Responsible Investment Report

2014

The Hague, May 2015

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Highlights

In 2014

- Aegon Asset Management (AAM) engaged with 230 companies on subjects including corporate governance, the environment, transparency, remuneration, health & safety, and human rights
- Approximately 150 portfolio managers and analysts from across AAM completed ESG training
- Aegon held impact investments in wind farms, solar energy, affordable housing, geothermal energy, green bonds, and sustainable timber, with a combined value of over EUR 4 billion AuM
- AAM investigated potential microfinance investments
- AAM completed an internal self-assessment on the implementation of the 2010 Responsible Investment (RI) Framework
- Aegon worked with an independent consultant to define RI ambitions and governance for 2015 and beyond
- Aegon managed Socially Responsible Investment (SRI) products in the Netherlands, UK and Hungary, amounting to EUR 2.3 billion AuM. We also provide green and SRI funds in China with a value of EUR 920 million
- Aegon and AAM conducted a pilot carbon footprint study, analyzing the carbon intensity of three Aegon investment portfolios

Abbreviations

The following abbreviations are used in this report:

AAM	Aegon Asset Management
AAM RI	AAM's Responsible Investment team
ESG	Environmental, Social and Governance
GA	General Account (funds held on the balance sheet of Aegon for its own account, for the purposes of meeting the guaranteed liabilities to its customers, and shareholders' funds available for investment)
II	Impact investment
PRI	Principles for Responsible Investment
RI	Responsible Investment
RI Committee	Aegon Global Responsible Investment Committee

Foreword

Aegon Asset Management believes in taking an integrative approach to responsible investment (RI). It's important that RI is not seen as something done 'by the department at the end of the hallway'. It has to become part of everyday business, part of the fabric of our organization.

This is not straightforward. We are an asset management company with activities in 6 countries and with different types of clients: our partner companies (the Aegon insurance companies), and individual and institutional investors. Maintaining a consistent approach to RI as a global company, while reflecting local sensitivities – and tailoring mandates to meet our clients' needs – is a real challenge. At the same time, we are very aware that we need to be able to explain any local differences in RI policy and approach to our key stakeholders. We feel that the only way to meet this challenge is to give our people the tools and the insights to resolve RI dilemmas and make ESG part of their daily work.

In 2014, we worked extensively with an external consultant to appraise our RI work to date, including our internal RI governance. In many ways, the consultant's discussions with our people validated our approach. The need for global minimum standards within the company (for example, on controversial weapons exclusion) is recognized by all those interviewed, while there is also a strong understanding that there is no single 'correct' approach to many other ESG issues and that our investors should be trained and enabled to make RI decisions on the basis of specific circumstances.

I believe we are at the end of the first phase of implementation of RI at Aegon: our people are aware of ESG risks and opportunities, and now have the appropriate tools and support to manage them.

In order to provide a better picture of RI at Aegon Asset Management, in this year's RI report, you will find a number of interviews with people who have been involved in RI initiatives over the past year. They are just a few of the Aegon and AAM employees that are making a difference to our clients every day. In reading these interviews, I have every confidence that we are strongly positioned to meet the challenges of the next phase of RI implementation.

Sarah Russell

Chief Executive Officer
Aegon Asset Management

About Aegon and Aegon Asset Management

About Aegon

Aegon N.V. and its subsidiary companies (collectively referred to as Aegon or the Aegon Group), is an international provider of life insurance, pensions and asset management products. Aegon is also active in accident, supplemental health and general insurance, and has limited banking products and services. Aegon has over EUR 558 billion in revenue generating investments, employing over 28,000 people and serving millions of customers in more than 25 countries in the Americas, Europe and Asia. Aegon's main markets are the United States, the Netherlands and the United Kingdom.

Aegon manages investments for its own account and on behalf of its policyholders, and also provides customers with access to a broad range of investment products. For a large proportion of its assets, Aegon itself acts as the investment manager (through AAM) or is involved in the process of selecting investment managers.

As well as securing financial returns, Aegon wants to use its investments to promote sustainable economic growth. At Aegon we believe RI helps to pinpoint risk, and may improve returns over the longer term. For us, RI is about making sure we take environmental, social and governance factors into account when we invest. It's also about targeting some of our investments in areas we know will bring definite social or environmental benefits, as well as financial returns.

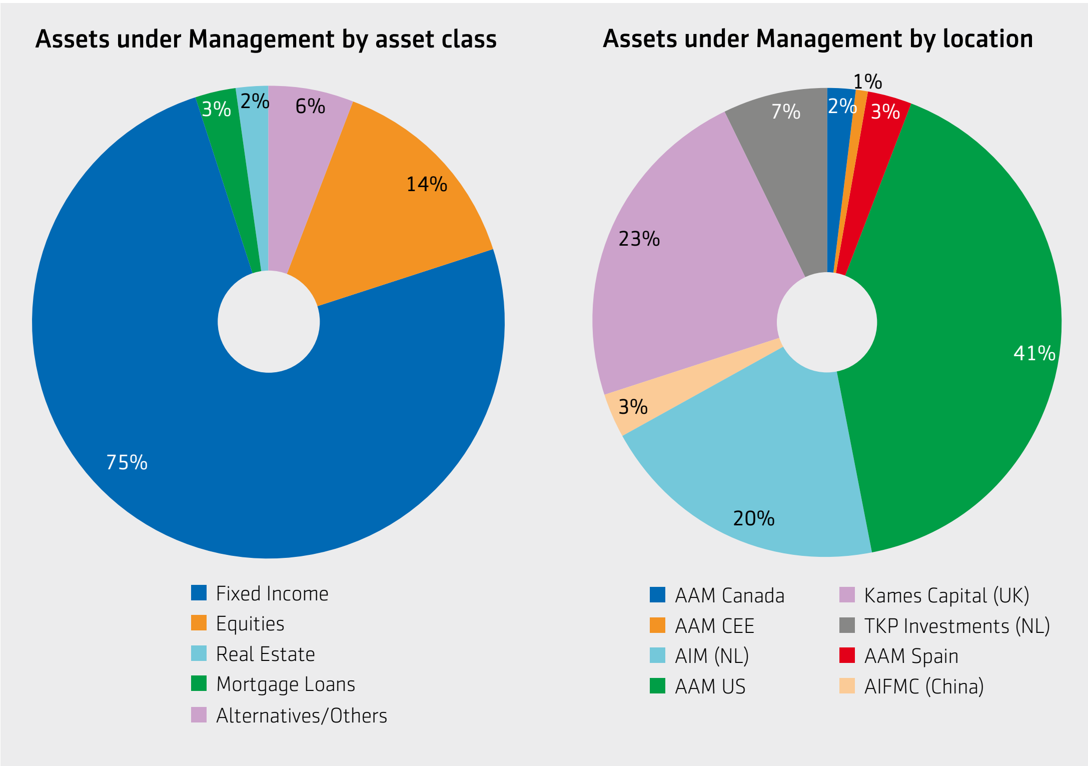
About Aegon Asset Management (AAM)

Aegon Asset Management is a global, active investment manager. AAM uses its investment management expertise to help its clients manage their financial future, with a focus on excellence, trust and partnership. Investors worldwide entrust AAM to manage approximately EUR 300 billion on their behalf.

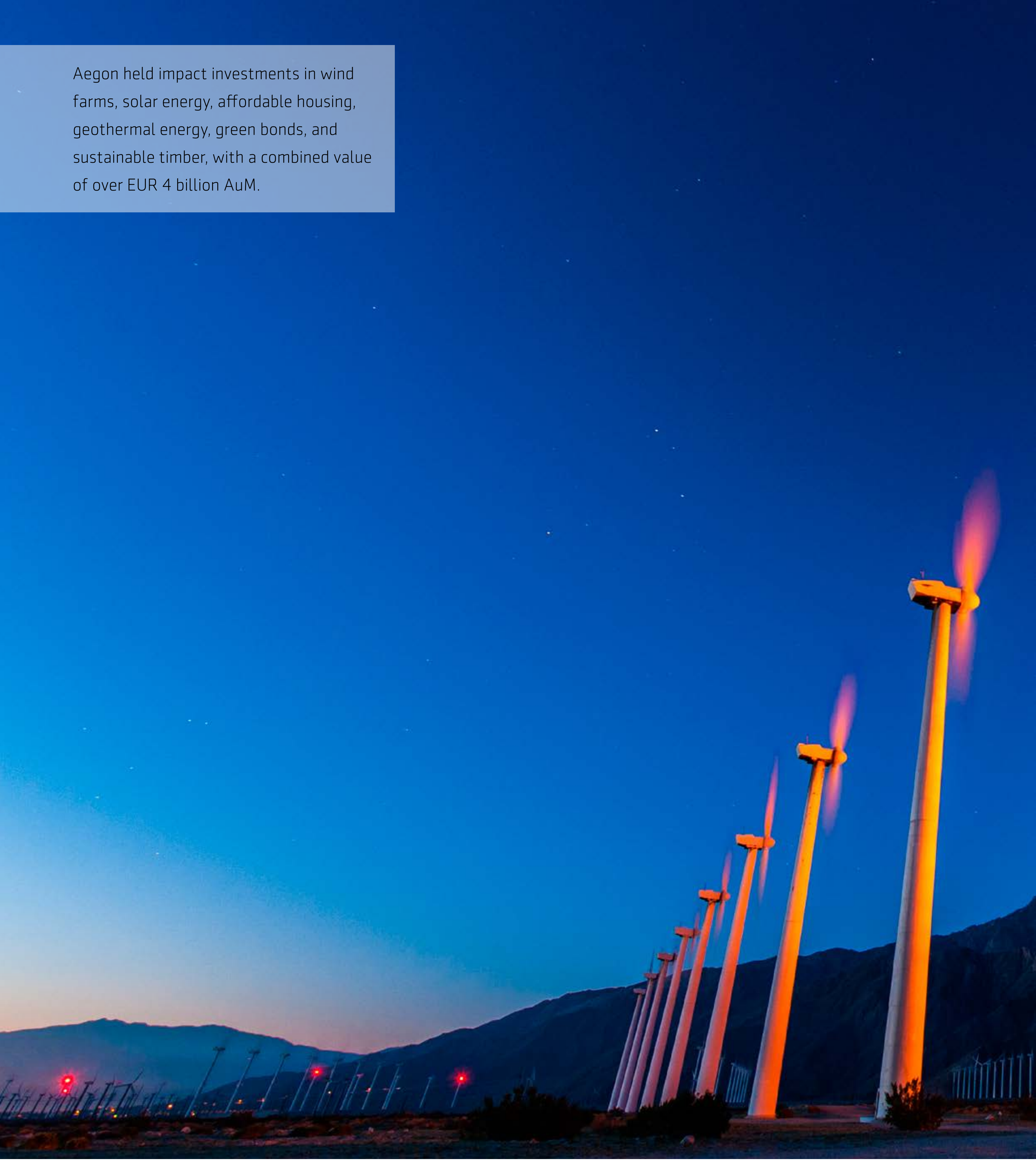
Positioned for success in its chosen markets (North America, the UK, Continental Europe and Asia), AAM's specialist teams provide high-quality investment solutions across asset classes. Its clients benefit from the extensive international research capabilities and in-depth local knowledge of AAM, as well as Kames Capital, its UK investment team, and TKP Investments, its fiduciary and multi-manager investment team in the Netherlands.

Aegon Asset Management comprises the following companies:

The Netherlands:	Aegon Investment Management (AIM), TKP Investments (TKPI), Pelargos and Saemor
United States:	Aegon USA Investment Management (AUIM) and Aegon USA Realty Advisors (AURA)
United Kingdom:	Kames Capital
Spain:	Aegon Asset Management Spain (AAM Spain)
Central and Eastern Europe:	Aegon Hungary Fund Management (AAM CEE)
China:	Aegon Industrial Fund Management Company (AIFMC; 49% joint venture)
France:	AAM recently entered into a joint venture with La Banque Postale (subject to regulatory approval), where AAM will acquire 25% of La Banque Postale Asset Management (LBPAM)



Aegon held impact investments in wind farms, solar energy, affordable housing, geothermal energy, green bonds, and sustainable timber, with a combined value of over EUR 4 billion AuM.



Responsible Investment at Aegon Asset Management

Responsible Investment at Aegon Asset Management

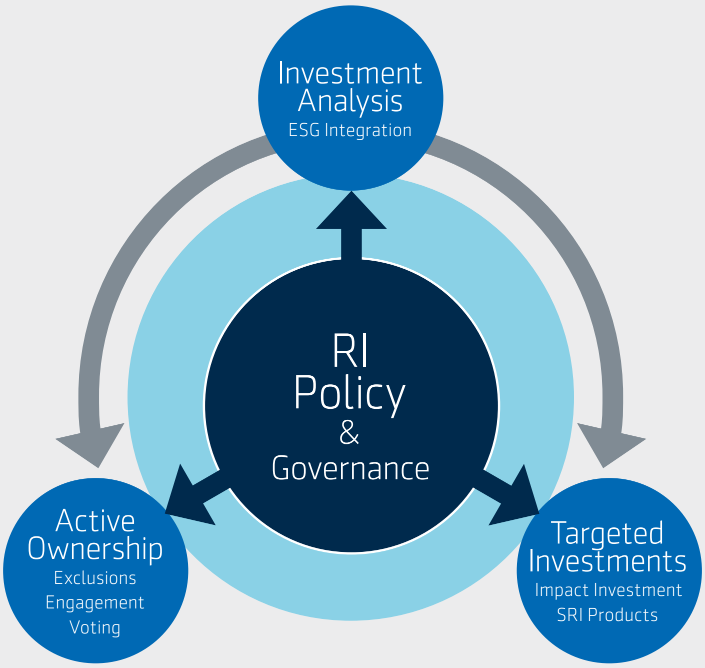
At AAM, we provide our clients with investment products that offer the best possible long-term returns, consistent with their individual risk profiles and requirements.

AAM defines RI as follows:

"Investment processes that actively consider environmental, social and corporate governance ("ESG") factors in investment activities, decisions and ownership practices."

As a significant investor in a large number of industries and companies, we also have a responsibility as a provider of capital. We take this responsibility seriously. We believe in active ownership and our ability to contribute to wellbeing and sustainable development. We are also convinced that by integrating ESG criteria into investment decision-making, we can have a positive impact on long-term risk-adjusted financial returns.

Responsible Investment Framework



We believe that RI and ESG should be an integral component of how we conduct business and that the responsibility for implementing the various aspects of the RI framework should therefore lie with the people in our business: portfolio managers, credit analysts, legal professionals, risk managers and compliance experts. These dedicated professionals are supported in their work by a small, decentralized RI team.

Since 2009, when AAM was formed as a separate division within Aegon, we have been implementing the elements of a broad RI framework: global policy development, coordinated engagement and voting, integration of ESG risk management and impact investment within investment management processes, and governance that ensures the representation of the relevant stakeholders.

In many ways, 2014 was a year of assessment. Having completed a self-assessment process and peer benchmark at the start of the year, we employed RI expert Rob Lake to review our RI implementation. Rob interviewed the key Aegon and AAM staff involved in RI, and presented his findings and recommendations to the CEOs of Aegon NV and AAM.

The outcome of the assessment is that we have achieved the initial objectives of our RI Framework and that Aegon has established a solid foundation for RI, in its many facets. However, we have also identified two broad ambitions for the next phase of implementation: first, to further 'formalize and embed' many of the RI initiatives and responsibilities that are now in place. Secondly, to make even stronger links between RI and Aegon's strategy and purpose. (We provide further detail on these ambitions on page 14).

In that sense, I feel we are tracking the development of responsible investment more broadly – what started out as a niche product is now becoming mainstream, embedded in asset owners' and managers' business models.

At AAM we feel privileged to be able to contribute to this transition to a more sustainable financial system through our investments.

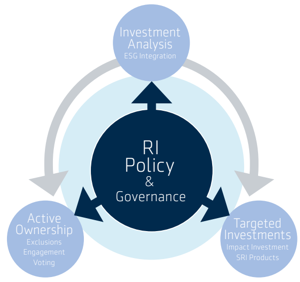
Harald Walkate

Senior Vice-President, Head of Responsible Investment
Aegon Asset Management

Aegon and Aegon Asset Management conducted a pilot carbon footprint study, analyzing the carbon intensity of 3 Aegon investment portfolios. Each of the portfolios was less carbon intensive than the benchmark.

Responsible Investment in 2014

Global RI Policy & Governance



Policy

Aegon's approach to RI is outlined in the Aegon Responsible Investment Policy, adopted by the Management Board of Aegon NV in 2011. The Policy sets a number of standards that are used to evaluate the companies and countries in which we invest. It also includes measures to ensure we act on our responsibilities as a significant provider of capital and as an active owner, and to incorporate environmental, governance and social criteria into our investment decision-making process.

The Policy is guided by broadly accepted international frameworks such as the UN Global Compact and OECD Principles of Corporate Governance and is built around three separate concepts:

1. Aegon excludes certain investments in its own proprietary (GA) portfolios;
2. Aegon will engage with companies that appear to fail to live up to our standards, to better understand their situation and, where possible, work for improvement; and
3. Aegon includes ESG factors in its investment analysis and decision-making.

The policy applies to all Aegon wholly-owned or majority-owned companies where it has management control and applies to all major asset classes, as far as is practical.

The policy sets out a minimum standard. As long as there is no conflict with this policy, individual Aegon and AAM units may develop their own RI policies that add further detail, for example to meet local regulatory, customer or stakeholder requirements. Aegon the Netherlands (the Dutch insurance company) and Kames Capital have developed such policies that are referenced in Appendix 1.

Governance

Global

A global RI Committee has been in place since 2011. The committee is chaired by Aegon's head of Strategy and Sustainability and meets on a quarterly basis. It comprises representatives from the larger Aegon insurance and pension businesses, Aegon Corporate Center, and AAM. The committee oversees implementation of the Policy, which includes drafting and updating of sector and issue policies, monitoring the engagement program and maintaining exclusion lists.

The Netherlands

There is also an RI Committee at Aegon the Netherlands that oversees the Dutch RI Policy and its implementation. It meets quarterly and has representatives from the relevant functions within Aegon the Netherlands: the institutional clients group, the retail business (Aegon Bank), risk & capital management, sustainability and communications. Consistency with the Global RI Policy is ensured through inclusion of the chair of the Global RI Committee and representatives from AAM.

This committee recently decided to update and strengthen the Dutch RI Policy to ensure it continues to meet the requirements of our clients and other stakeholders in the Netherlands. A proposal for this update is currently under development and is expected to be presented to the Aegon NL management board in the second quarter of 2015.

United Kingdom

A recent development is the establishment of a Kames Capital Sustainability Committee, with the Kames Capital chief investment officer (CIO) as chair. The initial focus of the committee will be on the sustainability aspects of property investments, also in view of Kames Capital's membership of the Global Real Estate Sustainability Benchmark (GRESB).

RI Governance Project

Early in 2014, we conducted a self-assessment of progress on the implementation of the RI Framework. As part of the assessment, we performed a benchmarking exercise to define where we stand relative to our peers in terms of RI activity, and also to identify potential areas for further emphasis or opportunities to expand our range of RI activities. (This peer benchmark is documented in last year's RI Report).

The outcome of the self-assessment and peer review was that we have now implemented the RI Framework in all material aspects, and that while implementation of some elements is work-in-progress, RI and ESG are now firmly rooted in the organization. This assessment was in turn validated by the Global Head of Operational Risk Management and Compliance, who also recommended that we review the role and remit of the Global RI Committee in view of our findings.

For this project we chose to work with Rob Lake, an RI expert who has significant experience in investment and sustainability. Rob interviewed about 20 Aegon and AAM representatives who are involved in RI work, including members of the Global and Dutch RI Committees, and the CEOs of Aegon NV, AAM, and Aegon the Netherlands.

In his findings, Rob noted that 'Aegon has established a solid foundation for RI and achieved the initial objectives of its program' but also that 'there is an opportunity now to build on these foundations to increase RI's contribution to the achievement of AAM's and Aegon NV's objectives by strengthening the RI program further, embedding it more firmly in day-to-day business processes, and solidifying its link to overall Aegon NV strategy'. Rob also recommended adjusting the mandate and structure of the RI Committee to support this objective, backed up by strong and visible support from the AAM and Aegon NV Management Boards.

Rob presented his findings and recommendations to the CEOs of Aegon NV and AAM who have adopted his proposals and detailed implementation plans are currently being developed.

In an interview on the next page, Rob Lake shares his views on developments in RI, and on his experience of working with Aegon.

Assessing Responsible Investment at Aegon

An interview with Rob Lake

What kind of skills and expertise do you think are important for a role in RI?
Before I came to investments I worked for organizations who focus on issues like the environment, human rights and third world development – this has been useful in understanding ESG. Also, I love finding out how things work. For example, trying to figure out how climate change affects the job an asset manager needs to do: what do these things really mean in financial terms? That question has been quite central in my career.

Most investment firms these days claim to invest responsibly. It sounds very obvious – is it still meaningful? And are we getting to the point that there is really no room to opt out?
Yes and no. It's becoming increasingly clear that something like climate change will have significant financial implications for all investors. However, some investors are also concerned about issues that are less clear in terms of financial impact – take tobacco or nuclear weapons. Also, there are always new challenges thrown to investors by the public and by campaigners, some are more relevant than others. So you see a great variety in how investors approach these issues.

How have you seen RI develop and what are some of the new trends on the horizon?
The early days of RI were in the 80s, when RI was very much a niche. There were specialist SRI funds that excluded alcohol, tobacco and pornography. Since then it's become a much broader concept, and we've seen mainstream investors developing an approach. This is not a question of having a specialist product – although many mainstream investors still do – it's about making this work across the entire portfolio. Ten years ago companies were starting to think about this, and would write a policy, and give someone responsibility to implement it. Now organizations are reviewing these policies and concluding that these things need to be more firmly embedded. Aegon is a perfect example. I think this has come about because the outside world has changed – different expectations and demands are now placed on investors – it used to be about cluster bombs, now people are concerned about climate change and are starting to demand fossil-free investments.

You talk about the outside world changing – do you mean that the world has actually changed, or that the way people perceive the outside world and respond to it is changing?
Both. Look at the science of climate change: there are some real physical changes to the planet that are relevant for investors. Take investing in real estate near a coastline – with an increased likelihood that your property will be flooded – how does that affect your risk and return? But it's also how people respond to these things: will governments introduce a carbon tax to counter climate change? Or will Greenpeace organize a demonstration outside your headquarters? These are all real problems investors now need to grapple with.

Are we making progress? Is the RI movement having an impact?
Yes. More and more companies are trying to limit their greenhouse gas emissions for example. Many companies may be doing this anyway, but the increased pressure from investors focuses the mind.

Let's turn to the project you did with Aegon – how well did you know Aegon prior to this project and what did you expect to find?
I didn't know Aegon very well to be honest. What I expected to find was quite a bit of diversity and different perspectives, given the international nature of the

Rob Lake is an independent RI advisor. He has been in investment, sustainability and corporate governance roles for 15 years at organizations including Henderson, APG (the Dutch pension fund) and the Principles for Responsible Investment (PRI). Last year he advised Aegon and AAM on RI ambitions and governance for 2015 and beyond.

company and the different kinds of clients they work with. This was borne out to a large extent by the work I did: it's 'first generation RI' work that is being succeeded by a second generation. What Aegon wanted to analyze was how everything was working and what to focus on in the future.

As part of your project you spoke with a large number of Aegon employees, What was your observation based on these interviews – how well are RI and ESG understood as concepts? Do any specific discussions stand out?
What I saw was quite similar to many other organizations: strong differences in perspectives, in level of interest and in understanding of ESG issues. This is only natural in such a large organization with so many different functions and geographies. I found that some people were very focused on exclusions, others trying to figure out financial risks, others again on influencing companies. I found yet another group that was working on impact investment: consciously trying to channel your money to areas that have a clear environmental or social impact.

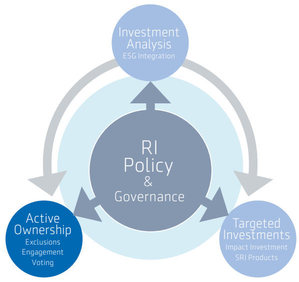
One discussion with a US employee stands out: we talked about the Deepwater Horizon case. He took this as real evidence that disregarding ESG issues (in that specific case, health & safety standards) can have big financial impact.

The final stage of my project was a discussion with the chief executive of Aegon Group; this demonstrates that it has become an issue for the entire company. I think this is healthy for a company, and not something I find everywhere – commitment and engaged discussion right from the top.

Can you discuss what your findings were and what recommendations you made to Aegon senior management?
I had two broad recommendations, the first being 'formalize and embed'. You see a company like Aegon doing a great number of good things but it often relies on informal arrangements and personal relationships. You'd like to formalize these things in roles and procedures, and need to make it clear there's top level support. Often, people in large organizations want to see evidence of that, that it's encouraged to work on these things. My second recommendation was to think about the ways RI can contribute to broader strategy and ambitions for Aegon. For example, there are long-term themes that are very relevant for a life insurance and pensions company like Aegon that is making long term commitments to its clients. Take climate change, again, as an example – it's something you need to be on top of, and through RI there are many things you can also do to mitigate climate change risks.

Aegon sees that strong performance in RI is required of a company that wants to be a leader and strong performer in the insurance and pension markets. Looking diligently where there may be advantages to pursuing opportunities in the ESG area is something to aspire to, as Aegon has done.

Active Ownership



In line with the Aegon RI Policy, AAM has a number of tools at its disposal to live up to its commitment to active ownership: exclusions, engagement and voting.

Exclusions

The Aegon exclusion lists that are applied by AAM are set by the RI Committee, and apply solely to the GA assets of Aegon. An exception is made by Aegon Netherlands, which has decided that the exclusion lists should apply to all assets managed by AAM in the Netherlands.

In setting these exclusion lists, the RI Committee is advised by AAM RI, which obtains research from external consultants or from other authoritative sources on companies or governments which may be involved in controversial activities. The RI Committee has detailed guidelines that support the decision-making around exclusions.

Aegon may exclude companies or states for two reasons.

First, as the ultimate remedy in engagement processes where Aegon feels a company does not – and will not within a reasonable time period – meet the standards set out in its policies.

Secondly, to recognize international consensus. At this point, international consensus is recognized around investments in controversial weapons (the manufacture, development, trading and maintenance of biological weapons, chemical weapons, anti-personnel mines, cluster bombs, munitions containing depleted uranium, and nuclear weapons involving countries that are not recognized as nuclear powers by the Non-Proliferation Treaty) and investments in bonds issued by states that systematically breach human rights.

Countries

Government bonds and other government debt from certain countries are excluded when there is at least a human rights related resolution from the UN Security Council or a restrictive measure from the European Union against the current government or rulers. If these do not provide sufficient clarity, we look for further insight into the current human rights situation of a number of countries, by researching further authoritative sources.

Aegon maintains a list of those companies, governments and other entities which are at any time excluded from investment consideration from its GA, as set by the RI Committee.

The Aegon exclusion lists that are in force as of the date of this report are attached in Appendix 2.

Engagement

In line with the Aegon RI policy, and with AAM's commitment to the PRI, AAM has established a process to engage with companies that do not conform to the standards outlined in the relevant policies.

AAM engages in three ways with companies we invest in:

- Directly, by AAM RI
- Directly, by AAM RI but supported by an external research provider (Sustainalytics), and
- Indirectly, through collaborative initiatives (for example, the PRI collaborative engagement platform or the Association of British Insurers)

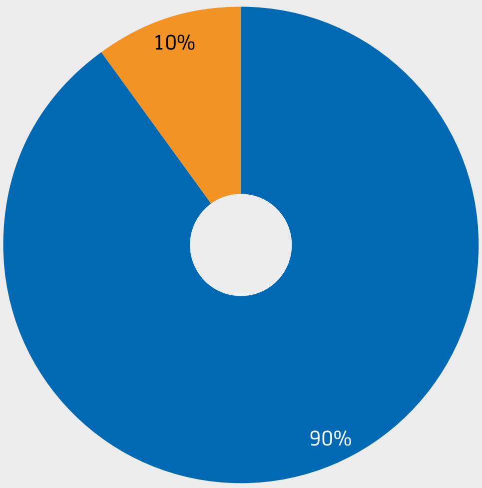
Engagement activities are primarily initiated and managed by the AAM units Kames Capital (UK) and TKPI (the Netherlands), as well as by the global AAM RI staff. These engagement activities are coordinated through monthly conference calls.

The AAM engagement program is monitored by the Aegon RI Committee; developments in engagement dialogues and progress made are a standing agenda item, and decisions on initiation and termination of engagement dialogues are made by the RI Committee. Where possible, AAM seeks to directly involve portfolio managers and analysts at AAM units in the engagement activities.

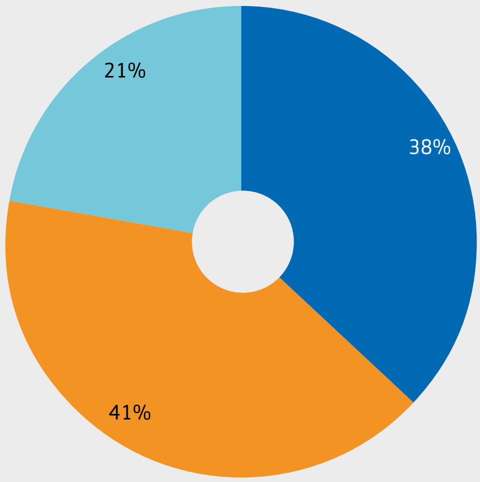
Engagement in 2014

- In 2014, AAM engaged with 230 companies on a range of ESG issues.
- 90% of AAM engagement activities were related to corporate governance matters; 10% were related to environmental or social issues.
- We classify and record our engagement activity as basic, moderate or extensive.

What did we engage on?



Engagement type



- **Basic engagement:** direct contact with companies but engagement tended to be ad hoc and reactive. May not have pursued the issue beyond the initial contact with the company and includes signing letters authored by others.
- **Moderate engagement:** more than one interaction with a company on issues identified. The engagement was somewhat systematic, but the specific desired outcome may not have been clear at the outset.
- **Extensive engagement:** multiple instances of focused interaction with a company on issues identified with a view to changing the company's behavior. The engagements were systematic and begun with a clear goal in mind.

Engagement cases

In 2014, AAM units held discussions with companies on a number of themes, as illustrated below.

• Ensuring that working conditions meet basic human rights standards

Relevant UN Global Compact Principle

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights.

TKPI initiated engagement with a company that provides detention and corrections services to governmental agencies. The company was selected for engagement due to its exposure to human rights related risks and its track record concerning human rights related incidents. TKPI requested that the company allocated managerial responsibility for the effective implementation of its human rights policy. TKPI also asked the company to implement human rights training for staff company-wide.

The company demonstrated that it was responsive to the engagement recommendations by publicly disclosing a human rights policy in October 2014. In addition, the company has expanded its human rights training programme to be available to all of its staff. These trainings cover sector-specific themes and issues. Furthermore, the implementation of the company's human rights policy statement is now the responsibility of a manager who reports directly to the company's Chief Executive Officer.

While some concerns about the company's human rights impacts have been addressed, the company could improve on the disclosure of compliance with its policies, including the human rights policy statement. In addition, disclosure of the results of the company's internal audits as they pertain to human rights is not clear. TKPI will remain in dialogue with this company to continue to address these concerns.

• Mitigating industry-specific human rights risks

Relevant UN Global Compact Principle

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights.

TKPI initiated engagement with a commercial security company. The company was selected by TKPI for engagement due to its exposure to human rights risks. The alleged human rights violations that the company faced suggested a gap between the company's human rights policy and the company's practice to uphold human rights. TKPI requested the company to strengthen its human rights policy by including an explicit commitment to zero tolerance of the use of violence or torture, inhumane, degrading or cruel treatment or punishment against inmates. Furthermore, the company should strengthen board responsibility for the implementation of its human rights policy. The company was also encouraged to commit to providing regular training on human rights for relevant staff.

The company was responsive and provided TKPI with evidence that the company conducted a company-wide review of its operational training programmes to ensure that they address human rights. The company also indicated that it takes a zero-tolerance approach towards violations and that the human rights policy reflects this approach. This was exemplified by the reference to the significance of human rights in relation to the nature of the business in the company's human rights policies. Room for further improvement still exists in the area of conducting external audits of the company's human rights risk assessments, and reporting on the results of these audits. Such steps would help mitigate the company's exposure to human rights risks.

• Reinforcing ethical standards in the media sector

Relevant UN Global Compact Principle

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

TKPI initiated engagement with a media company on account of its exposure to risks relating to corruption. The company has been the subject of civil, criminal and government investigations, which have uncovered evidence of breaches of ethical norms and anti-corruption laws. TKPI asked the company to strengthen its preparedness in terms of preventing and mitigating exposure to business ethics related incidents, by developing a policy that specifically addresses media ethics violations. TKPI also requested the company develop company-wide guidelines on media practice that address sensitive issues. TKPI also recommended the company adopt an internal audit system to monitor for ethics breaches, and ensure that its grievance mechanism is adopted internally.

In its response, the company reported on how it is mitigating business ethics risks to prevent reoccurrences in the future. The company provided an extensive overview of the policies that the company adopted to mitigate risks related to breaches of business ethics norms. The company also disclosed how it scrutinized its policies on media practices. The company reported and disclosed policies that deal with sensitive issues such as conflict of interest and privacy matters – these policies are now publicly available. The company also indicated that it now has a company-wide internal audit system and grievance mechanism in place. These steps are in line with TKPI's engagement goals and help mitigate ethical business risks.

• Improving health, safety and environmental management practices

Relevant UN Global Compact Principles

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights.

Principle 7: Businesses should support a precautionary approach to environmental challenges.

AAM initiated engagement with a global energy company that was selected for engagement due to its involvement in environmental and health and safety controversies. AAM requested that the company provide greater transparency regarding health, safety, and remediation practices, by increasing disclosure regarding its contractor review processes as well as the implementation of new safety practices at high risk sites.

Although the company demonstrated that it was responsive to the engagement recommendations by disclosing the framework behind its contractor review process and approach to remediation of high risk sites, the company could still improve on its reporting in these areas. Providing aggregated disclosure of the results of contractor review procedures, or the percentage of contractors that have received safety training, would allow investors to judge the efficiency of these measures. Furthermore, the company should proactively apply the changes to safety practices that have been implemented at high-risk sites at other operational sites, in order to better manage risks. As the dialogue with this company continues we will address these concerns.

• Improving health, safety and environmental management practices

Relevant UN Global Compact Principles

Principle 7: Businesses should support a precautionary approach to environmental challenges.

TKPI engaged with a large energy company allegedly failing to prevent and respond adequately to negative health, safety and environmental impacts. TKPI asked the company to set quantifiable targets to enhance the safety and emergency response training for all employees as well as monitoring procedures. TKPI also requested the company to publicly report on the extent to which its safety and emergency response reforms have been implemented throughout all of its operations.

The company's response demonstrated that it had implemented several of the recommendations made by TKPI. The company also shared progress to date on the reforms it has committed to. The company now provides regular updates, demonstrating its commitment to report in detail on the issues of concern. These steps are in line with TKPI's engagement goals, although the company's formal policies could be strengthened further. TKPI therefore recommended that the company commit to conducting company-wide environmental and human rights impact assessments in order to monitor the company's impact on the environment and on local communities.

• Improving disclosure of pledging and hedging arrangements at UK small companies

In the course of 2014, a concern arose with Kames Capital regarding pledging and hedging arrangements. Such arrangements can be opaque if not correctly disclosed to the market, which may mislead investors. Kames Capital directly contacted nine UK companies regarding their position on the ability of directors to pledge or hedge their shareholdings. In addition, Kames Capital prompted the Investment Association to write to the regulation team of the Alternative Investment Market of the London Stock Exchange ("AIM") to address the broader issue of AIM disclosure requirements as it could potentially impact market confidence in AIM.

The nine companies that Kames Capital contacted directly confirmed that they already had rules in place to prevent executive directors pledging or hedging their shares or that it was their intention to discuss this issue further at board level.

Eumedion participation

AAM NL and TKPI are active participants in Eumedion.

Eumedion is a Dutch organization that represents institutional investors' interests in the field of corporate governance and related sustainability performance. Eumedion's objective is to maintain and further develop good corporate governance and sustainability performance on the basis of the responsibility of institutional investors established in the Netherlands. At the same time, Eumedion wants to advance the acceptance of and compliance with generally accepted corporate governance standards by listed companies and institutional investors in the Netherlands and Europe, in particular. Eumedion numbers approximately 70 asset owners and asset managers among its members.

AAM NL and TKPI staff are members of a number of Eumedion's committees, including the Legal Committee, the Audit Committee, the Investment Committee and the Research Committee.

Participation in Eumedion also plays an important role in AAM's engagement and voting activities: through participation in the Investment Committee, AAM can opt to be represented by other Dutch institutional investors at shareholders' meetings of Dutch (AEX-listed) companies. On behalf of a select number of pension fund clients, and together with various other Eumedion members, TKPI also participates in another engagement initiative that is facilitated by Eumedion. Professor Paul Frentrop of Nijenrode University engages with a number of Dutch public companies on a range of issues, including strategy, governance, accounting standards, remuneration, and employee relations.

TKPI participates in CIO Dialogue in the Netherlands

A number of Chief Investment Officers (CIOs) of large Netherlands-based institutional asset managers have established a dialogue on the theme of 'working towards sustainable financial markets'. TKPI participates in this initiative and is also the lead for one of the work streams: 'Communication and our role in society'. The objective of this work stream is to explain to the general public what responsible investment is and to emphasize that RI is more than only excluding certain companies or countries. In doing so, the Dutch asset managers hope to show that investment is not only about financial analysis but that extra-financial factors also play a role.

In 2014 two meetings with journalists were held about these themes in 2014; at one of them TKPI presented its own approach with regard to long-term stewardship. The meetings were well-attended and led to articles in a number of major publications.

ESG in external managers

An interview with Roelie van Wijk and Coos Luning

TKPI outsources some EUR 22 billion to external asset managers – what is the main difference between an outsourced and an in-house approach?
Roelie: The main difference is, I think, the importance of ensuring the credibility of a potential third party asset manager. In this, we focus primarily on their processes, team and approach. It is quite different from selecting a specific bond or stock as a portfolio manager.

Coos: It's not about making choices based simply on past performance – we pay a lot of attention to qualitative aspects such as culture and organization. We will only select an asset manager that clearly puts their clients first, and can focus on longer-term investments. But we do also want diversification – we like to see a mix of asset management styles as this ensures we have a better overall risk and return profile.

AAM is a PRI signatory and is committed to integrating ESG factors in its investment processes. Does this pose specific challenges in working with external managers?
Roelie: No. From the start, TKPI accepted that our duty to our clients was the same whether we were managing investments ourselves or entrusting them to third parties. Many years ago we discussed with our clients what they consider to be the most important ESG themes. We concluded we should exclude certain investments, for example in controversial weapons, and focus on others through engagement. We provide the exclusion list to our external managers and set up structures to ensure it is implemented.

Coos: It's in the name. As fiduciary managers, we can be trusted to invest and see that those investments are managed according to the individual client mandate. We do, of course, have numerous tools and processes to help us with the ESG part. One of these tools helps us to identify names in the portfolio that are 'red alerts'. This is helpful in generating discussions with the asset managers about the names they have selected for the portfolio.

How do third party asset managers react to ESG?
Coos: It often depends on the manager and on where they are based. Overall they appreciate the clarity that our rules for ESG provide. There are some geographical differences. In the USA, for example, people think quite differently about nuclear weapons than in the Netherlands. This is not a problem, as long as we make the rules clear.

Roelie: Some asset managers already have ESG embedded in their own processes, and these are the ones that we naturally lean towards.

Is the primary focus on exclusion?
Roelie: It is important not to get exclusion out of proportion. In total, only about 3% of potential investments raise questions of exclusion. But having said that, it is most important that we apply our investment beliefs thoroughly and that companies also see the benefit of remaining part of our investment universe themselves.

Coos: Exclusion was the beginning, now we are talking about other things as well. ESG integration to us means not having certain things in your portfolio, but it also means finding managers that use ESG as a way to generate better returns for their portfolios. Take the "G" – for governance – in ESG. If an asset manager can see evidence of excellence in governance in an enterprise, then that is a direct pointer to an organization's commitment to its people, customers and shareholders. Good governance is the bedrock of responsible investment.

Roelie van Wijk

Coos Luning

Roelie van Wijk is Chief Executive Officer of TKPI and has been with them for almost nine years. Originally the pension fund managers for the Dutch postal and telecom companies, TKPI became independent providers of pension fund asset management services, and is today one of the operating entities within AAM.

Coos Luning is Chief Investment Officer at TKPI and has been with the company since 1999. He's responsible for everything to do with investment management, which at TKPI is largely outsourced to external asset management companies.

What's the best way to discuss ESG with third party asset managers?

Roelie: A mixture of formality and transparency. ESG is always part of requests for proposal when we approach external managers, as it has been when clients selected us as their fiduciary manager. We also scan the asset manager's portfolio using the MSCI database, to see how their portfolio scores on ESG, and then challenge them on this. We always have one or two companies on our list when we meet with them, and will ask: why are you invested? Can you give us your reasoning?

Can you give us some examples of companies you are monitoring?

Roelie: We have recently been talking to Shell about concerns over drilling for gas in the Northern Netherlands. Because of the seismic impact, people are concerned about damage to their property. We believe Shell can do more to be transparent about the risks for these people and therefore for their own reputational risk; this also has a direct relationship with the stock price, we believe. So these concerns must be reflected in our investment decisions, and it is right that companies in which we choose to invest have the opportunity to change their behavior in order to safeguard our investments in them.

One of the portfolio managers in your team is also acting as ESG Officer for TKPI. Has it been helpful to work with an ESG Officer in tackling this?

Coos: Yes, he acts as gatekeeper to ensure ESG remains on the agenda, and is also fuelling the discussion within the team. But we have observed that the more integrated it becomes, the less need there is for an ESG Officer. He is part of the investment team and that is key.

How has a commitment to RI helped you as a company?

Roelie: There are only about 85 of us altogether, so we are a fairly tight team. I think a commitment to RI does affect an organization. We also look at it broadly: as real estate investors we are active with GRESB; we have a group looking at community involvement, and so forth. As investment professionals, we share ideas and experiences around the coffee machine about the positive impact of ESG on returns. And while doing so, it's good to know that our coffee machine is supporting fair trade coffee production.

Voting

Aegon uses the voting rights attached to the shares of companies that it invests in to promote the standards set out in its RI policies.

Aegon has a Global Voting Policy, that was adopted by the Executive Board of Aegon N.V. in 2008. The policy sets out company-wide practices and principles for all its asset management operations, and operates alongside existing local initiatives.

In the Global Voting Policy, Aegon points to a range of international and national corporate governance best practice initiatives and regulations that are applicable to the various Aegon and AAM units that are equity owners. A number of Aegon and AAM units have also adopted supplementary voting policies that are tailored to local best practices and governance principles.

Customized Voting Policy – Aegon the Netherlands

One of the outcomes of an extensive review of Aegon's global voting policies and practices in 2013 (documented in the AAM 2013 RI Report) was the decision to develop a customized voting policy for Aegon the Netherlands, setting out in more detail the company's positions on a number of issues, which would be implemented by our proxy advisor. This creates more efficiency in the voting process, while also allowing us to take a considered position in a larger number of votes. This policy was developed in 2014 and approved by the management board of Aegon the Netherlands earlier this year. See Appendix 1 for the link to the policy.

It was also decided in 2013 that the Kames Capital corporate governance experts should have more involvement in voting decisions for other units. This has led to changes in internal processes that were implemented in 2014.

Voting cases

Genel Energy

Genel Energy is a small oil company operating in Iraqi Kurdistan. As such, the company faces significant political risks and operational challenges (including safety). Genel's CEO was also appointed as the Chairman of Glencore Plc during the year and we and other shareholders were concerned that this additional responsibility would affect his CEO role.

Kames Capital met with the Chairman of Genel Energy in January 2014 to discuss a range of issues including board structure, the CEO's time commitment, safety and political risk. In addition, Kames also spoke with the Chairman again in May 2014 (to discuss the CEO's time commitments again) and the Company Secretary in April 2014 (to discuss the AGM resolution relating to political donations).

The Chairman provided further details on board members and their contributions, an update on political developments in Kurdistan and measures being undertaken to improve safety. The Chairman also provided assurances regarding the CEO's time commitment. The Company Secretary provided further details (and assurances) on the AGM resolution regarding political donations and the scale and nature of any payments. As a result of the satisfactory outcome of these discussions, Kames Capital voted for all resolutions at the AGM.

Oxford Instruments

In April 2014, Oxford Instruments contacted Kames Capital to discuss a proposed one-off award of shares to the CEO and Financial Director. Kames Capital is not supportive of one-off awards which, in our experience, rarely achieve their stated aim. Kames Capital held a conference call with the Chair and another member of the Remuneration Committee together with the Company Secretary to outline our concerns with the plan and indicate that we were not supportive of the proposals. Following shareholder feedback, the company dropped the proposal in July 2014.

Prudential

Concerns regarding the Chairman appointment process in 2012 were compounded by the proposal in 2014 to increase the Chairman's fee by 17% (which we were not supportive of). In February 2014, Kames Capital met with the Chairman to cover board issues, strategy and executive remuneration and Kames Capital also provided comments to the company regarding the proposed wording to the Remuneration Policy.

Later in the year, Kames Capital provided feedback to the company that we were not supportive of a proposed 17% increase to the Chairman's fees, having had reservations in 2012 regarding the Chairman appointment process.

At the 2015 AGM we have voted against the remuneration report due to a number of concerns, including the increase in the Chairman's fee, opacity of targets under both the annual bonus plan as well as the long term incentive plan (LTIP), the vesting thresholds, a low shareholding requirement and lack of deferral on LTIP in the past.

Brooks MacDonald

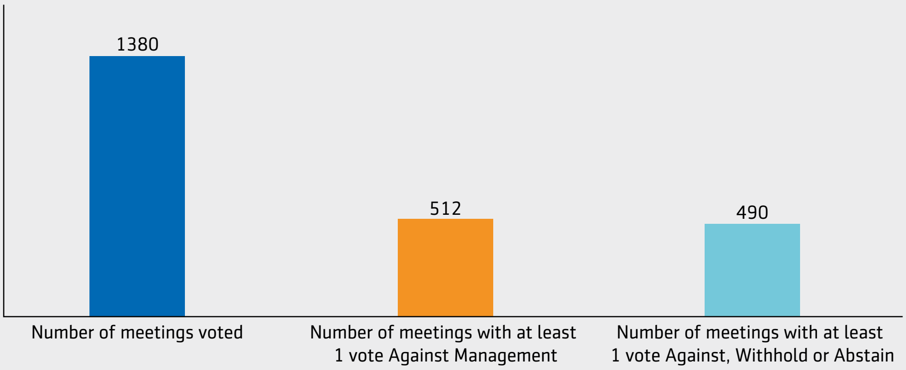
Kames Capital has had ongoing discussions regarding corporate governance with Brooks MacDonald since 2011. These have included discussions on board structure (independence), audit committee membership and remuneration structures and disclosures.

In August 2014, the company appointed a new independent non-executive director, however, Kames Capital was concerned that this individual would also chair the audit committee. We recognize that Brooks MacDonald has made significant improvements in corporate governance since Kames Capital started to talk to the company about these issues, however, we will remain in contact with the company to continue to voice our concerns as shareholders.

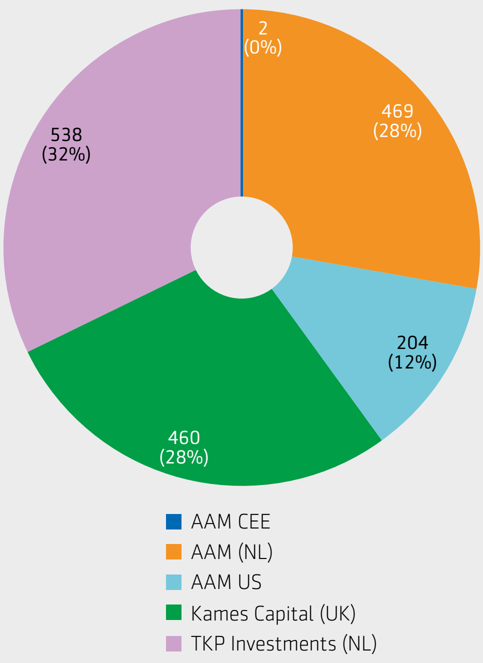
Votes cast in 2014

In 2014, AAM voted on 1,380 meetings.[1] 92% of votes were cast 'with management', and 8% were 'against management'. The percentage of meetings with at least one vote against management was 37%, or 512 out of 1,380.

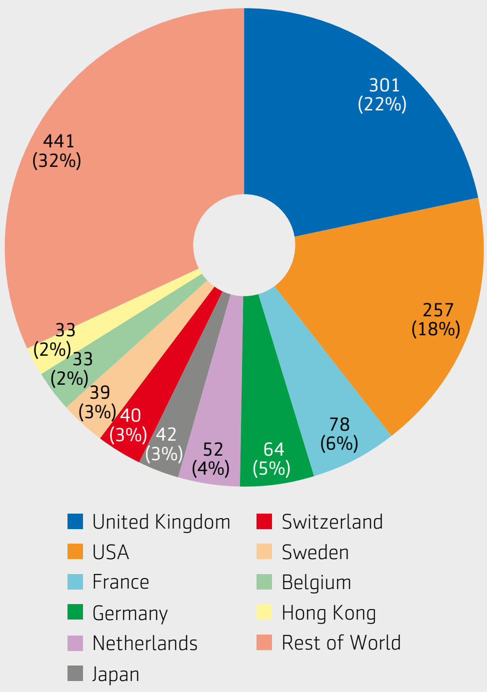
Break-down of voted meetings



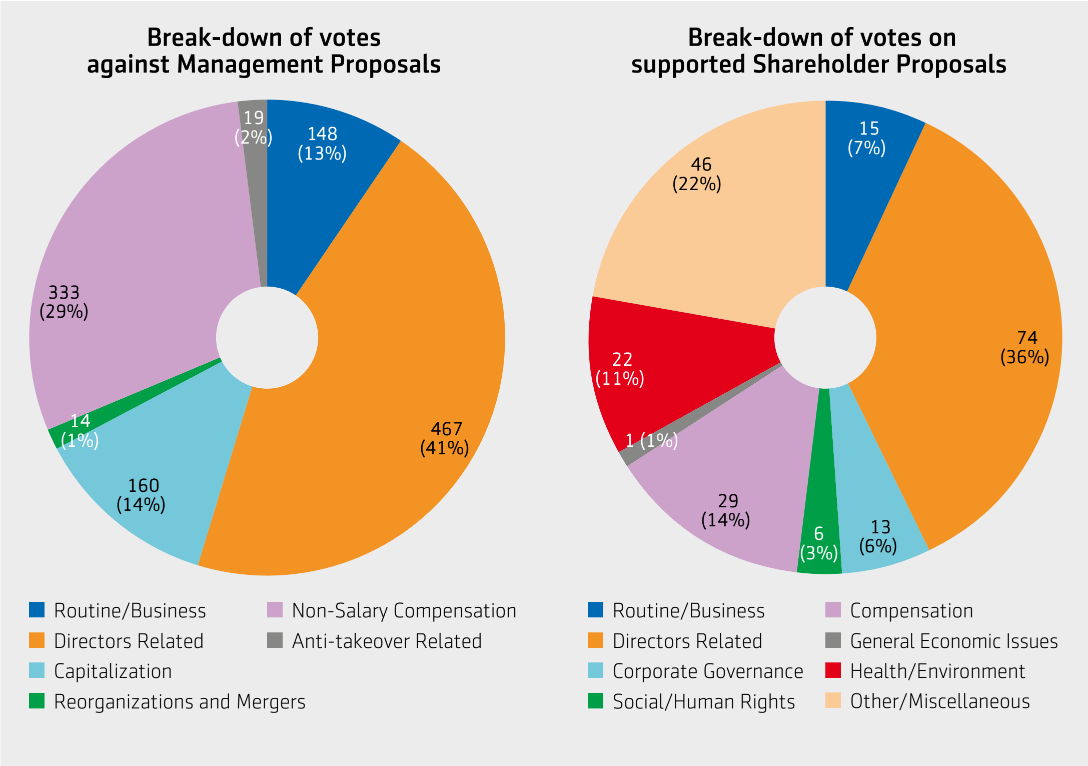
Meetings voted by AAM unit[2]



Meetings voted per Country



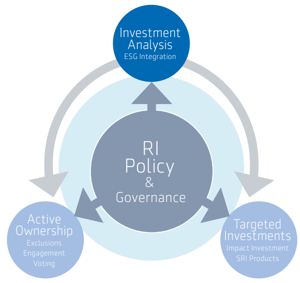
1. Double counts between AIM BV, Kames Capital and TKP Investments have been removed. A meeting that has been voted by AIM BV, Kames Capital and/or TKP Investments counts as one meeting. Due to the divestment of our Canadian business in 2014, votes cast by AAM Canada in 2014 are not included in this number.
2. This includes all meetings voted by each AAM unit individually.



The supported shareholder proposals on environmental and social items cover diverse topics, including requirements to report on methane emissions, net neutrality (internet censorship), hydraulic fracturing risks and opportunities, financial and physical risks of climate change, and environmental impacts and risks of biomass; as well as proposals regarding reviewing fair housing and fair lending compliance, and assessing the environmental impact of non-recyclable packaging.

For votes cast by AIM B.V. see Appendix 5.

Investment Analysis



ESG Integration

AAM believes that integrating ESG criteria into investment decision-making can have a positive impact on long-term risk-adjusted financial returns.

This is in line with our commitment to the PRI, as well as the observation that there now appears to be consensus that applying ESG factors does not contradict (and may even be required by) fiduciary duty, given that ESG factors are an important component of assessing industries and valuing companies.

Aegon defines ESG integration as ‘taking into account ESG factors in investment management analysis and decision-making’.

ESG Integration in 2014

ESG integration was one of AAM’s key focus areas in 2014. We have reported earlier on our decision to work with MSCI as our provider of ESG data, research, ratings and screening tools. Almost all portfolio managers and analysts within the company now have access to the MSCI platform.

The next step in the ongoing process of integrating ESG into investment analysis and decision-making will be the standard inclusion of an ESG rating in ‘tear sheets’ developed by the AAM Research Team, where available. These tear sheets are used by AAM NL and AAM US and are developed for each core company covered by AAM Research. The sovereign team within AAM NL is also starting to include an ESG rating in its proprietary country monitor (similar to the tear sheet) for the states in their sovereign bond universe. The tear sheet serves as a key document used in the fixed income investment decision and is also used to monitor names in the portfolio.

In order to be able to feed the ESG ratings automatically into tear sheets, a project manager is presently working on the required technical processes. This project is expected to be completed later in 2015.

ESG Officers

We continue to work with the ESG Officers in all AAM business. Typically, ESG Officers are portfolio managers or analysts who take on an additional responsibility to act as local contact for the global AAM RI team and for MSCI, the data provider, regarding ESG matters. They also lead the discussion for their business on how ESG factors can be integrated into the investment processes.

ESG Training

In 2013, the AAM Management Board mandated ESG training for all portfolio managers and analysts. We selected a modular online training offered by RI Academy (now acquired by the PRI and renamed "PRI Academy") that explores the use of sustainability data in fundamental analysis and security selection. CFA Institute members earn Continuing Education (CE) credit hours upon successful completion.

In the course of 2014, almost all of the 150 portfolio managers and analysts have completed the training. The remaining individuals are expected to complete the training before the deadline that had been set by the management board for the first half of 2015.

The training is supplemented with webinars and sector conference calls organized by MSCI that demonstrate the functionality of MSCI ESG Research's online platform, MSCI ESG Manager, and discuss materiality of ESG issues in various sectors, as well as face-to-face meetings in the various AAM locations.

GRESB

The Global Real Estate Sustainability Benchmark (GRESB) is a leading indicator for sustainability in the property and real estate world. It is an industry-driven organization committed to rigorous and independent evaluation of the sustainability performance of real estate portfolios and is supported by close to 50 institutional investors.

Three AAM businesses that are significant real estate investors (Kames Capital, AAM NL and TKPI, totalling approximately EUR 4.5 billion in real estate investments), have been GRESB members since 2012.

The information available through GRESB allows property and fund managers to better understand how environmental and sustainability factors affect their holdings. AAM views this as an important tool in integrating ESG factors into the company's real estate portfolios.

In 2014, 637 property companies and funds participated in the GRESB Survey, managing USD 2.1 trillion in value. The database covers 56,000 assets in 59 countries and is actively used by more than 150 institutional investors, fund managers and property companies jointly managing USD 11.2 trillion in assets.

In the course of 2014, AAM NL, TKPI and Kames Capital have continued to incorporate GRESB data into their real estate investment decisions (see also the TKPI case study on the next page).

GRESB membership was also a key factor in the decision to establish a Sustainability Committee at Kames Capital, early in 2015. The committee will oversee, amongst other things, the process of GRESB reporting, that Kames Capital as a direct real estate investor (and therefore landlord) committed to.

ESG in Real Estate Investments

René Rijk

In the Nordic countries there is a shortage of modern office supply; most real estate stock is outdated and not energy efficient. TKPI invests with fund managers like Niam, who manage part of the investments of the TKPI European Real Estate Fund, to upgrade these buildings and makes them more energy efficient. The upgraded buildings better suit tenant as well as investor demand.

For example, Niam bought an office building near Stockholm. The building was let to an international company, but had an expiring lease contract. In order to renew the contract, investments were made in a new heat exchanger, the climate control system, and movement sensors. In addition, energy curtains were installed to improve efficiency. These investments made the building more cost competitive and resulted in a lease extension of seven years.

After the extension, the number of employees in the building increased by 38%, but energy consumption decreased by 32%. Due to the investments made, the building was able to obtain an internationally recognised energy label. In 2014, the building was sold to a European institutional investor. The investor required minimum environmental standards as part of their investment decision and the realised IRR on the project was 17%.

As shown by the Stockholm example, this investment strategy has proved to generate attractive investor returns while also contributing to a better environment. This principle is key in the real estate investment policy of TKPI and is used as part of the selection process for new real estate funds.

René Rijk is Portfolio Manager Real Estate at TKP Investments

Carbon Footprint analysis

Aegon has both a direct and indirect impact on the environment through the activities carried out in our offices and indirectly through our investment activities. In looking at its direct impact, Aegon has had an environmental policy for many years that seeks to minimize negative impact on the environment whilst maximizing opportunities for improvement in environmental performance.

Aegon has outperformed the targets it set for itself in 2010 to reduce the CO2 emissions from the buildings we control by almost 25%. Given that our scope for further emissions reductions is limited, we continue to show good stewardship for our own resources but no longer consider it a key objective in our sustainability program.

However, as a company with revenue generating investments of approximately EUR 560 billion our indirect environmental impact is far greater than our direct impact. In recent years we have received questions at Aegon's annual shareholders meetings from shareholders who want to better understand what we are doing to measure and monitor our environmental footprint.

Following the 2014 shareholder meeting, we decided we need a better understanding of the CO2 impact of our investments as a first step in deciding on possible future actions regarding climate change and carbon emissions. We selected Trucost, a consultancy firm that helps companies understand the economic consequence of their natural capital dependency, to support us in this analysis.

We chose three actively managed GA investment portfolios, one from each of Aegon's largest country units, that are managed against a recognized benchmark. Given our strong emphasis on fixed income investing we selected fixed income portfolios. The three portfolios combined hold approximately EUR 20 billion in assets. Trucost provided a customized report for each portfolio showing the CO2 intensity of the portfolio against the benchmark that is being tracked:

Portfolio	Benchmark	Result
Non Profit Fund (UK)	iBoxx GBP benchmark (excl. gilts)	0.3% more carbon efficient
Representative Holdings GA Parent Level (US)	Barclays US Corporates/High Yield	12.5% more carbon efficient
GA Leven Investment Grade (NL)	Barclays Euro-Aggregate Corporates ex Financials	16.1% more carbon efficient

Trucost's coverage for the NL and US portfolio was very high, due to the focus on corporates. Coverage for the UK was lower, mainly due to a higher percentage of non-corporate and non-listed companies.

This research represents our first step in understanding the CO2 impact of our investment portfolios. We have had discussions with the relevant portfolio managers and analysts within AAM to learn how this factor is weighed in investment decisions. We are also trying to assess if this issue may pose a burgeoning risk for our investments. For this, we are closely following discussions on climate change and note that the possibility of international government action against carbon emissions increases as global concerns about climate change heighten.

For further background on this project, please see the interview with Mike Mansfield (Aegon Sustainability) and Claire Curtin (Trucost), who managed the project on page 34.

Carbon Footprint Analysis

An interview with Mike Mansfield and Claire Curtin

Why did you decide to measure the carbon footprint of your investments?
Mike: We are now beginning to see Aegon shareholders taking an active interest in our sustainability profile, including the companies we invest in. This has, for example, been seen recently in questions asked from the floor at our shareholder meeting about measuring Aegon's environmental impact. As an insurance company, Aegon itself doesn't have a big operational impact, but through its large portfolio of investments held by Aegon Asset Management it has an indirect 'carbon footprint'. The carbon footprint of a company is considered to be the most direct pointer to the sustainability profile of any enterprise. Aegon must be able to anticipate this demand for information and that means we are establishing the processes, tools and culture needed to respond to these requests.

Claire: It's important to understand that this interest is not driven by soft environmental sentiment. The world is just beginning to realize that there can be no business sustainability without environmental sustainability – and, from an investment perspective, that means identifying companies which have made the reduction of their carbon footprint a priority.

With your initial activity, what was the focus and what was the result?
Mike: We selected three diverse portfolios, one in the UK, one in the Netherlands and one in the US. We initially considered carrying out the carbon footprint analysis ourselves, but rejected this in favor of engaging Trucost. In part this was because we wanted their independence to lend credibility to this process, and, in part, because in this newly emerging area of business analysis, they have already established a respected reputation.

Claire: The results of this initial investigation were interesting: each of the three portfolios was less carbon intensive than the benchmark, sometimes significantly so. We found that this was often because of an underweighting of the more carbon intensive sectors, for example utilities, which are typically highly carbon intensive because of their utilization of fossil fuels. Also other, less carbon intensive, sectors tended to be underweighted.

How have AAM portfolio managers responded to this initiative?
Mike: Positively, I think. We examined the results of study with the relevant portfolio managers and analysts. They were keen to learn how the carbon footprint of their portfolios compared against the footprints of the companies in the relevant benchmarks.

To be perfectly transparent, we also found that the carbon intensity is not a key factor in making these investment decisions or sector allocations, but we hope that our discussions around this analysis have planted a seed in the sense that portfolio managers will become more aware of these environmental considerations and their financial impact.

Mike Mansfield

Claire Curtin

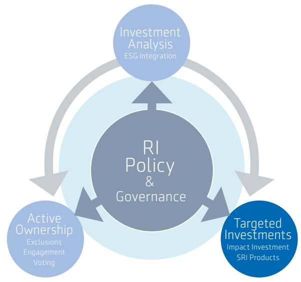
Mike Mansfield has been with Aegon for 12 years. As sustainability officer, he has been responsible for the preparation of integrated reporting for the company and has focused on themes like the environment and diversity. Mike has a background in internal audit.

Claire Curtin is head of investor research at sustainability metrics specialists Trucost. Claire took a Masters in conservation science after having spent ten years in asset management.

AAM is moving towards a position in which you can be ready to answer carbon footprint questions. But how can you turn this to business advantage for your clients?
Mike: We are at the start of this journey, but I believe we are beginning to create value. Just take, for example, the differences in understanding of carbon footprinting between equities and fixed income. It is far more advanced in the former than the latter, but as a significant fixed income investor we see a role for AAM in helping to further develop intelligence in this area – and we are already beginning to do so.

Claire: As an outsider it is interesting to ask how AAM makes a difference. Although your own carbon footprint is modest, as investors you are able to influence the enterprises in which you invest. In this respect, your behavior has a direct impact on the environment - and the more that environmental impact analysis becomes integral to your portfolio choices, the greater the impact.

Targeted Investments



Impact Investment

Since our review of the field of impact investment ("II") in 2012, II has played an increasingly important role in our overall approach to RI.

AAM defines Impact Investment as follows:

"Direct or indirect investments in businesses, organizations and projects, that meet our existing risk and return requirements and are also intended to create a measurable social or environmental impact". In II terminology, this makes us a 'finance first' impact investor.

The most important conclusion from our review was that Aegon's primary responsibility is to ensure that our assets are managed so that they cover the liabilities we take on as an insurance and pensions company.[1] As such, investments should always be evaluated from a risk and return perspective first. However, we also concluded that there are many types of investments that are considered to have social or environmental 'impact' but that also meet our investment criteria, and that we were in fact already investing in many of them, including such fields as affordable housing, renewable energy and development banks.

In view of the above, we have taken the position that II should be integrated with our existing investment platforms and therefore the portfolio managers and analysts covering the different existing asset classes should have responsibility for evaluating potential II opportunities, to determine where they can meet the criteria set out in their investment mandates.

Having said this, we have set up internal structures, supported by the global RI team, that facilitate further discussion about II. One example is the II working group for AAM NL that meets monthly, is chaired by the CIO and comprises the heads of the different asset classes. This working group has resulted in new investments being made in new II areas for us, including green bonds, and – shortly – microfinance (see the case study on microfinance elsewhere in this chapter).

In line with our definition of II, this year for the first time we have made our first assessment of the social or environmental impact of a number of our investments.

1. We look at impact investment primarily in the context of General Account ("GA") assets.

Insurers' Investors on Impact Investment (IIII)

AAM has taken the initiative to establish an informal network of investment specialists at insurance companies (or insurance companies' asset management divisions). This network shares insights and best practices on II for insurers, and discusses how greater clarity can be created in the II community on how insurance companies invest – especially with the impact of Solvency II, liability driven investments, focus on fixed income investments, etc. The group may also discuss opportunities for cooperation in II. The other participating companies in the group are Standard Life Investments, Axa Group, Zurich Insurance Group, SwissRe Asset Management, and Prudential (US) Investments.

In the table below, we show our investments that can be classified as impact investment. Where available, we also show metrics to indicate the social or environmental impact of these investments.

Wind power	In the US, we have investments in four wind power projects, a commitment of some USD 200 million. The primary source of financial return is production tax credits (PTCs). The projects generate tax credits for each megawatt hour (MWh) of electricity produced for the first ten years of the project life. The tax credit rate is indexed to the Consumer Price Index and the current PTC rate is USD 23 per MWh. Aegon US is not currently generating sufficient taxable income to utilize all the tax credits it has generated. Consequently, no new investments in US wind farms are foreseen for the immediate future. However, AAM NL is evaluating the possibility of making investments in European renewable energy projects. Impact: Together, the projects contain 188 wind turbines that are capable of generating enough electricity for approximately 87,000 homes (286 MW). They do so with zero greenhouse gas emissions. Power generation in 2014 was 921 million KWh (921 MWh). The U.S. EPA Greenhouse Equivalencies Calculator tells us that the same amount of electricity generated from conventional fossil fuel plants would have resulted in the emission of over 635,000 metric tons of CO2. Put another way, this is equivalent to avoiding the CO2 emissions from 1.48 million barrels of oil consumed or 3,400 railcars worth of coal burned.
Affordable housing	AURA, through its Community Investments group, has been investing in Low Income Housing Tax Credits (LIHTC) and Historic Credits since 1987. The portfolio size as of December 31, 2014 is approximately USD 2.9 billion containing over 275 separate investments. Further detail on these investments, including impact indicators, is provided in the Case Study & Interview – Affordable Housing later in this chapter. AAM NL invested almost EUR 1.2 billion in affordable housing in the Netherlands.

Sustainable timber	Since 2002, Real Estate Alternatives Portfolio (REAP) within AAM has invested USD 107 million in the timberland investment program; since then USD 139 million has been distributed and approximately USD 46 million remains invested. 98.5% of the total invested capital involved with timber holdings is independently certified as 'sustainable' by the Forestry Stewardship Council, Sustainable Forestry Initiative or other agencies. No new REAP timberland investments were made in 2014. Impact: Forests sequester (remove, accumulate and store) carbon. So our starting point for measuring impact is carbon sequestration in equivalent metric tons of CO2, using the U.S. EPA Greenhouse Equivalencies Calculator. The 1.31 million acres of timberland that we are currently invested in are estimated to sequester carbon (as a CO2 equivalency) at a rate of 1.6 million metric tons of CO2 in one year. This is equivalent to 145,985 homes' energy use for one year. We note that the EPA calculator is based on average carbon sequestration of US forests, whereas a portion of our timber investments are outside the US.
Retirement homes	Kames Capital manages a fund that invests in retirement homes and elderly care facilities in Scotland and Northern England. The fund's assets under management are nearly EUR 100 million.
Development banks	In the United States, we have investments in fixed income products and other bonds issued by regional development banks. These banks operate in emerging and lesser developed countries, promoting economic growth and helping reduce poverty. These assets amount to EUR 73 million. AAM NL also invests in development banks for a total amount of approximately 500 million.
Green bonds	AAM NL investments in green bonds amounted to EUR 188 million. Further background on our green bond investments can be found in the interview with Hendrik Tuch elsewhere in this chapter.
Solar Power	AURA started making investments in the solar investment tax credit (Solar ITC) asset class in 2007 and to date a total of approximately USD 2 million has been committed to Solar ITC through our investments in Lower Income Housing Tax Credits (LIHTC). Solar ITC presents an opportunity for AURA to leverage the expertise, resources, investor clients, and distribution channels that already exist within its LIHTC business. Yields in the near term appear attractive, next to the obvious benefits from further renewable energy sources. Also, AUIM has invested over USD 40 million on behalf of clients in securitizations secured by residential and commercial solar receivables and installations. The proceeds of the offering will go to finance on-going originations of receivables and corresponding installation of photovoltaic solar systems to residential and commercial customers by the issuer. Finally, AURA made its first tax equity investment in an independent solar energy facility – this is detailed in a separate case study in this chapter.

Geothermal	AURA has invested in geothermal tax credits worth approximately USD 150,000 that are embedded in a much larger LIHTC investment for a new construction housing site in New Mexico.
Microfinance	The Risk & Capital Committee of Aegon the Netherlands has decided to make investments in a small number of microfinance funds, subject to meeting specific requirements. More details can be found in a separate case study in this chapter. We will report in more detail on these investments in the 2015 RI Report.

Solar Power

Sean Creedon

In the course of 2014, Aegon analyzed a potential equity investment in two utility-scale solar photovoltaic facilities on farms in rural eastern North Carolina totaling 12.749 megawatts (MW). Following approval from the investment committee, we can report that in January 2015, Aegon closed on this USD 15.1 million investment.

These facilities will be developed, constructed, operated, maintained, and owned by FLS Energy, Inc. (FLS) based in Asheville, NC. Both facilities will be fixed, ground-mounted, grid-connected systems with Duke Energy Progress as the off-taker/power purchaser under 15 year Power Purchase Agreements (PPA). Duke Energy Progress is a subsidiary of Duke Energy Corp, the largest regulated utility in the United States.

The transaction is expected to generate a total of USD 10.5 million in Federal solar investment tax credits and USD 2.57 million in North Carolina solar investment tax credits for an after-tax yield of 21.2% and a pre-tax yield of 32.7%. This yield is made up of the credits, losses, annual cash flow, exit proceeds, and a capital write down at exit.

This represents our first tax equity investment in an independent solar energy facility; in last year's RI Report we mentioned our first solar investment tax credit (Solar ITC) investment as well as investments in syndicated securitization of residential and commercial solar installations and receivables.

Yields in the near term appear attractive, in addition to the obvious benefits from further renewable energy sources and therefore we remain interested in making further investments in this space.

Sean Creedon is a Director of Acquisitions and Underwriting at AURA in San Francisco. Sean is also featured along with Anne Simpson in an interview on affordable housing investments elsewhere in this report.

Green Bonds
An interview with Hendrik Tuch

How did your interest in green bonds start?
I was lucky to be in the right place at the right time. Three years ago, Christopher Flensborg of the Swedish bank SEB visited Aegon to talk about green bonds and Harald Walkate invited me to the meeting. Christopher has probably done more than anybody to develop the market for green bonds and the meeting inspired me to explore the subject in depth. We manage a large portfolio in sovereign and agency bonds and I realized that even if we put only a small proportion in green bonds we can make a big difference without compromising our risk and return criteria.

So what is it about green bonds that makes you such a keen advocate?
There are two key characteristics of green bonds that attract me as a portfolio manager. First, they promise to fulfil the criteria we require of all investments: they must provide acceptable financial returns at acceptable risk. The second characteristic takes us to what makes the green bond special. Green bonds must have clear and significant environmental or social intent: they must be designed to raise capital for a project of clearly identifiable environmental or social benefit. The scale of investment can vary significantly, from a local initiative in rainwater management needing just a few hundred thousand to a multi-million scheme to harness wave power.

But green bonds are driven by the fact that the transition to a more sustainable global economy requires massive capital investment, and we cannot rely only on governments alone to provide this – this is where private investors come in.

Does the market share your enthusiasm?
Although green bonds are a relatively recent phenomenon, we're seeing a great deal of enthusiasm in the market. Pension funds, for example, express a genuine desire for their investments to contribute to making the world a better place – they care about what they will leave as a legacy for the next generation and have a clear affinity with green bonds.

We do need to treat enthusiasm with caution. As a portfolio manager, I must ensure a clear balance between enthusiasm and prudence, and this is particularly true for green bonds. If there is too much demand for these bonds we'll see yields drop, which is not good for the development of the market. To be honest, I'm a bit worried about this – we would like it to remain a mainstream market.

How would you advise other asset managers with regard to green bonds?
Prudence and business first. Successful asset managers generally show a balance between keen curiosity and healthy skepticism. With green bonds, I tend to think in terms of two basic checks. First, I ask if the bond can fit comfortably within our current mandate in terms of potential risk and return. If it does not, then walk away, irrespective of how keenly it is being acquired elsewhere. Secondly, look carefully at what makes it green. Do not

Hendrik Tuch

Hendrik Tuch has 14 years' experience as a portfolio manager and has been with AAM for four years. He is expert in sovereign bonds and, more recently, has become the leading Aegon advocate for green bonds.

proceed unless there is the genuine intent for the bond to finance a clearly defined project.

Are you also measuring the impact of these investments?
My personal view is that we don't want to put more of a burden on the issuers, so we don't require impact measurement reporting, although some specialized SRI investors do require it. As the market develops impact measurement standards will emerge, but in the meantime I would prefer to focus on the evidence of intent.

Will AAM set targets for green bonds?
Not immediately – but this does not mean that we are not treating them with due seriousness. Green bonds will, I believe, feature in the mix of many investment portfolios in the years ahead. In some cases, they will be specifically mandated by our clients, and where that happens, targets will need to be agreed.

At this early stage, setting targets would potentially push investors towards premature decisions, and we do not want to do that. For now, we need, as always, to monitor trend and performance with the care we give to all our investments. In addition, we will ensure that the projects which those bonds are used to fund are themselves followed and communicated.

Green bonds exist to make a difference to social, environmental and business sustainability in the real world, and the best way we can promote their adoption is by ensuring that we communicate the actual results.

Affordable Housing and LIHTC

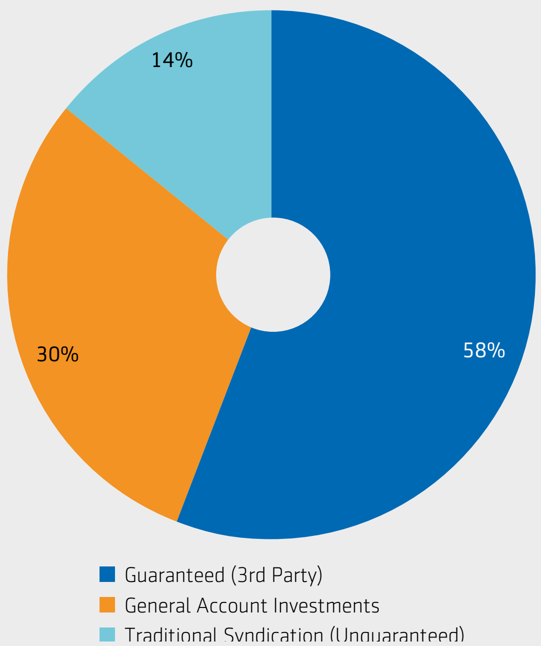
The Low Income Housing Tax Credit (LIHTC) is a dollar-for-dollar tax credit in the US for affordable housing investments. It was created under the Tax Reform Act of 1986 (TRA86) that gives incentives for the utilization of private equity in the development of affordable housing aimed at low-income Americans.

LIHTC accounts for the majority – approximately 90% – of all affordable rental housing created in the US today. The credits are also commonly called Section 42 credits in reference to the applicable section of the Internal Revenue Code. The tax credits are more attractive than tax deductions as they provide a dollar-for-dollar reduction in a taxpayer's federal income tax, whereas a tax deduction only provides a reduction in taxable income.

Affordable Housing Program

AURA, through its Community Investments (CI) group has been investing in LIHTC and Historic Credits since 1987. The portfolio size as of December 31, 2014 is approximately USD 2.86 billion containing over 275 separate investments. See the chart below for a break-down of the committed capital.

Committed Equity Break-Down (EOY 2014)



These investments are typically held 10-16 years as the credits flow for 10 years with a remaining five year compliance period. Portfolio performance has been outstanding. Yield performance as of December 31, 2014 was above 110.5% over underwritten yield objectives and asset class foreclosure rates, or loss of benefits, have been extremely low when compared with other asset classes.

The subject asset class is very attractive to investors for multiple reasons including; high yields, low risk, tax planning and stability of earnings while meeting social obligations or objectives. AURA currently holds a 5% market share with active plans to grow that share both in the guaranteed and unguaranteed space for both internal and third party clients. AURA also intends to expand its activities in solar credit investments.

Columbia Parc at the Bayou District

In 2005, the US experienced one of the five deadliest hurricanes in its history. Hurricane Katrina caused severe destruction in New Orleans, where 80% of the city and large tracts of neighboring parishes were flooded. The St. Bernard Housing Development experienced catastrophic flooding and remained flooded for three weeks under 6 to 8 feet of water. The US Department of Housing & Urban Development made the decision to demolish the buildings due to the extreme damage.

This presented an opportunity to rebuild the development using new urbanist design principles. Columbia Parc at the Bayou District is a vibrant master planned community in New Orleans. Centered at the site of the former St.

Bernard Public Housing project, the new community is the result of a partnership between Columbia Residential, the Bayou District Foundation (a local non-profit organization, founded to help rebuild New Orleans after Katrina), and the Housing Authority of New Orleans (HANO). This housing development project brought together several public and private entities to work together to cluster amenities to multi-income housing. At buildout, the master planned community is anticipated to include 1,325 housing units, including 125 senior units, 300 affordable for-sale units, and 900 mixed-income rental units (including 1/3 public housing, 1/3 tax credit and 1/3 unrestricted market rate). In addition to the residential component, the master plan includes commercial, recreational (golf course, YMCA, baseball/soccer fields) and educational facilities (K-8 Charter School, Early Learning and High School) representing over USD 360 million in public/private investment. As of year-end 2014, some of these features are completed, while others are still under construction or in the planning phase.

In December 2008, Columbia Parc broke ground on the first phase of the master development plan, which included 466 units of "mixed income" units, which were completed in 2010 and were fully leased and operational by late 2011. AURA was the tax credit investor in this phase, which represented an approximate USD 67 million investment, the largest direct tax credit investment made by AURA to date. In October 2011, Columbia Parc broke ground on Phase IIB of the master development plan, 48 units of affordable housing, representing an approximate USD 6 million tax credit investment for AURA (this investment was placed in one of AURA's syndicated funds). This phase was completed late 2012 and was fully leased and operable by early 2013.

Columbia Parc has been designated with LEED Silver certification and has won many industry awards for its design, construction, and mixed-income model. Columbia Parc has also captured national attention starting with the initial ground breaking with HUD Secretary Shaun Donovan as well as visits from Warren Buffet and President Barack Obama and First Lady Michelle Obama.

Energy efficiency elements

In 2014 the Community Investments team again closed on a number of LITHC investments that feature noteworthy energy efficiency and other green design elements. The combined investment amount, for third party investors (guaranteed fund) and Transamerica life companies, is approximately USD 53 million:

- Two new construction projects in California will both use solar photovoltaic (PV) systems and one will include thermal hot water. Both projects are anticipated to pursue Leadership in Energy and Environmental Design (LEED) Gold Certification.
- Three new construction projects in Washington will adhere to "green" guidelines including Build Green and Evergreen Checklist. Features will include low-flow faucets and toilets and Energy Star appliances.

Social Impact

Since 1987, AURA, through its Affordable Housing program has helped to create more than 120,000 units of affordable housing across the US.

To measure the impact of the combined family and senior deals closed in the last five years (2010-2014) - a total of 13309 living units - we tried to assess the projected first year (and annual recurring) local economic impact:

- USD 1.04 billion (318 million annual recurring) in local income
- USD 109 million (58 million annual recurring) in tax revenue for local governments
- 16090 (4020 annual recurring) new jobs respectively

This is based on models developed by the National Association of Home Builders (NAHB) to estimate the local economic benefits of these housing developments.[1]

1. The Local Economic Impact of Typical Housing Tax Credit Developments, NAHB publication, March 2010.

Affordable Housing in the US

An interview with Anne Simpson and Sean Creedon

The investments you make are quite different from 'traditional' investments - can you tell us how the affordable housing investments and the Low Income Housing Tax Credits (LIHTC) program work?

Anne: The LIHTC (pronounced "lie-tech") program is one of the country's most extensive affordable housing programs. With about 9 billion in investments annually, it accounts for about 90% of the affordable housing created in the United States today. It's a federal tax program that allows the private sector to develop new or rehabilitate existing housing that lower income groups can afford, through a tax credit that is purchased by corporate investors.

What is different about the program is that it provides a tax credit that investors like Aegon purchase against their tax obligation, so there's no dividend or coupon payments as with traditional equity or bond investments.

Aegon started out in LIHTC in 1987 and has been active ever since. Because a life insurance company typically has long-term tax planning programs given its long-term liabilities and investment outlook, the program matches well with what we do.

Sean: Typically, a project has a lifetime of 17 years – construction and lease-up takes about 2 years, then people live in the housing for 15 years. The party getting the credits – Aegon for example – has to stay in the project for the entire 17-year period.

The LIHTC program has been considered a great success. What contributed to this success?

Anne: The program has lots of positives for investors, but also for people living in the housing and for communities. For investors, the tax credit is more attractive than a tax reduction, it's relatively low risk because of the subsidies on the property, and the yields are attractive. For communities it addresses urban blight and helps urban renewal; also often these housing projects are more sustainable than other buildings - with greater insulation and better energy efficiency they have a lower carbon footprint. And finally for lower income people: it provides quality housing at very reasonable rates.

At the end of the 15-year tax credit compliance period, the property is eligible to apply for credits for an additional 15 year period and use the equity raised from the tax credits to renovate and update the property. This helps ensure that the properties don't become dilapidated over time.

Sean: The success is really also due to the significant number of rules and regulations dictating that owners and developers must provide ancillary social and support services: job training programs, business rooms, day-care facilities. All things that help get people back in the workforce. When you look across the range of incentive programs created by the federal government, we think this is a great example of how the nexus of the private and public sector can add value.

Anne: The mandate started at the federal level, but the decisions on how to best allocate the credits are handled by local government within each state. Every year each state receives input from investors and developers on how best to allocate funds, so in the end it's not about political mandate, it's about people on the ground making investment decisions and allocating capital sensibly.

On whose behalf do you make these investments – Aegon general account or also third party?

Anne: We've made these investments for the Aegon GA since 1987. In 2003 we also started making investments on behalf of outside investors through a proprietary

Anne Simpson

Sean Creedon

Anne Simpson is a vice-president with AURA and joined the company in 2005. Anne has a background of over 25 years in real estate, including 15 years focusing on affordable housing.

Sean Creedon is a director with AURA and joined the company in 2007. He has a background of 16 years in real estate, including about 10 years focusing on affordable housing.

platform, and in 2009 we extended this to the traditional syndication area. For example, in 2011, we partnered with Google, and we've invested for that client in housing projects in Minnesota and New Mexico. That partnership resulted in rehabilitation and construction of about 1400 units for families and senior citizens.

It is one of the hallmark criteria of impact investments that 'impact' is also measured – we understand that you recently looked at the possibility of measuring your impact through affordable housing investments. Can you tell us about your initial findings?

Sean: Yes, it's something we've been tracking informally and an area in which we would like to put more effort. The social aspect of these investments is important to us as company as well as to us personally, and through organizations like the National Association of Home Builders (NAHB) we can estimate a number of metrics, like additional local income or tax generated, jobs created, and so forth.

Speaking of impact, we're also becoming a big player in tax credits for solar power, something I've been taking the lead on. We had already done some investments in solar power attached to our housing projects, but have now started investing in separate solar farms that are supplying power for entire communities. The solar tax credit program now covers about 25 states and continues to expand.

Finally, you work in a building that is also owned by Aegon and is LEED Platinum certified (the highest certification for energy and environmental design). As a tenant in this building, is this something you are aware of and do you see the benefits of this in your daily use?

Anne: Most certainly. We compost more, we have low-flush toilets, and we have motion-sensor lights, which saves on energy costs. We also have operable windows - actually sliding doors that lead to a small deck - which is rare for a high-rise office building. As a matter of fact, I don't know of any other office building in downtown San Francisco that has sliding doors with decks!

Exploring microfinance

In September 2014 AAM started a small project to determine whether we could start investing in microfinance.

Previously, the nature of the market and the idiosyncrasies of microfinance as an asset class meant that our portfolio managers and analysts had not yet formed a definitive view on it.

However, since microfinance is considered by many to be the largest asset class in impact investment and it is also an area where institutional investors are becoming increasingly active we felt it worthwhile to explore the potential investment opportunities. For debt investments in microfinance, there are now more than 10 years of historic data available, which makes microfinance one of the better tested alternatives within the impact investing space. The data also shows a low correlation with other asset classes and short durations, which would provide an attractive addition to our portfolios from a diversification perspective.

Working with a specialist external advisor, we decided to look at the potential for investing in microfinance for the general account (GA, or proprietary assets) of the Aegon insurance company in the Netherlands. This meant that we needed to take into account the investment criteria as set by the Dutch Risk & Capital Committee (RCC), incorporating regulatory requirements such as those from the Solvency II Directive, the EU framework that sets the amount of capital that insurance companies must hold in order to reduce the risk of insolvency.

The outcome of the analysis was that microfinance investments for the GA were possible, provided that we focused on specific characteristics of microfinance funds, including the percentage of debt in the fund (and whether 'look-through' reporting is available), the duration of the underlying investments, currency and hedging approach, and volatility.

Having presented the results of the study to the impact investment working group at AAM NL, we developed a shortlist of microfinance asset managers, also taking into account quality of management, stability in the investment team and reputational issues. We also considered each asset manager's philosophy on social impact, whether it incorporates ESG criteria in its investment decision making, and how it measures and reports on social impact.

Further due diligence was carried out on the shortlisted funds starting in January 2015.
As of this writing we can report that the Aegon NL RCC has decided to make investments in a small number of microfinance funds, subject to meeting specific requirements. We will report in more detail on our findings from this second phase of the project in the 2015 RI Report.

SRI Products

SRI (socially responsible investment) products offer various investment strategies that often revolve around exclusions (or negative screening) for a specific ESG issue, or a combination of ESG issues; for example companies with poor environmental or human rights records, or companies that are active in the arms or tobacco industries, are excluded from investment consideration.

Increasingly, SRI is defined as Sustainable and Responsible Investment, in line with the tendency to also build investment strategies around 'positive screening' – investing in companies that, in individual sectors, offer the best sustainability records.

Aegon currently offers a number of SRI products, in the United Kingdom, the Netherlands and Hungary:

Country	Fund	Description
United Kingdom	• Ethical Cautious Managed	Covers UK equities and corporate bonds. Investment is restricted in accordance with the fund's "dark-green" investment criteria.
	• Ethical Corporate Bonds	Covers higher quality sterling corporate bonds. Applies "dark-green" investment criteria.
	• Ethical Equity Fund	Covers UK equities, with a bias toward small and mid cap stocks. Applies "dark-green" investment criteria.
Netherlands	• Aegon Duurzaam Index Aandelenfonds (Aegon Sustainable Equity Index Fund)	Covers global equities, applying a range of sustainability criteria. Uses Dow Jones Sustainability Index as benchmark, excluding the following sectors: alcohol, tobacco, gambling, armaments and firearms.
Hungary	• Aegon Climate Change Fund	Covers equities in the developed world. Investments are focused on companies that are active in clean technologies, alternative energy, environmental management and agri-business.

As of December 2014, AAM had more than EUR 2.2 billion assets under management in SRI products.

In addition to the products mentioned above, AAM's joint venture in China, Aegon Industrial Fund Management Company also operates a successful SRI fund with EUR 516m AuM and a Green fund with EUR 405m AuM.

UK Ethical Funds

An interview with Ryan Smith and Audrey Ryan

Aegon Asset Management UK (now called Kames Capital) was one of the first companies in the UK to launch a distinct ethical offering in 1989 with the Kames Ethical Equity Fund. Audrey Ryan is responsible for managing this fund and co-managing the Kames Ethical Cautious Managed Fund. Ryan Smith is responsible for the ethical screens applied across all the Kames ethical fund range.

Audrey, you've been involved for over 10 years with the Ethical Funds at Kames, and you've been very successful both in terms of investment performance as well as commercially. What explains this?

Audrey: A couple of things: from the beginning, we've been very clear in terms of what we're trying to achieve for the client base. We've been very consistent, with regards to both the team and process and also explicit in our offering, so the client understands what they are buying. Secondly, we continue to emphasize our commitment to the ethical market. As a result our market share of ethical and SRI fund sales in the UK is now significant; as of today we have almost GBP 1.9 billion in our ethical fund franchise. And this brings me to the last point: fund performance and our commercial success has enabled us to launch new ethical products in response to client demand. We have demonstrated consistently good performance which we hope shows there isn't a long-term performance penalty when investing ethically.

Can you discuss your investment philosophy in more detail – when is a fund considered to be 'ethical'?

Ryan: We believe in a 'dark green' approach. We apply a negative screen, or screen out, various activities. These include tobacco, armaments, pornography, human rights and certain environmental concerns for instance. In the end, it's up to the client to decide if the fund meets their ethical preferences; we try to be as transparent as we can about how we develop the ethical screen: we make it transparent, relatively simple and repeatable, using third-party data provided by EIRIS and our own in-house research. Unfortunately we cannot customize the funds for each individual client – our ethical funds are pooled vehicles which invest on behalf of a large number of clients including charities, individuals and pension funds. We have found that our approach works for a broad client base.

Audrey: The ethical screening process is deliberately quite separate from the rest of the UK equity investment process to avoid any potential conflicts of interest. With regards to the latter, we describe ourselves as pragmatic investors; we are not tied to any one style of investing, for example value or growth. We aim to generate outperformance for the fund at different stages of the economic cycle, primarily through stock selection.

How do you ensure that your clients' ethical preferences are reflected in the fund? Do you find that these preferences are very similar across clients, or is there a lot of diversity?

Ryan: Every few years we do a survey of current and potential investors and ask them what the ethical issues are that the fund should reflect. People's concerns change

Audrey Ryan

Ryan Smith

Audrey Ryan is a member of the Kames Capital UK equity team and joined the organisation in 1997. She spent the first two years of her career at Kames researching listed UK companies for investment, before becoming an equities fund manager in 1999.

Ryan Smith has been with Kames Capital since 2000 and is Head of Corporate Governance and SRI. In this role he is also responsible for the research underpinning the ethical fund screen.

through time and we want to ensure that the fund captures the right issues. For example, in the most recent survey we have seen how concerns regarding climate change are impacting some of our investors views on nuclear power. Currently, the fund excludes uranium mines and nuclear energy, but with rising concerns about climate change there was a significant minority amongst the responders who felt that nuclear power should no longer be an exclusion.

Most large asset managers have become PRI signatories and are integrating ESG. How does this impact the field of ethical funds and how do you expect this to develop in the future?

Ryan: Kames Capital is also a PRI signatory of course, demonstrating that we are a responsible investor across all our investments, not just the ethical funds. For example, we try to take into account ESG risks in our investment processes. However, we think that there will always be a significant number of investors who would like to see their investments going further in terms of the ESG screening and so we believe there will remain a strong market demand for ethical funds for the foreseeable future.

So in the end, is it about 'ethical', or 'performance'?

Audrey: It's really both. We have demonstrated good investment performance over the 25 years since the Ethical Equity Fund was launched. We've also demonstrated credibility in the ethical screens that we apply.

505 Sansome receives coveted LEED Platinum Certification

Real Estate Asset Management (part of AURA) completed a major "green/energy efficiency" initiative in 2014, with the 505 Sansome Building in San Francisco advancing from Gold to Platinum LEED certification- quite an accomplishment for a 33-year-old building.

The building underwent an in-depth review and received certification after scoring high marks in the following areas:

- The building achieved an ENERGY STAR rating of 95, based on these upgrades.
- Water Efficiency: Achieved a 37 percent indoor water use reduction, which is a calculated water savings of 683,000 gallons per year, based on LEED criteria and a theoretical baseline of typical water usage.
- Transportation: A 75 percent alternative commutership record among tenants was achieved, including the use of BART, Muni, walking, biking, or High Efficiency vehicles.
- Natural Lighting: 56 percent of all regularly occupied spaces are naturally day-lit.
- Energy use intensity that amounts to an approximate annual savings of USD 478,000 was achieved, compared to the median national average as determined by square footage, usage patterns and other ENERGY STAR criteria for like-buildings.
- A waste diversion rate of 58 percent was achieved and included composting, recycling and reduction of the waste stream.

Appendices

Appendix 1.

Relevant Aegon Policies and Links

Publicly available policies and other documentation	Link
Global Financial Crime Notification and Reporting Procedure	http://www.aegon.com/Documents/aegon-com/Governance/Governance-documents/Financial-control-and-complaints-procedure.pdf
Global Compliance Charter	http://www.aegon.ro/Documents/aegon-com/Governance/Governance-documents/Global-Compliance-Charter.pdf
Aegon Code of Conduct	http://www.aegon.com/Documents/aegon-com/Governance/Governance-documents/Code-of-Conduct.pdf
Aegon Human Rights Policy	http://www.aegon.com/Documents/aegon-com/Sustainable/AEGON-Human-rights-policy.pdf
Aegon N.V. Responsible Investment Policy	http://www.aegon.com/Documents/aegon-com/Sustainable/AEGON-N-V-Responsible-Investment-Policy.pdf
Aegon Netherlands RI Policy (Dutch)	https://www.aegon.nl/file/8073/download?token=3lCUwilO
Kames Capital UK Responsible Investment Policy	https://www.kamescapital.com/WorkArea/DownloadAsset.aspx?id=4294967433
Aegon Netherlands Voting Policy	https://www.aegon.nl/file/14509/download?token=6ZmOSIFH
Aegon Environmental Policy	http://www.aegon.com/Documents/aegon-com/Sustainable/AEGON-Environmental-policy.pdf
Statement on Diversity and Non-discrimination	http://www.aegon.ro/Documents/aegon-com/Governance/Governance-documents/Diversity-Statement.pdf
Aegon Policy for Charitablel Donations	http://www.aegon.ro/Documents/aegon-com/Sustainable/AEGON-donations-policy.pdf
Dividend Policy	http://www.aegon.com/en/Home/Investors/Shareholders--AGM/Dividend-Policy/
Shareholder Communications Policy	http://www.aegon.com/Documents/aegon-com/Investors/Share-information/Shareholder-communications-policy.pdf?epslanguage=en
Global Voting Policy	http://www.aegon.com/Documents/aegon-com/Sustainable/Global-voting-policy.pdf
Employee Insider Trading Rules	http://www.aegon.com/Documents/aegon-com/Governance/Governance-documents/Aegon-Insider-Dealing-Rules-2013.pdf

Appendix 2.
Exclusion List

January 2015

Companies[1]

Aeroteh S.A. (Romania)
Alliant Techsystems Inc. (United States)
Ashot Ashkelon (Israel)
BEML Limited (India)
Bharat Heavy Electricals Limited (India)
China Aerospace Science & Technology Corporation (Peoples Republic of China)
China North Industries Group Corporation (Peoples Republic of China)
Elbit Systems Ltd. (Israel)
GenCorp Inc. (United States)
General Dynamics Corporation (United States)
Hanwha Corporation (South Korea)
IHI Corporation (Japan)
Korea Aerospace Industries Ltd. (South Korea)
Larsen & Toubro Ltd. (India)
Poongsan Corporation (South Korea)
Poongsan Holdings Corporation (South Korea)
Singapore Technologies Engineering (Singapore)
Textron (United States)
The Tata Power Company Limited (India)
Walchandnagar Industries Limited (India)

Countries

(Government Bonds and Other Government Debt)

Belarus
Burma / Myanmar
Central African Republic
Côte d'Ivoire
Democratic Republic of Congo
Eritrea
Guinea
Iran
Libya
North Korea
Somalia
Sudan
South Sudan
Syria
Zimbabwe

1. All subsidiaries of these companies are excluded as well.

Appendix 3.

AAM Units' RI & Voting Reports

AAM unit	Report link
TKP Investments	http://www.tkpinvestments.com/multi-manager-beleggingen/verantwoord-beleggen/stemrapportage
Kames Capital (Responsible Investment documents incl. engagement & voting)	http://www.kamescapital.com/corporateresponsibility.aspx
Aegon Investment Management AIM (in Dutch)	http://www.aegon.nl/overaegon/organisatie/stemverslagen/
AAM PRI RI Transparency Report 2014/15	http://www.aegonassetmanagement.com/Documents/aegon-asset-management-com/documenten/Merged_Public_Transparency_Report_AEGON-Asset-Management.pdf
Kames Capital PRI RI Transparency Report 2014/15	http://d2m27378y09r06.cloudfront.net/viewer/?file=wp-content/uploads/Merged_Public_Transparency_Report_Kames-Capital.pdf

Appendix 4.

Cooperation and Collaborative bodies

Organization	Commitment
United Nations Principles for Responsible Investment	AAM became a signatory to the UNPRI in February 2011. Kames Capital, AAM's asset management business in the United Kingdom has been a signatory since 2008. Membership commits AAM to the UNPRI's six principles for responsible investment, and reporting annually on progress towards implementing them. www.unpri.org
United Nations Declaration of Human Rights	AEGON's Human Rights policy states that the company's "business activities are guided by the UN Declaration of Human Rights," as well as core standards of the International Labor Organization and the principles on human rights and labor standards set out in the UN Global Compact. www.un.org/en/documents/udhr/
International Labor Organization Please see above.	www.ilo.org
United Nations Global Compact Please see above.	www.unglobalcompact.org
Carbon Disclosure Project	Aegon has been a member of the Carbon Disclosure Project since 2009. The Carbon Disclosure Project encourages companies to be more open about their greenhouse gas emissions. Investors signing up to the project manage assets worth approximately USD 71 trillion. www.cdp.net
Extractive Industries Transparency Initiative	AAM's UK subsidiary Kames Capital is a member of the Extractive Industry Transparency Initiative, which aims to improve governance in the global oil, gas and minerals sector. www.eiti.org
Global Reporting Initiative	Aegon is an Organizational Stakeholder of the Global Reporting Initiative, which sets guidelines and standards for sustainability and non-financial reporting. www.globalreporting.org
International Integrated Reporting Council	Aegon is currently participating in a pilot project organized by the IIRC to develop guidelines for integrated reporting. www.theiirc.org
Global Coalition on Aging	In 2010, Aegon became a founding member of the Global Coalition on Aging, which seeks to raise awareness of aging issues among policymakers and the general public. www.globalcoalitiononaging.com
Association of British Insurers	Aegon UK collaborates closely with Association of British Insurers. The ABI is the voice of insurance, representing the general insurance, investment and long-term savings industry. It was formed in 1985 to represent the whole of the industry and today has over 300 members, accounting for some 90% of premiums in the UK. www.abi.org.uk
Dutch Association of Investors for Sustainable Development	AAM is a member of the Dutch Association of Investors for Sustainable Development (VBDO) which represents the interests of institutional and private investors in the Netherlands who wish to contribute to sustainable development. www.vbdo.nl

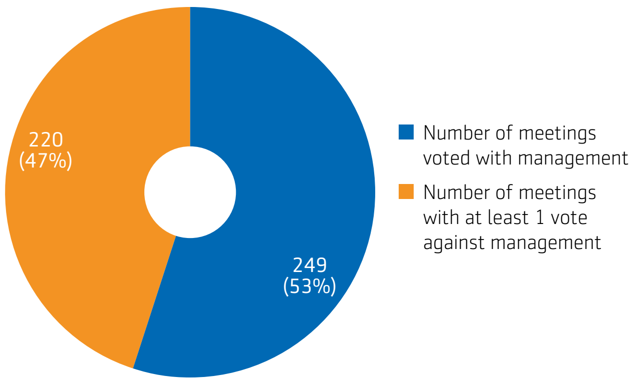
Eumedion	AAM is an active member of Eumedion which is a forum for corporate governance and sustainability in the Netherlands and represents institutional investors' interests in these fields. www.eumedion.nl
United Nations Environment Program Finance Initiative Principles for Sustainable Insurance	Aegon is a founding signatory of the UNEP-FI Principles for Sustainable Insurance (PSI) that were launched in June 2011. Signatories of the PSI strive for the integration of ESG considerations in their primary business processes and their interactions with stakeholders. www.unepfi.org/psi/
Global Real Estate Sustainability Benchmark	GRESB is an industry-driven organization committed to assessing the sustainability performance of real estate portfolios (public, private and direct) around the globe. Aegon and AAM joined GRESB in 2013. www.gresb.com
Global Impact Investment Network	Aegon is a founding Network Member of the Global Impact Investing Network (GIIN). GIIN is a nonprofit organization dedicated to increasing the effectiveness of impact investing. www.thegiin.org

Appendix 5.

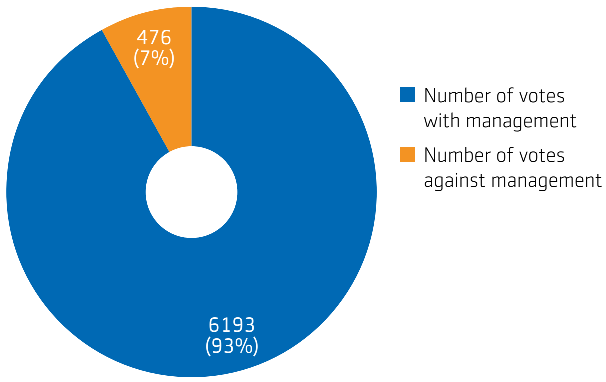
Voting Report
Aegon Investment Management B.V

This appendix shows how Aegon Investment Management B.V. voted in 2014.

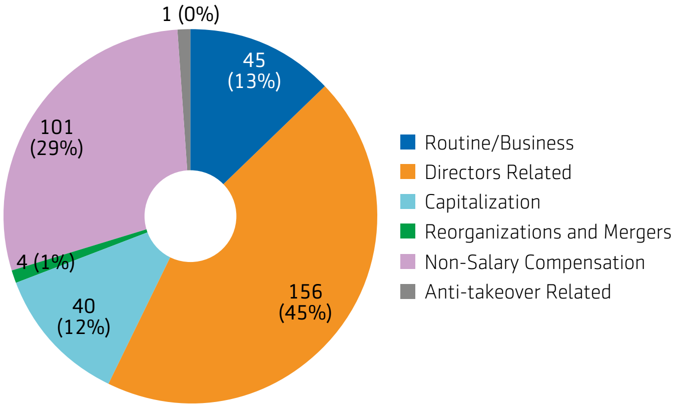
Meetings in 2014



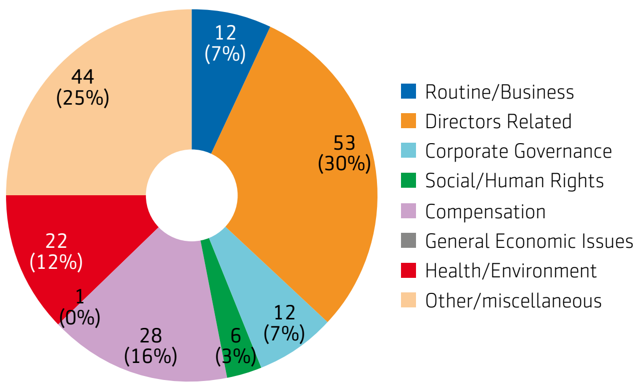
Votes cast in 2014



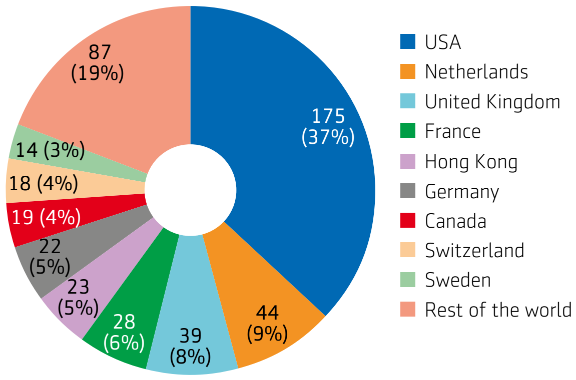
Break-down of votes against Management Proposals



Break-down of votes on supported Shareholder Proposals

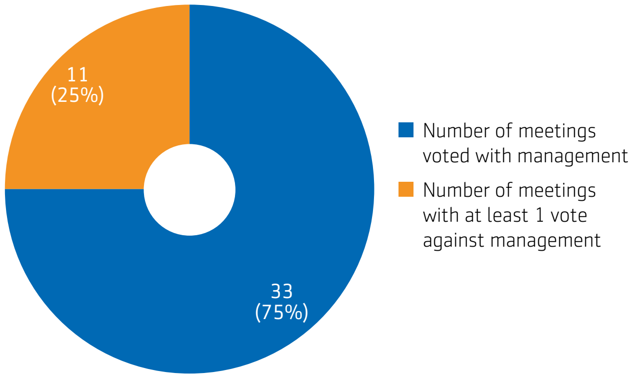


Meetings voted per Country

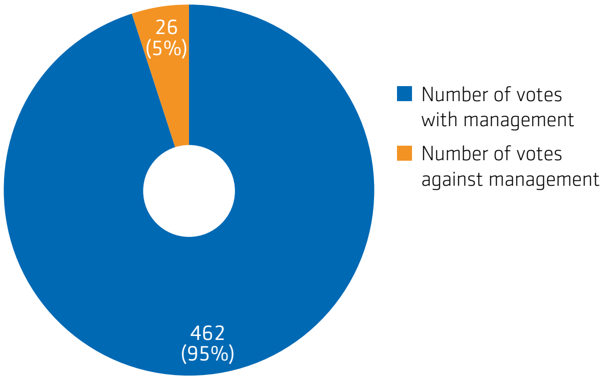


AIM B.V. votes specified for Dutch meetings:

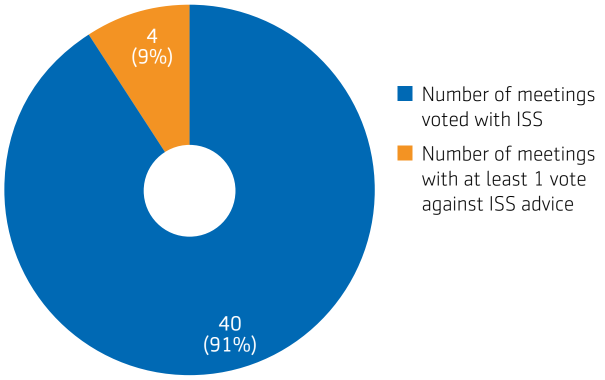
Dutch meetings in 2014



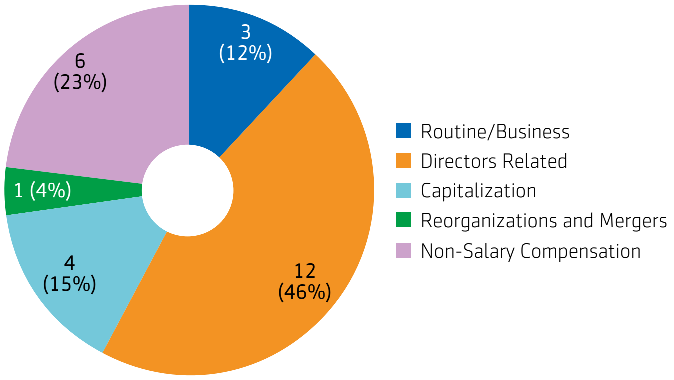
Votes Dutch meetings cast in 2014



Meetings with/against advice proxy-advisor



Break-down of votes against Management Proposals



Shareholders did not submit any proposals at the Dutch meetings we voted on in 2014.

Disclaimer

Forward-looking statements

The statements contained in this document that are not historical facts are forward-looking statements as defined in the US Private Securities Litigation Reform Act of 1995. The following are words that identify such forward-looking statements: aim, believe, estimate, target, intend, may, expect, anticipate, predict, project, counting on, plan, continue, want, forecast, goal, should, would, is confident, will, and similar expressions as they relate to Aegon. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Aegon undertakes no obligation to publicly update or revise any forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which merely reflect company expectations at the time of writing. Actual results may differ materially from expectations conveyed in forward-looking statements due to changes caused by various risks and uncertainties. Such risks and uncertainties include but are not limited to the following:

- Changes in general economic conditions, particularly in the United States, the Netherlands and the United Kingdom.
- Changes in the performance of financial markets, including emerging markets, such as with regard to:
-
  - The frequency and severity of defaults by issuers in Aegon's fixed income investment portfolios; and
  - The effects of corporate bankruptcies and/or accounting restatements on the financial markets and the resulting decline in the value of equity and debt securities Aegon holds;
  - The effects of declining creditworthiness of certain private sector securities and the resulting decline in the value of sovereign exposure that Aegon holds.
- Changes in the performance of Aegon's investment portfolio and decline in ratings of the company's counterparties.
- Consequences of a potential (partial) break-up of the euro.
- The frequency and severity of insured loss events.
- Changes affecting mortality, morbidity, persistence and other factors that may impact the profitability of Aegon's insurance products.
- Reinsurers to whom Aegon has ceded significant underwriting risks may fail to meet their obligations.
- Changes affecting interest rate levels and continuing low or rapidly changing interest rate levels; changes affecting currency exchange rates, in particular the EUR/USD and EUR/GBP exchange rates.
- Changes in the availability of, and costs associated with, liquidity sources such as bank and capital markets funding, as well as conditions in the credit markets in general such as changes in borrower and counterparty creditworthiness.
- Increasing levels of competition in the United States, the Netherlands, the United Kingdom and emerging markets.
- Changes in laws and regulations, particularly those affecting Aegon's operations, ability to hire and retain key personnel, the products the company sells, and the attractiveness of certain products to its consumers.
- Regulatory changes relating to the insurance industry in the jurisdictions in which Aegon operates.
- Acts of God, acts of terrorism, acts of war and pandemics.
- Changes in the policies of central banks and/or governments.
- Lowering of one or more of Aegon's debt ratings issued by recognized rating organizations and the adverse impact such action may have on the company's ability to raise capital and on its liquidity and financial condition.
- Lowering of one or more of insurer financial strength ratings of Aegon's insurance subsidiaries and the adverse impact such action may have on the premium writings, policy retention, profitability of its insurance subsidiaries and liquidity.
- The effect of the European Union's Solvency II requirements and other regulations in other jurisdictions affecting the capital Aegon is required to maintain.
- Litigation or regulatory action that could require Aegon to pay significant damages or change the way the company does business.

- As Aegon's operations support complex transactions and are highly dependent on the proper functioning of information technology, a computer system failure or security breach may disrupt the company's business, damage its reputation and adversely affect its results of operations, financial condition and cash flows.
- Customer responsiveness to both new products and distribution channels.
- Competitive, legal, regulatory, or tax changes that affect profitability, the distribution cost of or demand for Aegon's products.
- Changes in accounting regulations and policies may affect Aegon's reported results and shareholder's equity.
- The impact of acquisitions and divestitures, restructurings, product withdrawals and other unusual items, including Aegon's ability to integrate acquisitions and to obtain the anticipated results and synergies from acquisitions.
- Catastrophic events, either manmade or by nature, could result in material losses and significantly interrupt Aegon's business; and
- Aegon's failure to achieve anticipated levels of earnings or operational efficiencies as well as other cost saving initiatives.

Further details of potential risks and uncertainties affecting the company are described in the company's filings with NYSE Euronext Amsterdam and the US Securities and Exchange Commission, including the Annual Report. These forward-looking statements speak only as of the date of this document. Except as required by any applicable law or regulation, the company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based

Contact

Aegon and AAM welcome opinions on both the content of this report and the company's overall performance in the area of responsible investment.

If you wish to contact us directly, our address is:

Aegon Asset Management

P.O. Box 202
2501 CE The Hague
The Netherlands

Aegon N.V.
Strategy & Sustainability

P.O. Box 85
2501 CB The Hague
The Netherlands
E-mail: response@aegon.com
Telephone: +31 70 344 8278

AAM Responsible Investment team

The RI activities at Aegon and AAM are managed by a Responsible Investment team that includes:

AAM	Harald Walkate Roger Wildeboer Schut	+31 70 344 8146 +31 70 344 7824	hwalkate@aegon.nl rwildeboerschut@aegon.nl
Kames Capital (UK)	Ryan Smith	+44 131 549 6275	ryansmith@kamescapital.com
AAM NL	Jan Frederik Slijkerman	+31 70 344 7868	jslijkerman@aegon.nl
TKPI (NL)	Marianne Oomkes Oldrik Wilken	+31 50 317 5395 +31 50 317 5327	oomkes.ms@tkpinvestments.com wilken.o@tkpinvestments.com
AUIM (US)	Jim Lemke	+1 319 355 2110	jlemke@aegonusa.com
AURA (US)	Edwin Downey	+1 319 355 5489	edowney@aegonusa.com
AAM Spain	Alfredo Raez	+34 91 203 70 10	raez.alfredo@aegon.es
AAM CEE (Hungary)	Gábor Szabó	+ 36 1 476 2053	szabo.gabor@aegon.hu

Interns

Over the last few years, we have been fortunate to work with a number of very talented interns, who have helped us implement substantial parts of our RI Framework.

Most recently we had the support of Sanjay Mittal for a number of the projects mentioned in this report: the microfinance due diligence process, and the developing of a case study on the affordable housing program as well as the social impact measurement of that program.

Without their help we would certainly not be where we are today in terms of realization of this Framework so we would like to acknowledge them in this report and thank them for their contributions.

Harald Walkate

Jelena Stamenkova-Van Rumpt
Paola Gutierrez Watts
Anny Tsai-Hsuan Chou
Faylynn Wang
Alina Pavlova
Manika Bansal
Lampros Romanos
Emiel van Duuren
Sanjay Mittal

Responsible Investments in 10 steps

Pension funds can develop an approach to responsible investment (RI), even without large RI teams or budgets. Many of the RI activities can be performed by the pension fund board, the pension fund management company, or by the external asset manager. Asset managers can contribute by advising on RI and ESG (environmental, social, governance) themes.

1. Gain an understanding of relevant RI themes through dialogue with beneficiaries and other stakeholders (employees, regulators, peers).
2. Allocate specific responsibility for RI to one board member or trustee; create a RI Committee.
3. Develop (or update) your RI policy based on the input from the beneficiaries and other stakeholders; reference internationally accepted standards like the UN Global Compact, OECD guidelines, Ruggie Framework.
4. From a reputational point of view, determine categories of activities that the pension fund does not want to be associated with (e.g. controversial weapons, tabacco, alcohol, countries that breach human rights). Obtain advice from your asset manager or a specialized ESG firm. Update the exclusions list once a year.
5. Ask your asset manager about their engagement dialogues on ESG with the companies they invest in on your behalf. You can also consider setting up an engagement program specifically for your fund. Specialized firms and some asset managers can provide this service.

AAM NL and TKPI developed this 'conversation starter' to be used in discussions with pension funds and other clients about responsible investment.

6. Ask your asset manager whether they vote on the shares they hold for your pension fund; you can also consider setting up a proxy voting program specifically for your fund. Proxy advisory firms and some asset managers will provide this service.
7. Ask your asset manager to what extent they have incorporated ESG (environmental, social, governance) factors in their investment analysis and decision-making. Check if they are signatories to the Principles for Responsible Investment or similar standards and request a copy of relevant reporting.
8. Ask your asset manager what options there are to invest in investments that meet your risk & return criteria but also have a social or environmental 'impact' (e.g. renewable energy, microfinance, affordable housing, green bonds). Consider investing in specific SRI (sustainable and responsible investment) funds, for example those that track a sustainable index.
9. You can cooperate with other asset owners and asset managers. Organizations like your local SIF (social investment forum) and the Principles for Responsible Investment (PRI) offer suitable platforms for this.
10. Report on sustainability and RI in your annual report, describing the activities listed above. Ask your asset manager to provide input.

www.aegonassetmanagement.com

Aegon Asset Management
P.O. Box 202
2501 CE The Hague
The Netherlands

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