAA	AAA	A-	BBB

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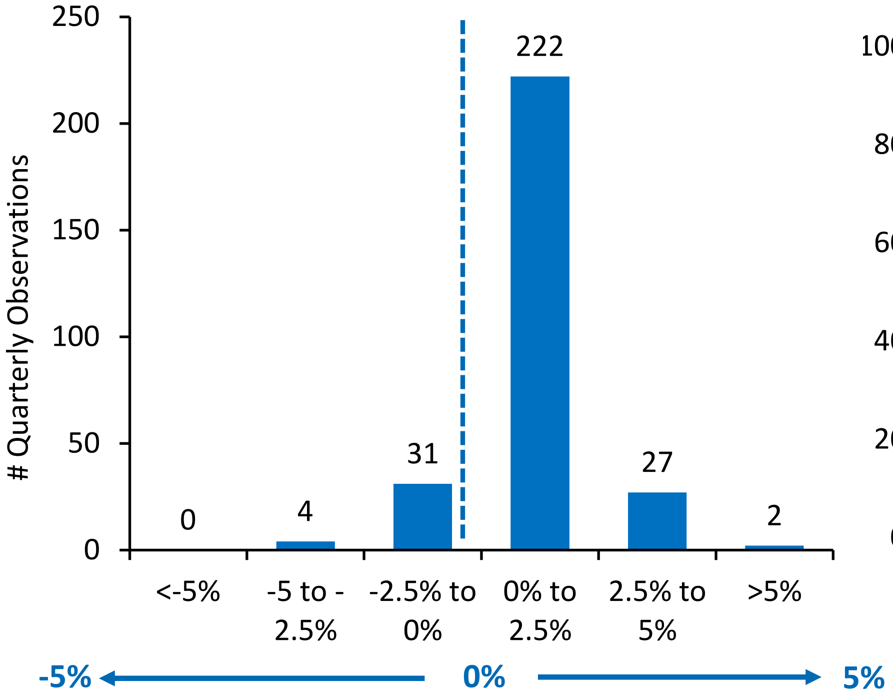
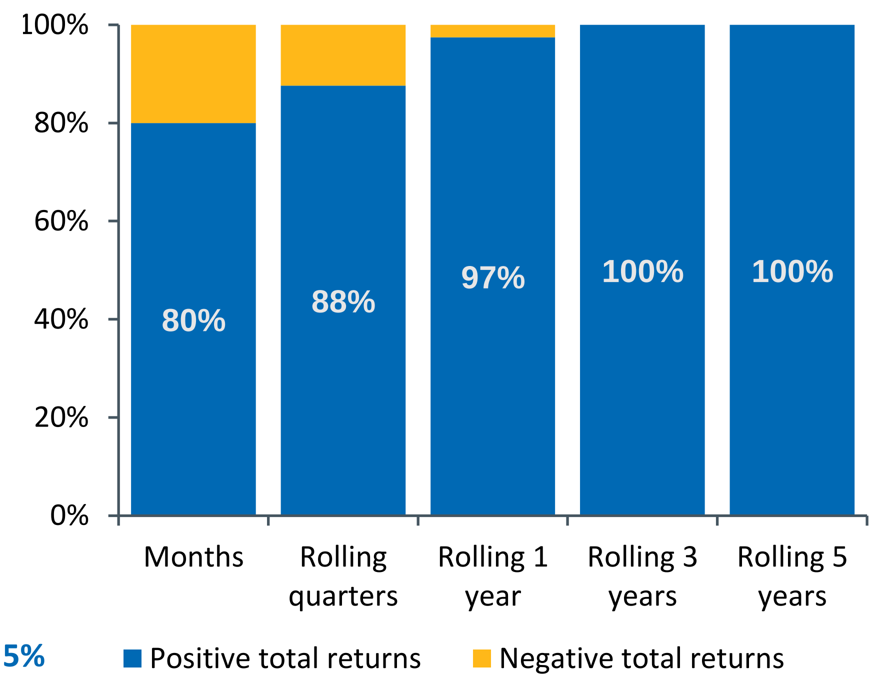
Sources: Aegon AM. Bloomberg, as at 31 December 2020

Asset Management

Attractive return profile with record of preserving capital

Rolling returns of BofAML 1-5 year Global Large Cap Corporate Index (1997-Dec 2020)





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Sources: Bloomberg, BofAML. From January 1997 to December 2020

AEGON Asset Management

Global short-dated investment grade universe

Large, liquid and diverse opportunity set

- US$4.8 trillion of ‘benchmark eligible’ investment-grade corporate bonds with less than five years to maturity
- Currently 1,238 unique issuers
- US$1.9 trillion ‘rolling-in’ to the universe over the next two years

Industry sector weights (%)

Banking	31.3	Insurance	3.7
Financial Services	9.6	Basic Industry	3.6
Energy	7.1	Real Estate	3.2
Healthcare	6.0	Telecommunications	3.0
Utility	5.5	Transportation	2.5
Automotive	5.5	Retail	2.3
Technology & Electronics	5.3	Media	1.7
Consumer Goods	4.7	Services	0.8
Capital Goods	3.8	Leisure	0.4

Characteristics

Effective yield	0.58%
Modified duration	2.8 years
Average credit quality	A-

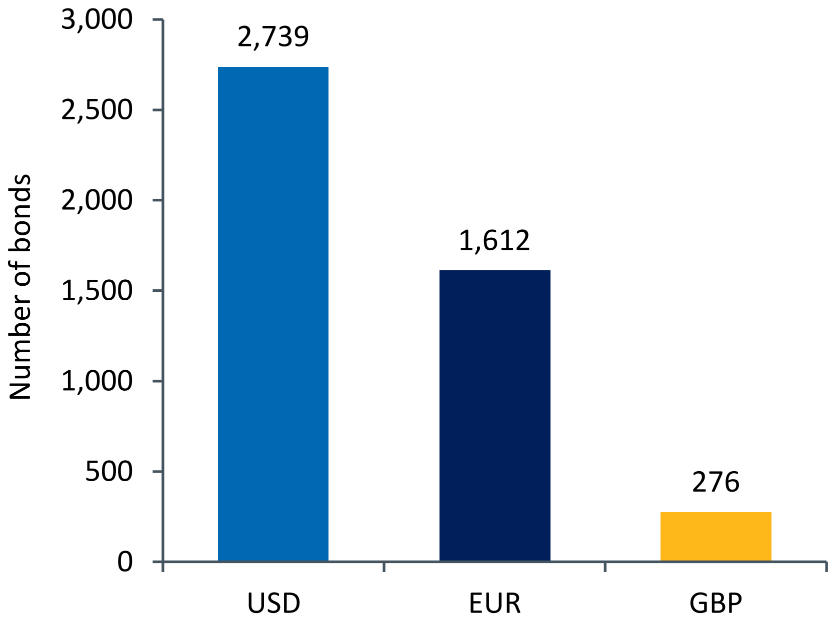
Rating weights (%)

AAA	0.7
AA	10.4
A	42.0
BBB	46.2

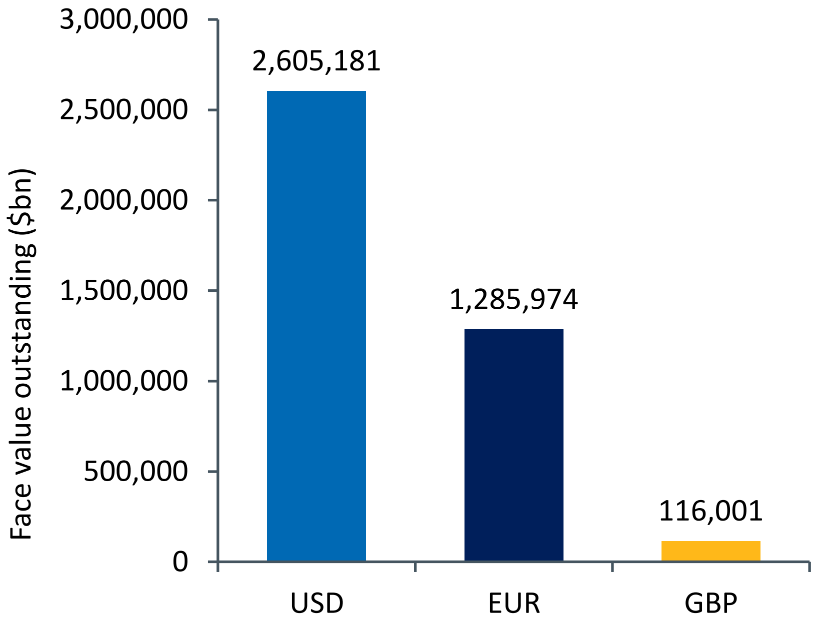
Source: ICE BofAML Global Large Cap Corporate 1-5 year Global Index ($US) as at 31 December 2020

Maximising the opportunity set with a global approach

By number of bond issues



By value (US$ Trns)



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Constituents of the BofAML 1-5 Year Global Large Cap Corporate index ($US), as at 31 December 2020

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Aegon Short Dated Investment Grade Bond Fund

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Asset Management

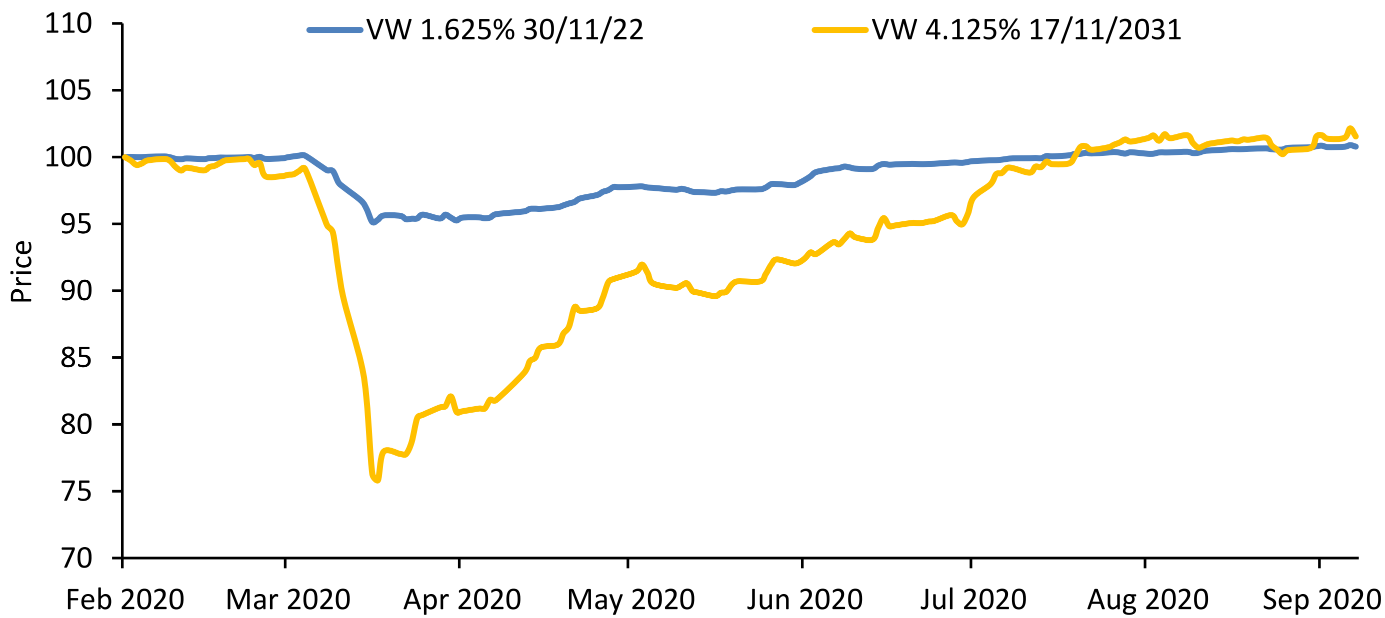
Investment guidelines

Fund name	Aegon Short Dated Investment Grade Bond Fund
Co-managers	Iain Buckle and Rory Sandilands
Objective	• Targeting cash +1.25% per annum over rolling three years (gross of fees) • Diversified portfolio that minimises exposure to default and downgrade risk • Minimise turnover and trading costs • Solution to capture sustainable yield with very low risk of default • ESG fully integrated. Low carbon intensity portfolio
Investment universe	• Core of portfolio in investment grade corporate bonds with less than four years to expected maturity • Capped exposure to asset backed securities, high yield, callable and non-rated bonds • Focus on large, liquid issues • Global exposure hedged back to £ - no active currency risk
Guidelines	• 100% invested in bonds with less than four years to expected maturity • 20% maximum investment in high yield, non-rated and callable bonds • 20% maximum investment in asset backed securities • Duration ≤ 3 years • Maximum 70% holding in BBB rated debt
Share classes	• GBP
Fund structure	• Irish-domiciled OEIC (UCITs structure) • Accumulation share class or quarterly income distribution
Fee	• AMC 15bps; TER 18bps

Short dated credit *not* short duration

- We only invest in securities with expected maturity of less than 4 years
- Many short duration funds which invest across the credit curve and hedge interest rate risk, can leave investors exposed to longer-dated credit risk with less visibility of future cash flows
- Example below demonstrates higher volatility experienced in the longer dated bond, and highlights resilience of shorter dated bond in periods of market stress

VW: Short vs. medium maturities



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Source: Bloomberg. Note: Price is rebased to 100.

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Global resources, local decision making

Portfolio management teams | 73 professionals

Multi-Sector, Investment Grade Credit & Structured	Leveraged Finance & Emerging Market Debt	Sovereign Credit, Rates & Currency	Alternative Credit	Customized Solutions & Insurance Asset Management
19 portfolio managers	16 portfolio managers	12 portfolio managers	22 portfolio managers	4 portfolio managers

Short Dated Investment Grade Bond Portfolio Management team (Edinburgh)

Iain Buckle
Head of Credit, UK
23 years' experience

Rory Sandilands
Investment Manager
21 years' experience

Euan McNeil
Investment Manager
23 years' experience

Kenneth Ward
Investment Manager
13 years' experience

Alexander Pelteshki
Investment Manager
13 years' experience

Adrian Hull
Head of Fixed Income, UK
31 years' experience

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Global research platform | 50 professionals

Credit	Structured	Sovereign
33 professionals	7 professionals	4 professionals
Bank Loans	**Distressed Debt[1]**	
2 professionals	4 professionals	

Additional resources | 41 professionals

Macro Strategy[1]	Responsible Investment
6 professionals	14 professionals
Portfolio Analysts	**Quantitative Solutions**
11 professionals	10 professionals

Source: Aegon Asset Management as of as of 31 December 2020. Personnel may be employed by any of the Aegon Asset Management affiliates. Additional resources includes some teams that may support multiple platforms. [1]Includes individuals with dual roles.

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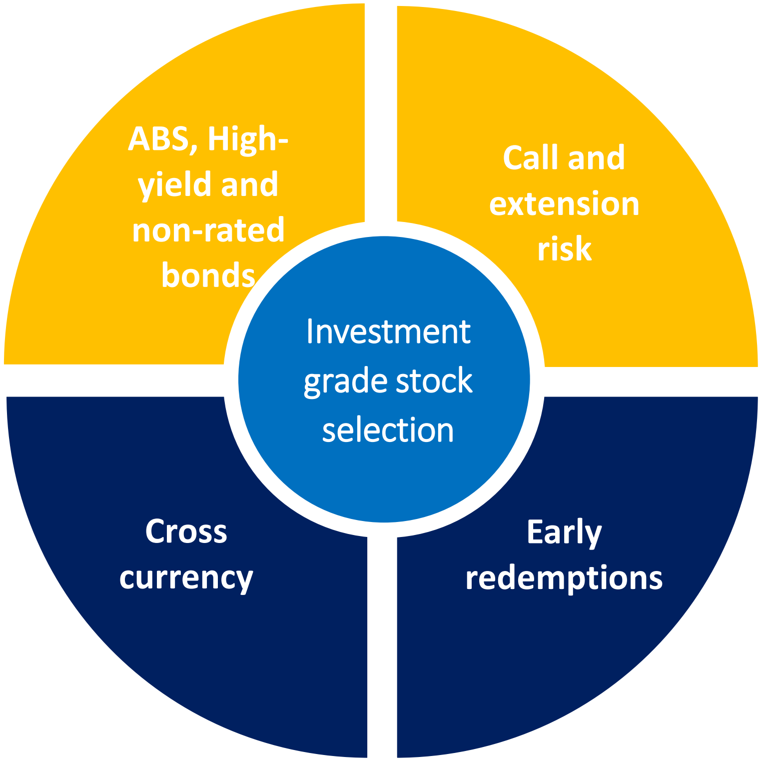
Investment process targets multiple sources of value

Opportunities to add value across a range of market conditions



Opportunities to add value across a range of market conditions

- Core investment-grade stock selection
- Embracing mandate flexibility
- Incremental return drivers

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Source: Aegon Asset Management. Illustrative model portfolio as at 31 August 2020.

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Understanding the credit profile

Active managers have the advantage of being able to focus on:

	Companies with clear, sustainable cash flows over short-to-medium term.
ESG	Embedding analysis of environmental, social and governance factors
€ $ £	Monitoring the direction of the credit profile – likelihood of return of capital is key
	A major consideration is the ability to refinance upcoming maturities

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Asset Management

ESG analysis fully embedded

ESG integration

- ESG analysis, including climate risk, embedded in research process alongside traditional metrics to assess an issuer's credit profile
- We utilise proprietary ESG credit framework based on 1-5 categories
- Integration approach independently endorsed by PRI, ShareAction and key industry bodies
- Portfolio aims to have bias to issuers with ESG categories 1-3

Exclusions

- Controversial weapons
- Tobacco

Credentials

- Over 30 years of investing responsibly
- Experienced, dedicated Responsible Investment team of 14 professionals*
- Active ownership and engagement programme – 564 firm-wide engagements in 2019

Proprietary ESG credit research framework

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

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*As at 31 December 2020

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Climate risk reduction

Embedded into credit research

- Climate related risks integrated within ‘Environmental’ assessment of our ESG analysis
- Focus on higher risk sectors (Energy, Utilities, Transport etc), Financials to lesser degree
- Assess carbon transition & related risks - physical risk, stranded assets, political & regulatory risks

Active engagement

- Active thematic engagement on climate related topics by Responsible Investment team
- Active member of collaborative initiatives aiming to increase transparency around climate change
- E.g. Climate Action 100+, CDP (formerly Carbon Disclosure Project) and Institutional Investors Group on Climate Change (IIGCC)

Low carbon intensity

- Fund has significantly lower carbon intensity versus corporate bond market
- Carbon reduction measured using the Weighted Average Carbon Intensity (WACI), as recommended by Task Force for Climate-related Financial Disclosures (TCFD)

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Metric	Unit	Model Portfolio	Portfolio coverage	Universe	Benchmark coverage	Portfolio carbon reduction vs benchmark %
Weighted average carbon intensity	tCO2e / $m revenue	65.1	*96%*	200.7	*98%*	**67% lower**

Source: Aegon Asset Management, February 2021. Weighted Average Carbon Intensity (WACI) metric to measure carbon reduction. WACI is the portfolio weighted sum of the carbon intensity (in tCO2e per USD million revenue) by issuer and recommended metric by Task Force for Climate-related Financial Disclosures (TCFD). Aegon AM sources carbon emissions data from external ESG data providers: Sustainalytics and MSCI. Combined they have comprehensive coverage of the proposed investment universe and portfolio (>90%) which can be further enhanced by internal mapping where appropriate.

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Core investment grade stock selection

A bond we bought

Deutsche Bank

Deutsche Bank 3.875% 2024

- Senior ranking bond from large global financial institution
- Improved trading performance and cost reduction programme has seen material improvement in credit profile.
- Baa3/BBB-/BBB rated by Moody's/S&P/Fitch
- Would expect credit ratings to be slowly upgraded over time.
- Attractive yield of 1.1% in £ terms

A bond we avoided

AA

AA Bond Issuer (The AA) 2.75% 2023 (£)

- Optically attractive yield (approx. 2.1%) for what is an investment grade (BBB-) rated issuer
- However, business remains very highly levered and exposed to a structurally challenged industry
- £1.7bn of debt to refinance by July 2025.
- Issuer is reliant on £ bond market for funding. Unlikely to be able to access deeper markets in $'s or €'s
- Significant concerns on ability to refinance bonds due to mature over next 4 years.

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For illustrative purposes only.

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Opportunities from high yield, non-rated and callable bonds

QBE 6.75% 2024-44

- $ denominated subordinated bond from Australian based P&C insurance group.
- Diverse revenue streams and stable underwriting results.
- 3.1% yield to Dec 2024 call date for BBB-/BBB rated bond.
- Coupon resets to 10-year Swap +4.3% if not called in 2024.
- Access to international bond markets important given small domestic market.

ENEL 8.75% Perp

- $1.25bn Ba1/BBB-/BBB rated “hybrid” from Europe’s 2nd largest utility company.
- 75% of EBITDA is from low-risk regulated networks and long-term contracted generation.
- Offers attractive £ equivalent yield of 1.9% to September 2023 call date.
- Coupon resets to 5-year Swap +5.88% if not called in 2023.
- Recently issued € denominated 7 year ‘hybrid’ with coupon of 2.25%.

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For illustrative purposes only.

The value in extension risk

- Taking a measured exposure to bonds with extension risk can materially increase yield
- Spread compensation attractive for risk taken
- Understanding the drivers of issuer call decisions is key
  - Economic evaluation
  - Reputational and regulatory factors
  - Protection of ratings
- Likely pricing impact of non-call also crucial in investment decision
- Examples of issuers who have missed calls are very limited

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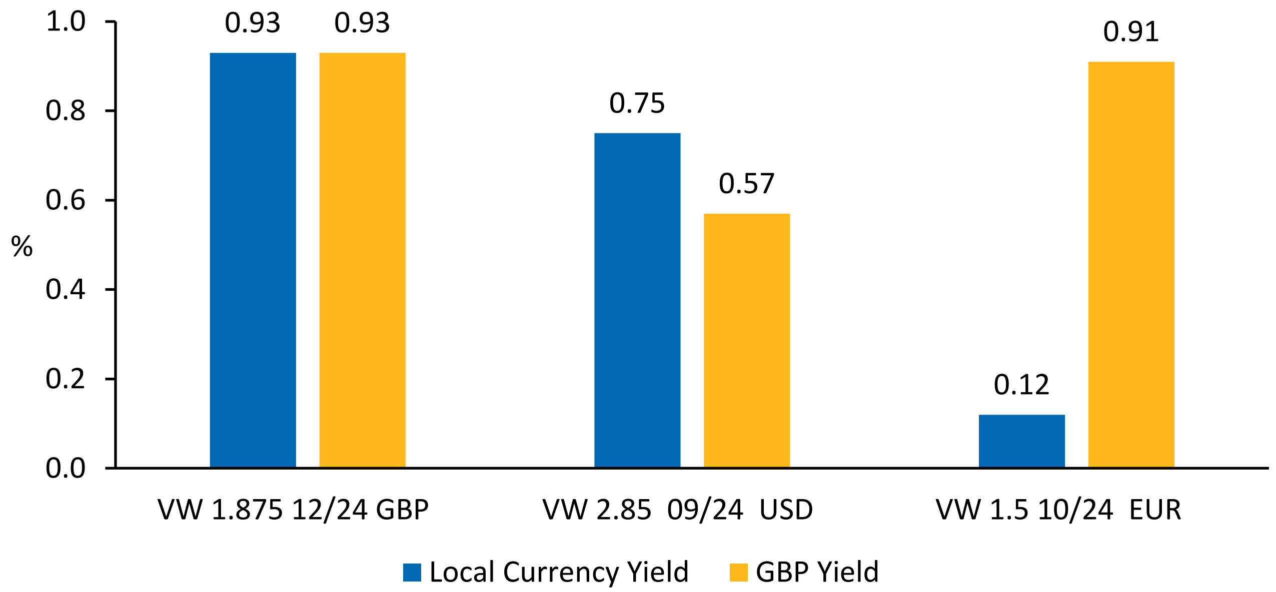
Maximising the opportunity-set with a global approach

- Global approach offers a larger opportunity set, which can increase diversification and potentially yield
- However, impact of currency differentials is key to analysing opportunities
- The cost of hedging is key consideration when determining the value in overseas assets

Yield differentials for VW Bonds



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Source: Bloomberg as at February 2021

Opportunities from early redemptions

- Opportunity to enhance returns through the early redemption of bonds at 'make-whole' prices
- Companies can look to retire bonds early (either partially or in full) for various reasons:
  - Manage refinancing risk
  - Lower overall interest expense
  - Release security over assets
  - Simplify debt structure
- Recent examples

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For illustrative purposes only

Short dated buy and maintain portfolios

A. Global investment grade with 2-year maximum maturity

- Short dated carry module of Aegon Absolute Return Bond Fund, launched 2011
- Short dated investment grade corporate bonds are a core component of the strategy ('Carry module')
- All bonds have 2 years or less to final legal maturity
- Global Investment grade bullet maturity bonds only
- No credit defaults since launch
- c£107m at 31 December 2020

B. GBP investment grade with 5-year maximum maturity

- Bespoke segregated mandate for Local Authority DB Pension fund
- Funded February 2017, designed to match specific cash-flow needs
- All bonds have 5 years or less to final legal maturity
- Sterling-only bonds (at request of client)
- Investment grade mandate with flexibility to hold high-yield and non-rated bonds up to 20%
- £120m at 31 December 2020

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c. Investment grade with 3-year maximum maturity

- Existing segregated portfolio for corporate DB pension fund
- Core portfolio of GBP investment-grade corporate bonds with maximum final maturity of 3 years
- Capped exposure to high-yield, callable and non-rated bonds
- Limited flexibility to invest in USD and EUR bonds, hedged to GBP
- At launch, mandate was entirely £ denominated assets in accordance with client discussions
- £121m at end December 2020 following top up funding of £80m in 2019/2020 following collaborative engagement on market environment

D. Investment grade with 4-year maximum maturity

- Segregated portfolio for corporate DB pension fund
- Core portfolio of GBP investment-grade corporate bonds with maximum final maturity of 4 years
- Capped exposure to high-yield, callable and non-rated bonds
- Limited flexibility to invest in USD and EUR bonds, hedged to GBP
- At launch, mandate was entirely £ denominated assets in accordance with client discussions
- Funded Q4 2019, size £199m at end December 2020

As at 31 December 2020. Portfolio A is for illustrative purposes only. The illustrative portfolio is the carry module and forms one component of the Aegon Absolute Return Bond Fund, with an average weighting of 40%.

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Short dated investment grade performance

Sample Short Dated Investment Grade portfolio performance

%	1 year	2 years p.a.	3 years p.a.	5 years p.a.	Since launch p.a.
Portfolio A 2 year maturity	**2.25**	**2.16**	**1.69**	**1.64**	**1.86**
Portfolio B 5 year maturity	**1.96**	**2.52**	**1.81**	**-**	**1.85**
Portfolio C 3 year maturity	**2.33**	**2.77**	**-**	**-**	**2.73**
Portfolio D 4 year maturity	**2.64**	**-**	**-**	**-**	**2.68**

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Source: Aegon Asset Management as at 31 December 2020. price to price, gross returns.
Portfolio A September 2011; Returns simulated from the carry module of Aegon Absolute Return Bond Fund over periods to 31 December 2020 - GBP gross-of-fees.
Note: Inception dates - Portfolio B: 7 February 2017; Portfolio C: 11 December 2018; Portfolio D: 18 October 2019,.
Any differences are due to rounding.

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Rating migration experience

- Representative credit migration experience of short dated investment grade buy and maintain portfolio
- Of the 94 original holdings:
  - No defaults
  - 62 have matured as expected or been redeemed early
  - 30 still outstanding
  - 2 sold and replaced on credit concerns
  - All “callable” bonds have redeemed as expected to date
  - 28 had at least one credit agency downgrade over our holding period
  - Of that 28, 2 were downgraded to below IG, but both have subsequently matured
  - 19 had at least one credit agency upgrade over our holding period
  - Balance of holdings had unchanged ratings

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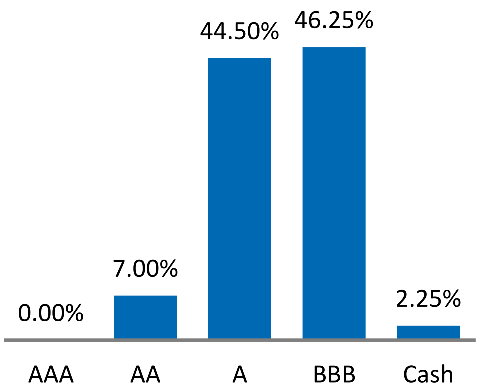
As at 16 June 2020

Key portfolio characteristics

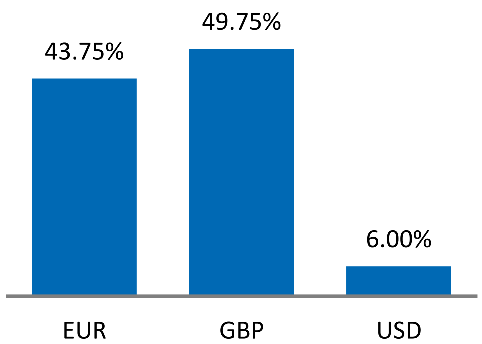
Portfolio characteristics

Yield to maturity	0.89%
Modified duration	2.6 years
Average credit quality	A-
Maximum issuer exposure	1.75%
Proportion in high-yield, non-rated bonds	0.00%
Proportion in callable bonds	18.50%

Breakdown by credit rating



Breakdown by currency



Industry sector (iBoxx level 4)	% Weight
Banks	28.00
Insurance	14.75
Real Estate	13.50
Automobiles & Parts	6.25
Healthcare	5.75
Personal & Household Goods	4.25
Industrial Goods & Services	4.00
Telecommunications	3.75
Technology	3.00
Travel & Leisure	3.00
Utilities	2.25
Cash	2.25
Whole Business Securitised	2.00
Financial Services	1.75
Guaranteed Financials	1.75
MBS	1.75
Food & Beverage	1.25
Oil & Gas	0.75

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Source: Aegon Asset Management. Illustrative model portfolio as at 31 January 2021

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Summary

Why short dated investment grade credit?

- Attractive risk-adjusted returns
- Strong capital-preservation characteristics
- Attractive yield and spreads with low duration
- High visibility of future cash flows

Can be attractive for

- Pension schemes undergoing de-risking
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- Treasury investors concerned about negative real returns on cash/money markets

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Our approach

- Global remit, maximising the investment opportunity set
- Active, benchmark-agnostic
- Simple and transparent bond portfolio
- Low carbon intensity vs global short dated corporate bond universe
- Low turnover
- Short-dated portfolios not short duration
- An experienced team with a strong record of avoiding defaults and delivering superior risk-adjusted returns
- Daily-priced UCITS fund

Appendix

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A history of responsible investing

Key milestones for Aegon Asset Management

- **1987**: Real Assets US closes first investment in low income housing tax credits
- **1989**: Aegon AM UK launches first ethical strategy
- **2004**: Aegon AM NL launches first multi-manager RI strategy
- **2007**: Publishes first RI report
- **2010**: Develops RI framework and forms central, dedicated team
- **2011**: Aegon NV adopts a global RI policy; Aegon AM becomes a member of PRI
- **2012**: Selects ESG research provider and joins GRESB
- **2013**: Adopts ESG training for all investment staff and appoints regional ESG officers
- **2014**: Introduces carbon footprint analyses
- **2015**: Integrates ESG ratings into credit research reports
- **2016**: Aegon NV establishes RI as a strategic company initiative; Aegon AM UK launches first sustainable equity strategy
- **2017**: Launches intensive ESG Next program to enhance ESG processes; Forms Climate Change Working Group
- **2018**: Expands RI team members and enhances global support
- **2019**: Formalizes RI principles & develops common terminology; Aegon AM US launches dedicated ESG and sustainable fixed income strategies
- **2020**: Creates a global Responsible Investment Framework; Develops a proprietary ESG securitized credit research framework

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Responsible investment products and services may vary regionally. Aegon Asset Management companies, excluding partnerships, became a signatory to UN-supported Principles for Responsible Investment (PRI) in 2011. Aegon AM UK became a standalone signatory to PRI in 2008.

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Responsible investment at a glance

A recognized leader in responsible investment

Responsible investment approach

- **ESG integration** into bottom-up research
- **Active ownership** to encourage positive change
- **Solutions** focused on responsible investment and ESG criteria

Responsible investment quick facts

USD 248 billion
AuM in responsible investment solutions[1]

564
Engagements conducted by the RI team during 2019

14
Professionals in a dedicated Responsible Investment team[2]

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Ratings & rankings

A+	PRI's assessment of our RI strategy and governance[3]
100/100	Sustainalytics' score for our RI policy and program[4]
6th/75	Our ranking among global asset managers according to a survey by ShareAction for our RI program[5]

[1]As of September 30, 2020. Assets under management/advisement excludes joint ventures. Responsible investment products and services may vary regionally. Please refer to disclosures for important information on ratings/rankings. [2] Personnel counts as of September 2020. Personnel may be employed by any of the Aegon Asset Management affiliates. [3]As of 2020. Approximately 29% of signatories received an A+ score for PRI strategy and governance module in 2020. [4]As of 2020. Approximately 23% of 1,269 participants received a score of 100/100 for their responsible investment policy and approximately 23% of 1,181 participants received a score of 100/100 for their responsible investment program in 2020. [5]As of 2020. Share Action conducted a survey ("Point of No Returns", March 2020) of 75 of the world's largest asset managers across 17 countries (based on AUM as of December 31, 2017 according to IPE's 2018 Top Asset Managers List).

ESG integration in practice: Corporate Credit

Our Credit Research team utilizes a proprietary ESG categorization approach to uncover risk and identify opportunities

ESG components on corporate credit research reports

- Proprietary ESG credit impact category
- Sustainalytics ratings and controversy levels
- MSCI ESG scores and event indicators
- Engagement recommendations
- Research analyst's comments

ESG Analysis

Sustainalytics: 51.2 Severe Risk 96.1 Percentile | **MSCI ESG IVA** 4.7 key issue score BBB rating within industry
Highest Controversy Level: Low (1/5) | Highest Event Indicator: Minor (10/10)

Comments: ABC Company exhibits strong corporate governance with an independent board, separate CEO and chairman roles, and fully independent audit and pay committees. To address vulnerabilities associated with H&S incidents, it has implemented an H&S policy on a group-wide level with regular assessments. The company has articulated a supplier code of conduct, but does not provide details of its supply chain audits. The company has adopted modest policies to ensure sustainable use of environmental resources. However, it neither discloses its strategies for reducing water footprint, nor undertakes efforts to manage regulatory risks related to stricter carbon regulations.

Level of Credit Impact: Event Risk Potential (3/5) **Recommend Engagement:** No

Analyst Comments: Being a leader in recycling is a clear positive, as this plays an important role in managing the disposal of waste products. Its joint venture in the renewable energy space is also a positive. However, as a heavy water user, the company would be at risk if a major shortage developed and they haven't articulated alternative sources under such an episode. No major controversies have occurred in recent years.

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Public Fixed Income Research
High Yield Industrial Other

ABC Company

March 29, 2019

Fundamental Outlook		Holding Company/Senior/Unsecured - General: Internal Rating		External Ratings		
Credit Outlook	Stable	Internal Rating	BB-	Moody's	Ba3	Stable
Event Risk Potential	Medium	Index Calculated Rating	BB-	S & P	BB+	Stable
		Analyst Override	0	Fitch	N/R	

Comments: Fundamentals are stable as cost plus pricing formulas, modest volume growth, and increased dividends received offset commodity volatility.

Comments: The rating is appropriate due to strong position in the industry, geographic diversification, and product diversification, partially offset by moderately high leverage and low FCF (due to capex investments).

Comments: *Moody's*: Downgrade: debt/EBITDA > 4.5x, increased volatility and weaker liquidity; Upgrade: debt/EBITDA < 3.5x and reduced earnings and cash flow volatility

S&P: Downgrade: debt/EBITDA > 4.0x due to EBITDA contraction or more aggressive financial policy; Upgrade: debt/EBITDA < 3.0x and FFO/debt near 30%

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Sustainalytics: 51.2 Severe Risk 96.1 Percentile | **MSCI ESG IVA** 4.7 key issue score BBB rating within industry
Highest Controversy Level: Low (1/5) | Highest Event Indicator: Minor (10/10)

Comments: ABC Company exhibits strong corporate governance with an independent board, separate CEO and chairman roles, and fully independent audit and pay committees. To address vulnerabilities associated with H&S incidents, it has implemented an H&S policy on a group-wide level with regular assessments. The company has articulated a supplier code of conduct, but does not provide details of its supply chain audits. The company has adopted modest policies to ensure sustainable use of environmental resources. However, it neither discloses its strategies for reducing water footprint, nor undertakes efforts to manage regulatory risks related to stricter carbon regulations.

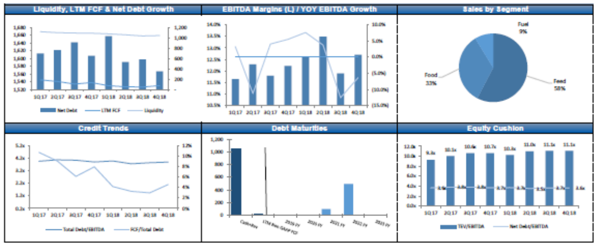
Level of Credit Impact: Event Risk Potential (3/5) **Recommend Engagement:** No

Analyst Comments: Being a leader in recycling is a clear positive, as this plays an important role in managing the disposal of waste products. Its joint venture in the renewable energy space is also a positive. However, as a heavy water user, the company would be at risk if a major shortage developed and they haven't articulated alternative sources under such an episode. No major controversies have occurred in recent years.

Company Quick Thoughts *FYE: Dec 30*

· Processes and recyles multiple products for sale to companies across the industrial universe
· Partially dependent on specific raw materials, but well diversified in terms of finished products, end markets and geography
· Competes with other non-recycled products
· Looks to operate on a spread basis, where it takes a spread off the input cost to lock-in a margin (i.e. raw material pricing formulas)
· Has demonstrated a fairly stable history of profitability and cash flow generation considering it processes primarily commodity products that can be affected by various supply and demand factors across the globe (positive FCF for 16 straight years)
· Owns a 50/50 JV that produces renewable energy; ABC Company receives dividends from this arrangement
· Significant annual capital expenditures averaging ~7.5% of sales in recent years
· Has paid down ~$500M of gross debt since the $1.8B 2014 acquisition of XYZ company

Credit Statistics - USD ($)	4Q 17	4Q 18	Y-O-Y	2016	2017	2018	2019 E
Total Revenues	948	853	(10.02%)	3,398	3,662	3,388	3,543
EBITDAR	128	121	(5.19%)	483	488	481	521
EBITDA	116	108	(6.40%)	439	439	430	466
(Cash Interest)/Interest Income	(20)	(16)	(18.68%)	(82)	(78)	(75)	(77)
(Cash Taxes)	(13)	(4)	(64.40%)	(23)	(26)	(33)	(20)
Working Capital, Other	45	58	27.30%	27	48	13	5
(Cap Ex)	(78)	(108)	39.18%	(244)	(274)	(322)	(275)
(Dividends)	0	0	NA	0	0	0	0
Non-GAAP FCF	51	37	(26.92%)	117	108	13	100
Debt	1,714	1,674	(2.32%)	1,751	1,714	1,674	1,674
Ratio Analysis	**LTM ratios as necessary*						
Debt/EBITDA*	3.91x	3.90x	(0.01x)	3.99x	3.91x	3.90x	3.59x
EBITDA/Interest*	5.61x	5.73x	0.12x	5.35x	5.61x	5.73x	6.07x
EBITDA Margin	12.22%	12.71%	49 bp	12.93%	11.98%	12.68%	13.16%



Source: Company reports, Bloomberg L.P., Capital IQ, Standard and Poor's, Fitch, Moody's, MSCI ESG Research Inc., Aegon AM US Fixed income Research Estimates
Full disclosures can be found on the final page.

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For illustrative purposes.

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Focusing on material ESG issues

Banks

Why ESG matters? Governance failures of the past have in part led to increased regulation which adds extra costs and slows growth but has strengthened balance sheets.

What do we consider? We consider how aggressive or conservative management teams are. Who decides on what risks to take and how? IFRS 9 provision-making as a measure of risk appetite? How and over what period are staff incentivised? We seek specific evidence of whistle-blower activity. Cybersecurity control framework. Where are the greatest anti-money laundering risks? Carbon transition.

Pharmaceuticals

Why ESG matters? Political risks in the US associated with price gouging or perception of price gouging. Financially punitive fines for inappropriate marketing practices.

What do we consider? Product recalls/regulatory warnings/adverse events. Marketing practice compliance mechanisms and whistle-blower programs. Lobbying spend – principles, procedures and management. Manufacturing efficiency (water and energy). Use of non-GAAP reporting.

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Oil & gas

Why ESG matters? Reputation and community relations impact permitting and hence growth. Safety can determine asset utilisation. A carbon constrained future.

What do we consider? Safety – managing cost reductions whilst ensuring safe operations. Contractor management in non-operated assets. Business model resiliance & energy transition strategy. Environmental performance and regulatory compliance. Evidence of whistle-blower activity.

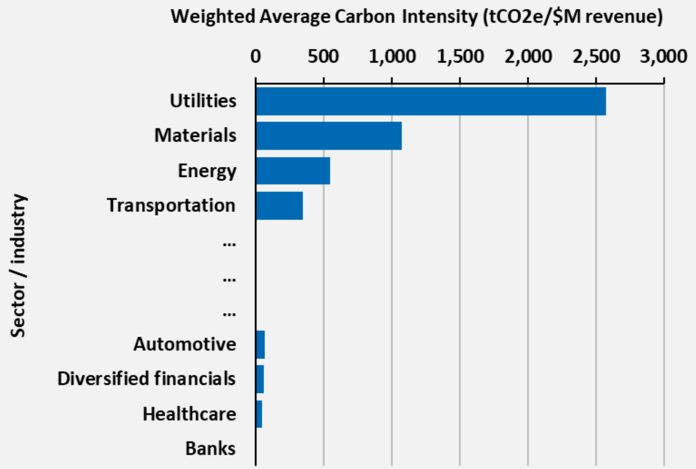
Tobacco

Why ESG matters? Disingenuous historical company behaviours. Increasing stretched healthcare budgets. Secondary market impact of exclusion from many investor's portfolios

What do we consider? Innovation of next generation tobacco products. Potential risks associated with next generation products. Marketing incl. use of social media and 'influencers'. Manufacturing efficiency. Supply chain labour standards. Hemp/cannabis.

Climate Risk - Understanding emissions

Step 1: Measuring emissions across diverse sectors, geographies, credit qualities and maturity profiles



Step 2: Digging deeper as part of credit research process to uncover the key risks and opportunities

Risk example: oil & gas

Do not reflect product emissions, with trends threatening existing business models and uncertainty around ability and motivation to transition.

Opportunity example: utility transition

Trends support utility decarbonisation, including the decline in the price of renewables and growing demand for electric vehicles.

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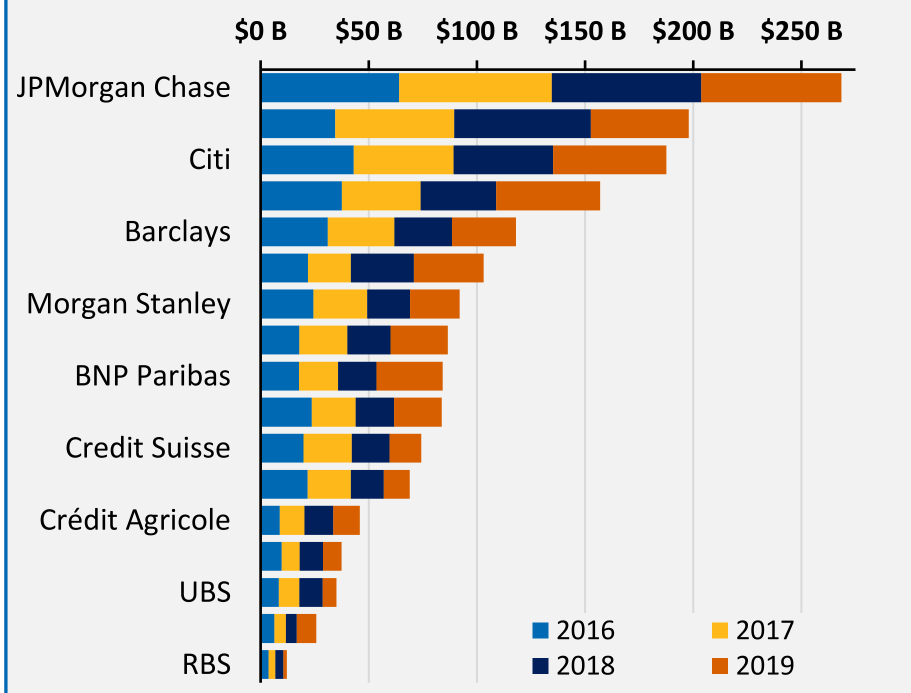
Source: Aegon AM, MSCI, Rainforest Action Network.

Evaluating climate-related risks in the financial sector

- The financial sector has low direct carbon emissions, with little variation between institutions
- But climate risks can be found on the balance sheets of institutions, via direct lending, investments and underwriting
- Financial institutions are increasingly expected to look beyond purely their own emissions when setting climate targets, however issues remain
- Active engagement can help investors to understand and manage risks

Fossil fuel financing from 2016-2019 (US$ billions)



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Source: Rainforest Action Network.

Climate risk – Bond maturity consideration

Risks around stranded assets and transition costs can take many years to impact a company's credit profile

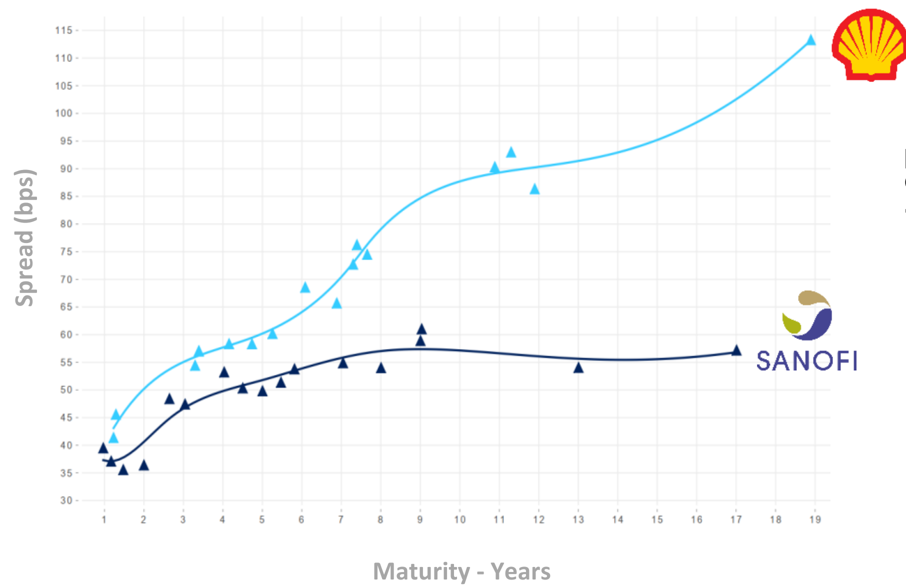
Long-dated bonds

- Longer maturities increase the magnitude of climate risks
- Understanding climate risks is crucial for long-dated bondholders, particularly in 'buy & hold' strategies
- Investors are able to demand a premium for longer-term lending to climate-exposed companies

Short-dated bonds

- Shorter-dated bonds are inherently much less exposed to the risks of climate change
- Low potential for climate risks to cause material deterioration in credit quality during their lifetime
- Investment managers can reposition the portfolio more easily and cheaply if potential climate risks emerge

Relative yield profiles of debt issued by Royal Dutch Shell (oil & gas) and Sanofi (healthcare)



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Source: Barclays. Sanofi (SANFP Bond EUR SENIOR T-Spread to Worst EUR 21 Dec 2020). Royal Dutch Shell (RDSALN Bond EUR SENIOR T-Spread to Worst EUR 21 December 2020).

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