Responsible Investment Report

Aegon Asset Management — 2015

Asset Management

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We use our investment management expertise to help people achieve a lifetime of financial security.

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1. List of Abbreviations

AAM	Aegon Asset Management
ESG	Environmental, Social, Governance
NGO	Non Governmental Organization
PRI	Principles for Responsible Investment
RI	Responsible Investment
RI Committee	Aegon Global Responsible Investment Committee
RISC	The Aegon Responsible Investment Strategy Committee
SRI fund	Socially Responsible Investment Fund

'As an asset manager with clients and activities around the world, it is essential that we maintain a robust ethical framework within which we operate.'

2. Foreword

> 'We use our investment management expertise to help people achieve a lifetime of financial security.'

This simple sentence captures our purpose at Aegon Asset Management and guides us in our daily activities as we serve our clients around the world. And in 2015, more than ever before, we have seen that our key stakeholders – our clients, employees, and regulators – are demanding an increasing focus of our investment management expertise on environmental, social and governance (ESG) issues.

Climate change and the impact it may have on society has dominated agendas in 2015. The much anticipated United Nations conference on climate change (COP21) held in Paris in late 2015 once again brought Responsible Investment to the fore. At Aegon, we decided early in 2015 to focus on climate change as a theme, not only to create more awareness of what we believe is one of the key challenges of our time, but also to analyze the potential risks – and investment opportunities – that this may bring.

In 2015, the management board of Aegon Asset Management included Responsible Investment among its key strategic objectives for 2020. Responsible Investment is an integral element of our approach to long-term investing. It is clear that there is a widely-held aspiration for more 'long-term' investing; investing that is both rewarding and sustainable for the future. We also see an increased desire among our clients for their investments to have a positive environmental or social impact. As a result, we see an increased scrutiny of how we are integrating environmental, social and governance elements into our investment processes. Simple box-ticking and membership of the appropriate international bodies is no longer enough.

The continuing debates about ethical aspects of investment form an additional factor to consider in our investment processes. As an asset manager with clients and activities around the world, it is essential that we maintain a robust ethical framework within which we operate. We need to be both aware of, and sensitive to, the differing points of view taken in different markets and by different clients, and also to continue to monitor and balance our activities to ensure that we meet the high standards expected by all our stakeholders.

Since 2009, when Aegon Asset Management was formed as a separate global division within Aegon, we have put considerable effort into our Responsible Investment activities. I am confident that our increased focus on Responsible Investment and its inclusion in our strategic objectives for 2020 will enable us to be even better positioned to service all of our clients, helping them to achieve a lifetime of financial security, sustainably and responsibly.

Sarah Russell
Chief Executive Officer
Aegon Asset Management

3. Highlights

In 2015, Aegon Asset Management:

- Engaged with 272 companies on subjects including corporate governance, the environment, transparency, remuneration, health & safety, and human rights
- Held impact investments in affordable housing, development banks, wind farms, solar energy, geothermal energy, green bonds, and sustainable timber, with a combined value of over EUR 7.6bn AuM
- Completed its ESG training program
- Completed a program to incorporate ESG ratings into its credit analysis tear-sheets
- Obtained a mandate to make microfinance investments on behalf of Aegon the Netherlands
- Managed Socially Responsible Investment (SRI) funds in the Netherlands, UK and Hungary, amounting to EUR 3bn AuM. We also provide green and SRI funds in China with a value of EUR 1bn
- Led projects to implement the 'Formalize & Embed' recommendations from the 2014 RI Governance Project:
    - Established a Responsible Investment Strategy Committee, chaired by Mark Mullin, CEO of Aegon Americas
    - Established a Responsible Investment Technical Committee, composed of analysts, risk managers and Responsible Investment staff representing all Aegon Asset Management units

Climate Change

- In 2015 Aegon Asset Management also launched a series of initiatives to analyze investment risks and opportunities related to climate change:
    - Held 'Climate Change Summer Camp' meetings for portfolio managers, analysts and risk managers, involving external experts from different fields
    - Participated in PRI Asset Owner Climate Change Strategy Group on behalf of Aegon NV
    - Discussed next steps in carbon risk analysis and prepared for launch of project group to investigate climate change-related risks with Portfolio Risk Management
    - Prepared to establish a project group to investigate opportunities to invest in projects and companies that will support the transition to a low carbon economy
    - Joined the Institutional Investors Group on Climate Change (IIGCC)
    - Developed and implemented engagement program centering on climate change risk
    - Advised Aegon NV CEO and Corporate Center staff on signing climate statements around the COP 21 climate change conference, including the Paris Pledge for Action

4. About Aegon Asset Management

> Aegon Asset Management is a global, active investment manager. Aegon Asset Management uses its investment management expertise to help people achieve a lifetime of financial security, with a focus on excellence, trust and partnership. Investors worldwide entrust Aegon Asset Management to manage approximately EUR 345 billion on their behalf.

'Impact Investments at Aegon Asset Management total over EUR 7.6bn'

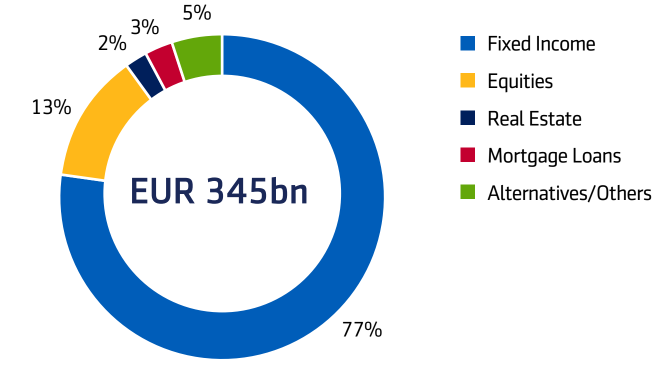
Positioned for success in its chosen markets (North America, the UK, Continental Europe and Asia), Aegon Asset Management's specialist teams provide high-quality investment solutions across asset classes. Its clients benefit from the extensive international research capabilities and in-depth local knowledge of Aegon Asset Management, as well as Kames Capital, its UK investment team, and TKPI, its fiduciary and multi-manager investment team in the Netherlands. Aegon Asset Management is also active in France through its joint venture partner La Banque Postale Asset Management (LBP AM) and in China through its joint venture Aegon Industrial Fund Management Company (AIFMC).

Aegon Asset Management is part of Aegon, one of the world's leading financial services organizations, providing life insurance, pensions and asset management.

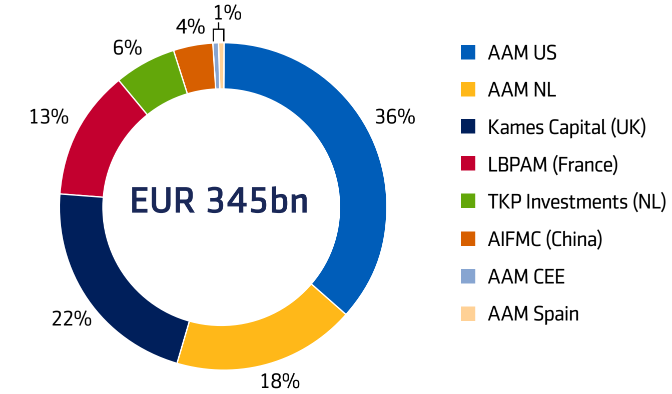
About Aegon

Aegon's roots go back more than 150 years – to the first half of the nineteenth century. Since then, Aegon has grown into an international company, with businesses in more than 20 countries in the Americas, Europe and Asia. Today, Aegon is one of the world's leading financial services organizations. Aegon's purpose is to help people achieve a lifetime of financial security. Aegon is committed to acting responsibly and creating positive impact for its stakeholders through its business and investment activities.

Assets under Management by asset class



Assets under Management by location



5. About this Report

> This report describes the Responsible Investment activities at Aegon Asset Management through 2015. Aegon Asset Management takes a responsible approach to investment on behalf of all our clients.

For some aspects of Responsible Investment, like exclusions, we make a distinction between the portfolios of different clients, as these reflect the specific wishes and values of the client. For other aspects, such as ESG integration, we employ ESG methodologies across our portfolios, as we believe they add value to the investment research and decision-making process for all of our clients.

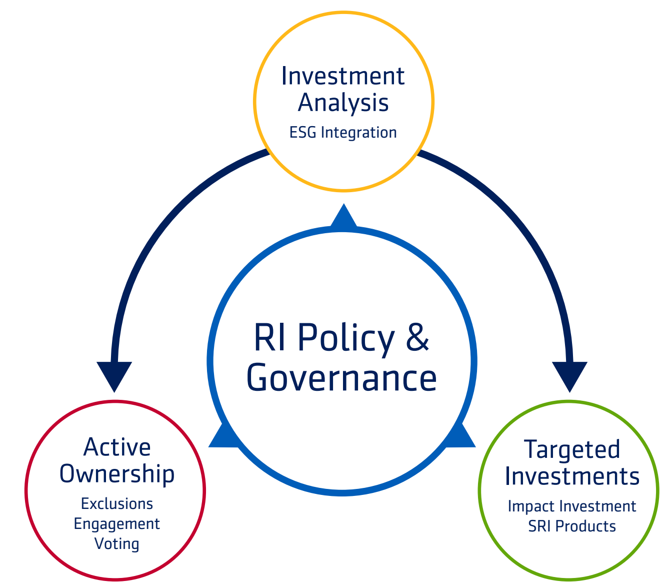
The aim of this report is to provide our stakeholders with a clear and comprehensive overview of Aegon Asset Management's approach to Responsible Investment.

Through the use of case studies and interviews, alongside descriptions of processes, updates and data, we hope to provide a rounded view not only of what we have achieved in 2015 but also of what we hope to achieve in the coming years.

6. Our Approach to Responsible Investment

> At Aegon Asset Management, we provide our clients with investment products that offer the best possible long-term returns, consistent with their individual risk profiles and requirements. Aegon Asset Management provides services to many different clients around the world, to the Aegon insurance and pension companies for their proprietary assets, to Aegon's institutional and retail clients, and to Aegon Asset Management's third-party clients, including pension funds, insurance companies, and in some markets, retail clients.

Meeting Client Needs
The diverse nature of Aegon Asset Management's clients poses challenges in terms of Responsible Investment. For example, different clients (and other stakeholders) in different countries often have differing views on Responsible Investment themes; ESG factors may be interpreted differently depending on the specific circumstances of an investment case; and not every client mandate explicitly allows Aegon Asset Management to consider elements like impact investment for the portfolio under management.



Responsible Investment Policy and Governance
For these reasons, we place Responsible Investment policy and governance at the center of Aegon Asset Management's Responsible Investment framework, which we established in 2010. In the following year, Aegon Asset Management became a PRI signatory and the global Responsible Investment Committee was established.

In 2015, we focused on implementing the 'Formalize and Embed' recommendations that stemmed from our project in 2014 to analyze RI policy and governance for Aegon. Aegon Asset Management was instrumental in turning these recommendations into new governance arrangements, policies and initiatives, and also provided support to the Aegon Strategy & Sustainability department and the chairman of the newly formed Responsible Investment Strategy Committee (RISC).

Investment Analysis
Integrating ESG into our investment analysis activities is a key element of our Responsible Investment framework and also feeds into our Active Ownership and Targeted Investment activities. We apply ESG integration regardless of the type of client, because we feel that taking ESG into account in our investment research and decision-making can enhance investment performance for all our clients. In addition, investment processes cannot usually be disentangled for specific types of clients. For example, the research team at Aegon Asset Management generates tear-sheets (investment analysis summaries that include ESG data) for all portfolio managers – those who manage portfolios on behalf of our Aegon partners as well as third-party clients. We ensure that portfolio managers and analysts at Aegon Asset Management are well-positioned to consider ESG in their investment work, by providing them with training and the best available ESG data and research, and by ensuring that they have easy access to this data, for example by incorporating this into the tear-sheets.

Active Ownership
Aegon Asset Management is an active owner and has several tools at its disposal to demonstrate its commitment to RI. For exclusions (negative screening), we follow universally accepted principles as much as possible. International treaties that have been ratified by a large number of countries usually provide a good indication of which standards are universally accepted. For example, in the area of controversial weapons and human rights.

In most countries where we operate, the exclusion list only applies to the Aegon general account assets, in line with best practices in those countries. Where possible we engage in dialogue with our external clients in order to determine if they wish to have negative screening applied to their mandates. In the Netherlands, however, our exclusion list applies to all of our investments, regardless of the client, as is standard practice in the Dutch financial services industry.

As with ESG integration, we feel engagement and voting should be an integrated part of the investment process, and we base these activities on ESG risks identified in the investment analysis process and – as with exclusions – on generally accepted standards in the areas of climate change, governance, human rights, etc. The UN Global Compact also provides a relevant framework of standards. In 2015, Aegon Asset Management hired a dedicated engagement manager to further develop and coordinate our in-house engagement and voting capability.

Targeted Investments
Aegon Asset Management has long been active in investments that are today most commonly referred to as 'impact investments' – investments that are intended to achieve a social or environmental outcome in addition to generating a financial return.

Our impact investment activities to date have mostly been undertaken on behalf of our Aegon partners. However, we see increasing interest from our third-party clients in investments in areas such as green bonds, affordable housing and renewable energy. We believe that we can leverage Aegon Asset Management's experience and expertise in these areas for our third-party clients.

Finally, for SRI funds, our approach is fully client- and market-oriented. Where we see demand for products that have a more pronounced approach to RI, for example by screening out additional categories of investments, or by focusing on the best performers in certain sectors, we want to leverage our expertise in ESG and our track record with SRI funds for the benefit of our clients. 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 professionals are supported in their work by a small, dedicated Responsible Investment team.

2015: Addressing Climate Change
In terms of Responsible Investment, 2015 was the year of climate change for Aegon Asset Management. Representatives from many different business units and functions at Aegon Asset Management were involved in various initiatives developed to learn more about this theme, to analyze potential risks related to climate change, and to investigate investment opportunities. These initiatives are described in more detail in this report, and include:

- The Climate Change Summer Camp: a series of meetings with external experts on climate change organized for the risk managers, portfolio managers and analysts of Aegon Asset Management;
- Participating in the Asset Owner Climate Change Strategy working group set up by the Principles for Responsible Investment (PRI), on behalf of Aegon N.V.;
- Discussions on the results of the carbon footprint conducted in 2014 and the next steps in this area, resulting in the launch of an internal taskforce to address climate change-related risk; and
- New investments in wind and solar energy and preparations for a project to be launched in 2016 to analyze where Aegon Asset Management can invest in companies and projects that will contribute to the transition to a low carbon economy.

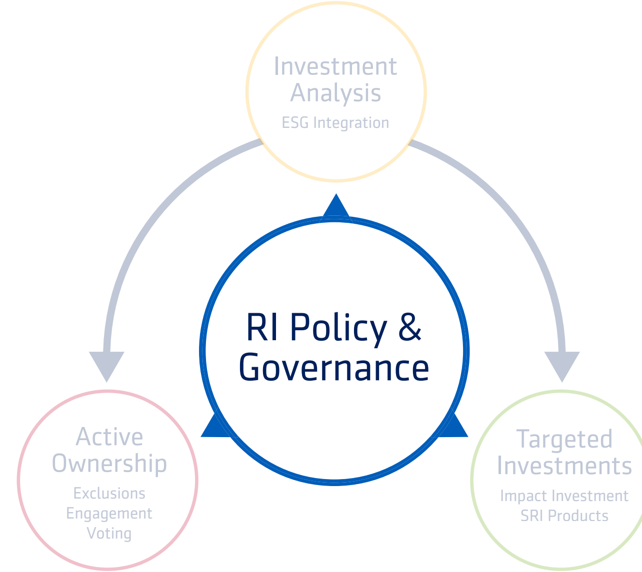
We are proud to see that Aegon Asset Management is recognized for this work by international rating agencies and rankings with consistently high marks for our approach to RI and ESG.

A Key Strategic Priority
Finally, in 2015, Responsible Investment was identified by the management board of Aegon Asset Management as one of the key priorities in the 2020 strategy initiative. This will allow us to invest in further developing our expertise and resources, and we are confident that this will further strengthen the awareness of Aegon Asset Management colleagues around the world of the importance of RI and ESG. Most importantly, it will contribute to how Aegon Asset Management services the needs of all of our clients.

Harald Walkate
Senior Vice President, Global Head of Responsible Investment

7. Policy and Governance

> Since 2010, Aegon Asset Management has had a formal framework to develop and implement a global approach for Responsible Investment. As part of this framework, the company became PRI signatory in 2011, and in the same year established a global Responsible Investment Committee and a group-wide Responsible Investment Committee.



In 2014, we completed an assessment of the Responsible Investment governance at Aegon, including the role and remit of the RI Committee. Working with an external consultant, we interviewed representatives from Aegon and Aegon Asset Management who have been involved in the work. The assessment (detailed in the 2014 RI Report) noted that 'Aegon has established a solid foundation for RI and achieved the initial objectives of its program.' It also noted that 'there is an opportunity now to build on these foundations to increase RI's contribution to the achievement of Aegon Asset Management's and Aegon'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'.

The recommendations from the assessment were adopted by the Aegon NV management board in the summer of 2015 when they approved the 'Formalize & Embed' plan. Subsequently, the RI team has been working to implement this plan, which includes:

- Restructuring RI Governance
- Documenting the company's commitment to RI in a 'statement of beliefs'
- Formalizing roles and responsibilities of employees working on RI (both dedicated RI staff and those whose roles are impacted by RI or ESG)
- Taking a thematic approach to climate change, and analyzing:
  - the climate issue, to ensure we understand the relevance for Aegon and can participate in the debate;
  - potential risks in order to develop strategies for mitigation; and
  - how Aegon can invest in companies or projects that facilitate the transition to a low carbon economy
- Identifying 'strategic links' – the ways in which our RI work supports our purpose of helping people achieve a lifetime of financial security
- Communicating more proactively about our RI activities

Global RI Governance at Aegon
Since 2011, there has been a global Responsible Investment Committee at Aegon Group, comprising representatives from different functions and business units in the Group, including Aegon Asset Management. As part of the 'Formalize & Embed' project, the remit and effectiveness of this committee was reviewed. As a result, two separate committees were established:

- The RI Strategy Committee, to determine the high-level strategic approach to RI for Aegon, with representatives from the management boards of both Aegon and Aegon Asset Management in order to ensure links to company strategy. This committee meets two to three times a year.
- The RI Technical Committee, to discuss ESG integration, policy and engagement cases in more detail, with dedicated RI staff and ESG officers from across Aegon Asset Management businesses. This committee meets five to six times a year and provides advice to the Management Board of Aegon Asset Management and to the Aegon RI committees.

The composition of the two committees is shown in Appendix 81. The RI Strategy Committee met for the first time earlier this year. The RI Technical Committee had its first meetings in 2015.

Aegon the Netherlands
Aegon the Netherlands has a separate RI Committee, chaired by Eric Rutten (CEO of Aegon Bank and member of the Aegon NL management board). The Dutch RI Committee oversees Dutch RI policy and its implementation. The committee meets quarterly and has representatives from the relevant functions within Aegon the Netherlands: the institutional clients group, the retail business, risk & capital management, sustainability and communications. Consistency with the Global RI Policy is ensured through inclusion of representatives from Aegon Strategy & Sustainability and the RI team.

An Interview with Mark Mullin, chair of the RI Strategy Committee

> Mark Mullin, CEO of Aegon Americas is the Chairman of the Responsible Investment Strategy Committee (RISC). The RI team caught up with him to learn more about his ambitions for this role.

First, can you tell us a little bit about your day job?

I am Head of the Americas business within the Aegon Group, and a member of the Aegon management board. I worked in investments in the first 12 years of my career with Aegon, and also lived in the Netherlands from 1993-1995. I am currently based in Baltimore (US).

You were approached last year to lead the RISC; what made you agree to take on this role? What do you see as the most important aspects of this job?

As a management board (MB) member I believe that we should act as One Aegon, despite the separately managed regions of our business. The MB has also strongly endorsed sustainability and RI. As chair of this committee, and in my role as head of the Americas, we want to make sure that we take very seriously our commitment and expectations in this area.

Most important to me is to ensure that we link these efforts to our key business drivers – we should think about sustainability efforts as something that demonstrably impacts our business. Also, we should think about this in terms of success for all of our stakeholders – improving our communities and empowering our employees.

What do you expect to learn while chairing the RISC?

There are several things: Europe seems to be moving at a quicker pace than the US with respect to the level of rigor with which responsible investment is approached. But I do see a convergence, for example in the area of climate change, where large financial organizations are taking action to address carbon exposure as a potential risk, and are making commitments to invest in renewable energy. I would like to tie this together to the business in our different geographies, and help bring clarity about the purpose, mission and goals of our RI program. I see potential here as a competitive driver and even a business opportunity.

We could also take this from a compliance perspective, and in many ways will have to do that if you are looking at the increased interest from regulators in issues around sustainability and climate change, for example. But in my experience people work best not when they are told what to do, but when they are seeking to do things that add value to our stakeholders. I'm not saying that risk management is not important, it is very important. But I would like to see how we make this an integral part of how we service clients, and how we can set Aegon and Transamerica apart from the competition in this area.

I would also emphasize that we want to attract the best and brightest people to Aegon, and it is clear that Millennials find sustainability an important area for the business. We need to be clear about what we stand for as a company, in order to ensure that we attract talent who appreciate that our working environment and strategic vision are in line with their values. Many people still view this mostly as a compliance and risk management concern – what we must do is turn this around so that people see it is core to Aegon's values, that people really embrace it.

One of the key roles of the RISC is to link the RI function to Aegon's overall strategic ambitions. Where is the most scope to do this in your view?

It is too early to say; however, product development is an interesting area. Many of our customers, especially the younger ones, but also more affluent clients, want to see their values reflected in the products they buy. Of course we are transparent about our RI policies and we do talk, in this report for example, about how we integrate ESG in our investments. But many clients, I believe, would like to see the real-world implications of our approach – this has impact on how we design our products, how we communicate, and how we implement, to make sure we provide more clarity on this to our clients – that this is how we do business at Aegon.

I see a clear link to our company strategy – we have to be very clear on our strategic vision. Strategy is sometimes seen as 'governance', but I really believe that why we do things is paramount to management and employees at Aegon and Transamerica. We are making a difference in people's lives by helping them prepare for their financial tomorrow. What could be a clearer link to RI and long-term investment than that?

It is still early days, but if we were to have a similar conversation this time next year, what do you think would be some of the key RISC successes?

What I envision for 2020 is that we're not talking about it the same way we do today. Of course I understand why we talk about 'RI', 'ESG', 'impact investment' – you need to explain the concept, operationalize it, find out who is doing what, where. But this is just a means to an end – to ensure that this culture is embedded in product development, sales, marketing, investments – that our employees are empowered to make a difference in their day-to-day efforts.

As an example, I was told about a meeting with our Dutch regulator regarding climate change. The head of our credits team explained what he thought the consequences of climate change and the COP 21 conference in Paris would be on his investment portfolio, in terms of regulatory risk and carbon exposure. He did not mention the terms 'ESG' or 'stranded assets', but it was very clear that he had a deep understanding of these dynamics.

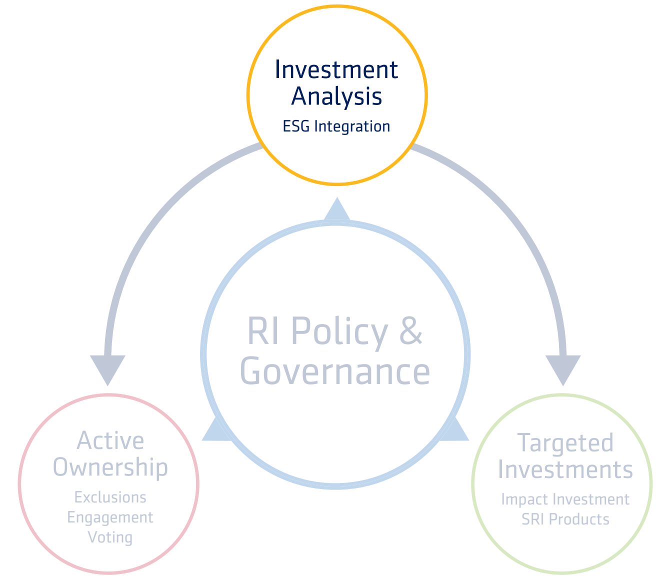
We should tell people about 'the why' – and they will figure out how to execute. Historically we have been better at the 'what' and 'how', but if people in our business understand the drivers and benefits to our clients you will get great outcomes.

'We should think about sustainability efforts as something that demonstrably impacts our business.'

Mark Mullin
Chief Executive Officer
Aegon Americas

8. Investment Analysis

> Aegon Asset Management 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, and the emerging 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 Asset Management defines ESG integration as 'taking into account ESG factors in investment management analysis and decision-making.'

While the research framework differs, the same approach applies across all asset classes in which Aegon Asset Management invests. This chapter therefore also explains how sustainability issues are addressed in conjunction with financial issues in Real Estate and Private Equity investments and how Aegon Asset Management addresses cross-cutting issues such as climate change. Aegon Asset Management is also in the process of extending this approach so that it is adopted by external managers; the capacity to use ESG information has become part of the selection criteria for some partnerships with our external managers.

In this chapter, we discuss the different processes and initiatives to achieve ESG integration, and illustrate these with a number of interviews with portfolio managers and analysts who discuss their experiences with ESG.

ESG Training
In some cases, the relationship between a specific sustainability issue and an investment is very clear. In most cases, however, a more nuanced understanding of ESG factors and their contextual relevance is necessary in order to make decisions about how ESG factors can be included in investment decisions. For this reason, nearly all in-house credit analysts and portfolio managers at Aegon Asset Management have had training in ESG integration.

In 2013, the management board of Aegon Asset Management mandated ESG training for all of our portfolio managers and analysts. We selected a modular online training offered by the 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 – we see this as evidence that the CFA Institute also recognizes the importance of ESG and stimulates its understanding and application.

In the course of 2014 and in the first half of 2015, most of the approximately 150 portfolio managers and analysts completed the training. This means that of the initially enrolled portfolio managers and analysts approximately 90% have completed the training and passed the assessment.

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 the materiality of ESG issues in various sectors, as well as with face-to-face meetings in the various Aegon Asset Management offices.

In 2015, we have also arranged for the training to be provided to new hires in portfolio manager and analyst roles.

Incorporating ESG in Credit Analysis Tear-Sheets
We have reported earlier on the process to automatically include an ESG rating in 'tear-sheets' developed by the Aegon

Asset Management Research Team. These tear-sheets are developed for each core company covered by Aegon Asset Management Research and are used by portfolio managers in various Aegon Asset Management units. The tear-sheet serves as a key document in decision-making for fixed income investments and is also used to monitor names in the portfolio.

The tear-sheet structure was changed in 2015 in order to enable ESG ratings and headline summaries to be included where available.

Jennifer Moore, who was responsible for the process to incorporate ESG ratings in tear-sheets, and Hendrik Tuch, a portfolio manager and user of the tear-sheets are interviewed below.

Incorporating ESG in Credit Analysis Tear-Sheets
— An Interview with Jennifer Moore, Head of US Credit Research

> In previous RI Reports, we discussed how the credit research teams at Aegon Asset Management were rolling out ESG ratings in their 'tear-sheets,' their key research product. Since August 2015, ESG ratings are a fixture on tear-sheets produced by analysts. But what is the significance of this rating and how difficult is it to actually incorporate ESG ratings on tear-sheets?

Jennifer Moore, Head of US Credit Research, oversaw the integration of ESG ratings in tear-sheets. In this conversation, she explains how tear-sheets work and talks about the importance and challenges of the new rating inclusion.

First, can you tell me a little bit about your role and what you do at Aegon Asset Management?

The US Credit Research team actively covers nearly 1,000 corporate entities and supports portfolio managers in both the US and the Netherlands. My primary responsibility is managing the overall credit research process within the US and making sure the relevant portfolio managers receive the fundamental support necessary to aid them in making investment decisions.

We are here to talk today about ESG integration in tear-sheets. What is a tear-sheet exactly and how is it used? Why is a tear-sheet important to analysis and decision making?

The tear-sheet is one of our primary deliverables to our portfolio managers to assist in making investment decisions. We draft them for the core subset of the companies that we follow and it serves as a one page summary of our qualitative and quantitative assessment of fundamentals for a particular company.

In 2015, Aegon Asset Management implemented a plan to integrate ESG ratings into their analytical process. What was your role?

From a global perspective, tear-sheets are created on approximately 400 companies. In addition, we create financial spreadsheets and a bullet point summary on approximately 800 additional companies. While ESG scores are not available on all of these names, the objective of the credit research team was to make sure that ESG was fully integrated into our broad analyzed universe of these 1,200 companies. That is to say, that analysts were taking ESG into account in the tear-sheets and on the financial spreadsheets.

In my role as Head of US Credit Research, I was responsible for managing the process of implementing ESG into our process. This included making sure that we had the appropriate resources to make the changes to this large number of spreadsheets, that it was fully integrated into the process and that analysts understood how to interpret the information and properly included it in their investment analysis.

How often are changes made to the structure of tear-sheets?

Since the tear-sheet and accompanying financial spreadsheet is a very important piece of our analytical process, we have standardized information and formulas in many of our files. Therefore, when any change needs to be made, we need to make it consistently across all of the companies that we analyze. Given the large effort involved, we typically only make changes once every one to two years and we try to incorporate several enhancements each time.

What is involved in integrating the ESG ratings into tear-sheets?

This integration was a massive undertaking for our group. It involved countless human hours to make the appropriate decisions, create the proper coding and macros and then ensure that everything happened as was intended across the many spreadsheets. After the integration occurred, analysts then needed to read the appropriate ESG write-ups and populate information as appropriate. This is an interesting process, which we are still going through and it will take us much of 2016 to fully incorporate this phase because there are so many companies that we cover in our universe.

What kinds of hurdles did you encounter while implementing this project?

Our biggest hurdle was having enough hours to manage the implementation. The research staff's expertise is on providing fundamental analysis of companies. They do not necessarily have the technological skills necessary to make such large changes to so many spreadsheets. In addition, we encountered other challenges such as learning a new ESG research methodology and finding creative ways to get all of our systems to talk behind the scenes. It may seem very straightforward to add another element to our existing analysis but the integration of a new type of analysis raises a number of difficult technical and analytical questions!

Someone who is not familiar with a tear-sheet might say critically that the ESG rating is just a box on a page – how hard could it be to implement this? How would you respond to this kind of comment?

As I mentioned, the ESG implementation was part of a broader enhancement to our process, so the decisions that needed to be made and the work necessary to make sure the changes occurred as intended was very extensive. In addition, while it is true that the ESG rating is a box on the tear-sheet, every box on the limited 'real estate' – in analyst jargon – that is available on a tear-sheet is analyzed extensively behind the scenes by the analyst. The tear-sheet itself is a compilation of the items we feel are most important in order to understand the fundamentals for a given company and it takes a lot of effort and expertise to populate each and every box.

I would also add that behind the scenes, our analysts have had to educate themselves on the factors behind the ratings so they can understand the broader implications as well as learn how to incorporate that information into the rest of the fundamental analysis. For example, if there is a concern about governance issues that could result in upcoming lawsuits, the analyst might decide to adjust their projected financial metrics to incorporate potential monetary losses. Overall, the education process occurring as we roll these changes out is much more extensive than may appear.

You were one of the first people to use the updated tear-sheets. What was your experience integrating the ESG ratings into your analysis?

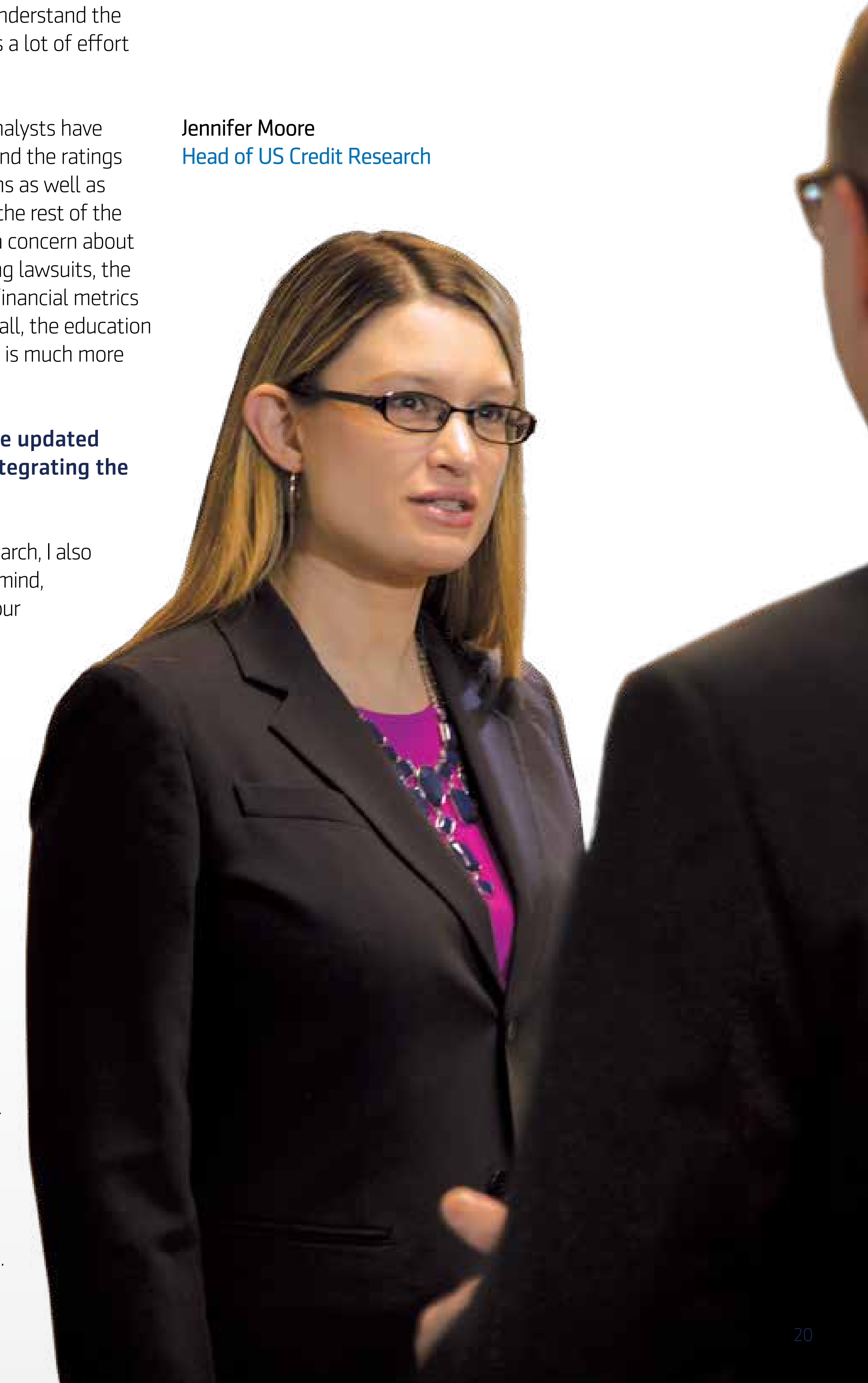
In addition to my role as Head of US Credit Research, I also cover the global chemical industry. With that in mind, I used one of my companies as an example for our implementation and training purposes. Overall, while many of the challenges have already been noted, we have found this to be a very interesting and educational process. By the nature of the role, an analyst is always taking in numerous pieces of information, determining what is or is not material, and deciding on how to best use that information. I would consider ESG to be yet another source of information in this process with an ultimate goal of helping us make better investment decisions.

How do you expect ESG rating integration into the tear-sheets to change existing investment analysis and decision making?

From an analyst's perspective, I feel it has enhanced our analysis process. From a broader perspective, it is a relatively new concept for most of our US clients, so it will take time for us to educate these individuals. As everyone gets up to speed, I think it will only help us make more well-rounded investment decisions.

'I would consider ESG to be yet another source of information in this process with an ultimate goal of helping us make better investment decisions.'

Jennifer Moore
Head of US Credit Research



ESG Ratings for Sovereign Bonds

— An Interview with Hendrik Tuch, Senior Portfolio Manager, Sovereign Credit

The sovereign credit team has welcomed ESG ratings into its research process. Why do you believe they are important?

If you look at traditional ratings for assessing a government that issues sovereign bonds, the emphasis is on budget and external reserves, which are relatively short-term indicators. What ESG ratings offer is some context to evaluate these shorter-term metrics in a longer term context. An ESG rating will look at issues like participation in the economic process, and environmental degradation which can put question marks on the long-term sustainability of a government's growth model.

Take a country like China; it has a very high traditional rating, but its ESG rating is much lower. Another example is oil producing countries in the Middle East; they have had little debt and high reserves. It only takes a rout in the oil price for this to reverse, since many oil-rich countries have not put money aside – like Norway has – in order to protect against downturns, nor is there any meaningful public participation in politics. ESG ratings provide us with the longer view on a country's potential, and as a sovereign investor we like to take this into account.

Where do you see that ESG ratings pick up issues that might not otherwise be on the radar of traditional research?

There are several areas. Climate change is a good example. The COP 21 climate change conference in Paris produced good results in terms of our expectations about the reduction of greenhouse gases. There was initially some nervousness in the financial markets about how the Paris agreement was going to be implemented but that was fairly temporary. Traditional ratings agencies have not included anything in their models to account for the effects of regulation that will follow from Paris but this is a key part of the ESG analysis.

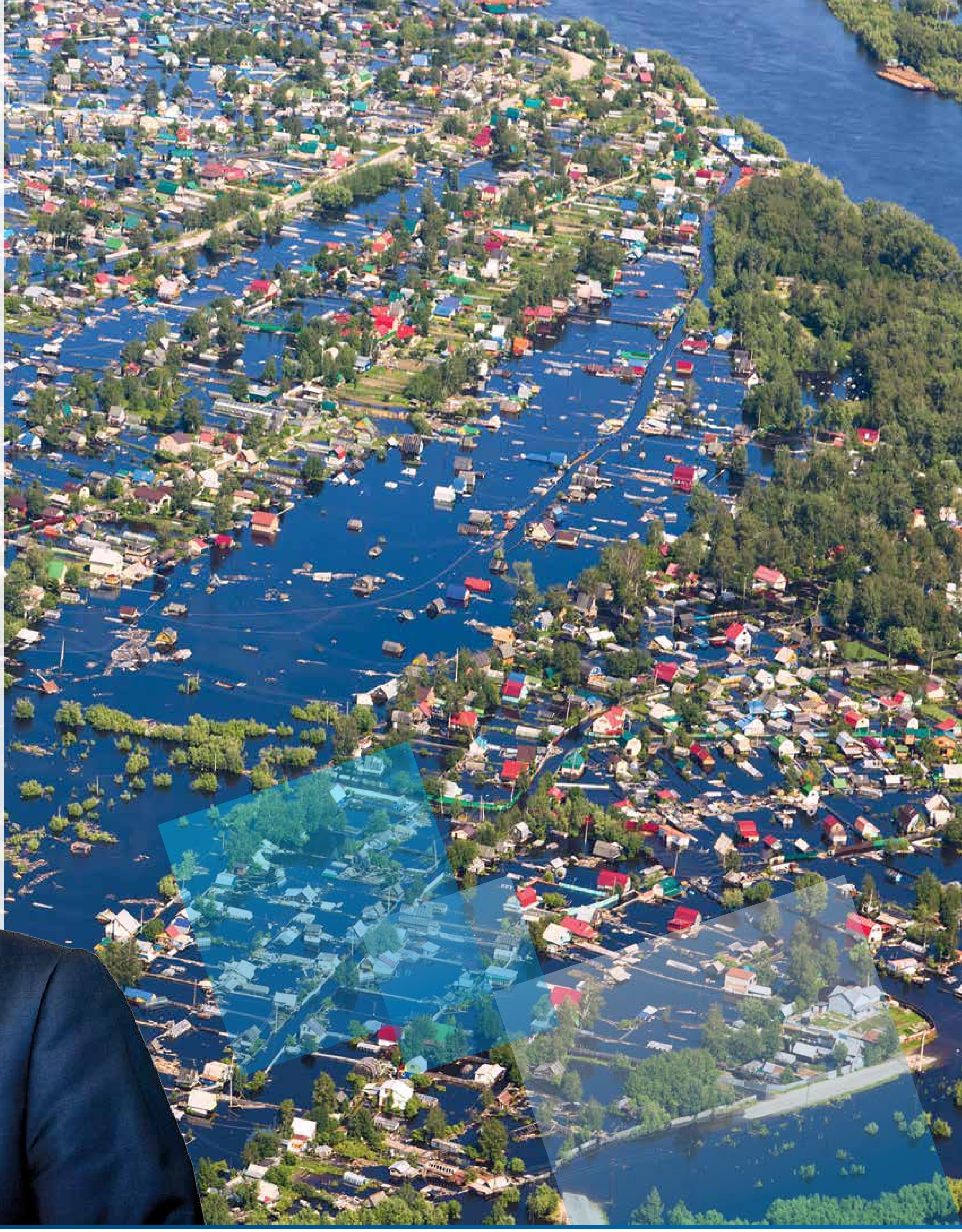
The Arab Spring is another interesting case. Where we saw political destabilization in Northern African states, there was a lot of unemployment and disenfranchised groups. This was picked up by ESG ratings but less so by other research.

Can you give an example of how ESG considerations have played a role in the investment decision making process of the sovereign team?

We believe we need to have a good grasp of the soft factors that are driving a country's growth and that we should not be headline-driven. I think a good example of where ESG research has helped us do this is in the case of Poland. One traditional agency downgraded Poland due to the political tensions between Poland and the EU. This caused concern in the markets but when we reviewed the downgrade we could see that through our earlier ESG analysis we had already factored in the issues that had led to the downgrade and we were able to confidently purchase Polish debt with the view that the rating was not pointing to any new information.

'What ESG ratings offer is some context to evaluate these shorter-term metrics in a longer term context.'

Hendrik Tuch
Senior Portfolio Manager, Sovereign Credit



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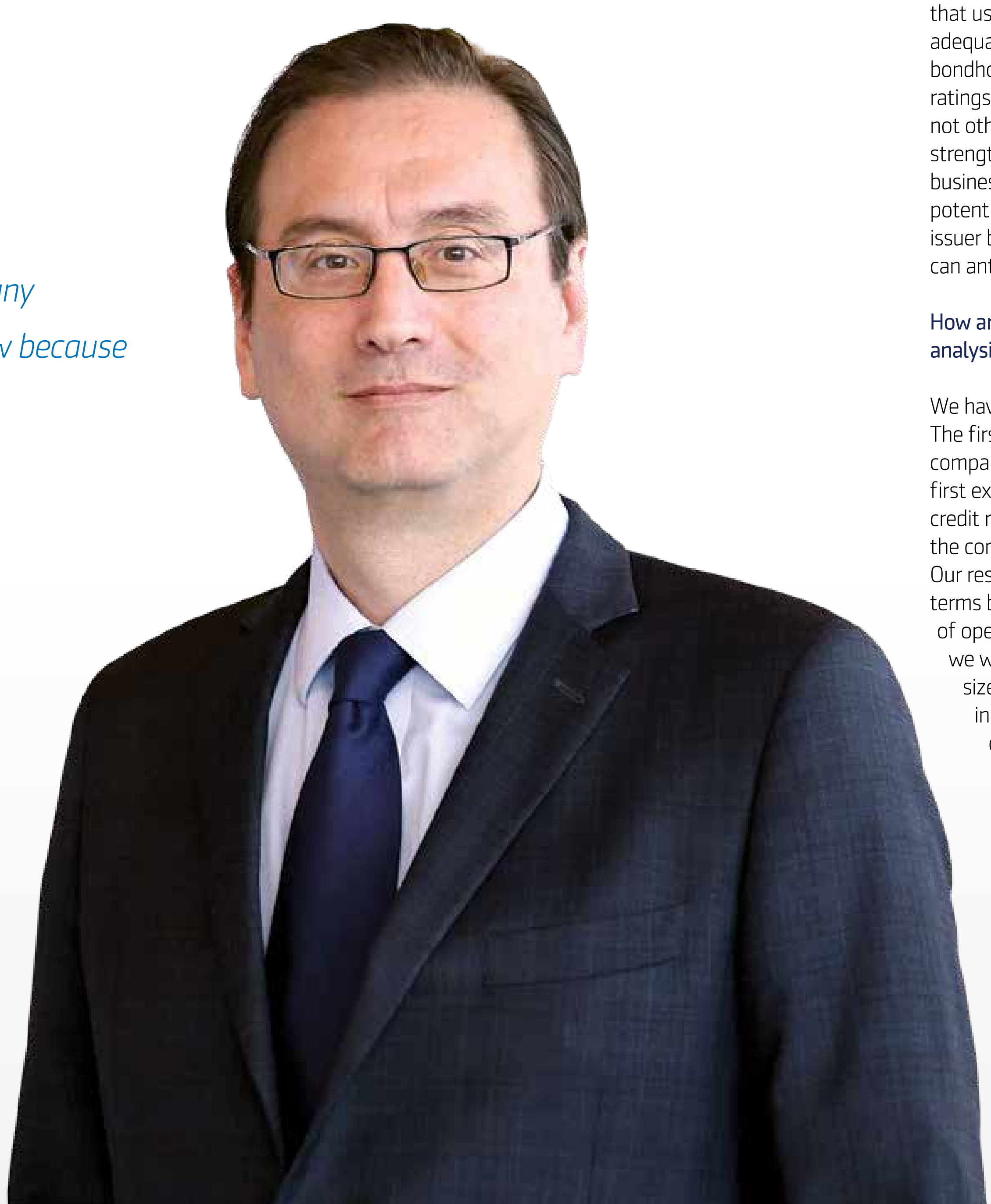
ESG Officers at Aegon Asset Management

> For a number of years we have been working with ESG officers in all Aegon Asset Management units. Typically, ESG officers are portfolio managers or analysts who take on an additional responsibility to act as local contact for the global RI team and for MSCI, our ESG data provider. They also lead the discussion for their unit on how ESG factors can be integrated into the investment process.

With the establishment of the RI Technical Committee at Aegon Asset Management in 2015, which includes all of the ESG officers, the roles of these ESG officers have now also been more formally instituted.

Our ESG officer in Spain provides more insight in an interview below into how the ESG officers have helped shape the approach to ESG integration for Aegon Asset Management.

'I would caution against drawing too many conclusions from ESG research right now because there are so many grey areas.'



Alfredo Raez
Portfolio Manager and ESG officer Spain

An Interview with Alfredo Raez, Portfolio Manager and ESG Officer

How is the investment team organized at Aegon Asset Management Spain?

Compared to our counterparts in the US and the Netherlands we are a fairly small team managing approximately EUR 1.5 bn of assets, mainly on behalf of Aegon Spain, and insurance joint ventures with third parties. I think a unique feature of our team is that there are no analysts in our investment team. Instead we work with our research colleagues across Aegon Asset Management. This way we have access to cutting edge research and analytical tools without the costs of duplicating work already being done in other locations.

How did you first become familiar with the ESG dimensions of credit research at Aegon Asset Management?

ESG was introduced to us by our colleagues in the Netherlands and the United States and I was appointed the ESG officer for Spain because I already had an interest in this field. We realized that using ESG criteria would help us identify risks that are not adequately addressed by traditional investment analysis. As bondholders, we are concerned about downside risk. So ESG ratings are highly relevant to us if they represent risk factors not otherwise reflected in traditional measures of financial strength. In particular, governance failures and changes in the business environment through litigation or regulation have the potential to affect not only the profitability of a corporate bond issuer but also its cost of funding and solvency. Indicators that can anticipate such adverse changes are of value to us.

How are you using ESG research in your current investment analysis?

We have been working with ESG research in two ways. The first way is through a bottom-up process of comparing a company's traditional ratings with its ESG rating. One of our first experiences was with a Chinese oil company with a AA credit rating from S&P and Moody's. Based on fundamentals, the company seemed like a good investment opportunity. Our research colleagues also liked the company in financial terms but saw that its ESG rating was relatively low as a result of operations that it had in Syria. When we learned about this we wanted to understand the implications: what was the size of these operations? What risks did the business face in terms of sanctions from other parties? We were also concerned about whether this was a limited issue or part of a broader set of problems. Our final assessment was that the business in Syria was minor and the company was strong on all other dimensions, so we bought the bond.

The second way we use ESG research is to evaluate our own portfolio-level sustainability performance. As a team, we enjoyed the experience of using ESG data to evaluate companies like the oil company I described because we believed it enriched our investment decision process. But we wanted to do more than just look at performance on a company basis and also want to benchmark ourselves so we have invested a lot of time examining the ESG performance of our portfolio in absolute and relative terms.

What are the results of your portfolio-level research?

In absolute terms, we are pleased that nearly all bonds in our portfolio are rated well in ESG terms. In relative terms, it is more challenging to assess our performance against a benchmark because we must identify one that is comparable. We needed to find a portfolio that was weighted in a similar way to us in terms of regional focus and its split of government and corporate debt. Ultimately we had to construct a tailor-made index and the results exceeded our expectations because our own portfolio scored in line with or better than the index.

What conclusions have you drawn from the ESG research conducted by your team?

I think at this stage the interesting thing about ESG is that it raises more questions than it answers. We can note some patterns: we observe that issuers with high ESG scores tend to offer lower yields and that the same is true for high scoring ESG sectors. If this pattern holds true, in a low yield environment, there are two ways we could use this information: buy longer-date bonds or lower quality debt (in terms of ESG) that offers higher yields.

However, I would caution against drawing too many conclusions from ESG research right now because there are so many grey areas. As someone trained in finance, it is not one of the factors that I deeply understand as part of the classical risk-return model. It is a new variable and we need to learn more, not only about its behavior but about the way we interpret it.

What conclusions have you drawn from the ESG research conducted by your team?

One of the key challenges of ESG data is also something I think makes it attractive. It is so new, so we can't necessarily rely on a model to weigh in on a decision involving ESG criteria. As a portfolio manager, this helps to make me aware how much of my decision-making is based on my own personal views. To go back to the example of lower ESG ratings and the potential of higher yields – if I want to increase yield in my portfolio, should I invest in a company that is doing 'bad' things? Making this decision is very nuanced because it goes beyond financial conceptions of risks, but the value is that with ESG research formally embedded into our investment process, I am fully aware of these challenges and can discuss them with my colleagues and our clients.

ESG at Aegon Asset Management

> As described above, we have launched several initiatives over the past years to integrate ESG into our processes, including appointing local staff as ESG officers, giving portfolio managers and analysts across Aegon Asset Management access to ESG data and research provided by MSCI, providing them with ESG training, and incorporating the ESG rating and headline summaries in the tear-sheets developed by the Research Group at Aegon Asset Management. In the course of 2015, we interviewed a number of our colleagues working in different asset classes to learn how these efforts have paid off and how they include ESG in their investment processes.

ESG in Corporate Credit
— An Interview with Rinse Boersma, Senior Portfolio Manager Credits

Rinse, first tell us a little bit more about your work. What type of fund are you managing?

The main fund my team manages is the Investment Grade Fund, which is a credit-based corporate fund. I am jointly responsible for the overall strategy of the fund, with a strong focus on financial institutions. Through the discussions in the team, I have a good overview of all the sectors we cover.

Have environmental issues historically been an important factor that you look at while managing the fund?

I would say that environmental issues are becoming increasing relevant, particularly in the utilities sector. Policy developments in Germany, where the government has been phasing out coal and is promoting renewables, are a case in point. It takes a huge amount of investment to make this energy transition and we have been reducing our exposure to companies that we don't believe can adapt their business models. Because of these huge costs, I would say that although ESG issues may have been seen as something of a 'fun factor' in the past, they now certainly have to be taken seriously.

Having said that, in the energy sector the story is not so simple. We all realize that we need to transition to a more sustainable energy system. We recognize and applaud the development of the wind and solar sectors, but these energy sources are not very reliable; there are peaks and troughs in generation. For this reason, we will need to adjust our power grids to the new energy mix, and develop suitable storage technologies. There is also the question of what role nuclear energy will play. Nuclear energy has a bad reputation in many countries, not least Germany. However, comparatively speaking, it is clean, safe, dependable and cheap – so you would think it could play a major role in the transition away from carbon-intensive energy. We are curious to know what stance governments will take with respect to nuclear energy as it will have a large impact on some of the companies we follow, like EDF. You see companies are reluctant to make these major investments in nuclear plants because of uncertainty on government policy. That is why it is useful to scrutinize the follow-up to the COP 21 climate conference – it gives some indication of where governments will go with this.

We want to invest in companies that we believe can go through this transition. If they are successful, we see profitability, leveraging potential (potential to raise debt), and – potentially – the possibility to split off the new businesses from the old business, which provides transparency to the market.

The picture is a bit different in the financial services industry. The direct environmental foot-print of banks is fairly minimal, so the way that banks are connected to environment-related risk is through financing. This has some process-related risk, as the public increasingly wants to see evidence that financial services companies are considering these types of risks.

Another key development in the past few years has been the issuance of green bonds by banks, which are effectively bonds that are ear-marked for environmentally friendly projects. But the market is still relatively under-developed and there are only about USD 5 billion worth of green bonds issued in this sector, which itself is worth USD 1,300 billion. So we still have some way to go before everyone has a solar panel on their house and is driving an electric car…

We saw a surge in issuance of green bonds around the COP 21 conference in Paris. The market is still very young. For us, it is crucial that this market develops into a relevant market, not just in size, but also in the sense that it is aware of its reputation and that it safeguards the use of the financing raised. To be a sustainable asset class in itself, green bonds need to develop a clear and uniform market practice that is transparent so that investors can easily monitor what the proceeds are used for.

As portfolio managers, how has the inclusion of ESG analysis in tear-sheets and other products affected the way you make investment decisions?

The main advantage is that ESG issues have always been an implicit part of our research but the ESG rating means that it now forms part of our formal discussions with analysts. Because the ESG rating also looks at issues that don't have a direct connection to a company's financial risk profile, it enables me to consider aspects of a company that I might not have focused on in the past. For example, the rating tells us if banks lend to poorer people, which may not greatly affect its risk profile but does help me develop a better impression of the overall story and culture of the company.

It is also important to say that we don't draw conclusions simply from the headline rating. We need to know what the rating is based on and expect our analysts to explain this. The ESG rating facilitates a deeper, more structured conversation about risk.

'We are curious to know what stance governments will take with respect to nuclear energy as it will have a large impact on some of the companies we follow.'

Rinse Boersma
Senior Portfolio Manager Credits

We use our investment management expertise to help people achieve a lifetime of financial security.

ESG in Emerging Markets
— An Interview with Alan Buss and Sarvjeev Sidhu

> The Emerging Markets team at Aegon USA was established in the 1990s to invest in the sovereign debt of rapidly developing economies. Its core team members, Sarvjeev Sidhu and Alan Buss, have been with the team since its inception. Together, they discuss how sustainability criteria have historically been a part of the investment process in emerging market debt and how formally integrating ESG ratings into Aegon's investment framework have helped this process evolve.

Sarvjeev, you joined Aegon in 1999 and, Alan, you have been with Aegon since 1996. What makes your work so interesting that you keep coming back each day?

Sarvjeev: What really excites me about emerging markets is that they are always changing. It is a unique asset class and no two countries are the same. I think this in part because it is a fairly new asset class, only about 25 years old now.

Alan: Yes, the name says it all. Markets are emerging, so we know we are going to see change, but it is not always that straightforward to determine what change will look like when markets and institutions are not well-established. I think the other part of the excitement of this work is that we see tangible benefits. In the 1990s, we were investing in Singaporean or South Korean debt, and we could already see the longer term benefits then. Since then, as we expected, both countries have become global leaders on indicators such as health, education and wealth over the past decades.

What are the main types of investments made by your team?

Alan: We invest in three regions: Asia, EMEA and Latin America, in countries that are rated both investment grade and high yield. Primarily, we invest on a sovereign or quasi-sovereign basis on behalf of Aegon and third-party clients in the US. However, we also invest in EM corporate debt.

What has been your team's historical approach to sustainability issues?

Sarvjeev: From our perspective the way we define sovereign risk is the ability and willingness of a country to honor its debt obligations. As economic and financial data reporting in many countries has improved, it has become easier to evaluate the ability, but the willingness remains harder to predict. We also incorporate analysis of the political and legal systems and this has always been a part of our investment thesis even though it has not been labelled as such.

We have consistently applied a research framework to look at political risk and economic risk; we are making significant long-term investments so we need to do as much homework as possible to ensure we will achieve the returns on the risk premium. It may be that this approach is fairly standardized for emerging market managers, but in using it consistently and repeatedly, Aegon Asset Management has been able to minimize default rates in emerging markets.

Alan: These are risky investments and at the end of the day some countries need to decide whether they want to pay local teachers or us investors in Cedar Rapids, Iowa, and we need a situation where they can do both.

Sarvjeev: Yes, to give an example, when we did the due diligence on Argentina in early 2001, we realized that money was not being channeled properly through the country, and we started to ask questions about where it was going. We needed to assure that debt is put to good use and our analysis suggested otherwise. Argentina subsequently defaulted. This type of information is now also covered by ESG research, so if this approach can be called 'ESG integration', then great! In the end, what we are trying to do is to make good investments on behalf of our clients and to support those emerging countries as they develop.

From what you have described, ESG analysis was already a part of the investment process in a more informal way. One of the major changes at Aegon Asset Management this year was to formalize ESG criteria into its research process. How has that changed the way your team assesses sustainability issues?

Alan: One of the major changes in the research process is that MSCI's ESG rating is now included together with traditional ratings as part of our analysis. This means that, as analysts, we have to interpret and explain the rating. We also have to explain differences we might find with traditional credit ratings, which can stimulate a lot of discussion in our team meetings.

Where I see the value of the ESG rating is that it helps provide a more holistic view on risk. To be honest, I think we have always considered many of the factors that make up the ESG ratings but the process was not as institutionalized. What is also interesting is that we see that more countries are starting to pay attention to sustainability ratings and we can ask countries that have poor ratings to answer questions about governance or corruption. We can go beyond questions of fiscal ability in our engagements with them.

Sarvjeev: On the whole, I would say that the ESG ratings have enhanced our research process. Our investment decisions are based on a number of criteria and ESG factors are among them. What the ESG ratings do is open another window through which we can see and evaluate risk.

Sarvjeev also contributed to the Case Study on Values-Based Investments on page 54.

Alan Buss & Sarvjeev Sidhu
Emerging Markets Team

'Some countries need to decide whether they want to pay local teachers or us investors in Cedar Rapids, Iowa, and we need a situation where they can do both.'

ESG in Real Estate Investment — Global Real Estate Sustainability Benchmark

> There are several teams at Aegon Asset Management that invest in real estate, or property as it is more commonly referred to in the UK. The combined investments of these teams amount to over EUR 5bn.

Aegon Asset Management has been a member of the Global Real Estate Sustainability Benchmark (GRESB) since 2012. 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 almost 60 institutional investors.

The information available through GRESB allows property and fund managers to better understand how environmental and sustainability factors affect their holdings. Aegon Asset Management views this as an important tool in integrating ESG factors into the company's real estate portfolios. In 2015, 707 property companies and funds participated in the GRESB Survey, managing EUR 2.1 trillion in value. The database covers 61,000 assets across 6 continents. Over the 2009-2015 period, the GRESB database covers a total of 971 unique property companies and funds, of which 166 participated for at least five consecutive years.

In 2015, Aegon Asset Management has continued to incorporate GRESB data into its real estate investment decisions.

The Evolution of Sustainable Real Estate Investment

— An Interview with Phil Clark, Head of Property Investment, Kames Capital

> Phil Clark is the Head of Property Investment at Kames Capital and also a member of the Advisory Board of the Global Real Estate Sustainability Benchmark (GRESB). Having set up the first sustainable property fund, Phil is a pioneer in the responsible property investment landscape. Applying ESG in property investment is nevertheless not without its challenges.

You have been in this business a long time, how has your journey in sustainable real estate progressed over the years?

In 2000, prior to joining Aegon, I created what the United Nations describe as the 'World's first responsible real estate fund.' At the time of the fund launch I remember delivering a presentation on the fund's sustainable investment policy at a real estate conference on sustainability. Twelve people showed up and only one, an investment advisor, had any kind of relationship to property investment. Things have changed since then. There is a lot more knowledge about sustainability than there was 15 years ago, particularly in places like Europe, the US and Australia. Likewise, while China doesn't have great sustainability credentials in real estate, they have goals embedded in their five-year plans. Globally, there is not only more knowledge but also commitment to setting sustainability targets for property portfolios.

What has helped to make this transition is that there is legislation on issues such as energy performance of properties. In the UK, all buildings must have energy performance certificates so where Kames owns properties, it must report on energy usage. In addition, there is real traction in the industry with benchmarks like GRESB. Not only is GRESB a useful data collection entity which can help measure performance, I think it has helped in making real progress in terms of making organizations like Kames accountable for its sustainability policies and action.

It is great to think about how much has changed in 15 years. In 2000, if I asked a partner about their sustainability policy, they would have laughed. But now all of our partners have one. Probably even more telling is the fact that a couple of months ago I chaired a similar seminar to the one in 2000 but this time one hundred people attended and there was even a waiting list.

What are your ambitions for Kames in the sustainability arena?

I have been at Aegon Asset Management for eight years. Kames has always been proactive about RI, with a strong range of ethical funds, active ownership practices and its GRESB membership, but it was also always our intention to increase our sustainability credentials beyond RI, and we began this in a formal sense last December. Our team had put forward a proposal to Kames' executive committee to develop a formal policy on sustainability and the property group has taken the lead in this work, with the approval of the executive team. In fact, Stephen Jones (CIO at Kames Capital) chairs the committee.

There is a high-level commitment to push the organization to a higher level in terms of sustainability. What I mean by this is that it is important that people adopt sustainability policy as a part of everyday practice, so that it is embedded not only in property but across our business.

One reason we hear about the growing popularity of sustainable real estate investing is that it enhances returns. Do you believe this is accurate?

Unfortunately, I don't think the investment picture is that clear. Two challenges we face as an industry are how to measure sentiment from investors towards buildings with stronger sustainability characteristics and the second is how to deal with buildings that don't have strong green credentials. What do you do with that space? This is a significant economic and environmental challenge.

With regulation, it is obviously easier to measure energy usage or rents, but measuring the value differential between green and non-green buildings will take time. I believe that ultimately there will be a green premium, but it has not yet fully materialized. At this stage, there are some clients who might go out of their way to occupy sustainable buildings, particularly large corporations that have an incentive to brandish their own green credentials, but people are not walking away from buildings due to a lack of energy credentials. This is because there are just not enough buildings to invest in.

This leads to the second challenge: new developments are of course very strong in terms of green aspects, but if legislation continues on its current trajectory, meaning that you would have to have strict energy performance guidelines for older buildings, we face a serious problem as there are a lot of existing buildings which cannot be retrofitted to meet these types of standards. The question is then – do you make these buildings redundant? It would be easy to say people should just live in green buildings, but what are you going to do? Knock down the old ones? In addition to any financial considerations, the environmental costs of demolition and re-construction are massive.

I would say that 99% of commercial property fund managers in the UK have investment portfolios where new buildings are a very small percentage of the portfolio; the rest are older ones. In this way, the steps towards fully sustainable property development must necessarily be evolutionary.

Are there other aspects of the business that present challenges in terms of advancing sustainability goals? How are they overcome?

One important distinction between property and equity investing is that you can exercise influence over a company as an equity shareholder – as a last resort you can even divest – but in property you can't easily disassociate from a tenant. It requires a very different approach; legally, consent of the tenant is not to be unreasonably withheld if they want to assign their lease to another company that may not have a commitment to sustainability. Engagement with tenants is therefore the key approach rather than screening them out.

Still, there are things that can be done as landlords. In most properties we own, there is some influence with the managing agents. We can advocate data collection of energy usage and ask for specific procedures and materials for cleaning premises. We need to be careful and we want to have a good relationship with our tenants. Here it is important to have a long-term engagement with clients and work with them to see how they can be on board, how they can gather information, review the data and set targets – much as we are doing as a business. The key to overcoming these challenges is therefore to work in partnership with tenants.

'It is important that people adopt sustainability policy as a part of everyday practice, so that it is embedded not only in property but across our business.'

Phil Clark
Head of Property Investment, Kames Capital

Photo credit © Jeffrey Totaro, 2015

Case Study: Saint-Gobain Facility, Pennsylvania

> For the last ten years, Aegon USA Realty Advisors ('AURA', part of Aegon Asset Management in the US) and a regional developer, Eli Kahn Development/J. Lowe, have been actively involved with the marketing effort to secure a new user for The National Liberty Corporate Campus, in Chester County, PA. The goal for the project was to recycle the existing facility into a LEED certified green project.

LEED (Leadership in Energy and Environmental Design) is one of the most popular green building certification programs used worldwide. It was developed by the non-profit US Green Building Council (USGBC) and includes a set of rating systems for the design, construction, operation, and maintenance of green buildings, homes, and neighborhoods that aims to help building owners and operators be environmentally responsible and use resources efficiently.

In 2014, the AURA marketing team finalized an agreement with Saint-Gobain, a France-based leader in housing and construction materials, to renovate this relic into their North-American HQ campus. The world-class, built-to-suit facility will be used as a showcase and showroom to highlight Saint-Gobain's own innovative building materials.

Recycling the building included a complete renovation of all aspects of the existing site and structures to bring the campus up to the highest standard of energy efficiency and sustainable best practice. The entire exterior façade of buildings one and two were removed and replaced with a state-of-the-art curtain wall glass system to enhance energy efficiency by almost 20%. The facility was also equipped with roof-top solar panels, extensive storm water management facilities, rain gardens and biofiltration basins, new central heating and cooling systems, electrical and plumbing systems, and 48 bike racks to motivate employees to bike to work.

Everything about the proposed renovation was done to reduce energy consumption, creating a model for the next 50 years. The goal was to bring the building's thermal performance in line with the most stringent national standard and considerably reduce annual energy usage.

In 1971, these buildings were featured on the cover of Bethlehem Steel Corporation´s annual report as an example of American steel products' impact on modern corporate office structures. The renovation of these structures into a modern, energy efficient world class LEED certified North American Headquarters returns the campus into the iconic facility it once was and provides an employment center to over 1,500 people.

The building owner and tenant have applied for two separate Platinum LEED certifications, for 'Core & Shell' and for 'Interior Fit-Out.' The project is currently undergoing final reviews and the certifications are expected to be received in the first half of 2016.

Aegon Asset Management sold the facility in the first quarter of 2016 to a venture of a private equity firm and a Middle East investor, a development that was noted in an article in the Wall Street Journal. 'We are very happy with the time and effort we put into this project,' said Eddie Downey, VP/Engineering and Environmental Services at the AURA unit of Aegon Asset Management. 'The LEED effort has helped make this a successful investment, not only from an environmental point of view, but we've also realized a very good return for our clients.'

Incorporating ESG in External Manager Relationships

> Some units within Aegon Asset Management work with external asset managers to invest parts of their portfolios. Whereas previously the focus for RI implementation was on internally managed assets, in 2015, we have shifted our focus and put more emphasis on the relationships with external managers in order to determine how RI and ESG principles are applied. In an interview with Jon Skaggs, who runs the Private Equity portfolio for Aegon Asset Management, and works with a number of external managers, we look at how we approach ESG in our external manager relationships. We also take a look at TKPI, part of Aegon Asset Management that works extensively with external managers, to see how they, their clients, and the external managers approach sustainability.

Interview with Jon Skaggs, Head of Private Equity — ESG in External Manager Relationships

Aegon Asset Management is primarily a fixed income investor and this is where the group initially focused on developing its ESG research capabilities. However, in our approach to applying ESG frameworks to investing we strive to be consistent across asset classes: Aegon Asset Management seeks to understand and incorporate the fundamental ways that ESG issues affect all of the investments of its clients.

In the case of Private Equity, this process was kicked off as a result of a decision by the Private Equity team based in the US to diversify into infrastructure investments. The types of infrastructure investment opportunities the external managers this team works with identified also included projects such as water treatment plants in New Jersey, solar facilities in Spain, and port and road developments across the United States.

From the outset, Jon Skaggs, who runs the portfolio from Aegon Asset Management's Baltimore office, observed that infrastructure investments were very different from other types of private equity investments because they offer public services that have historically been offered by governments. As Skaggs explains, 'locals in New Jersey rely on a treatment plant to provide them with clean and safe water. Inevitably when the private sector comes in to offer these services, they need to build trust within the local community that they will deliver them while providing a fair price.'

Furthermore, because infrastructure development is an integral part of public planning, government organizations remain key players in projects even if they are financed or managed by the private sector. According to Skaggs 'investing in infrastructure meant not only investing in a new type of asset, but also a new set of relationships with stakeholders that were less familiar to us.' When the Private Equity team identified these issues, they were tabled at an Investment Committee meeting, where the risk profiles of new and ongoing investments are evaluated by the heads of Aegon's asset allocation, portfolio risk and operational risk teams. Skaggs explains: 'we spent a lot of time discussing these new challenges and ways that we could address them at the Investment Committee. We came to the conclusion that it was necessary to engage partners that had a track record of working productively with local communities and governments. This would help assure us that our partners had the experience to win mandates and were capable of managing projects of this nature over the long term'.

The question for Skaggs and the Investment Committee then focused on the best ways to conduct due diligence on their partnerships. This is where the technical aspects of ESG reporting proved to be helpful. Skaggs found that many of the questions his team asked about stakeholder relationship management could be answered through the reporting framework offered by the PRI because it requires general partners, who raise cash for private equity investments, explain their performance along social and environmental criteria. This provided Skaggs with a window into how potential partners may perform on the non-financial metrics that needed to be assessed.

By integrating a responsible investment approach in its due diligence framework to select partners, Aegon Asset Management has made investments in solar wind farms in Spain, gas storage facilities in the United States and a water purification facility in New Jersey. All of the partners it works with in infrastructure are signatories of the PRI.

Case Study and Interviews — Making a Difference with Customized Service at TKPI

> TKP Investments (TKPI), Aegon Asset Management's Dutch multi-manager unit, made sustainability a main theme of their annual investment conference this year. Natalie Beinisch, who joined Aegon Asset Management as engagement manager in 2015, attended the conference and also took the opportunity to interview a number of TKPI staff, clients and external managers.

At TKPI, clients' assets are managed using a multi-manager strategy, where external asset managers are selected in a structured and disciplined manner. The RI policy applies to all equities and fixed-income investment funds, both for the passive and active investment funds, and the integration of ESG criteria in the investment process is a fixed element of TKPI multi-manager selection process. TKPI has also been active in engaging with investee companies for many years, working with ESG specialist Sustainalytics, and now increasingly instructs its external managers to engage in dialogue with companies.

When it comes to investing does sustainability matter? And if so why?
If you were to ask TKPI and its clients, the answer is a definitive 'yes'. The theme of the TKPI 2015 conference in Amsterdam was sustainability. TKPI has long been convinced thatintegrating ESG aspects into the investment process contributes to a better risk-return profile for the investments. TKPI shares this conviction with its clients – mainly pension funds and, since December 2015, a charitable organization: the Prins Bernhard Cultuurfonds. In fact, one of the factors that prompted this organization to select TKPI was its proven skills in RI.

TKPI is able and willing to make a difference. The organization and service are therefore focused on being able to provide customization. Our long-term relationship with our clients is our priority in this respect.

'There are three reasons why sustainability matters', explains Marianne Oomkes, account manager and manager for responsible investment at TKPI. 'First, there is compliance. It is good management to ensure investments comply with national regulations and international norms such as the UN Global Compact. Secondly, it is a question of organizational alignment. The investment beliefs of TKPI and our clients articulate views on sustainability, so this must be incorporated into an investment approach. Finally, investing using sustainability criteria is a risk management tool.'

Marianne goes beyond answering the question of why sustainability matters to TKPI and also describes how sustainability issues are integrated into the investment process by screening its investment universe, entering into dialogue with companies and through voting. TKPI also offers an SRI fund and an ESG-themed fund that further align the sustainability and investment goals of its clients. What made the conference notable is that the discussions shed light on the extent to which TKPI and its clients apply sustainability concepts across their business activities. This is also because TKPI adopts a long-term approach to its investments, which allows TKPI to look at sustainability questions even when examining macro-economic questions. At the conference, this was highlighted by Professor Elmer Sterken, Rector Magnificus at the University of Groningen and also chairman of the Investment Committee of TKPI, who discussed how sustainability is defined in areas such as public budgeting and monetary policy.

Long-term investing with infrastructure investments
At the conference, we also spoke with Harm-Zwier Medendorp, Head of Alternative Investments at TKPI, who shed light on TKPI's approach to investing in infrastructure, one of the less liquid asset classes. After researching the asset class extensively over the last several years, TKPI identified infrastructure investments as a good sustainable investment opportunity in 2015. 'Less liquid investments are an excellent addition in the quest for a suitable risk-return ratio for the portfolio of pension funds and other customers,' said Medendorp. 'Of course, the investor loses the certainty that these assets can be sold at any moment, but this is typically compensated for by an 'illiquidity premium.' Long-term investors like pension funds do not need to rely only on liquid investments – after all, the pension fund also needs to make payments to pensioners over a very long time span.'

Harm-Zwier explained that another conclusion from the study was that infrastructure investments fit well with an RI approach. 'When we invest in equities, we use an exclusion list. We do not invest in controversial weapons, for instance. But when it comes to infrastructure, assets may deliberately be invested in a particularly sustainable segment of the market, for instance in green investments that really add something to society. In this way, we can introduce a 'sustainability emphasis' into the portfolio,' said Harm-Zwier. '

Two types of infrastructure investments can be distinguished: greenfield and brownfield investments. Greenfield means it involves a totally new project, which requires investment during the first years and a return only after that. For example, the construction of a new hydro power plant, for which a lake must be embanked, can take years. In our view, this is not the most suitable investment for a pension fund – although the ultimate return may be excellent, it is less predictable than existing projects. That is why we look at current funds or existing infrastructure investments that already have cash flow. These 'core investments' are a better fit given the 'asset-liability matching' challenges faced by our clients. The cash flows for these brownfield investments are much easier to estimate.' With the analysis in this asset class completed in 2015, Medendorp expects this to be on the agenda for discussions with clients in 2016.

External managers
Importantly, TKPI also selects investment managers whose investment approach is consistent with the sustainability goals of TKPI and its clients. A representative of one of those external asset managers, which manages an emerging market fund for TKPI, explained her group's own strategy as a long-term investor – the team is given incentives based on its 5-year performance, which has enabled it to develop strong and credible relationships with its investments. This not only helps in terms of influencing management but also has demonstrable effects on returns.

Maybe the short answer as to why sustainable investing matters is because it just makes good financial sense.

'Through infrastructure investments we can introduce a sustainability emphasis in the portfolio.'

Climate Change Risk and Carbon Footprinting

> In the year leading up to COP21, the global climate conference in 2015, Aegon Asset Management identified the issue of climate change as a key priority and set out to identify and manage climate change-related investment risk.

While Aegon Asset Management is fully committed to addressing climate change-related risks through ESG integration, in its work to date it has identified a number of issues that must be addressed before the risks can be clearly understood and managed.

One key concern is that views on climate change, and what it will mean in terms of impact on investments, are not consistent. While many organizations have cogently presented climate change risk in terms of a 'carbon bubble' and 'stranded assets' that investors should avoid, others challenge these concepts, citing policy uncertainty and economic growth as key factors. Given that investment risk is dependent primarily on the policy environment – the actions that governments will take to tackle climate change – Aegon Asset Management believes that there is no 'one-size-fits-all' model to evaluate climate risk.

Carbon footprinting – determining the total set of greenhouse gas emissions caused by a company or sector expressed as carbon dioxide equivalents – has been one method that Aegon Asset Management has piloted in order to analyze climate risk. In 2014, we conducted a carbon footprint on a set of three fixed income portfolios (the details of which can be found in last year's RI Report).

While the outcome of the study was favorable, in the sense that our portfolios were less carbon intensive than their benchmarks, a key learning from the project was that a carbon footprint is not a tool that portfolio managers and analysts at Aegon Asset Management find very useful in investment analysis and decision-making. This is because this method for assessing climate change risk is still in development, and most providers of carbon footprinting data and services agree that a footprint metric in itself is not a factor that can guide a portfolio manager very clearly to investment decisions. It is also not an easily interpretable risk metric.

In a detailed study of the available carbon footprinting methodologies conducted in 2015, Aegon Asset Management's findings were:

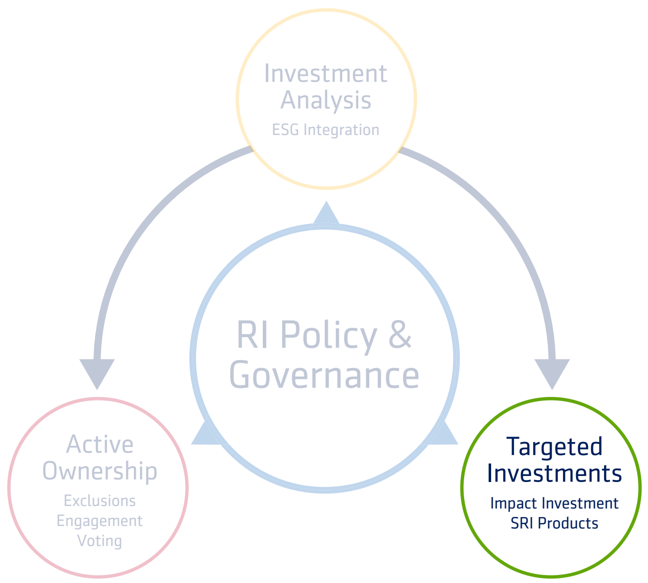
- The key metrics in carbon footprinting are emissions per dollar invested and absolute emissions. However, these metrics need to be assessed in conjunction with other metrics, as they say little on whether companies are saving or avoiding emissions, and whether they have developed strategies to reduce emissions.
- The main asset class for which carbon footprinting has been performed is equity; other asset classes, such as fixed income, are more challenging due to data constraints.
- The broad differences in methodology appear to come from the fact that some providers take Scope 3 emissions into account (Scope 3 emissions are all indirect emissions, not included in Scope 2, that occur in the value chain of the reporting company, including both upstream and downstream emissions). As there is no reliable data for Scope 3, estimates are reached through modelling.
- Scope 3 emissions nonetheless account for 85% of all emissions for an average company. There is only one provider that attempts to calculate all Scope 3 emissions but this leads to double counting in their models.
- For the most part, carbon footprints are based on self-reporting by companies, which is unreliable, due to differences in definitions, limited knowledge within the companies or lack of access to information. Therefore all service providers also rely on estimation models to some extent.
- We have seen that carbon footprint findings across various service providers can vary significantly, from one estimating a certain portfolio was 30% more intensive than the benchmark to another indicating it was 35% less intensive. These differences can be explained mainly by the fact that some providers included Scope 3 emissions in their analysis and others did not. This impacts comparability (and transferability) between service providers.
- Carbon footprint models are used to assess the impact of a possible price or tax on carbon, but do not take into account differences in demand elasticity across industries. For example in some, but not all, industries, price changes can be passed on to customers, with very different outcomes in terms of understanding the financial risks that a carbon footprint can imply.
- It seems some organizations have used their carbon footprinting at least in part to demonstrate to the general public their commitment to addressing climate change risks, masking the fact that the carbon footprint does not provide very granular insight into actual risks, or a good understanding of how they can be mitigated.

Following the study and internal discussions about how to address climate change-related risks, Aegon Asset Management decided in late 2015 to establish a project group that will take work further, and will focus on better understanding return implications for different asset classes, in different climate change policy scenarios. This project will be led by the Portfolio Risk Management function and we will work with an external adviser with a good track record in addressing carbon risk. We expect to report on the findings and recommendations of this project work in next year's report.

'We have seen that carbon footprint findings across various service providers can vary significantly,'

9. Targeted Investments

> Aegon Asset Management defines targeted investments as investment opportunities that have explicit social and environmental goals, in addition to financial ones.



Under this header, we include what are commonly referred to as impact investments: direct or indirect investments in businesses, organizations and projects, that meet existing risk and return requirements and are also intended to create a measurable social or environmental impact.

Aegon Asset Management uses a stricter definition than some others in the industry: it does not view a company that receives a higher than average sustainability rating as a targeted investment opportunity, and therefore the universe of targeted-investment opportunities is relatively small. The investment profile of many of our clients – primarily focused on fixed income investments, and often with a limited appetite for riskier investments given regulatory and mandate restrictions – also affects the potential of impact investments that we can make.

Aegon Asset Management has implemented a number of projects in order to enhance its capabilities to make impact investments and grow its opportunity funnel. Nearing completion is a program for investing in microfinance, which brought together teams from Portfolio Management, Operations, Risk, Legal and Reporting. Also a project to identify opportunities for renewable energy investments has recently been launched.

Under the header of Targeted Investments, we also identify SRI funds, investment funds that have a particular ESG approach, often screening out certain types of activities such as alcohol, tobacco, gambling, etc. Some of the Aegon Asset Management units are active in these products.

Impact Investment
Since our review of the impact investment field in 2012, impact investment has played an increasingly important role in our overall approach to RI.

Aegon Asset Management defines impact investment as follows: Direct or indirect investments in businesses, organizations and projects, that meet our existing risk and return requirements but also have the intent to create a measurable social or environmental impact.

In impact investment terminology, this makes us a 'finance first' impact investor.

The most important conclusion from our review was that Aegon Asset Management's primary responsibility is to ensure that our clients´ assets are managed in such a way that they cover the liabilities they may have as institutional investors. 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 the investment criteria of our clients, 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 took the position that impact investment should be integrated with our existing investment platforms and therefore the portfolio managers and analysts covering the different asset classes should have responsibility for evaluating potential impact opportunities, to determine where they can meet the criteria set out in their investment mandates.

Having said this, we have put in place internal structures, supported by the global RI team, that facilitate further discussion about impact investment. An example of such an internal structure is the II working group for Aegon Asset Management in the Netherlands that includes the CIO as chair and the heads of the different asset class teams, and meets monthly. This has led to investments in new areas, including green bonds, solar energy, microfinance (see the case study on microfinance elsewhere in this chapter) and early 2016, in offshore wind energy.

Insurers' Investors on Impact Investment (IIII)
Several years ago, Aegon Asset Management took 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 or co-investment. The other participating companies in the group are Standard Life Investments, Axa Investment Managers, Zurich Global Investment Management, SwissRe Group Asset Management, Prudential (US) Investments and Allianz SE.

'We have put in place internal structures, supported by the global RI team, that facilitate further discussion about impact investment.'

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

Affordable housing

The majority of Aegon Asset Management's impact investments are held in affordable housing, totaling EUR 4.8bn as of 2015. This number is substantially higher than the total investment amounts reported in previous years (EUR 2.9bn); this is due to the more detailed screening of our UK portfolios that we undertook in 2015 where additional investments were identified. Of the total,1.05bn is invested by Aegon Asset Management NL and 870m by Kames Capital in the UK. The additional 2.89bn is invested by the Community Investments group at Aegon USA Realty Advisors ('AURA', part of Aegon Asset Management US).

The Community Investments group has been investing in Low Income Housing Tax Credits (LIHTC) and Historic Tax Credits (HTC) since 1987. The LIHTC is a dollar-for-dollar tax credit in the United States for affordable housing investments. It was created under the Tax Reform Act of 1986 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 percent – of all affordable rental housing created in the United States 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.

The LIHTC and HTC portfolio size as of December 31, 2015 is approximately EUR 2.89bn, containing over 300 separate investments. These investments are typically held for 10-16 years as the credits flow for 10 years with a remaining 5-year compliance period. Portfolio performance has been outstanding. Yield performance as of December 31, 2015 was above 110% over underwritten yield objectives, and the asset class foreclosure rates, or loss of benefits, have been extremely low as compared to all 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, as well as new solar credit investments.

Impact: The National Association of Home Builders (NAHB) has developed a model to estimate the local economic benefits of these developments. The model measures the ripple impact that occurs when income earned from construction activity is spent and recycles in the local economy, and the ongoing impact that results from the new apartments becoming occupied by residents who pay taxes and buy local goods and services. The estimated local economic impact from the 3,572 living units closed in 2015, for both family and senior homes, are estimated at (first year/annual recurring impact): EUR 257m/EUR 78m in local income, EUR 27m/EUR 15m in local government tax and revenue, and the creation of 4,311/1,082 jobs.

Wind power

Aegon Asset Management continues to maintain a large US wind generation investment on behalf of Aegon that totals more than EUR 218m parceled among four projects. 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 EUR 21.2 per MWh.

Aegon 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, Aegon Asset Management NL made its first offshore wind energy investment in early 2016.

Impact: Together, the projects contain 188 wind turbines that are capable of generating enough electricity for approximately 78,000 homes (286 MW). They do so with zero greenhouse gas emissions. In 2015, power generation was 824 MWh. The US EPA Greenhouse Equivalencies Calculator tells us that this is equivalent to avoiding the carbon dioxide equivalent emissions from over 119,000 passenger cars driven in one year or 611m pounds of coal burned.

Sustainable timber

Aegon Asset Management continues to maintain a timber equity investment with market value of approximately EUR 30.5m at the end of 2015. The investment is parceled among partial interests in three timber funds that include Real Estate Alternative Portfolio (REAP) investments in private equity funds along with direct equity investments outside of REAP in timberland. The total EOY 2015 timber acreage is approximately 1,293,000 acres.

The most recent investment was made in 2010 and currently we do not envisage making new investments. As of EOY 2015, 98.5% of the timber holdings associated with the invested capital involved timber holdings that were independently certified as 'sustainable' by the Forestry Stewardship Council (FSC), Sustainable Forestry Initiative (SFI) or others.

Impact: Timber is a key renewable resource and also serves an integral role in global sustainability. Growing forests sequester carbon through the process of photosynthesis, in which trees remove CO2 from the air and store it as various carbon-containing compounds. The impact of this timber investment was estimated to sequester 1,580,000 metric tons of carbon dioxide equivalency. Using the US EPA Greenhouse Equivalencies Calculator, this is equivalent to providing over 144,000 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 of the US.

Retirement homes

Aegon Asset Management invests approximately EUR 200M in retirement homes and elderly care facilities. Kames Capital manages a fund that invests half of this in facilities in Scotland and Northern England, while the other half is invested in elderly care in the Netherlands.

Development banks

Aegon Asset Management has investments in development banks amounting to a total of over EUR 2bn as of 2015. These banks operate in emerging and lesser developed countries, promoting economic growth and helping reduce poverty. This number is substantially higher than the total investment amounts reported in previous years (EUR 73m); this is due to the more detailed screening of our UK portfolios that we undertook in 2015 where additional investments were identified.

Green bonds

Aegon Asset Management held investments in green bonds totalling EUR 248m in 2015 (EUR 119m in the Netherlands, EUR 112m in the US and 17m in the UK). These bonds are designed to raise capital for projects with a clear environmental or social benefit. The investments vary in scale from local rainwater management initiatives to multi-million dollar schemes to harness wave power.

Solar power

AURA started making investments in the solar investment tax credit ('Solar ITC') asset class in 2013 and includes a total of approximately EUR 1.8m that has been committed to Solar ITC through our investments in traditional LIHTC deals.

AURA has also started investing in pure Solar ITC investments. These investments present a new 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. In 2015, four pure Solar Tax Credit deals were closed on behalf of Transamerica life insurance companies, for a total investment of EUR 89m. All of the multiple individual solar farm sites are located in North Carolina, USA. The farms have a combined design power capacity of 102 MW and generated 16,539 MWh in late 2015 after coming online.

Impact: The partial-year 2015 power generation impact from these four pure Solar deals is equivalent to avoiding the carbon dioxide emissions from 61 railcars worth of coal burned, or the average yearly electricity use for 1,569 homes. For the 2016 RI Report we will report the impact based on a full year of power generation.

Geothermal power

AURA has invested in geothermal tax credits worth approximately EUR 140,000 that are imbedded in a much larger LIHTC investment for a construction site in New Mexico.

Microfinance

After assessing the possibility of making investments in microfinance funds in 2015 Aegon Asset Management made its investments totaling approximately EUR 10m in early 2016. Additional investments will be made in the course of this year up to the amount mandated by our client, Aegon the Netherlands. More details on the process can be found in an interview with the microfinance investment committee on the following page.

Exploring Microfinance Investments
— An Interview with Marcel van Zuilen, Anton Kramer and Harald Walkate

> In 2015, work continued on the process to evaluate microfinance investments. After the initial phase (to determine if microfinance investments offer a fit with the investment criteria of Aegon the Netherlands), a microfinance investment committee (MIC) was formed to manage the next steps. The MIC consists of Marcel van Zuilen, Portfolio Manager Money Markets in the Hague, Anton Kramer, Portfolio Manager Emerging Markets Equity & Debt at TKPI in Groningen, and Harald Walkate, Global Head of Responsible Investment.

Why a microfinance investment committee? And why the three of you?

Harald: In the first phase of the project, when we worked with an external consultant, we were not yet sure that we could in fact make these investments. Microfinance is considered to be one of the classic impact investments, and we had met with a number of microfinance funds, so we had a certain interest level. But microfinance is unlike any other asset class that Aegon Asset Management is familiar with, so we first needed to learn more about it in order to address the question of whether these investments could be made, taking into account the requirements of Aegon the Netherlands.

Once this was answered in the affirmative, we wanted to bring in additional expertise to do due diligence on the funds that were shortlisted in phase one. Anton focuses on emerging markets equity and debt at TKPI, and given that microfinance is primarily an emerging markets investment we thought his experience would be very relevant. In addition, TKPI is a multi-manager so he is familiar with the process of selecting and monitoring external managers, which would be very helpful in this process.

Marcel is focused on money markets investments, whose characteristics are considered to be somewhat similar to microfinance (shorter durations, low risk), so we also invited him to join the committee. Also, we needed to think about the logistics involved in making actual investments, which is where Marcel, as portfolio manager, comes in.

So what are the investment criteria that the microfinance funds need to meet?

Anton: There are quite a few. Of course the funds need to offer a certain return above swap (the risk-free rate) that compensates Aegon for the risk it takes with these investments. Microfinance funds do not have a rating with the large rating agencies such as Moody's and Fitch and the underlying loans in the funds are not rated either. So, in order to determine risk, we looked at metrics like volatility and defaults in the loans the microfinance funds extend to MFIs (microfinance institutions – banks in emerging markets who in turn provide loans to individual consumers). The duration of these loans is also important – the Solvency II regulations that apply to the insurer who we are making these investments for stipulate that the longer the duration, the larger the capital charge the insurer needs to hold. So, counter-intuitively for a long-term investor, we actually want a relatively short duration of two to three years. Finally, the scale of the microfinance fund is important. On the one hand, we look for funds with a decent size that can accommodate the relatively large 'ticket sizes' that Aegon prefers. On the other hand, the size should not interfere with the ability to invest in the most promising deals. Of course, we also look at other aspects of the funds as we would for any other external manager, like the composition and stability of the investment management team, how risk management is organized, the track record, etc.

You already reported last year that Aegon the Netherlands approved investing in microfinance, but the actual investments were only announced recently. What happened in the meantime?

Marcel: The logistics turned out to be cumbersome. We had a long list of things to arrange but we ran into two main challenges. First, we needed to set up accounts with external custodians. Most of the investments that Aegon Asset Management makes on behalf of Aegon the Netherlands are managed in-house, so working with external managers like these microfinance funds is not an every-day occurrence. Also, it took some time to determine that our usual custodian couldn't help us in making these very specialized investments. We then had to sort out the administrative process to set up accounts with other custodians.

Harald: But the bigger challenge was the reporting requirements. Because of the Solvency II regulations that apply to the insurance company, there are strict and far-reaching 'look-through' reporting requirements. Basically that means that the microfinance funds need to report on their investments in a great amount of detail so that the investor can literally 'look through' the fund and demonstrate to the regulator that it is compliant with the regulations. In addition, we needed to apply the reporting requirements set by the risk management function at Aegon, which comes with an additional set of metrics we requested from the funds. For these funds, this meant changing their reporting templates, and you have to keep in mind they in turn need to obtain all the data from MFIs in places like Cambodia, Peru, Nigeria and then some 100 other countries, so you can imagine this is not something that can be done overnight.

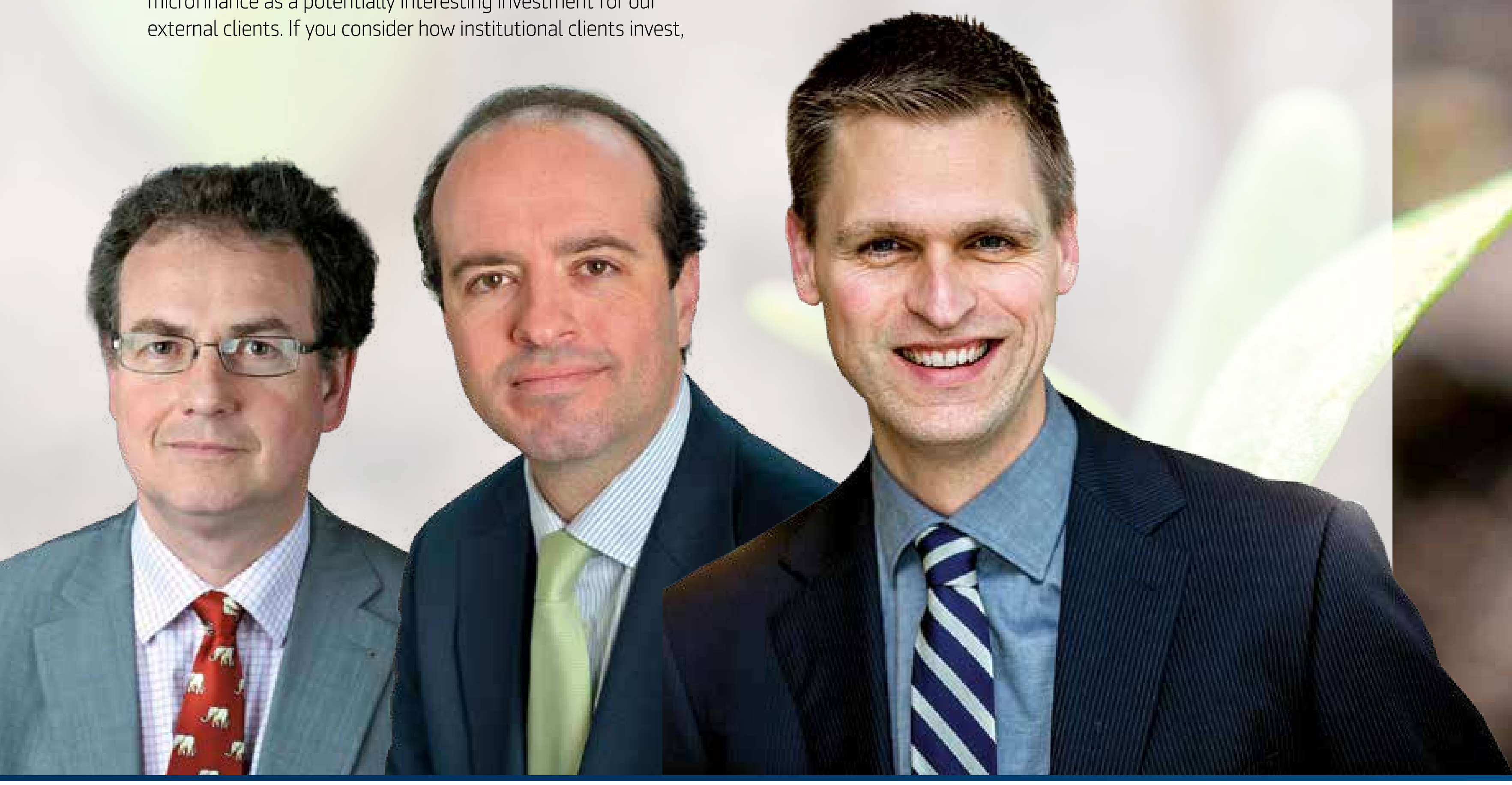
It sounds like a lot of effort for investments that are small given the total size of Aegon's assets under management – is it worth the trouble?

Marcel: To be honest, we didn't expect it to take so long to sort out all of these issues but it has been very interesting to learn about a new asset class. It has also allowed us to have a lot of discussions with colleagues we don't usually work with – and people here are excited to be part of the project.

Anton: You should also keep in mind that we are looking at microfinance as a potentially interesting investment for our external clients. If you consider how institutional clients invest, like insurance companies and pension funds, it appears to be a pretty good fit– in this low yield environment the returns are attractive, the risks are acceptable, and there is essentially no correlation with other asset classes they invest in. But if you look at what it takes to really understand the microfinance investment chain and to select the microfinance funds that can handle an institutional client's demands, that's a whole new area of expertise that we now have and can leverage to service our clients.

Harald: The key benefit for me has been that we've been able to involve some 50 colleagues from across the organization in this process, and that it has demonstrated that making sound investments from a risk-return perspective can go hand-in-hand with generating impact. People here turned out to be very interested in the impact aspects of microfinance, along with how the currency hedging is done. I think it demonstrates that our integrative approach works. To the outside world, I think the key learning is that for institutional investors just having an interest in 'impact' is not enough. If you want to do more than just pay lip service to impact, you have to be willing to dive deep into the investment case and to address all the nuts-and-bolts issues.

Marcel van Zuilen, Harald Walkate and Anton Kramer



We use our investment management expertise to help people achieve a lifetime of financial security.

Impact Measurement and Community Investments — An Interview with Sean Creedon and Thai-An Ngo,

> A key aim of 'targeted' or 'impact' investing is to make a positive social or environment impact in addition to a financial return. Measuring the social and environmental benefits of investments has been the focus of groups such the Global Impact Investment Network (GIIN). Unfortunately, there are still no international standards to measure the non-financial impact of investments and there are a number of challenges in terms of establishing meaningful measurement tools. Aegon Asset Management seeks to measure the social and environmental impact of its targeted investments, however it also recognizes that significant work remains to be done and it supports the work of independent organizations to design metrics.

San Francisco-based Sean Creedon and Thai-An Ngo specialize in two types of impact investment: the Low-Income House Tax Credit (LIHTC), a program initiated by the American government to promote affordable housing, and the Solar Investment Tax Credit (ITC) scheme, which aims to promote the growth of the renewable energy sector. Together, they explain why they believe social and environmental impact measurement is important and describe the challenges of developing metrics that can be used by investors.

The nature of your investments, in solar and affordable housing, can be qualified as 'impact investments' because of their social and environmental dimensions. Do you believe that measuring these performance criteria is important? Why?

Sean: Interestingly, investor interest in the Low-Income Housing Tax Credit (LIHTC) program was not originally motivated by social or environmental considerations but by the programs strong financial returns. I think the same can be said of the Solar Investment Tax Credit; it provides a good return with manageable risk to our clients. In our view, consistently delivering expected returns to our clients is a fundamental component of impact investing, just as it is of other asset classes.

Thai-An: I agree with Sean, but even though it may not be the primary goal of our clients, social and environmental impact measurement are extremely relevant for these programs and this is for a couple of reasons. First, both programs have very clear social and environmental objectives: to provide better housing opportunities to people with low-incomes and to increase the share of renewable energy production in the United States. For these programs to continue, it is vital that there is solid evidence these objectives are being met.

I think another reason why social and environmental metrics are important, particularly in terms of affordable housing, is that the investment and development space is not taken up squarely by investors or businesses. For example, established communities might oppose the development of low-income residential units in their areas, sometimes out of fear that they will be too taxing on local services. When you say 'affordable housing' in the US people automatically think of big towers made of cement, but this isn't the case. What has been shown time and time again is that well thought out low-income housing developments boost real estate values and do not make extra demands on local services. In this space, there are many groups that have a stake in the development and they need to be assured that the program adds value, whether you choose to define it financially or socially.

What types of social and environmental impacts do you use to assess your investments?

Sean: The LIHTC is structured as a tax advantaged equity investment where Aegon makes investments into limited partnerships that in turn build or renovate affordable housing projects. LIHTC developers have the responsibility to apply for tax credits from the government when they are planning a new project and this is where social and environmental indicators are most visible. Government agencies want to see that affordable housing is facilitating access to education and health, creating jobs and boosting tax revenues. Of course, each state may prioritize a different set of indicators but they are monitoring the proximity of developments to things like public transport, hospitals and schools. The last thing you want is a project in the middle of nowhere! Some developers have specific social goals as well and will measure things like seniors' health and wellness, school test scores and crime rates.

As investors, we enter the picture after these parameters have been set so we don't have a lot of room to define our own set of indicators. Our key task is to conduct due diligence on the indicators that have been agreed. We want to be certain that if a developer claims that a residential unit will be walking distance from public transport or a hospital that they can deliver on that promise.

Thai-An: I think the picture is fairly similar in terms of the Solar ITC. The US Environmental Protection Agency (EPA) has been leading the way in terms of creating indicators on greenhouse emissions reductions. As a result, we can easily point to a lot of impact metrics, including the significant carbon dioxide emissions that are avoided as a result of power generation from our solar investments (these impacts are detailed elsewhere in this report). I think these measures are useful to a point. I would call them 'trophy statistics' because they give a nice headline but it can be challenging to dig deeper into the details to understand what the real impacts are and will be.

Would you say that information gaps are the key challenge of developing social and environmental metrics for impact-style investments?

Thai-An: It is definitely a problem. There needs to be good data underlying any type of metric. But I think the challenges go beyond this and affordable housing is illustrative: the goals of every project differ, so coming to an agreement over a universal set of indicators means obscuring some of them. You can hone in on some crude metrics – for example, jobs created per one hundred residential units – but this cannot always tell the bigger story; it misses the point that some developments are focused on other things, like access to healthcare or seniors being able to live independently.

Another challenge with metrics is that sometimes social goals can't be measured in the same way as financial ones. To go back to the example of skeptical communities, where we have seen the most success is where developers have really engaged with these communities, bringing them to see other types of affordable housing. Metrics cannot replace the fact that people have to talk to one another.

Sean: I think the other challenge as an investment manager is that we are further down the line when it comes to formulating social and environmental goals. We do our best to support these objectives through our due diligence process and we also play a key role to assure that projects are financially sustainable but we recognize that there are other organizations with more appropriate capacity and expertise to develop these indicators.

Thai-An Ngo and Sean Creedon
Associate Director and Director Community Investments

We use our investment management expertise to help people achieve a lifetime of financial security.

SRI Funds

> SRI (Socially Responsible Investment) funds offer various investment strategies that often revolve around exclusions (or negative screening) for a specific ESG issue, or acombination of ESG issues; for example, companies with poor environmental or human rights records, or companies that are active in the arms or tobacco industries may be excluded from investment consideration.

SRI may also be 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 funds, in the UK, 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 2015, Aegon Asset Management had more than EUR 3bn assets under management in these SRI funds.

In addition, Aegon Asset Management's joint venture in China, Aegon Industrial Fund Management Company (AIFMC) also operates a successful SRI fund with EUR 1bn AuM and a Green fund with EUR 180m AuM. These funds are featured in a separate case study below.

Case Study: Values-Based Investments

> How can values-based investments be made beyond public equities, the traditional asset class associated with socially responsible investing?

At Aegon Asset Management, we have now developed solid in-house expertise in ESG, by advising Aegon Group in setting exclusion lists, in ESG integration for various asset classes, and in developing SRI funds in a number of markets. We are increasingly seeing that this expertise also helps us in advising external institutional clients that would like to see their ethical values reflected in the way they invest.

In 2015, Aegon Asset Management was selected by a Catholic health care foundation which had the dual goal of making investments that were consistent with its organizational identity and investing beyond equities, in areas such as emerging market sovereign debt. While the Foundation saw an opportunity in emerging markets, it also wanted to apply screens to its investments to assure investments were not made to states who contradicted the Catholic values of the Foundation.

Because this request was unique, the Aegon Asset Management team focused on what Sarvjeev Sidhu, Global Head of Emerging Markets, describes as 'pure customization', which involved setting restrictions on its investment universe and tailoring all of its investment processes to assure that the client's investment criteria would be satisfied. From Sidhu's perspective, tailoring the investment process was 'a great opportunity to learn about how we can adapt to meet the specific investment beliefs of our clients.'

However, the team was concerned that the restrictions might affect the returns of the portfolio and wanted to ensure the value of their client's investments was protected. The way that Sidhu and his team addressed this problem was to have an open conversation with the Foundation. As Sidhu explains, 'the fact that there are restrictions to the investment universe means there is the potential to underperform against the benchmark and through discussions, we found that our client was very clear about this risk and accepted it.' In fact, concerns about performance to date have not been warranted and the portfolio has outperformed the benchmark.

Sidhu boils the success of its investment strategy down to the fact that the goals of the Foundation have not interfered with Sidhu's primary task of selecting securities with the relevant risk-return profile. According to Sidhu 'restrictions always have the potential to affect our performance against the benchmark but so far we have not faced any problems and have been able to make security selections that fit both the financial and social goals of the portfolio'.

An interview with Sarvjeev Sidhu about how he incorporates ESG in emerging markets investments can be found on page 28.

Case Study: Responsible Investment at AIFMC in China

> During the double-digit growth period in the last decade, the research team at AIFMC, Aegon Asset Management's Chinese joint venture, foresaw the necessity of China's economic transformation. The team also realized that the forthcoming reforms would focus to a large extent on concerns also being highlighted by the proponents of the RI movement that was then just emerging in China. That is, AIFMC thought, the country would want to continue to achieve economic growth but in a cleaner, more energy-efficient and more productive way, which would require Chinese businesses and investors to proactively consider environmental, social and governance factors.

Motivated by this idea, AIFMC starting developing a RI philosophy and looked abroad to learn from, and borrow, ESG practices and tools in other countries. The company also set up two SRI funds in 2008 and 2011, with the dual aims of drawing companies' attention to their social responsibility through capital allocation, and promoting the idea of responsible investment and sustainable economic growth.

The AIFMC Social Responsibility Investment Fund was launched in April 2008 as the first SRI fund in Mainland China. Its goal is to pursue both current returns and long-term capital gain, as well as to emphasize sustainable growth, and an ethical approach to business operations at the same time. As of December 2015, the fund had more than RMB 8 billion in AuM, with an accumulated Net Asset Value (NAV) of 3.0760 and a compound annual growth rate (CAGR) of 15.78%.

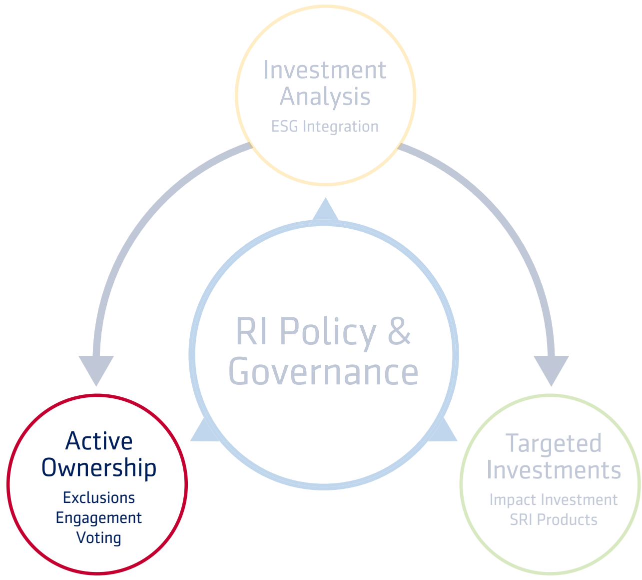
Based on the success of its first SRI fund, the company then established the AIFMC Green Investment Fund (AIFMC GI Fund) in May 2011. The fund focuses on green technology industries and companies, and seeks out companies in traditional areas who take a proactive approach to their environmental responsibilities. As of December 2015, the AIFMC GI Fund had almost RMB 1.5 billion in AuM, with an accumulated NAV of 2.3770 and CAGR of 20.39%.

Despite these steps, AIFMC still sees a large gap between China and other countries in terms of RI practice. The company observes that RI and ESG have been widely embraced by mainstream investors, including sovereign wealth funds, mutual funds, endowments and others in many countries. But in mainland China, AIFMC still sees that institutional investors lack power to influence investee companies, and listed companies still have little awareness of sustainability issues. There is also a shortage of third-party information disclosure and data support, which is also a barrier to the further development of RI in China.

AIFMC is committed to integrating ESG factors into its sector allocation and stock selection processes. Also the company wants to actively shift the emphasis from the 'old economy' to the 'new economy', by giving more attention to emerging industries such as green energy, information technology, biotechnology and advanced materials, and by reducing allocations to eco-unfriendly sectors such as coal, iron, non-ferrous metals, etc. Meanwhile, companies with poor CSR records are excluded from AIFMC investment consideration.

10. Active Ownership

> Our Active Ownership activities include engagement, voting and exclusions.



Engagement
The engagement program at Aegon Asset Management has a number of functions.

First, by engaging with the companies in which we invest, we can ensure that they live up to the standards of the applicable RI policies. Secondly, engagement with these companies can help to clarify and address potential ESG investment risks.

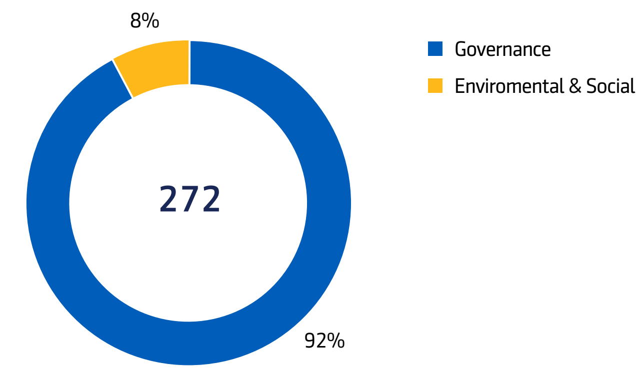
In view of our focus on climate change, we have also emphasized climate change-related risks in our engagement activities in 2015.

Finally, through broader stakeholder engagement, we seek to better understand society's views on ESG issues, to bring expertise in-house in order to educate ourselves on relevant ESG themes, and to communicate proactively about our approach to responsible investment. In this context, we organized the Climate Change Summer Camp in August of 2015 and the Defense Investments Roundtable that took place earlier this year.

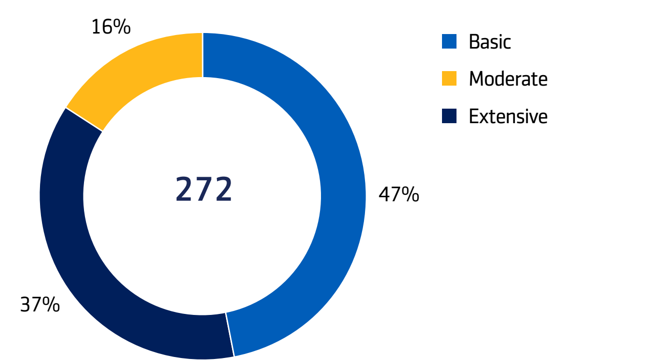
Regardless of the type of engagement, Aegon Asset Management's approach is to partner with the relevant internal investment decision-makers and seek external expertise to develop our understanding of and refine our approach towards core sustainability themes. This type of collaboration has led to consultations with academics, NGOs and industry groups and partnerships with the Institutional Investor Group on Climate Change, the PRI and Eumedion.

Engagement in 2015
In 2015, Aegon Asset Management engaged with 272 companies on a range of ESG issues. 92% of AAM engagement activities were related to corporate governance matters; 8% were related to environmental or social issues. We classify and record our engagement activity as basic, moderate or extensive. We illustrate our engagement activities with a number of case studies in this chapter.

Engagement topic



Engagement type



Case Study: 'Climate Change Summer Camp' at Aegon Asset Management

> Aegon Asset Management held a summer camp in The Hague in order to better understand the impact of global warming on insurance and investments.

Every afternoon for a week in August 2015, visiting experts from the University of Cambridge Centre for Risk Studies, Shell, Carbon Tracker, and data provider MSCI sat with Aegon Asset Management portfolio managers and analysts, as well as other Aegon employees. The experts presented their findings on climate change and discussed what the potential implications for investors might be, also in view of the upcoming COP 21 climate change conference in Paris.

Scott Kelly, of Cambridge University, said there is now near universal scientific consensus that climate change is happening at an unprecedented rate, and that it will have dangerous long-term effects. 'If average global temperatures exceed 2 degrees, this will lead to falling crop yields, water scarcity and threats to low-lying cities,' he indicated. 'There will be rising rates of extinction and an increasing risk of high impact weather events.' Kelly discussed how asset classes are expected to perform under three different scenarios, based on Cambridge Centre for Risk Studies research.

James Leaton, Research Director at Carbon Tracker, a think tank, discussed how Carbon Tracker sees the energy industry evolving, and why it expects fossil-fuel based industries to decline in terms of competitiveness. Leaton also explained the concepts of the 'carbon bubble' and 'stranded assets' – assets on energy companies' balance sheets that may never turn a profit. 'Who is going to pick up these undesirable assets? What is the exit strategy?' he said. 'Cheap seaborne coal prices can't justify getting things out of the ground.' Carbon Tracker employs financial analysts, whose approach appealed to Aegon Asset Management staff. For example, Leaton discussed Carbon Tracker research on cost curves, to identify breakeven production prices, which leads to the view that most sources of energy will cost too much money to extract under projected price scenarios.

Angus Gillespie, Vice-President CO2 at Shell, explained the company's position on climate change and how it sees the future of the energy business, stressing that energy demand will increase further and that renewable energy sources are far from able to satisfy that demand. 'The difference between Shell and NGOs is that we are asking how to reduce carbon emissions when there is increasing energy demand. The NGO position is that we need to reduce production to stay within 2 degrees. But we cannot assume that demand for oil will just disappear.' Gillespie also talked about Shell's strategy for carbon capture and storage (CCS) and the need for governments to create much-needed transparency in regulations. Gillespie: 'We need a carbon price to makes the rules clear. To give CCS a go, we need USD 125/ton for carbon but the price today is USD 7. How do you push solar, wind and CCS when there aren't price signals that allow viable solutions to come through? We need to price this in and this is the future Shell would like to see'.

Nadia Laine, Vice-President of ESG Products at MSCI, closed off the week's program and talked about how tools and approaches for analyzing and mitigating climate-related risks are emerging. Laine discussed the pros and cons of strategies like carbon footprint analysis and reporting, divestment, low carbon indices and engagement.

Head of Responsible Investment, Harald Walkate, who chaired the summer camp program, commented on this type of engagement. He indicated that the expert views and discussions with Aegon Asset Management employees will feed into internal discussions on focus areas for ESG integration, the engagement program, next steps in carbon risk measurement, and questions about the role that Aegon can play in tackling climate change. 'These presentations show that portfolio managers and analysts should be thinking about climate risk and regulatory responses, as we are expecting from COP 21. But discussions this week also show that there are no simple answers and there is much uncertainty about what governments will do to tackle climate change, how fast renewable energy sources will develop, and therefore how to measure these risks and act on them,' he said. He added: 'One thing we would all agree on this week is that as we're thinking of our clients' financial futures, we should also ask: what role can we play to ensure the world they will live in is a better place?'

Case Study: IIGCC Collaborative Engagements in Utilities & Mining Sectors

> In 2015, Aegon Asset Management made it a priority for the company to address climate change-related investment risk. Consequently, a core component of the engagement program at Aegon Asset Management focuses on climate change.

As a result of the Climate Change Summer Camp in August 2015, investment managers and the Responsible Investment team agreed that a key issue that engagements needed to focus on was the way that energy intensive sectors are positioned to address a world of more restrictive environmental policy and of more energy efficient technologies.

Utilities and mining companies in particular have been affected by regulation in the United States and Europe which seek to minimize the production and consumption of coal. In this landscape, some utilities companies have succeeded in adapting their business models to the new policy environment while others do not appear to have anticipated the headwinds. For example, Iberdrola, a Spanish utility provider was a first mover in terms of investing in renewables, while RWE, a German utility did not begin its transition away from coal and nuclear until Germany introduced plans to phase them out. These different responses to policy change have produced dramatically different business results, with Iberdrola's profits driven by its push into renewables in 2015 and RWE seeking to restructure to manage the costs of adapting to a low carbon world.

Aegon Asset Management has partnered with the Institutional Investors Group on Climate Change (IIGCC) to conduct engagements in the utilities and mining sectors. Investors taking part in these engagements share the goal of better understanding the business strategies and planning processes of businesses which are most affected by climate change regulation and technological change and of working with them to encourage them to take pro-active steps to address the threats of climate change. The companies that are engaged with include Engie, EDF, Iberdrola, RWE and E.ON.

Case Study: Canadian Field Trip with Shell — Oil Sands, Climate Change, Carbon Capture & Storage (CCS)

> For several years, Aegon Asset Management has engaged with Shell on a number of ESG themes, including climate change, environmental and human rights issues. In 2015, Roger Wildeboer Schut of Aegon Asset Management participated in a field trip organized by Shell in the province of Alberta, Canada, to see the open pit oil sands operations, and to visit the Quest CCS facilities.

With a small number of other investors, Wildeboer Schut travelled to Calgary, the Canadian oil industry hub, where Shell discussed its Canadian activities, which cover the full spectrum of the upstream and downstream oil business. Shell representatives zoomed in on heavy oil, CCS, and the Canadian Liquefied Natural Gas project. Angus Gillespie, Vice-President CO2 (who also presented at Aegon Asset Management's Climate Change Summer Camp) presented Shell's CO2 management strategy.

Climate Change

Shell provided insight into society's challenges of providing energy to an estimated global population of 9 billion in the year 2050. Growing economies like China and India create an enormous demand for energy, so the difficulty is to generate more energy while emitting less CO2. Shell believes that renewables will become a significant part of the global energy system, alongside cleaner hydrocarbons that are needed to address shortcomings in availability, intermittency, storage and energy density of renewables. But Shell believes this transition will take decades, not years.

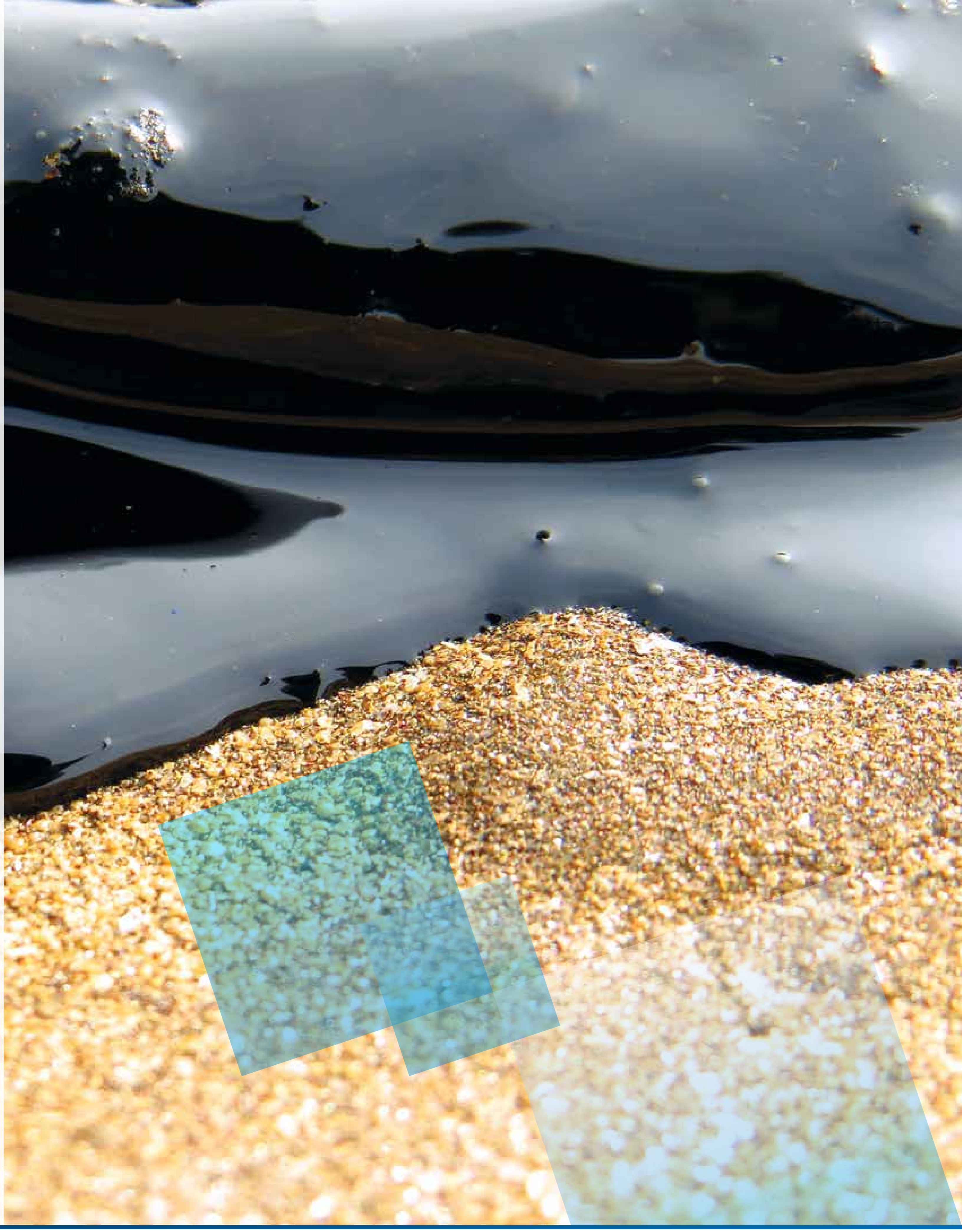
In order to better understand how things might play out, Shell has developed two main scenarios, Mountains and Oceans, as discussion frameworks. In Mountains – a 'top-down' scenario – changes will be driven by governments, whereas Oceans envisions more of a bottom-up scenario, where civil society support is key. In the Oceans scenario, Shell assumes more wind and solar in the energy mix, and less coal, nuclear and biomass, compared with the Mountains scenario. Today however, almost all different energy sources are expected to grow substantially in absolute numbers because of increasing energy demand.

According to Shell, addressing climate change is not just a matter of switching from fossil fuels to renewables – in order to keep up with demand, we will need all sources of energy for the time being. Shell also points out that some industries, for example steel, require sources of energy that cannot be offered by electricity as they depend on high temperatures that only thermal fuels can supply.

Oil Sands

Oil sands are either loose sands or partially consolidated sandstone containing a naturally occurring mixture of sand, clay, and water, saturated with a form of petroleum technically referred to as bitumen (or, colloquially, tar due to its similar appearance, odor and color). Canada has 173 billion barrels of oil that can be economically recovered with today's technology. 163 billion of these are located in the oil sands. Oil sands reserves have only recently been considered to be part of the world's oil reserves, as higher oil prices and new technology enabled profitable extraction and processing. But oil companies including Shell have been criticized because of the environmental, health and safety, and water and waste management issues associated with oil sands. With much lower oil prices in 2015, companies like Shell have been questioned about the economic viability of oil sands production.

During the field trip, the group visited Albian Sands, an oil sands project consisting of two open pit mining locations, Muskeg River mine and Jackpine mine. Shell demonstrated how simple the process is to separate the bitumen from the sand and clay, by adding warm water to a glass jar of oil sand. Shell also showed the group how the mines are being developed with care for the environment – 80% of water used in the operations is recycled and the different layers of sand are stored in order to be able to reclaim the site in the future, although Shell admitted that it is impossible to recreate the exact same environment as before the mining activities. Nonetheless, the company says the end result is pretty close. For example, the investor group had a lunch meeting near a lake specifically built for fish moved because of operational development. Local scientists are also researching which vegetation works best for the local environment and wildlife. Finally, Shell are part of Canada's Oil Sands Innovation Alliance (COSIA), a coalition of thirteen oil sands companies who collaborate to improve environmental performance. Shell is leading or involved in 52 of the 228 COSIA projects.



CCS

The group also visited the Scotford facilities, a complex with an upgrader, a refinery, a chemical plant and a facility. The group saw how bitumen from the oil sands arrives and is upgraded using hydro conversion. According to Shell, hydro conversion is the most environmentally friendly upgrading method that requires less heat than other methods, and does not create a by-product. It was also pointed out that 90% of the water used in the upgrading process is reused in operations and the CO2 from the upgrader is captured.

This is also where Shell demonstrated the Quest CCS project to the group. The CO2 is liquefied and sent through a pipeline to the injection well, where it is permanently stored two kilometers underground. According to Shell, this area has been researched by scientists for decades and has been chosen because it is very suitable for storage. Storage performance depends on a combination of physical and geochemical trapping into the underground layers, and according to the Intergovernmental Panel on Climate Change (IPCC) it is very likely that over 99% of the carbon will be retained over a thousand years' period. Because of the high pressure underground it is expected that in the long run the CO2 will turn solid, a point that Shell emphasized because people often believe that CCS involves the underground storage of dangerous gases that can escape, in case of an earthquake, for example. Without further expansion, the current storage capacity of the Quest project is over 1 million metric tons per year, equivalent to the annual emissions of 250,000 cars. Besides Quest, Shell is involved in several other CCS projects around the world. Shell points out that rebuilding Quest today could cost 30% less, but to make CCS commercially viable would also need some form of adequate carbon pricing.

Aegon Asset Management's overall impression of the trip was that Shell makes safety a top priority, and has dedicated and motivated employees who genuinely want to exceed expectations and do the best job possible. With Shell, Aegon Asset Management believes that oil and gas will remain an important part of the energy mix over the decades to come, but that the transition to a more sustainable energy system must be accelerated, and that CCS can play a substantial role in reducing CO2 emissions globally. Also, this type of 'intensive engagement' – visiting a company's facilities, having the opportunity for open dialogue with many company representatives, being able to learn from the dialogue with the other investors – helps inform Aegon Asset Management's position on important ESG issues including climate change, oil sands and CCS.

All presentations that were given during the field trip can be found online at:

http://www.shell.com/investors/investor-presentations/2015-investor-presentations canada-shareholder-field-trip-sept-2015.html

Engaging with the Defense Sector

> Aegon Asset Management excludes companies from its investment universe when there is evidence that they produce cluster munitions and anti-personnel land mines or related components. Companies may be removed from the exclusion list if they can provide evidence that they have terminated production and sales of these types of technologies. For example, Lockheed Martin was removed from the exclusion list of Aegon Asset Management after it was able to confirm its announcement that the company had exited production of cluster munition technologies. Aegon Asset Management is now undertaking a similar review process of Singapore Technologies Engineering, which announced it was no longer in the business of producing cluster munition-related products in 2015.

Even when such companies are removed from the exclusion list, they are continuously monitored to assure their status. For example, after Amnesty International reported that Lockheed Martin cluster munitions technologies were used in an attack in Yemen in 2015, Aegon Asset Management sought dialogue with Lockheed Martin to ascertain when and how these munitions were procured.

Because defense-related investments are a recurring theme for the Responsible Investment Team at Aegon Asset Management we decided to organize a roundtable to discuss the responsible investment dilemmas in investing in this sector, and invited NGOs, academics and industry representatives to attend. In next year's report we will provide further detail on this event. A write-up on this event was already published on the Aegon website and can be found at:

http://www.aegon.com/en/Home/Investors News-releases/2016/ Investing-in-the-defence-industry-Aegon-examines-the-broader-picture

Case Study: Mylan & Lethal Injections

> Aegon Asset Management has engaged collaboratively with certain pharmaceutical companies in order to push for the cessation of production and sales of drugs that are used by prisons to administer lethal injections. Sale and export of this class of drugs for the purpose of executions is illegal in Europe but not in the United States.

Aegon Asset Management contacted Akorn, Sagent, Teva and Mylan, and all the companies responded openly to discuss the implementation of distribution controls in order to prevent medicines from being used in executions. However, Mylan was less responsive, citing the fact that it was an American company and thus working within a legitimate legal framework.

In February 2015, Mylan performed a reverse take-over when it acquired the non-US activities of Abbott Laboratories and incorporated itself, on paper, in the Netherlands. This provided a lower effective tax rate and the availability of anti-takeover mechanisms, but also came with the (perhaps unanticipated) consequence that the company needed to comply with Dutch and European human rights laws. In addition to the questions asked during our engagement, a human rights lawyer filed a complaint at the OECD within a week of the transaction. After a considerable amount of media coverage and increasing pressure from policy makers and the general public in the Netherlands, the company announced that it would change its position towards distribution controls and, in September 2015, Mylan announced it would take measures to prevent its drugs from being used for lethal injections in the United States.

Case Study: PRI Human Rights and the Extractives Industries

> Aegon Asset Management is proud to be working with the PRI on a collaborative engagement focused on improving human rights practices and reporting in the extractive industries. The framework for the engagement is based on the UN Guiding Principles for Human Rights, which outlines the responsibilities of businesses to protect and promote human rights.

Aegon Asset Management joined this engagement as a result of a portfolio review that found that several of the companies that did not meet the standards outlined in our RI Policy were from the extractives sector and were facing human rights related controversies. This includes companies such as POSCO, which is involved in a contentious development in Odisha, and BHP Billiton and Vale, whose joint venture mining business in Brazil suffered a major industrial accident as a result of two dams that collapsed.

These types of controversies are of concern not only to Aegon Asset Management but to a much broader range of stakeholders, most importantly the people whose lives are affected by industrial conflict and disaster. By working collaboratively with the PRI, Aegon Asset Management is able to coordinate with a broad spectrum of investors and stakeholder groups to speak with one voice that underlines the urgency in which human rights issues must be addressed.

The engagements focuses on six core areas: corporate response to human rights incidents or allegations; human rights commitment; governance and embedding respect for human rights; human rights risk assessment; stakeholder engagement and grievance mechanisms and business relationships.

The companies with whom Aegon Asset Management is engaging on this project are Barrick Gold, BHP Billiton, Chevron, Freeport- McMoran, Glencore, Grupo Mexico, S.A.B. de C.V, Petrochina Company Limited, POSCO and Vale.

Chevron

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

Engagement case: Improving Environmental Management Practices

Aegon Asset Management concluded an engagement with an energy company based in the United States. The company was selected for engagement due to its exposure to environmental risks. The company faced serious environmental controversies across its operations that indicated shortcomings in its environmental management policies. During the engagement process, the company was requested to increase public disclosure of its environmental policies. Furthermore, the company was asked to enhance its management of health, safety and environmental risks and to disclose details on the implementation thereof in order to prevent risks related to environmental damages.

The company was responsive during the engagement process and provided details on the implementation of its environmental policies and safety improvements. During the engagement process, the company showed significant progress and now operates a strong environmental management system. The company also showed actual implementation of its environmental policies and safeguards to prevent adverse impacts. Overall, the company demonstrated that it is implementing its policies, although room for further improvement still exists in the area of disclosure on how the company remedies risks related to the environment. Such steps could further mitigate the company's exposure to environmental risks.

Chinese Petrol Chemical Company

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

Engagement case: Ensuring Health and Safety Safeguards to Protect Workers

In 2015, Aegon Asset Management engaged with a crude oil producer based in Asia. The company was selected for engagement due to its exposure to human rights related risks. Specifically, there were concerns about the company's historical track record concerning employee accidents and violations of safety regulations that expose its employees to an unsafe work environment. Aegon Asset Management requested the company to improve its reporting on health and safety issues and to bring this in line with industry standards. The company was also requested to offer detailed reporting on the implementation of its safety management system.

The company was responsive to the engagement recommendations and showed that it had taken steps to implement its commitments related to its safety risk management. The company explained that its health, safety and environmental policy is implemented by a committee that is overseen by the company's top management. Furthermore, the company also explained that it has established a specific committee to deal with safety concerns. However, the company did not disclose details on its implementation of policies and procedures to avoid, prevent and address the human rights impacts.

While the company showed that it is taking steps to improve its safety management, further steps are required in terms of policies and procedures to mitigate outstanding risks to adverse human rights impacts. Overall, the engagement process indicated that the company is making progress and is reducing risks related to human rights.

MTN Group Limited

Relevant Global Compact Principle	Principle 2: Businesses should make sure that they are not complicit in human rights abuses.

Engagement case: Managing Complicity Risks in Human Rights Violations

Aegon Asset Management continued a fruitful dialogue with a large telecommunications company that has been linked to concerns about its complicity in human rights abuses by controversial regimes, including Iran and Syria. Aegon Asset Management and TKPI requested that the company strengthen its human rights due diligence procedures, and enhance disclosure on initiatives to protect human rights in high risk countries. The company was also requested to commit and disclose to a supporting policy on privacy, the freedom of expression, and security.

During the engagement process, the company took several steps to reduce its exposure to human rights related risks, including the establishment of a social and ethics committee. The company also issued a human rights policy statement adopted by the top management of the company. Furthermore, the company indicated that it conducted research into what human rights mean for its operations, given its exposure to high risk countries. It has also committed to addressing industry-specific issues, including the freedom of expression, privacy, and security. However, the company has yet to disclose a supporting policy on privacy and freedom of expression it committed to. Moreover, although the company has provided some details on how it evaluates human rights risks, it has not publically disclosed information on how it assesses human rights risks in the various countries of operation. In conclusion, a constructive engagement dialogue with the company was established and the company showed an encouraging level of preparedness to work on human rights risks it is facing.

Central American Oil Company

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

Engagement case: Upholding Safety Standards Across Operations Including Contractors

Aegon Asset Management initiated engagement with a state-owned oil company based in South America that is exposed to significant human rights risks. The company faced serious incidents at its operational and office sites that caused significant fatalities and injuries. Of particular concern was the company's implementation of safety management systems at its operations to protect its workers. Aegon Asset Management requested the company to take steps to improve its safety management systems and disclose details and figures such as the total amount of fatalities among its employees. Aegon Asset Management asked the company to apply its health and safety policy not only to its direct employees but also to contract workers.

The company was responsive to the engagement recommendations and demonstrated the implementation of policies, programs and targets. The company showed that it is making progress with regard to its human rights risk management and safety, health and environmental policies. The company made clear that its safety management policies also apply to contract and service providers and their workers. Moreover, the company clarified that it made improvements to its safety management systems in the form of strengthened controls. These steps are in line with Aegon Asset Management's engagement goals, and can be considered positive, although the company's public disclosure of its safety performance can be improved to inform stakeholders on the implementation of its policies. Effective implementation is required in order to continue to drive demonstrable improvements in safety.

Voting

> Aegon Asset Management 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', which was adopted by the Executive Board of Aegon N.V. in 2008. This policy sets out company-wide practices and principles for all its asset management operations, and operates alongside existing local initiatives. In this 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 Aegon Asset Management units that are equity owners. A number of Aegon and Aegon Asset Management units have also adopted supplementary voting policies that are tailored to local best practices and governance principles.

Voting Cases

Betfair
Betfair is an online betting company based in Ireland (which has since merged with Paddy Power).

In October 2014, it became apparent that an error had been made with the recruitment arrangements for the CEO. We were approached by the Chairman of the Remuneration Committee with a view to resolving the situation by having to make retrospective changes to the performance conditions, something that we would not normally agree to support. However, over a long engagement with the company and after provision of paperwork that supported this was a genuine error, we decided we could support the amendments proposed by the company at the extraordinary general meeting on the 9th January 2015. However, as this issue had been highlighted to the Chairman by the CEO, as far back as 2013 and yet had not been resolved until January 2015, we decided to oppose the re-election of the Chairman, Gerald Corbett at the Annual General meeting on the 9th September 2015.

Renishaw
Renishaw is a FTSE250 engineering and scientific technology company, with expertise in precision measurement and healthcare. The Chairman and Deputy Chairman hold 53% of the shares in the company.

There was a change in the listing requirements in 2014 that required the controlling shareholders to sign a relationship agreement with the company including independence clauses for the protection of the minority shareholders.
In our opinion, none of these would affect the ability of the executive Chairman (Sir David) and the Deputy Chairman (Mr Deer) to run the company. However, both gentlemen refused to enter into the agreement. Subsequent engagement with the company on the matter did not enlighten us as to the reasons why. The company has been put on an enhanced oversight regime by the FCA as a result of this situation.

We could not understand the decision made and therefore abstained on the re-election of both the Chairman and Deputy Chairman at the AGM in October 2015 and asked them to reconsider. We will revisit this at the 2016 AGM.

Linear Technology
Linear Technology Corporation is a US based company that together with its subsidiaries, designs, manufactures, and markets a line of analogue integrated circuits worldwide. The Company's products provide an essential bridge between the analogue world and the digital electronics in communications, networking, industrial, automotive, computer, medical, instrumentation, consumer, and military and aerospace systems.

In our opinion, the board of the company is in need of 'refreshment.' The average tenure of the board is 20 years and there are only 2 directors who could be deemed to be independent. The chair of the audit committee has served on the board for 31 years. We believe it is the Chairman's responsibility to ensure the board is properly constituted so we voted against his re-election and have asked them to review prior to next year.

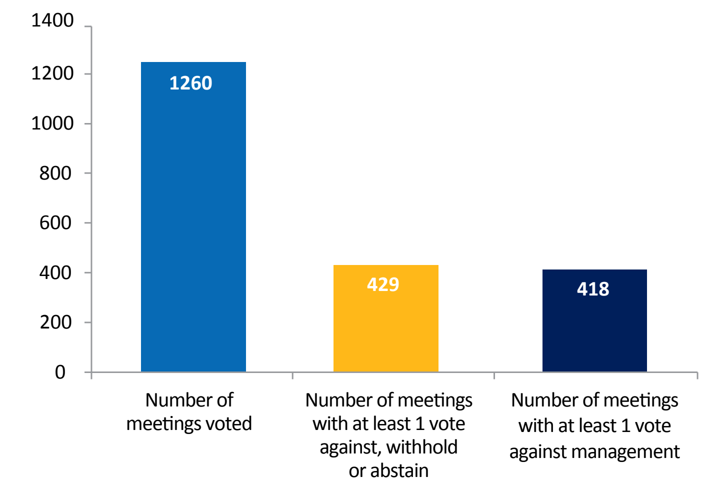
On remuneration, we had raised the issue of the longer term incentives not being subject to performance conditions and having the ability to start vesting after 12 months. There was no change this year and therefore we voted against the resolution to ratify the executive officers compensation.

United Internet AG
United Internet is an internet service provider based in Germany. German companies have a 2-tier structure of an executive committee and a supervisory board. We would expect the Supervisory board to consist of entirely independent people that could have oversight of the board on behalf of minority shareholders. In this company, there are five executive directors and three supervisory directors, one of whom has been appointed since 1988. We therefore have concerns about the oversight of the company.

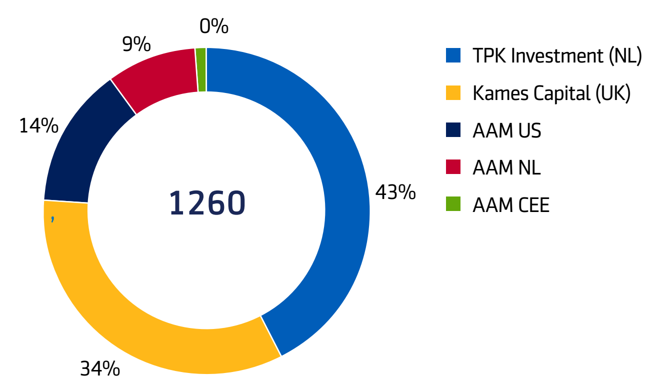
Furthermore, to add to the concern of independent oversight, the auditors are routinely paid over twice as much for tax work unrelated to the audit of the company. This could mean that their independence of judgment is hindered, as the non-audit work is far more lucrative for them.

We sought clarification from the company on these matters, but the explanation was not satisfactory. We therefore voted against the re-election of the Chairman and the resolution to ratify Ernst and Young as the company auditors.

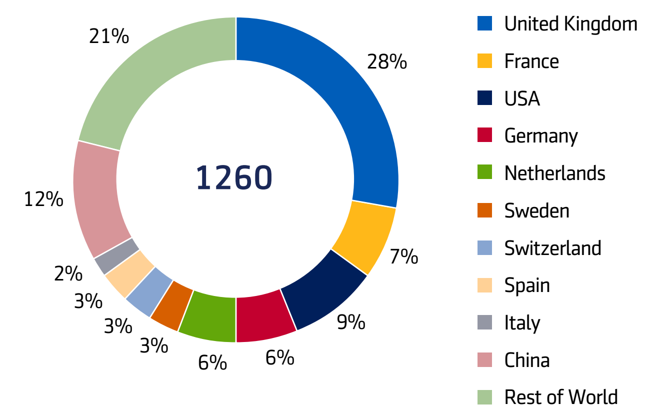
Votes Cast in 2015
In 2015 Aegon Asset Management voted on 1,260 meetings. 93% of votes were cast with management, and 7% were 'against management'. The percentage of meetings with at least one vote against management was 33%, or 418 out of 1,260.



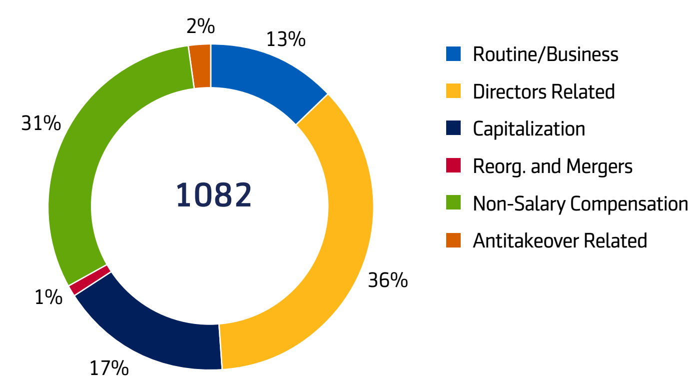
Meetings voted by AAM unit



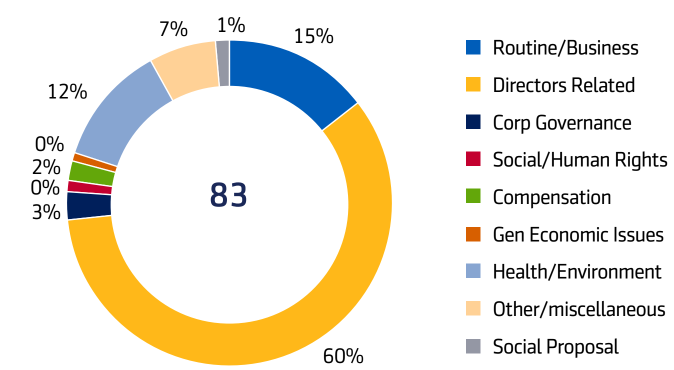
Meetings voted per country



Break-down of votes against management proposals



Break-down of votes on supported shareholder proposals



Exclusions

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

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

Divestment Philosophy

> 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 outside the scope of 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: Freedom House – Worst of the Worst Index; The Fund for Peace – The Failed States Index; and Human Rights Watch: regular country reports.

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

Exclusions List, April 2016

Companies*

1. Aerojet Rocketdyne Holdings Inc. (United States)
2. Aeroteh S.A. (Romania)
3. Ashot Ashkelon (Israel)
4. BEML Limited (India)
5. Bharat Heavy Electricals Limited (India)
6. China Aerospace Science & Technology Corporation (Peoples Republic of China)
7. China North Industries Group Corporation (Peoples Republic of China)
8. Elbit Systems Ltd. (Israel)
9. General Dynamics Corporation (United States)
10. Hanwha Corporation (South Korea)
11. Larsen & Toubro Ltd. (India)
12. Orbital ATK, Inc. (United States)
13. Poongsan Corporation (South Korea)
14. Poongsan Holdings Corporation (South Korea)
15. Textron (United States)
16. The Tata Power Company Limited (India)
17. Walchandnagar Industries Limited (India)

Countries (government bonds and other government debt)

1. Belarus
2. Burma / Myanmar
3. Central African Republic
4. Côte d'Ivoire
5. Democratic Republic of Congo
6. Eritrea
7. Iran
8. Libya
9. North Korea
10. Somalia
11. Sudan
12. South Sudan
13. Syria
14. Zimbabwe

* All subsidiaries of these companies are excluded as well.

'In terms of Responsible Investment, 2015 was the year of climate change for Aegon Asset Management.'

We use our investment management expertise to help people achieve a lifetime of financial security.

We use our investment management expertise to help people achieve a lifetime of financial security.

11. Appendices

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.com/Documents/aegon-com/Governance/Governance-documents/Aegon-Regulatory-Compliance-Charter-2016.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.transamericalifebermuda.com/Documents/aegon-com/Sustainable/AE-GON-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)	http://www.aegonassetmanagement.com/Documents/aegon-asset-management-com/documenten/Beleid%20Verantwoord%20Beleggen%202015.pdf
Kames Capital UK Responsible Investment Policy	http://www.kamescapital.co.uk/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.transamericalifebermuda.com/Documents/aegon-com/Governance/Governance-documents/Diversity-Statement.pdf
Aegon Policy for Charitable Donations	http://www.aegon.com/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
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

Business Unit RI and Voting Reports

Aegon Asset Management unit	Report link
TKPI Investments	http://www.tkpinvestments.com/multi-manager-beleggingen/verantwoord-beleggen/stemrapportage
Kames Capital (Responsible Investment documents incl. engagement & voting)	http://www.kamescapital.com/WorkArea/DownloadAsset.aspx?id=4294967433
Aegon Investment Management AIM (in Dutch)	https://www.aegon.nl/particulier
Aegon Asset Management 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 2014/2015	http://www.kamescapital.co.uk/WorkArea/DownloadAsset.aspx?id=4294975361

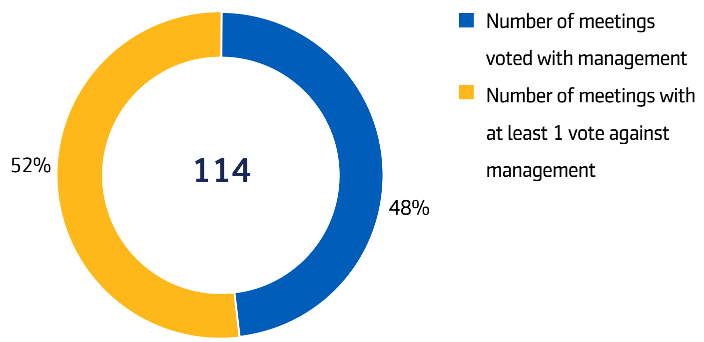
Cooperation and Collaborative Bodies

Organization	Commitment
Principles for Responsible Investment	Aegon Asset Management became a signatory to the PRI in February 2011. Kames Capital, Aegon Asset Management's UK-based investment management business has been a signatory since 2008. Membership commits AAM to the PRI'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
International Investors Group on Climate Change	Aegon Asset Management jined the IIGCC in 2015 to contribute to its corporate and Opublic engagement programs. It is working with the IIGCC on engagements in the utilities and mining sectors.
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 EUR 65 trillion. www.cdp.net
Extractive Industries Transparency Initiative	Aegon Asset Management's UK-based investment management business, 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 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	Aegon Asset Management is a member of the Dutch Association of Investors for Sustainable Development (VBDO) which represents the interest of institutional and private investors in the Netherlands who wish to contribute to sustainable development. www.vbdo.nl
Eumedion	Aegon Asset Management 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.eurmedion.nl
United Nations Environment Program Finance Initiative Principles for Sustainable Insurance	Aegon is a founding signatory to 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. http://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 Aegon Asset Management 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 non-profit organization dedicated to increasing the effectiveness of impact investing. www.thegiin.org

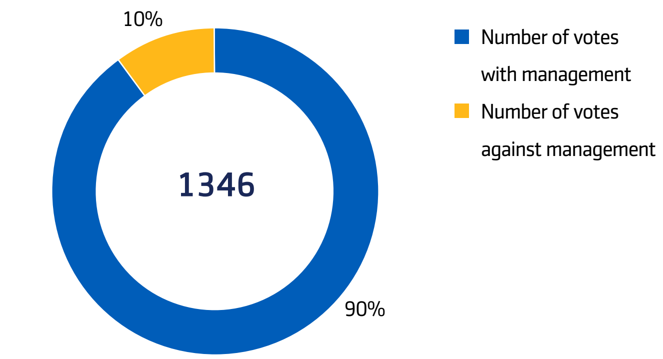
Voting Report: Aegon Investment Management B.V.

> This appendix shows how Aegon Investment Management B.V. voted in 2015.

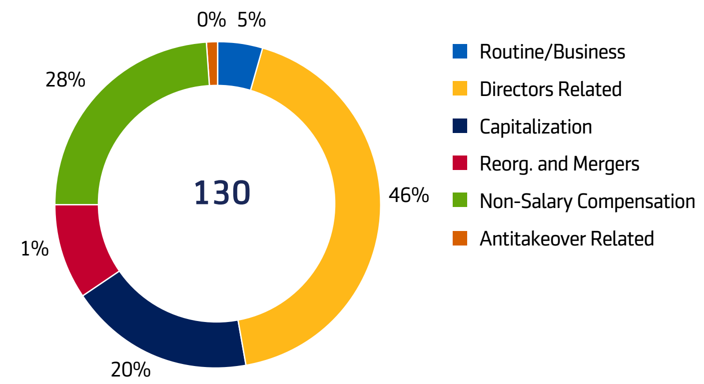
Meetings in 2015



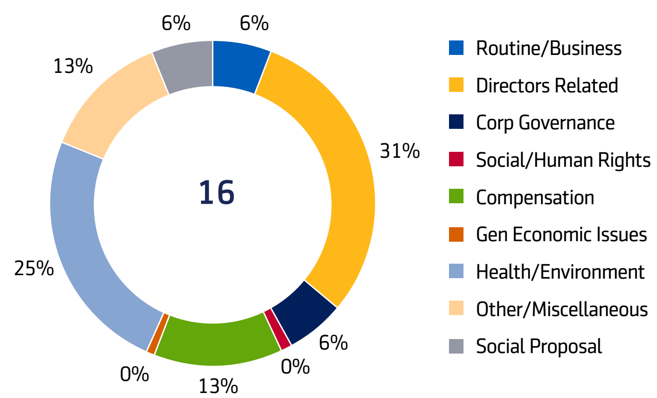
Votes cast in 2015



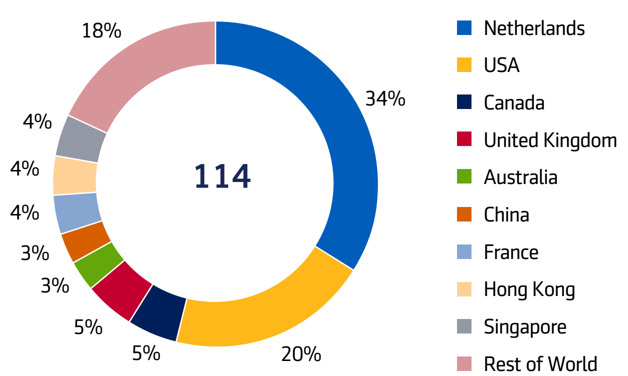
Break-down of votes against management proposals



Break-down of votes against on supported shareholder proposals

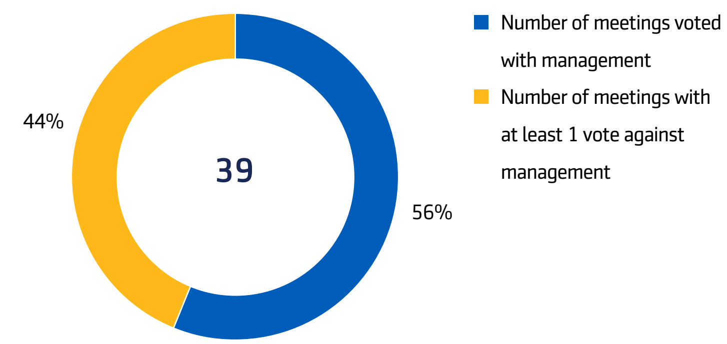


Meetings voted per country

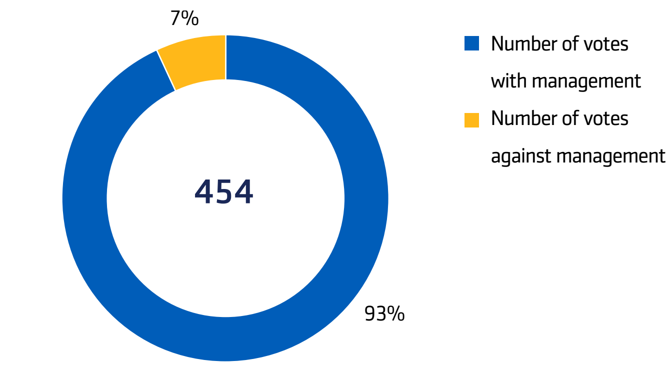


AIM B.V. Votes Specified for Dutch Meetings

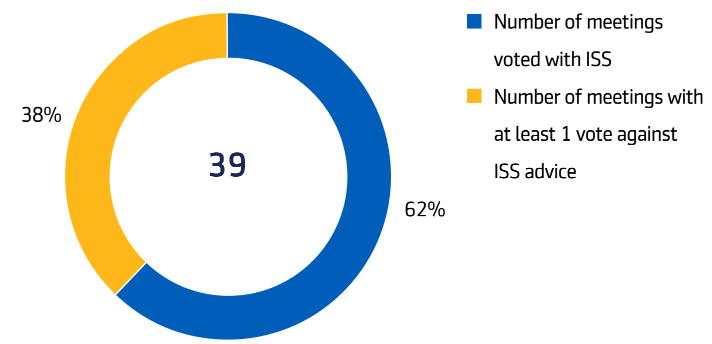
Dutch meetings in 2015



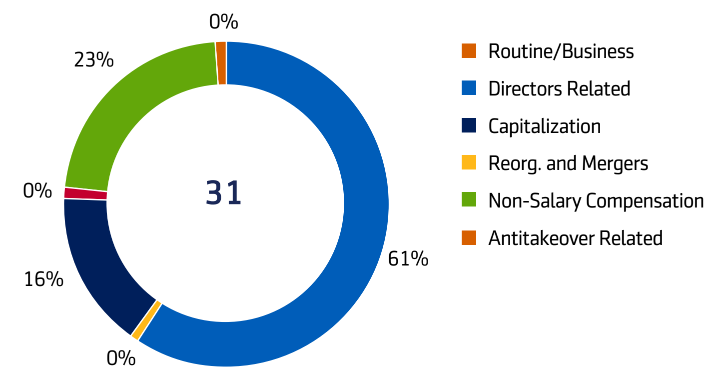
Votes cast on Dutch meetings in 2015



Meetings with/against standard advice proxy-advisor



Break-down of votes against management proposals



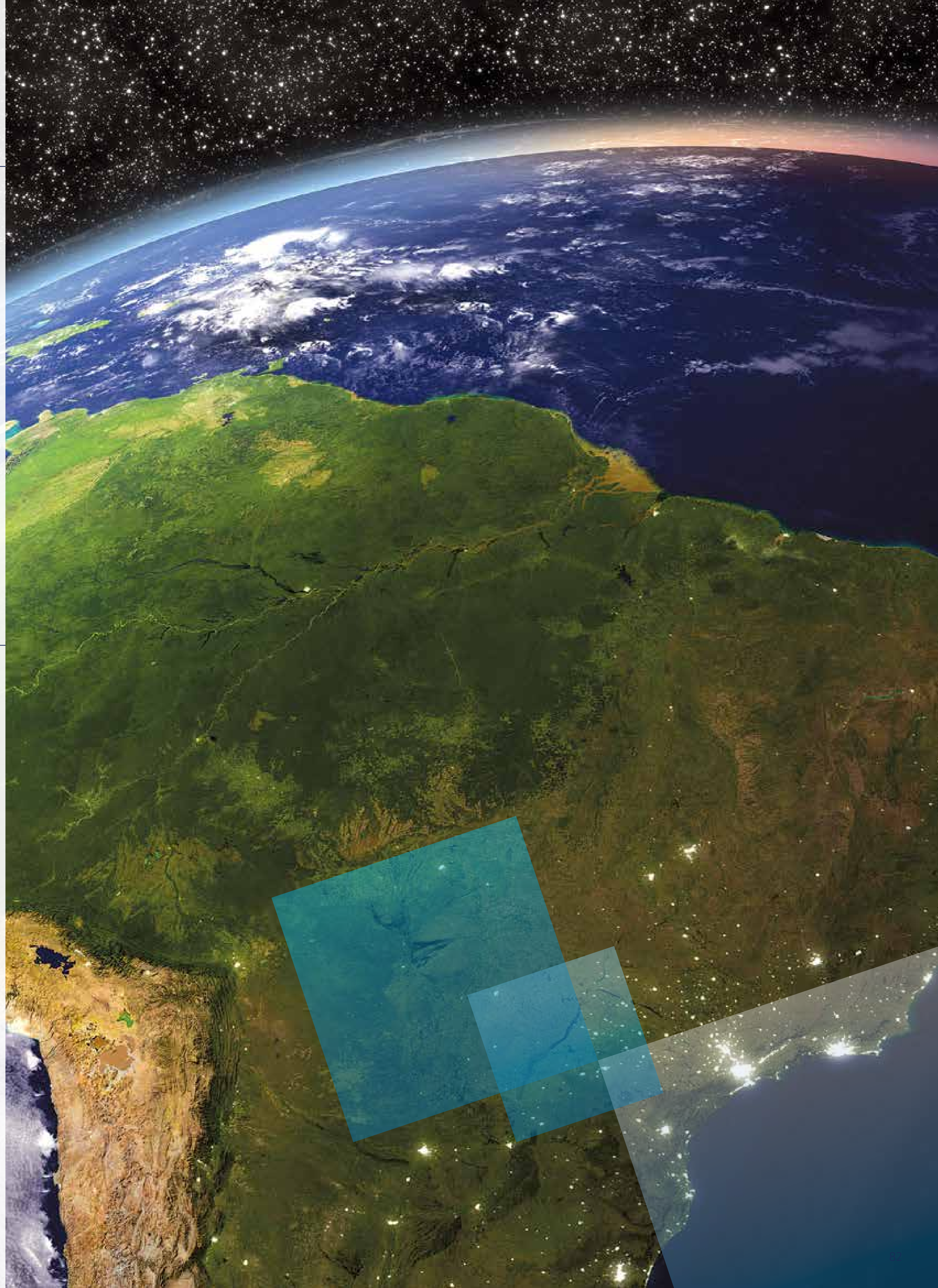
Composition of Global Responsible Investment Committees

RI Strategy Committee (RISC)

Mark Mullin (chairman)	CEO Aegon Americas, member Aegon management board
Marc van Weede	Aegon Global Head of Strategy & Sustainability
Joel Coleman	CIO, Transamerica (Aegon US)
Edgar Koning	CIO, Aegon the Netherlands
Nick Dixon	Investments Director, Aegon UK
Sander Maatman	CFO and member of Aegon Asset Management MB
Charles Garthwaite	Aegon Global Head of Compliance and Operational Risk Management
Philip Lemmens	Aegon Asset Management Global Head of ORM and Compliance
Robin Boon	Aegon Head of Corporate Communications
Harald Walkate	Aegon Asset Management – Global Head of RI
Roger Wildeboer Schut	Aegon Asset Management – RI Manager (committee secretary)

RI Technical Committee (RITC)

Harald Walkate	Aegon Asset Management – Global Head of RI (committee chairman)
Ryan Smith	Kames Capital – Head of Corporate Governance & Ethical Research
Miranda Beacham	Kames Capital – Corporate Governance Manager
Marianne Oomkes	TKPI – Senior Account Manager and Manager RI
Oldrik Wilken	TKPI – Portfolio Manager and ESG Officer
Garry Creed	Aegon Asset Management – Global Head of Research
Jim Lemke	Aegon Asset Management US – Analyst and US ESG Officer
Jan Frederik Slijkerman	Aegon Asset Management NL – Analyst and NL ESG Officer
Alfredo Raez	Aegon Asset Management Spain –Senior Fixed Income Portfolio Manager and Spain ESG Officer
Gábor Szabó	Aegon Asset Management CEE –Portfolio Manager and CEE ESG Officer
Dan Fox	Aegon Asset Management – Global Head Portfolio Risk Management and Control
Edwin Downey	AURA – Vice President Engineering and Environmental Services and AURA ESG Officer
Neil Smith	Aegon N.V. – Strategy & Sustainability
Natalie Beinisch	Aegon Asset Management – RI Engagement Manager
Roger Wildeboer Schut	Aegon Asset Management – RI Manager (committee secretary)



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

Get in Touch

> Aegon Asset Management welcomes 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 Asset Management Responsible Investment team
The RI activities at Aegon Asset Management are managed by a Responsible Investment team that includes:

Aegon Asset Management

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Aegon Asset Management US

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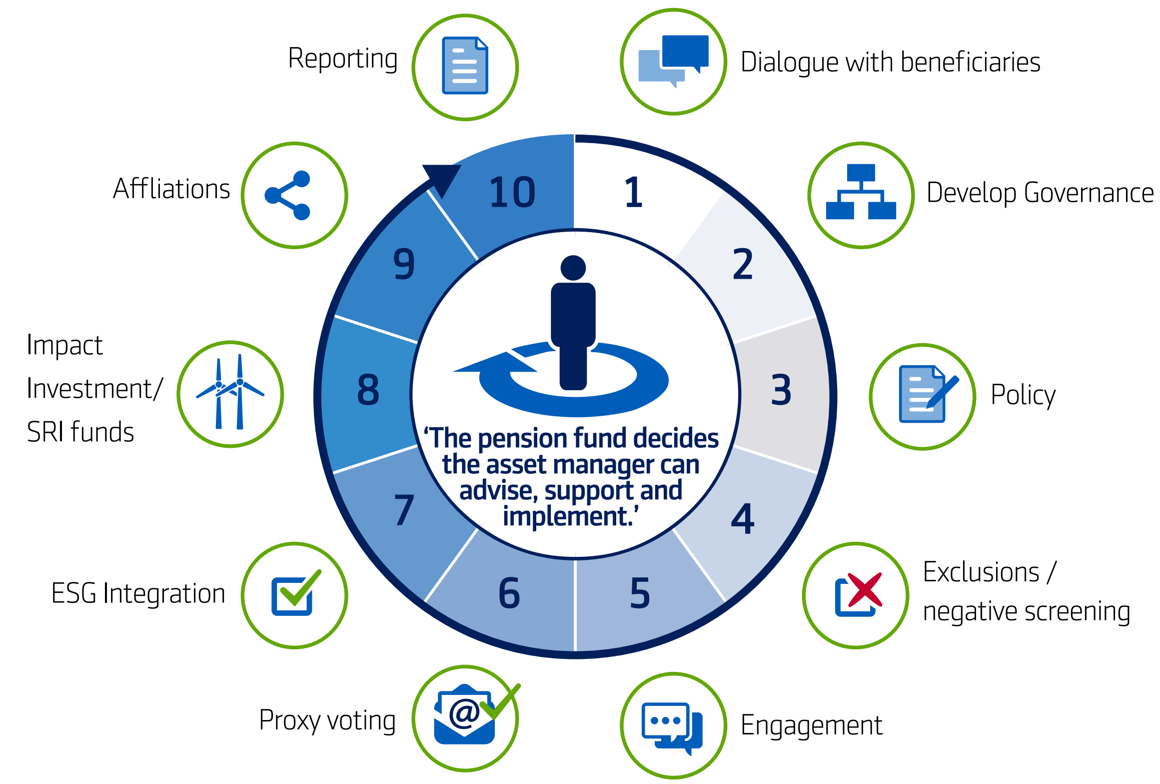
Edwin Downey	+1 319 355 5489	—	edowney@aegonusa.com

> Pension funds and other investors can develop an approach to responsible investment (RI), even without large dedicated teams or budgets. Many RI activities can be performed by the pension fund board, pension fund management company, or by an 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 an 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, tobacco, 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.
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 and 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.

This 'conversation starter' was developed to be used in discussions about responsible investment with pension funds and other clients of TKP Investments and Aegon Asset Management.

About Aegon Asset Management

Aegon Asset Management is a global, active investment manager. Aegon Asset Management uses its investment management expertise to help people achieve a lifetime of financial security, with a focus on excellence, trust and partnership. Institutional and private investors entrust Aegon Asset Management to manage approximately EUR 345 billion worldwide.

Positioned for success in its chosen markets (the UK, Continental Europe, North America and Asia), Aegon Asset Management'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 Aegon Asset Management, as well as Kames Capital, its UK investment team, and TKP Investments, its fiduciary management investment team in the Netherlands.

Aegon Asset Management is part of Aegon, one of the world's leading financial services organizations, providing life insurance, pensions and asset management.

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