

Responsible Investment Fixed Income

4 February 2021

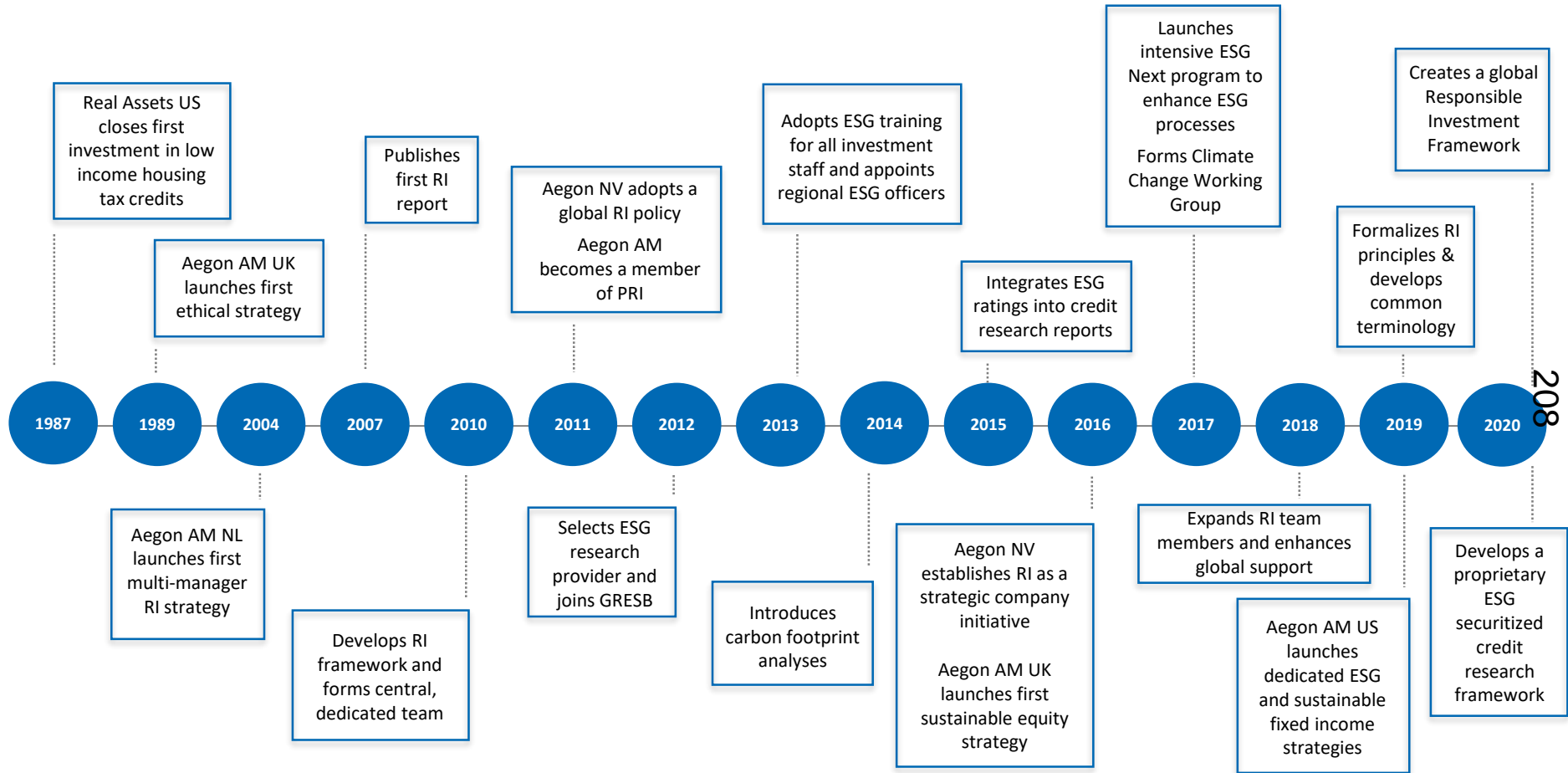


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*Beyond
borders™*

A history of responsible investing

Key milestones for Aegon Asset Management



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.

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 solutions¹



564

Engagements conducted by the RI team during 2019



14

Professionals in a dedicated Responsible Investment team²

Ratings & rankings



PRI's assessment of our RI strategy and governance³



Sustainalytics' score for our RI policy and program⁴



Our ranking among global asset managers according to a survey by ShareAction for our RI program⁵

¹As 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. ³As of 2020. Approximately 29% of signatories received an A+ score for PRI strategy and governance module in 2020. ⁴As 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. ⁵As 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).

Our approach includes three key pillars

We integrate ESG factors into securities research, engage with issuers and provide responsible investment solutions

ESG Integration	Active Ownership	Solutions
<ul style="list-style-type: none"> Integrating ESG factors into the investment process may contribute to alpha over the long-term ESG factors are essential to comprehensive research Proprietary ESG evaluation can help assess risks and identify opportunities 	<ul style="list-style-type: none"> Identify opportunities where an engagement could be beneficial Partner with Aegon AM’s Responsible Investment team to engage Encourage change in an effort to generate long-term economic value Exercise shareholder voting rights, where applicable Leverage Aegon’s global scale to influence outcomes 	<ul style="list-style-type: none"> Exclusionary screening Best-in-class approach Sustainability-themed strategies Impact investments

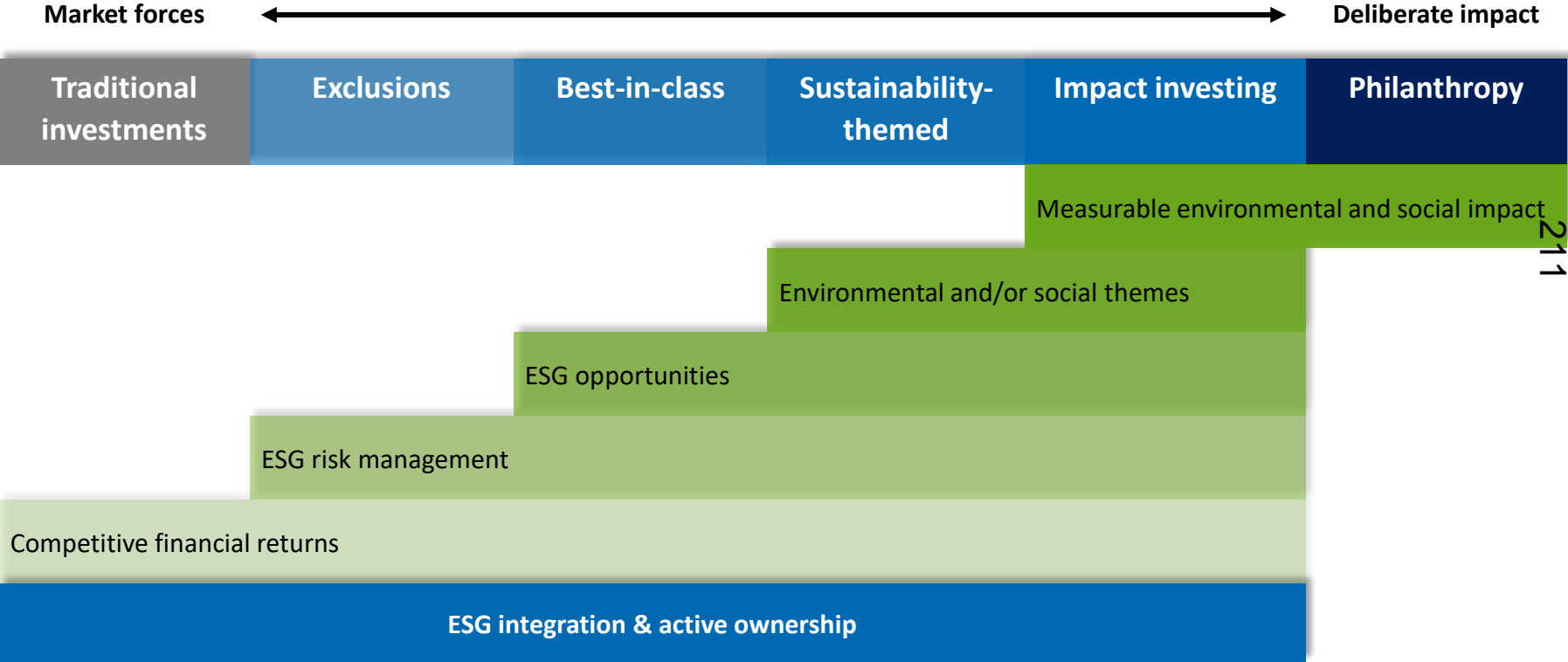
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Exclusionary screening utilizes negative screening to avoid certain sectors, companies or practices based on specific criteria. Best-in-class approach refers to investment strategies that focus on positive selection of companies or countries with better or improving ESG profiles relative to sector peers. Sustainability-themed strategies focus on investing in companies or countries related to sustainability themes that aim to address social and/or environmental challenges. Impact investments aim to generate positive, measurable social and/or environmental impact alongside financial returns.

Responsible investment product spectrum

We segment focused responsible investment products into four categories

Examples of focused Responsible Investment solutions



Global responsible investment team

A dedicated global team of responsible investment specialists support all investment platforms

Responsible Investment team

- 14-person team dedicated to responsible investment
- A global team, with members in the Netherlands, UK, US and Germany
- Company-wide resource for responsible business and ESG investment practices
- Actively collaborates with research analysts and portfolio managers across asset classes

Team members	Focal area
Brunno Maradei	Global Head of Responsible Investment
Emanuele Fanelli	RI solutions & ESG integration (Fixed Income & Partnerships)
Julius Huttunen	RI solutions & ESG integration (Fixed Income)
Retno Kusumaningtyas	RI solutions & ESG integration (Fixed Income & Partnerships)
Miranda Beacham	RI solutions & ESG integration (Equity) Engagement & voting
Euan Ker	RI solutions & ESG integration (Equity)
Georgina Laird	RI solutions & ESG integration (Equity)
Simon Lambert	RI solutions & ESG integration (Multi-Asset, Fiduciary Services & Real Assets)
Heike Cosse	Engagement & voting
Stephane Mooij	Engagement & voting
Lauren Joenoes	Engagement & voting
Eduard Wijnoldij Daniels	Engagement & voting
Gerrit Ledderhof	Advisory & reporting
Roger Wildeboer Schut	Advisory & reporting

Core responsibilities



RI solutions & ESG integration



Engagement & voting






Advisory & reporting

Personnel statistics as of September 30, 2020. Table illustrates primary responsibilities. Personnel may be employed by any of the Aegon Asset Management affiliates.

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Responsible investment team’s focal areas

A dedicated 14-person global team serves as a company-wide resource for responsible investing

 RI Solutions & ESG Integration	 Engagement & Voting	 Advisory & Reporting
<ul style="list-style-type: none"> • Support development of new RI solutions • Support research analysts with ESG integration • Advise on industry best practices • Market intelligence on evolving research methodologies • Evaluate ESG training opportunities • Evaluate external ESG research • Research industry product trends and competitive landscape 	<ul style="list-style-type: none"> • Engage with issuers on behalf of most investment centers • Encourage change in an effort to generate long-term economic value and reduce risk • Seek compliance with client ESG requirements and demands • Partner with other investors where appropriate • Produce reporting to meet client demands 	<ul style="list-style-type: none"> • Help develop, enhance and implement clients’ RI policies • Monitor ESG/RI policy and regulatory developments • Produce RI reports and advise on client ESG reporting • Coordinate and complete relevant external assessments of Aegon AM’s RI capabilities and practices

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Fixed Income – ESG integration

Overview of the ESG integration process

Our holistic research framework integrates ESG factors alongside traditional economic factors

Our approach

- Research analysts incorporate ESG factors and traditional economic factors into the assessment of issuers' profitability and creditworthiness
- Integration incorporates third-party ESG data and an internal ESG evaluation
- ESG factors are integrated in the investment process for most of the firm's investment strategies

Our ESG research process involves four key steps

Identification



Research analysts identify important ESG factors alongside traditional financial metrics

Assessment



Assess impact of ESG factor on issuer's fundamentals

Incorporation



Incorporate the fundamental impact into the assessment / recommendation and discuss with portfolio managers

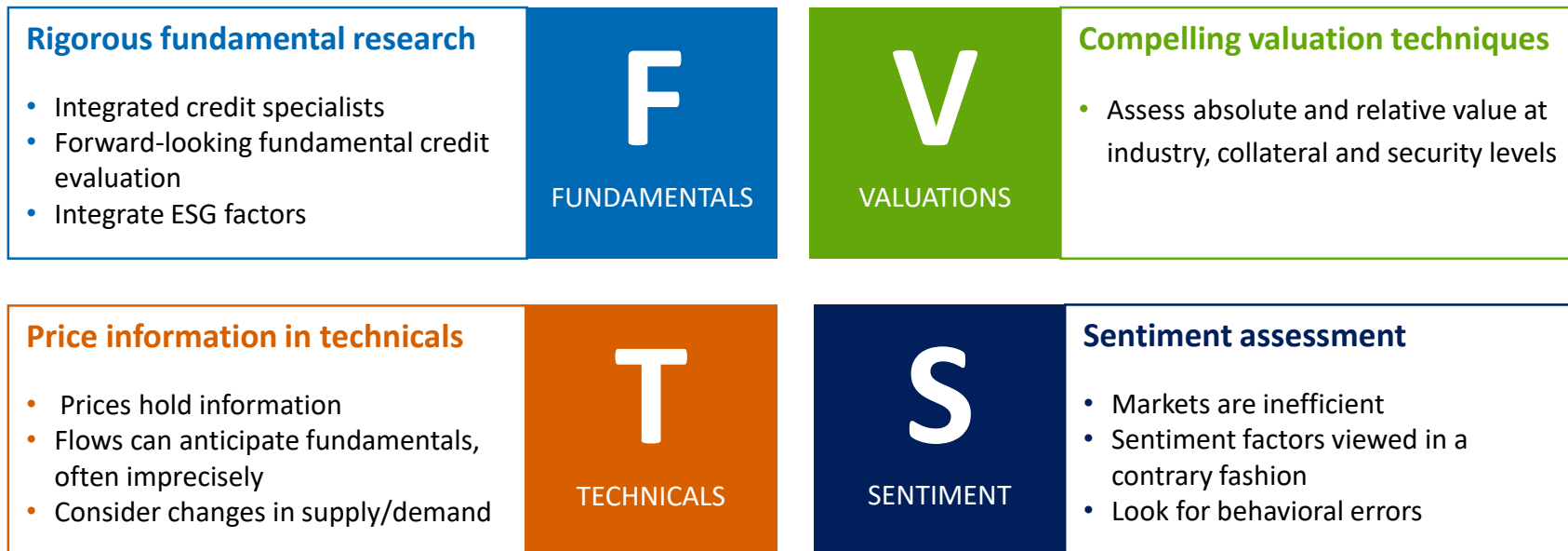
Integration



Portfolio managers integrate analyst's recommendation, including ESG factors, into the portfolio construction process

Quadrant analysis framework

Consistent, repeatable, multi-faceted view on asset class drivers



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ESG integration in practice: Corporate credit

Analysts include ESG factors alongside traditional credit metrics to assess an issuer's credit profile

ESG integration process seeks to answer three questions

1. **Fundamentals** - What is the potential fundamental impact and the associated effect on the issuer's creditworthiness?
2. **Valuations** - Are ESG risks and opportunities accurately reflected in credit spreads?
3. **Engagement** - Could engagement be beneficial in an effort to generate long-term economic value?

Key inputs

- Internal industry and company knowledge
- Direct discussion and engagement with companies
- Publicly available company information
- Specialized external vendors
- Insights from Aegon AM's Responsible Investment team

Proprietary ESG credit research & scoring 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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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
- Sustainability 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
Highest Controversy Level:	Low (1/5)		BBB rating within industry
<p>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.</p>			
Level of Credit Impact: Event Risk Potential (3/5)		Recommend Engagement: No	
<p>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.</p>			

Asset Management				ABC Company				March 28, 2018			
Fundamental Outlook		Internal Rating		Rating Company		External Rating					
Credit Outlook	Stable	Internal Rating	BBB-	Rating Company	Moody's	BBB	Stable				
Event Risk Potential	Medium	Index Calculated Rating	BB-	S&P	BBB+	Stable					
Analyst Override		0		Fitch		N/A					
<p>Comments: Fundamentals are stable as cost plus pricing formula, modest volume growth, and increased dividends received offset commodity volatility.</p>				<p>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 taxes investments).</p>				<p>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.</p> <p>S&P: Downgrade: debt/EBITDA > 4.0x due to EBITDA contraction or more aggressive financial policy. Upgrade: debt/EBITDA < 3.0x and FFO/dst near 30%</p>			
Sustainalytics:		51.2 Severe Risk		96.1 Percentile		MSCI ESG IVA		4.7 key issue score			
Highest Controversy Level:		Low (1/5)				Highest Event Indicator:		Minor (10/10)			
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<p>Company Global Thoughts</p> <p>Processes and recycles multiple products for sale to companies across the industrial universe</p> <p>Partially dependent on specific raw materials, but well diversified in terms of finished products, end markets and geography</p> <p>Competes with other non-recycled products</p> <p>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 formula)</p> <p>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 10 straight years)</p> <p>Owens a 50/50 JV that produces renewable energy. ABC Company receives dividends from this arrangement</p> <p>Significant annual capital expenditures averaging ~7.5% of sales in recent years</p> <p>Has paid down ~\$500M of gross debt since the \$1.8B 2014 acquisition of XYZ company</p>											
Credit Statistics - USD (\$)		2017	2018	YOY	2016	2017	2018	2019 E	2019 E		
Total Revenues	460	463	(0.7%)	463	3,706	3,862	3,808	4,542	5,211		
EBITDA	128	131	(5.1%)	483	488	481	481	466	466		
EBITDA	116	108	(6.40%)	439	439	430	430	430	430		
(Cash Interest)/Interest Income	(20)	(16)	(18.00%)	(82)	(78)	(75)	(75)	(75)	(75)		
(Cash Taxes)	(13)	(4)	(64.40%)	(23)	(26)	(33)	(33)	(20)	(20)		
Working Capital, Other	45	58	27.20%	27	48	13	5	5	5		
(Cap Ex)	(78)	(108)	39.18%	(244)	(274)	(322)	(322)	(275)	(275)		
(Dividends)	0	0	N/A	0	0	0	0	0	0		
Net/CAPEX FCF	61	27	(26.32%)	117	100	13	100	100	100		
Debt	1,714	1,674	(2.32%)	1,714	1,714	1,674	1,674	1,674	1,674		
Debt/EBITDA*	13.4%	12.8%	(4.50%)	3.9%	3.5%	3.5%	3.5%	3.5%	3.5%		
Debt/Interest*	5.61x	5.73x	0.12x	5.55x	5.61x	5.73x	5.67x	5.67x	5.67x		
EBITDA/Interest*	12.62%	12.73%	0.9%	12.93%	11.98%	12.68%	12.68%	12.68%	12.68%		
<p>Liquidity, LTM FCF & Net Debt Growth</p> <p>EBITDA Margin (L2) YOY EBITDA Growth</p> <p>Sales by Segment</p> <p>Credit Trends</p> <p>Debt Solutions</p> <p>Equity Cushion</p>											

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

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.



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 resilience & energy transition strategy. Environmental performance and regulatory compliance. Evidence of whistle-blower activity.



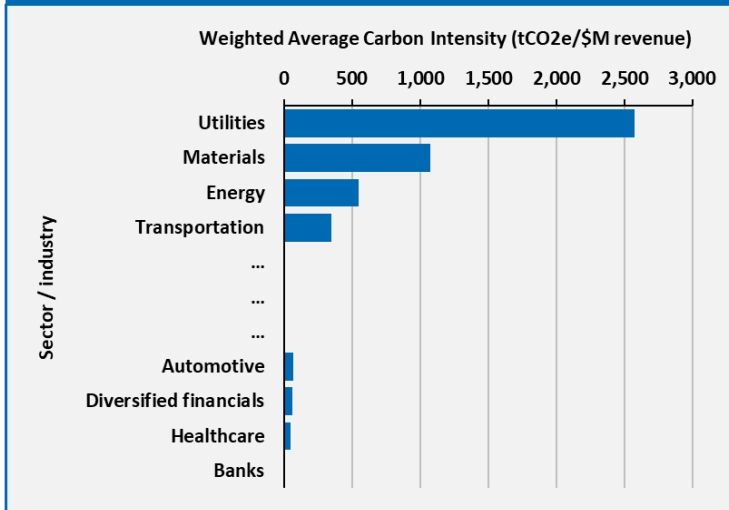
Tobacco

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.



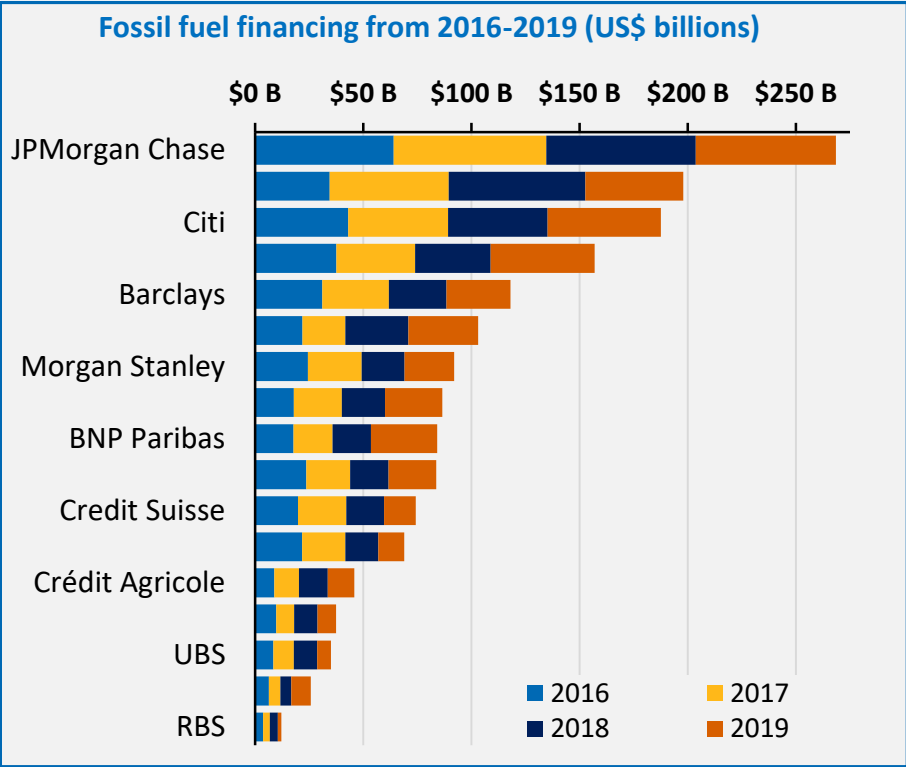
Opportunity example: utility transition

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



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



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Source: Rainforest Action Network.

Climate risk – Bond maturity consideration

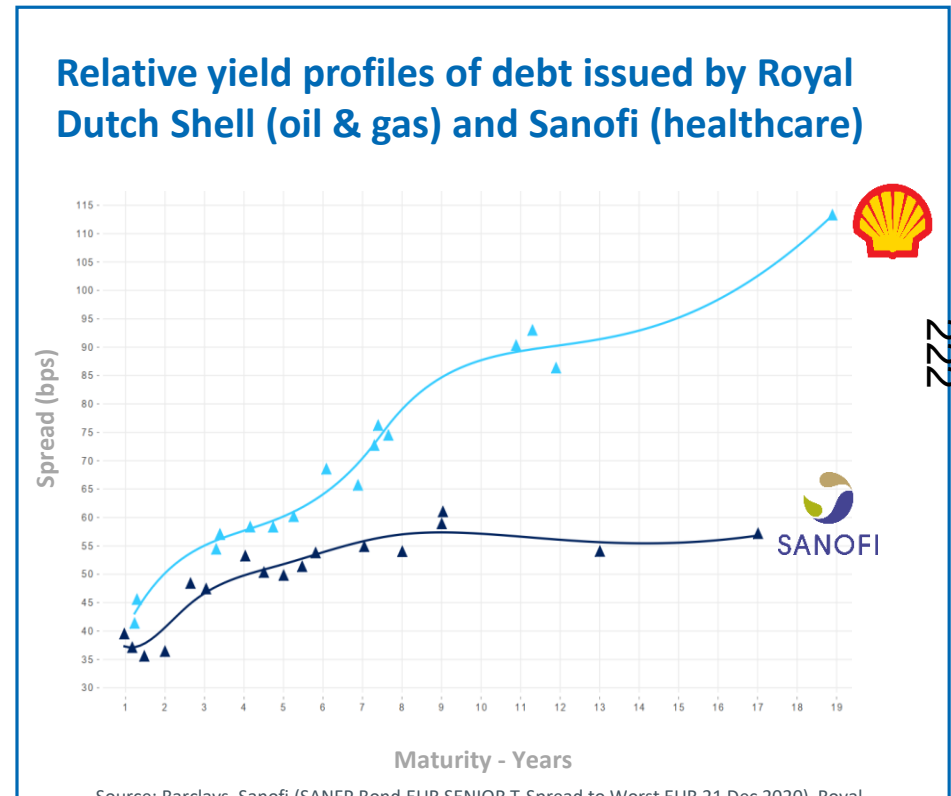
Risks around stranded assets and transition costs can take many years to impact a company's credit profile

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



Source: Barclays, Sanofi (SANEP 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).

ESG Research example

ESG category '4'

Danske Bank

- Danske is non-compliant for UN Global Compact Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.
- Relates to the inadequate AML and KYC policies and alleged money-laundering at Danske's former Estonian branch between 2007 and 2015.

Engagement timeline:

- AAM initially contacted Danske in 2019
- AAM reached out to Danske in March 2020 to discuss our data vendor's assessment of Danske Bank and its subsequent rating (Milestone 1)
- AAM reached out again on 7th Dec 2020 to help better understand how changes to senior management, IT, monitoring and reporting were being monitored for effectiveness (Milestone 2)
- Call 16th Dec 2020 – Improved understanding of the effectiveness of measures taken to improve governance structure and how this will subsequently be reported to stakeholders. Comprehensive presentation answering all our questions on the effectiveness of changes made (Milestone 3)
- MSCI Rating: B

ESG Research example

ESG category upgrade

Volkswagen

- 18th December 2020: Analyst upgraded VW's ESG category from 4 to 3
- Rationale: Analyst believes rating agencies Sustainalytics (41.5 – Severe Risk) and MSCI (CCC) fail to assign VW credit in light of recent positive developments and continue to apply a backward-looking rating approach
- ESG factors have effectively capped credit ratings in recent years on account of governance concerns, however:
 - Controlling ownership and Board structure are key considerations but well understood
 - Reporting structure and transparency will continue to improve with anticipated listings of Italian operations
 - VW has successfully completed a 3yr compliance monitoring program in the US
 - VW has issued a green bond deal under a green bond framework, vetted by external agencies
 - In December 2020 VW announced that executive bonuses will be tied directly to ESG targets
 - VWs electrified offensive is unmatched by (legacy) peers

Important information

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