Responsible Investment Report

Aegon Asset Management — 2016

Asset Management

Table of Contents

1. About This Report

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

With the use of case studies and interviews, alongside descriptions of processes, updates and data, we aim to provide a well-rounded view of our activities in 2016. Also through a number of 'next steps' text boxes we give insight in what is currently on our agenda and what we hope to achieve in the coming years.

2. List of Abbreviations

AAM	Aegon Asset Management
ABS	Asset Backed Security
AURA	Aegon USA Realty Advisors
ESG	Environmental, Social, Governance
FAIRR	Farm Animal Investment Risk and Return
FSB	Financial Stability Board
GIIN	Global Impact Investing Network
GRESB	Global Real Estate Sustainability Benchmark
ICRP	Investment Counterparty Risk Policy
IIGCC	Institutional Investors Group on Climate Change
LBPAM	La Banque Postale Asset Management
LIHTC	Low Income Housing Tax Credit
LTI	Long-Term Investing
PRI	Principles for Responsible Investment
RI	Responsible Investment
RISC	Responsible Investment Strategy Committee
RITC	Responsible Investment Technical Committee
RMBS	Residential Mortgage Backed Security
SDGs	Sustainable Development Goals
SRI	Socially Responsible Investment Funds

3. Foreword Sarah Russell

What makes you believe?

I love a sunburnt country,
A land of sweeping plains,
Of ragged mountain ranges,
Of droughts and flooding rains.
I love her far horizons,
I love her jewel-sea,
Her beauty and her terror –
The wide brown land for me! [1]

Black Saturday. February 7, 2009. Around 400 individual bushfires burnt across the Australian state of Victoria. Temperatures in Melbourne reached a record high of 46°C. Wind speeds over 100 km/h, fanned large fire fronts. In the early evening a shift in the direction of winds now gusting to over 120 km/h, turned fires towards towns they had passed earlier.

The following morning, realization dawned of the catastrophic aftermath – 2,029 homes destroyed, 7,562 people displaced; 78 towns impacted; 414 people injured; 173 people killed, 113 inside their own homes.

Climate change did not start these fires. The main causes were attributed to lightning, fallen power lines, machinery and, sadly, arson. But climate change is credited with increasing the risk and severity of fire and the lengthening of Australia's fire seasons. In the lead-up to Black Saturday, Victoria was suffering from the Millennium Drought, ranked as one of the three most severe, widespread and prolonged dry periods since 1900. In the preceding weeks, heat wave conditions prevailed during which a number of record temperatures were set.

"Climate change is credited with increasing the risk and severity of fire and the lengthening of Australia's fire seasons."

I am an Australian who now lives in Europe. I grew up on the outskirts of Melbourne, in one of the higher fire risk areas. In the week preceding Black Saturday, I returned home to visit family. I distinctly remember stepping outside one day during the heat wave and having the sensation of my skin burning – not from the sun's rays, but from the heat itself. I still find it overwhelming to look at photos and videos of the fires.

Responsible business and – more specifically for us as an asset manager – Responsible Investment is widely recognized and, indeed, demanded as an important and necessary component of corporate governance. We have the power, and the social obligation, to use our investment capacity to make a difference. The dilemma remains whether what you and we do together is enough to achieve the scale and velocity of change required to protect our communities for future generations.

I have shared this story because I believe that engagement can be more powerful when facts are connected with emotion – personal stories. Yours doesn't have to be about bushfires, or climate change. The story just needs to be yours.

Imagine our next social pandemic – the underprepared retiree.

Your son or daughter has completed their study and embarked on their working life – smart phone in hand, enjoying the convenience of internet shopping by credit card, and empowered and emboldened by the flexibility of a regular income. Money enough to cover rent and a social agenda. The burden of student loans somewhat lighter in their minds.

It's likely that their outlook on life is shaped by the familiarity of their upbringing. Raised in a household where their parents enjoyed more financial certainties around retirement – perhaps even the certainty of a defined benefit pension, built up over a working life when employers bore pension expenses. A certainty that is difficult to imagine today. Free from the exposure of market volatility or the burden of choosing an investment profile. Perhaps savings and investment markets were discussed. More likely not.

Unprepared in their family environment, and unprepared by a school curriculum that has not yet structurally dealt with this educational need. An insufficient understanding of the mechanics of a defined contribution pension or the need to save more to be able to afford the lifestyle they might aspire to. Not yet wealthy enough to be on the call-list of a financial advisor or informed enough to seek advice. In an environment of historically low returns, envisaged for some time longer. Unaware that they will likely live longer than their parents and grandparents. And unaware that they should act today.

Sharing these stories, I believe, ensures that we give attention to the problem. And then lets us demonstrate how we can make a difference.

Responsible business. Responsible investment.

What makes you believe? Tell someone your story.

Sarah Russell
Chief Executive Officer
Aegon Asset Management

"The dilemma remains whether what you and we do together is enough to achieve the scale and velocity of change required to protect our communities for future generations."

[1] Extract from Dorothea Mackellar. 1908. "My Country."

4. 2016 Responsible Investment Highlights

2015

January

- Aegon Asset Management invests EUR 45 million in German windfarm Meerwind.
- Aegon conducts multi-stakeholder engagement on investing in the defense industry.
- Aegon Asset Management makes Responsible Investment one of its 2020 strategic initiatives.

February

- Aegon Asset Management completes process to automatically incorporate ESG data in investment research "tear sheets".
- Aegon N.V. holds first meeting of the Responsible Investment Strategy Committee, chaired by Aegon Americas CEO Mark Mullin.

March

- Aegon N.V. CEO Alex Wynaendts joins call on European governments for fewer constraints on long-term illiquid investments, including those needed for the energy transition.

April

- Aegon Asset Management hosts Global Real Estate Sustainability Benchmark (GRESB) "Health & Well-being" event in The Hague.

May

- Aegon N.V. adds companies that derive more than 30% of their revenue from thermal coal mining activities to its exclusion list.
- Aegon Asset Management supports PRI initiative asking credit rating agencies to incorporate ESG in credit ratings.

June

- Aegon Asset Management makes first microfinance investments in Triodos and responsAbility funds.

July

- Aegon Asset Management and Kames Capital maintain high ratings and rankings in PRI survey.

August

- Aegon Asset Management is selected to participate in first green residential mortgage-backed security Green Storm, investing EUR 60 million.
- Aegon N.V. joins call on G20 to make good on their commitment to tackle climate change.

September

- Aegon Asset Management establishes a fund for solar energy investments in the US.

October

- Aegon Asset Management invests EUR 92 million in Norwegian wind farm through the Government Related Investment Fund (GRIF).
- Aegon Asset Management's climate risk project group meets with portfolio managers, analysts, risk managers, the South Pole Group and Carbon Tracker to analyze climate investment risk.
- Aegon N.V. joins a Dutch coalition of companies asking the Dutch government to create a climate law to ensure Paris climate goals are met.

November

December

- Aegon Netherlands joins Dutch consortium to accelerate investments in UN Sustainable Development Goals (SDGs).
- Aegon N.V. incorporates a requirement to discuss Responsible Investment approach in every investment mandate in its Investment and Counterparty Risk Policy.

2016

Headline Numbers in 2016

356

Aegon Asset Management engaged with 356 companies

1,230

Aegon Asset Management cast votes at 1,230 shareholder meetings

7.2 billion

Aegon Impact Investments totaled EUR 7.2 billion

72%

72% of eligible Aegon Asset Management employees completed ESG training – 96%, if we exclude new employees

3.3 billion

Aegon Asset Management had EUR 3.3 billion AuM in SRI funds

5.1 About Aegon Asset Management

Our Profile
Aegon Asset Management is a global, active investment manager. We use our investment management expertise to help people achieve a lifetime of financial security, with a focus on excellence, trust and partnership.

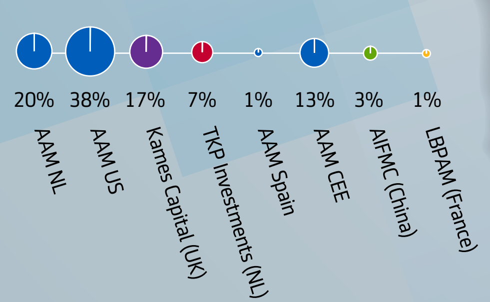
Entrusted with EUR 326 billion worldwide
Investors worldwide entrust Aegon Asset Management to manage approximately EUR 326 billion on their behalf. [2] Positioned for success in our chosen markets (the UK, Continental Europe, North America and Asia), Aegon Asset Management's specialist teams provide high-quality investment solutions across different asset classes.

Clients benefit from our international capabilities and local knowledge
Our clients benefit from the extensive international research capabilities and in-depth local knowledge of Aegon Asset Management, as well as Kames Capital, our UK investment team, and TKP Investments, our multi-manager investment team in the Netherlands. Aegon Asset Management is part of Aegon N.V., one of the world's leading financial services organizations, providing life insurance, pensions and asset management.

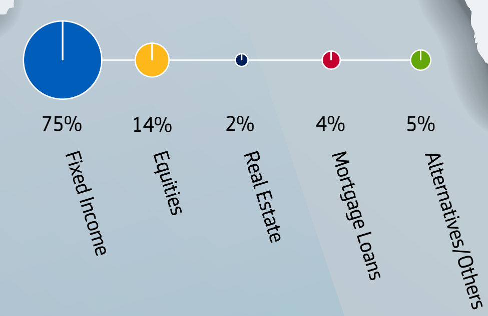
A trusted partner for the long-term
We work with a range of clients globally to help them achieve their long-term investment goals, acting for each as a trusted partner. Our focus is on excellence in everything we do, consistently delivering the performance, service and solutions our clients seek. We believe in strong governance, transparency and clear accountability to our clients.

A heritage of successful investment
Our heritage stretches back to 1844, meaning we understand the importance of long-term relationships, robust risk management and sustainable outperformance. A long and successful history of partnership with our proprietary insurance accounts has enabled us to establish experienced investment teams, a solid asset base and proven long-term track records.

Assets under Management by location: EUR 326 billion



Assets under Management by asset class: EUR 326 billion



Aegon Asset Management US
Location: Cedar Rapids, Baltimore, Chicago
AuM: EUR 125 billion*

Aegon Asset Management NL
Location: The Hague
AuM: EUR 67 billion*

Aegon Asset Management CEE
Location: Budapest
AuM: EUR 2 billion*

Aegon Asset Management Spain
Location: Madrid
AuM: EUR 2 billion*

Kames Capital
Location: Edinburgh, London
AuM: EUR 58 billion*

TKP Investments
Location: Groningen
AuM: EUR 22 billion*

AIFMC
Location: Shanghai
AuM: EUR 24.5 billion*
Aegon Asset Management acquired a 49% stake in AIFMC as a JV in 2007.

La Banque Postale Asset Management
Location: Paris
AuM: EUR 179 billion*
Aegon Asset Management acquired a 25% stake in LBPAM as a JV in 2015.

[2] Assets under Management as of December 31, 2016.

* All Assets under Management stated are as of December 31, 2016. Assets under Management stated for AIFMC and LBPAM are total Assets under Management (49% and 25% respectively can be attributed to Aegon Asset Management).

5.2 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: Aegon companies for their proprietary assets; Aegon companies' institutional and retail clients; and Aegon Asset Management's Third Party clients, including pension funds, insurance companies, and in some markets, retail clients.

Meeting client's needs

The diversity of Aegon Asset Management's clients poses multiple challenges in terms of Responsible Investment. Different clients (and other stakeholders) in different countries may 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 our 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.

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

In 2015, we implemented recommendations from our 'Formalize and Embed' review and this resulted in the establishment of two new committees: the Responsible Investment Strategy Committee and the Responsible Investment Technical Committee.

Investment analysis

Integrating ESG into our investment analysis 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 believe 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 ratings and data) for all portfolio managers – those who manage portfolios on behalf of our Aegon partners as well as Third Party clients.

Targeted investments

Aegon Asset Management has long been active in investments that today are 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 such as affordable housing and clean energy. We believe that we can leverage Aegon Asset Management's experience and expertise in these areas for our Third Party clients.

For SRI funds, our approach is fully client and market oriented. If we see demand for products that have a more pronounced approach to Responsible Investment, for example by screening out additional categories of investments, or by focusing on the best performers in certain sectors, we look to leverage our ESG expertise and track record with SRI funds for the benefit of our clients.

Active ownership

Aegon Asset Management is an active owner and we have several tools at our disposal to demonstrate our commitment to Responsible Investment, including exclusions, direct engagement and voting. 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 for these standards. 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 also 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, our exclusion list applies to all of our investments, regardless of the client type, as is standard practice in the Dutch financial services industry.

As with ESG analysis, we feel engagement and voting should be an integral part of our investment process. Our engagement and voting activities are guided by ESG risks identified in the investment analysis process and – as with our approach for exclusions – on generally accepted standards in the areas of climate change, governance, human rights, etc.

A key strategic priority

Early in 2016, the Management Board of Aegon Asset Management identified Responsible Investment as one of its key 2020 strategic initiatives. While we are still defining the 'RI target operating model' that we want to achieve in 2020, this has already led to concrete new projects and resources: to determine how we can measure climate-related investment risk, to analyze the concept of 'long-termism', and to better understand the state of play in impact measurement.

But most importantly, this has allowed us to work directly with many more of our 1,300 colleagues around the world. We are proud to showcase many of them in this report and hope you will agree they are committed to acting as responsible investors to meet the needs of all of our clients.

Harald Walkate
Senior Vice President
Global Head of Responsible Investment

Next Steps in 'RI 2020'

As part of the 2020 Strategy Initiative we have organized a project to look into clean energy in 2017. We want to identify profitable investment opportunities for our clients, taking into account their investment criteria and the challenges of this emerging market.

6.1 Policy and Governance

In 2011, Aegon N.V. adopted a Global Responsible Investment Policy. Aegon's policy is guided by international frameworks relevant to Responsible Investment, including the UN Global Compact, the OECD Principles of Corporate Governance, and the United Nations-backed Principles of Responsible Investment, and sets out how these should be applied by Aegon companies in their role as asset owners and by Aegon Asset Management in its role as investment manager. The policy offers three tools for implementation: exclusion, ESG integration and active ownership (engagement and voting).

Implementation of the policy is overseen by two committees at Aegon N.V.:

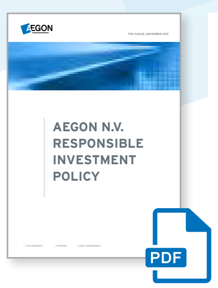
The RI Strategy Committee

This committee determines the overall strategic approach to Responsible Investment for Aegon N.V.. The committee includes representatives from the Management Boards of Aegon N.V., Aegon business units and Aegon Asset Management to ensure consistency across the group and links to the company's strategy. The committee is chaired by Mark Mullin, Aegon N.V. Management Board member and CEO of Aegon Americas, who has given new impetus to Responsible Investment initiatives and has ensured that we stay close to our strategy and business activities in selecting and implementing our Responsible Investment activities. This committee meets three times a year.

The RI Technical Committee

This committee discusses progress on initiatives in ESG integration, engagement and voting. The committee includes dedicated Responsible Investment staff, portfolio managers, analysts and risk managers from across Aegon Asset Management businesses. This committee meets five to six times a year and advises the Aegon Asset Management Management Board and other Aegon boards and committees on Responsible Investment matters.

Further information on our Responsible Investment Policy can be found at:



Next Steps in Policy

Currently, Aegon Asset Management is advising the Responsible Investment Strategy Committee on an update of the RI Policy. The new policy, expected to be published in late 2017 will also address Aegon's views on targeted investments, including impact investment.

7 Climate Change

"At Aegon Asset Management, we are currently seeking to define what climate change means in concrete terms for investors."

7.1 Climate Change

In terms of Responsible Investment themes, climate change has been the top priority for Aegon Asset Management since 2014. Climate change, in its multi-faceted complexity, is unlike any other issue that humanity has faced. There is now broad consensus that the climate is changing, that unmitigated it will have far-reaching consequences for our planet and life on it, and that a global energy transition is required to avoid these impacts. But that is where the certainties end.

There is disagreement on what governments will or should do to implement the Paris Climate Agreement, and on when these actions will be realized. There is widespread disagreement on what effect these possible measures will have on companies and industries; how the energy transition will play out and to what extent fossil fuels should still be used to meet the growing global energy demand; and on whether nuclear energy should be more widely used in order to reduce greenhouse gas emissions, or reduced because of the other risks it poses.

Therefore, at Aegon Asset Management, we are currently seeking to define what climate change means in concrete terms for investors:

- Is it legitimate to continue to invest in fossil fuels?
- Should investors 'decarbonize' their portfolios? What effect does this have on risk and return, and what effect (if any) does it have on the companies we invest in?
- Can you identify and measure climate related investment risks? For the companies we invest in, how does their failure to deal with climate change affect their equity value or credit-worthiness?
- To what extent can investing in clean energy mitigate climate-related investment risks?
- What should investors ask companies to do in order to be "2 degree compliant?"
- When is an investment portfolio "2 degree compliant?"
- What role can or should investors play to stimulate governments to take action or to facilitate the clean energy transition?
- Are companies we invest in exposed to "stranded assets," and can they be identified?

"We believe that the energy transition will come with new investment opportunities."

Aegon N.V. divests from coal mining
In early 2016, the California Insurance Commissioner asked all insurance companies doing business in California to voluntarily divest from their thermal coal investments.

Aegon's exposure to coal was already very limited due to our assessment that environmental policies, competition from renewables and low gas prices were making investments in the sector unattractive. Based on further analysis on investment risks in the sector by Aegon Asset Management, the Responsible Investment Strategy Committee decided to divest from any remaining investments in its general account and to add coal mining companies (defined as companies that derive 30% or more of revenues from thermal coal manufacturing) to its exclusion list.

Aegon N.V. carbon neutral
Driven by the Paris Climate Agreement in 2015, Aegon N.V. decided in 2016 to become carbon neutral. "As a financial services company Aegon doesn't have a large direct carbon footprint," explains Marc van Weede, Global Head of Strategy & Sustainability. "But we wanted to see were we could make further improvements. We reduced our footprint by buying energy from renewable sources, which was relatively straightforward in the Netherlands and the UK but was not so easy in the US. We also ran a program to determine where we could be more energy efficient. With our remaining footprint for items such as gas usage and air travel we invested in offset programs that support efficient lighting projects and cooking stove technology. Although it's relatively small, we're happy we can make this contribution to reducing emissions. And of course we realize that we have a larger impact through our investments – as discussed in this report."

About The South Pole Group
The South Pole Group is one of the leading providers of sustainability solutions for climate change and renewable energy, offering a full spectrum of sustainability services, including climate policy and strategy advisory, in addition to high quality carbon credits. The South Pole Group has developed over 400+ emission reduction projects in renewables, forestry, agriculture, industry, households and public institutions. The South Pole Group is 'for-profit' and passionately 'for-the-planet' at the same time.

About Carbon Tracker
James Leaton, Research Director at the independent financial think tank Carbon Tracker, was involved in the climate risk project described in this chapter.

Carbon Tracker provides in-depth analysis of the impact of climate change on capital markets and investment in fossil fuels; mapping risk, opportunities and the route to a low carbon future. Carbon Tracker's team of financial, energy and legal experts have a ground breaking approach to limit future greenhouse gas emissions. Carbon Tracker aims to have the technical knowledge, connections and reach to get inside the mind-set of the global financial community and effect change on a global scale. Carbon Tracker is a non-profit, independent organization, free from the commercial constraints of mainstream analysts and able to set its own research agenda.

7.2 Climate Investment Risk Project 2016

As a company that is prioritizing Responsible Investment we are looking at how to address these questions as part of a continuously evolving debate. Understanding that there are no simple answers to this complex issue, Aegon Asset Management has set three clear objectives on climate change:

1. To be an active participant in the debate
We ensure the Responsible Investment team is well-informed in order to advise and involve other functions in the company (senior management, portfolio managers, investment research, and risk management) on the climate change debate and risks that can affect our business. The team recommends courses of action and responds to questions from regulators, clients or other stakeholders. We ensure that Aegon Asset Management and other Aegon companies can clearly articulate their position to external stakeholders.

As a result of our active participation, Aegon N.V. joined a coalition of Dutch companies calling on the newly elected Dutch government to create a climate law and appoint a climate minister to ensure the Paris Climate Agreement goals are met. Aegon N.V. also signed a letter to the G20 governments encouraging them to make good on their commitment to tackle climate change. Finally, Aegon Asset Management is following the work of the Financial Stability Board (FSB) Taskforce on Climate Related Disclosures and participated in the consultation on the taskforce's recommendations.

2. To assess climate-related investment risk
Regulators, clients, NGOs and other external stakeholders are demanding we analyze climate-related investment risks and report on them. For this purpose, we organized a project in 2016, working together with the Portfolio Risk Management function, described later in this chapter.

3. To identify climate-related investment opportunities
We believe that there needs to be an energy transition and that it is already happening. We also believe that this will come with new investment opportunities – for example, by investing in renewable energy (wind, solar, hydro, geo-thermal), energy-efficiency, or electricity storage businesses. Despite the rapid growth of these markets, we find that there is a shortage of investable projects that meet our investment criteria. We are committed to deepening our understanding of these emerging business models in order to identify profitable investment opportunities. For this reason in early 2017 we launched a Clean Energy Project (more details on this project can be found in the interview on page 68).

Carbon footprinting is not the answer – yet
Aegon Asset Management first looked into climate investment risk in 2014, by conducting a carbon footprint analysis on three large fixed income portfolios. Although we found that all three portfolios were less carbon intensive than their benchmarks, the main benefit of the analysis was the opportunity to learn about the carbon footprint methodology. We found that a carbon footprint cannot be used as an accurate and reliable risk indicator, either at company or portfolio level, and is at best an indication of exposure to possible future regulation or increased competition.

In 2015, working together with the Institutional Investors Group on Climate Change (IIGCC), we had an opportunity to further analyze carbon footprinting methodologies, strengthening our belief that conducting a carbon footprint analysis on all of our investment portfolios (as some stakeholders have suggested) would not provide further insight into investment risk. We will continuously monitor carbon footprint measurement tools as more robust models are developed to effectively assess climate investment risks.

2016: Climate Investment Risk Project together with Portfolio Risk Management
In order to delve deeper and involve more disciplines, Aegon Asset Management ran a project to analyze investment risks related to climate change in the second half of 2016. To apply more of a risk management philosophy to this challenge, the project was co-managed by the Responsible Investment team and Larina Baird, a portfolio risk manager at Aegon Asset Management (an interview with Larina can be found on page 26).

We also formed a project group with representatives from various Aegon and Aegon Asset Management units; the group included portfolio managers, analysts, risk managers and client-facing employees. Project group members were interviewed individually; the conclusions were discussed and recommendations were made. We also held a session with investment analysts and portfolio managers to discuss how climate-related factors might impact the business drivers of energy and utility companies.

The project was supported by sustainability consultants, the South Pole Group, who benchmarked our approach, provided input for the discussions, and challenged our thinking. The independent thinktank Carbon Tracker also acted as a sparring partner, based on their analysis of the impact of climate change on investments in fossil fuels.

Conclusions and recommendations

The project group agreed on a number of 'certainties and uncertainties' in climate change investment risk (see below for more details). Based on its findings, the key conclusion is that climate change is happening and will have a financial impact on the companies we invest in. However, there is significant uncertainty on what actions will be taken by governments to combat climate change and how the energy transition will occur. The long-term nature of the issue makes it more complex, as we expect climate change will remain on the agenda for the next several decades. Even with forward-looking metrics, it is impossible to forecast with a reasonable degree of certainty the impact that climate change will have on industries, let alone on individual companies' credit-worthiness, more than two to three years into the future.

We concluded that there is an 'emerging-risk' as defined by Aegon N.V.[3], but the limitations of current methodologies to measure climate risk, a lack of data and reporting standards, and the very long-term nature of the energy transition, make it exceedingly difficult to accurately identify, measure and manage this risk today. The key recommendation was that Aegon Asset Management should ensure it remains well-positioned to track relevant developments (government actions, company reporting, data innovations), to assess what they mean in terms of impact on companies and industries. This could be done through the establishment of a more permanent climate change working group.

"How will companies in the affected industries react to government action and carbon prices?"

"Investors poorly positioned to address the changing environment will be vulnerable to risks."

Certainties and Uncertainties in Climate Investment Risk

We have identified the following certainties:

- Climate change is happening and will have widespread impact on human and natural systems.
- At the COP 2015 Paris conference, governments committed to combat climate change and have begun to enforce new rules and regulations to curb greenhouse gas emissions.
- There will be an energy transition – the global economy needs to phase out of fossil fuels, and technological innovation is needed to support this transition.
- Industries and companies will be significantly impacted; some may disappear altogether, others may be transformed.
- Investors poorly positioned to address the changing environment will be vulnerable to risks.
- Different types of climate investment risk are distinguished: physical risk (risk of damage caused for example by increased frequency of extreme weather events), transition risk (risk of failing to adapt to changing market circumstances and consumer preferences), and regulatory risk (risk of failing to comply with the regulatory measures that are expected).

However, there are also many uncertainties:

- It is not clear which actions governments will take following the Paris Climate Agreement, and when. Will they introduce caps on emissions, carbon taxes, or subsidies on renewable energy? Will they stimulate or impede nuclear energy (which has no carbon emissions but comes with other risks)?
- Many economists say putting a price on carbon would be the most effective way to deal with climate change. Will this happen? Will there be one global price, or local and regional prices? How high will the price(s) be?
- How will companies in the most affected industries – energy, transportation, utilities – react to government action and carbon prices? Will they adapt or face decline? When will action take place? How will this impact their equity prices or creditworthiness?
- What are the winning energy business models of the future? Will the world be powered by windmills and solar panels or will we have new technologies that are yet to be developed?
- How will this affect government finances? Will countries that are oil dependent default on their sovereign debt?
- If you can better quantify climate-related factors, how would an analyst determine its appropriate weight with all other factors that should be considered for an investment? Is this different for fixed income investors than for equity investors?

[3] Aegon defines emerging risk as, "A newly developing or changing risk, which is perceived to have a potential significant impact on Aegon's financial strength, competitive position or reputation. An emerging risk may not be fully understood yet or factored into terms and conditions, pricing, reserving or capital setting."

7.3 Understanding Climate Related Investment Risk

Larina Baird, Portfolio Risk Management
Aegon Asset Management

Larina Baird, based in the Chicago office, co-managed the Climate Risk Project in 2016, along with Harald Walkate. Here she discusses her views on Aegon Asset Management's exposure to climate change risks. As a Global Risk Project and Operation Leader, Larina is involved in a large variety of risk-related projects within Aegon Asset Management, representing the risk management philosophy and ensuring a risk-oriented culture.

What experience did you have with ESG before getting involved in the Climate Risk Project?

Prior to this I had some involvement with ESG issues through conversations or work related to the Responsible Investment Policy and client mandates. I'm a curious person by nature and often dig deeper into topics to look for opportunities to improve processes related to understanding and managing risks. Thus, when Aegon Asset Management started working with MSCI ESG data I spent some time researching the data, the definitions, coverage, and thinking about how these data could be used for risk purposes, as well as the pros and cons of putting together portfolio-level ESG statistics, for example.

"Investment risk management is not as straightforward as some people think."

Investment risk management is not as straightforward as some people think – it is often assumed that we just want to avoid risk, including ESG risk, as much as possible. But every use of money has risk. Thus, we need to have processes in place that assist with selecting the appropriate type and degree of risk that is most likely to yield the returns our clients are seeking while complying with all client mandates. Also, there are challenges to how we analyze situations and translate them into investment decisions that are good for our clients – portfolio managers are inundated with information, but usually there isn't a 'cut-and-dried' metric that indicates precisely where companies are on a risk scale. In these cases, there is a need for well informed, experienced human judgment. I believe there are always opportunities to make one decision over another, and ESG should have a place in this decision-making. For example, if we have a definite indication that a company is a poor investment from an ESG perspective, why invest if we can find a similar alternative with better ESG performance? But, processes and data need to exist to prove that definitive answer.

Do you think of climate change as an ESG issue or just as any other investment risk?

To me the label doesn't really matter. Of course I understand that ESG people see it as an ESG issue but we need to analyze it for what it is. If we think this is an investment risk – and in our Climate Risk Project group we agreed it is – we need a plan to make sure it is treated like any other risk. Meaning we need to involve the right functions to ensure they feed into decision making when appropriate, work to create a reporting dashboard so we understand how we are exposed to this risk at a portfolio and company level and keep on top of the available data and measurement tools.

"If we think this is an investment risk we need a plan to make sure it is treated like any other risk."

What we found in this project is that right now we can't do too much to accurately measure our climate change risk. Currently the risk actually appears to be relatively limited in the sense that we don't think this is going to have a big impact on our returns in the short to medium term. But we can start to develop good forward looking plans and processes to make sure we address risks as the climate change story develops.

What have you learned about Responsible Investment and ESG from this project?

As a risk manager I get very excited about working with and learning from other disciplines – I want to be exposed to 'out of the box' thinking and to be challenged a little bit on new issues. New people, other disciplines, other companies, can provide this opportunity. And ESG focused individuals look at investments in a different way, so I've enjoyed our cooperation and look forward to continuing to work together.

That being said I think the ESG community sometimes looks at ESG risks in isolation and forgets that investors look at a hundred other factors in analyzing a company – the point is to integrate ESG in this process, not to replace the process with an ESG assessment. Take utilities and climate change: the analyst will assess how the utility would be affected by possible new regulations on emissions, looking at "probability times impact." But he or she will make a similar assessment for many other eventualities that might affect the company over a five to ten year timeframe, and will then come to a balanced investment recommendation based on the totality of factors.

That, to me anyway, is what ESG integration should be all about.

"ESG focused individuals look at investments in a different way."

Next Steps in Climate Investment Risk

The recommendation to establish a more permanent climate risk working group was recently approved by the Responsible Investment Strategy Committee and the group is expected to be formally established in 2017. This group will follow developments around climate change mitigation and the energy transition and advise Aegon N.V. and Aegon Asset Management on further measures to take, including the development of slides on ESG and climate risks for the Aegon N.V. risk management dashboard, actions coming out of the FSB Taskforce on Climate-Related Disclosures' recommendations and further cooperation with academics, experts or think tanks such as Carbon Tracker.

7.4 Publications on Climate Change

Aegon Asset Management was in the news several times in 2016 for our climate change activities. Read more about our activities by following these links:

Investors controlling $13tn call on G20 leaders to ratify Paris climate agreement

The Guardian. August 2016. "Investors controlling $13 trillion call on G20 leaders to ratify Paris Climate Agreement."

Insurers call on G20 to phase out fossil fuel subsidies

Reuters. August 2016. "Insurers call on G20 to phase out fossil fuel subsidies by 2020."

'Ratify Paris agreement in 2016' Investors worth $13 trillion tell G20

Daily Planet. August 2016. "'Ratify Paris Agreement in 2016' Investors Worth $13 Trillion tell G20."

Aegon calls for new climate law

Aegon. October 2016. "Aegon calls for new climate law."

Companies demand higher priority for CO2 goals

Financieele Dagblad. October 2016. "Bedrijfsleven eist hogere prioriteit CO2-doelen."

Investing responsibly – it's straightforward right? Wrong...

Aegon. November 2016. "Investing responsibly – it's straightforward right? Wrong..."

8 Investment Analysis

8.1 Investment Analysis

At Aegon Asset Management, we believe integrating ESG into our investment strategies allows us to improve our risk management and investment capabilities. ESG integration means taking ESG factors into account in investment analysis and decision-making. Our investment professionals are required to complete ESG training in order to identify where ESG risks may impact our investments, as well as seek opportunities to optimize investments from an ESG perspective. In this chapter, we provide an update on the ESG integration activities and Aegon Asset Management insights that have come out of these initiatives.

Next Steps in ESG Integration

We have recently turned our attention to the external asset managers we work with as part of our PRI commitment that we assess their ESG capabilities and monitor if they comply with the applicable Responsible Investment policies. In many cases, Responsible Investment is already a regular agenda item in discussions with these managers, but especially in asset classes where ESG understanding is less developed (like infrastructure, hedge funds, REITs) we feel we could do more.

We are currently compiling an inventory of all external managers that Aegon N.V. and Aegon Asset Management units work with and will approach them systematically. We expect to report on our findings starting in next year's report.

8.2 Overview of Investment Analysis

Since 2011, we have taken several steps to incorporate ESG factors into our internal investment processes. The first real impulse in this area was the decision to source ESG data from MSCI, a leading provider in this field. In 2014, we introduced the requirement that members of our investment teams complete ESG training, to ensure that portfolio managers and analysts are well-positioned to incorporate ESG considerations in our investments. Also, in 2015 we completed the process to automatically include ESG ratings data in investment analysis summaries, called tear sheets. Finally, we continue to work with the 'ESG officers,' portfolio managers or analysts in the different AAM units who have been asked to lead ESG integration work for their local team.

Many portfolio managers and analysts, as well as external stakeholders, feel that ESG remains an emerging discipline and that ESG integration continues to be a work in progress, for Aegon Asset Management and for the investment industry as a whole. Some of the typical observations we hear from our own colleagues and at industry events:

It is not always clear how ESG factors are material to an investment case; when you do find this 'materiality', quantifying the impact in financial terms is not straightforward.

In High Yield we are purposely seeking out the riskier investments – this is the main source of the higher return – it is challenging to determine how to deal with a company that has a very low ESG rating and is therefore risky in ESG terms.

A credit analyst considers countless factors over a long timeframe – what is the appropriate weight for an ESG factor compared to all the others?

Not all companies we follow have ESG ratings, and smaller companies tend to have lower ESG ratings; not – we think – because they are worse performers but because they have less resources working on sustainability reporting.

Another challenge is determining the appropriate way to document how ESG factors are considered and weighed in an individual investment decision. Given that ESG factors are not often material to an investment we don't want to impose higher documentation requirements on portfolio managers than would exist for other investment considerations.

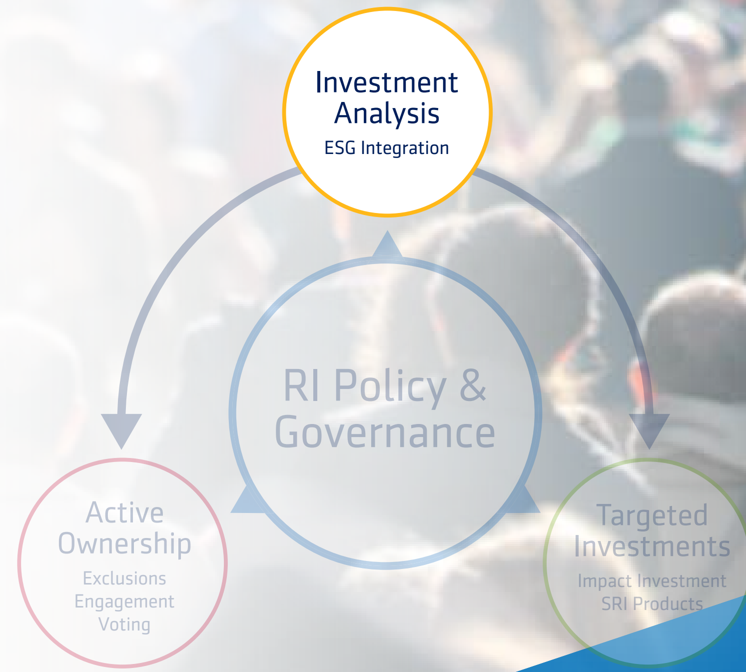
However, we also see that most portfolio managers and analysts have developed a good understanding of how ESG factors are relevant for their asset class or the sectors they follow.

We'll get questions on this from clients and consultants – they like that it's factored into the tear sheets already.

If the economics are similar we go for the investment with the higher ESG rating. All else being equal, it's a differentiating factor.

In emerging markets sovereigns we used to call this 'political analysis' – we look at things like political stability, social repression. The ESG reports have definitely increased our understanding of these factors, for example around environmental policies, rule of law, human rights.

If there is an obvious risk, it can be a big part of the process, for example in the defense industry. The coal industry is also a good example, the writing was on the wall that it is in decline – it's not coming back. It's a combination of low natural gas prices and environmental policy.



ESG Training

In 2013, the Management Board of Aegon Asset Management mandated ESG training for all our portfolio managers and analysts. The training we selected is an online modular program offered by the PRI Academy, which explores the use of sustainability data in fundamental analysis and security selection. By completing the training, our teams now have a more nuanced understanding of ESG factors and their contextual relevance, allowing them to make more informed investment decisions.

Completion Rate

As of December 31, 2016, 72% of eligible portfolio managers and analysts have completed the training. If we exclude new hires (who have one year to complete the training), the completion rate stands at 96% as of publication of this report.

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 discussions on the materiality of ESG issues in various sectors.

Next Steps

Almost all of our investment staff have now completed the PRI Academy training. And we are now preparing a new program that is both more advanced and more tailored to different asset classes, including fixed income. We are in discussions with a number of academics and practitioners to select or develop this program. New hires will continue to be required to complete the PRI Academy program

8.3 ESG Ratings: A Portfolio Manager's Perspective

Alfredo Raez, Portfolio Manager and ESG Officer
Aegon Asset Management Spain

As responsible investors, portfolio managers should identify sustainability issues that are material to their investments. However, as responsible members of society, we should also care how companies manage environmental, social and governance issues regardless of relevance to investment decisions.

Most financial institutions work with external ESG data providers who transform sustainability information into useful ESG data and ratings. However, this 'science' is still at an early stage. There are discrepancies in content and coverage. For example, there are low correlations between the ratings of different data providers, and ESG rating agencies rely mostly on corporates' self-reported data, often without the assurance of an independent auditor or regulator. Also, the non-standardized methodologies for reporting ESG data make it difficult for investors to compare information from different sources. In other words, determining the financial materiality of ESG issues is still a challenge for fixed income investors.

Nonetheless, we have been analyzing the ESG quality of our portfolios, which closely resemble Euro investment grade credit indices. Although we check ESG ratings before new purchases, the investment decisions are mainly based on the credit outlook, and are generally not driven directly by ESG issues.

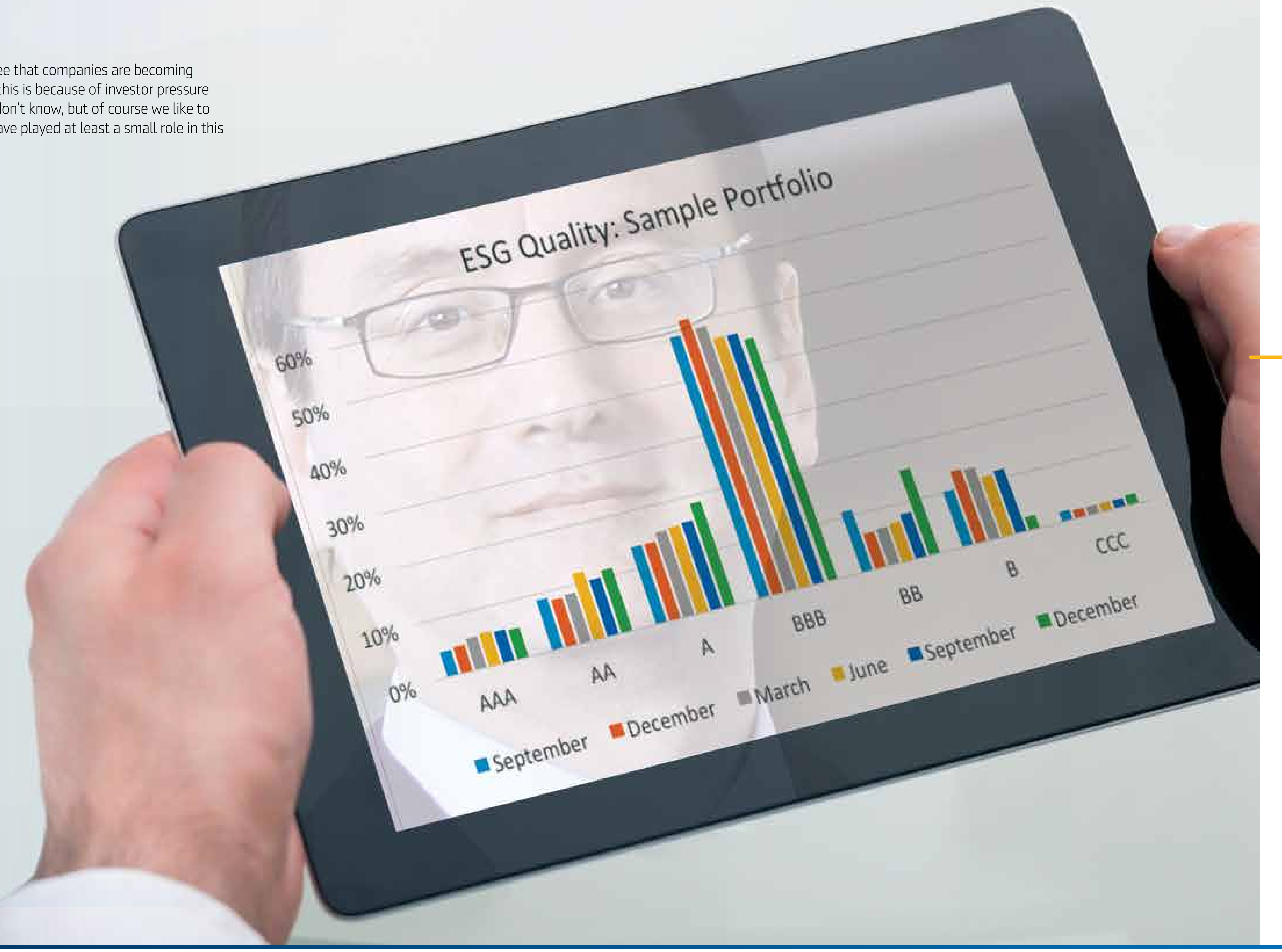
Yet we still see a distinct overweighting in our portfolios of the higher rated companies. This chart, for instance, shows the ESG rating distribution of a sample portfolio over six quarters. The distribution is skewed to the left which suggests an increasingly healthy ESG quality in the portfolio. Looking at Euro-denominated investment grade credit indices, we then observed that they behave in a similar fashion.

We think that this can be explained by a growing ESG consciousness of the underlying European companies. We analyzed the invested company names, and we found that the improvement in ESG quality was triggered primarily by ratings upgrades.

The development of investor-friendly ESG data and ratings is still a work in progress, and the "true" integration of these data into investment decisions is in an early stage. We think ESG ratings can give portfolio managers a quick and efficient first view of a company – for example, as a proxy of quality of management – and be the starting point for further research.

But we are encouraged to see that companies are becoming more sustainable. Whether this is because of investor pressure or due to other factors, we don't know, but of course we like to think that we as investors have played at least a small role in this positive shift.

"We are encouraged to see that companies are becoming more sustainable."



8.4 Integration in Practice: The Aegon Investment and Counterparty Risk Policy

Rui Cui, Corporate Actuarial and Risk Management
Aegon N.V.

This year Aegon N.V. took a big step towards making sustainability part of mainstream business by including Responsible Investment requirements in the Investment and Counterparty Risk Policy (ICRP). The ICRP is a global risk policy that sets certain limits to how much risk Aegon N.V. is willing to take through its investments and counterparties.

We spoke with Rui Cui, Financial Risk Manager at Aegon N.V., who led the policy update and provided insight on the process and motivations for including Responsible Investment.

How did this update come about?

The ICRP is a risk policy, which means we need to review and update it once a year; typically we form a working group for policy updates. The Management Board expressed a desire to incorporate sustainability into the broader Aegon N.V. business processes, and after a discussion with the Responsible Investment team we decided to add Responsible Investment to the agenda of our group. I invited Harald Walkate, Head of Responsible Investment, to join the working group and share his expertise. The other members of the working group were financial risk managers or asset and liability management experts from different country units.

And how did the group approach the Responsible Investment issue?

Although Responsible Investment wasn't the only topic included in the policy update, it often led to the most intense discussions. Most people working in Aegon financial risk management don't deal with ESG issues – keep in mind that these are not investment professionals who would have had ESG training – so they weren't familiar with the type of arrangement we were proposing.

It wasn't that they didn't want to include it in the policy but they had many pertinent questions such as: Where would it go? How should it be worded? What are the implications of adding it? And, most importantly, they were thinking ahead: how do we test compliance with the policy?

Last year, Aegon N.V. initiated a policy-attestation process, which means that these risk managers will need to certify that they are compliant with the policy. Eventually all the risk policies will go through this new process but the ICRP is one of the first to be attested – this must have been fresh in their minds.

So what is the actual requirement that is now included in the policy? And why is this relevant?

The policy requires each investment mandate to document the applicable Responsible Investment and ESG approach. As each mandate is different depending on whether it is for Aegon N.V.'s own account or for an external client, the key is that it needs to be discussed before the mandate takes effect. This way people across the company dealing with asset and liability management, with investments, risks, compliance, etc., will need to be involved in discussions about Responsible Investment. It really is a business-process oriented way to further embed ESG.

What does this mean for Aegon Asset Management?

Well, I think it means you're going to be very busy! But seriously, I think Aegon Asset Management will have a lot more clarity on what their clients expect of them, and of course it also means they need to live up to these requirements, and document them.

How did you experience the process personally?

For me this was a new experience in many ways; it was the first time I led a risk policy update, and also the first time I was really exposed to Aegon's sustainability practices. We had a lot of intensive discussions and it was a lot of work, but I'm really happy with what we have achieved.

From a governance perspective, we have a lot of support from the Management Board, which is helpful and shows that Aegon as a company is committed to taking Responsible Investment forward. I expect a lot of developments in this area over the coming year and look forward to seeing how we progress as a company.

"People across the company will need to be involved in discussions about Responsible Investment."

"We have a lot of support from the Management Board, which shows that Aegon as company is committed to taking Responsible Investment forward."

Next Steps for the ICRP

Our working group finished in early December 2016 and the ICRP was approved by the Group Risk & Capital Committee in mid-December 2016. This means that going forward new mandates will need to have this Responsible Investment language incorporated.

8.5 Environmental Due Diligence as ESG Integration

Eddie Downey, Vice President, Engineering & Environmental Services
AURA

Aegon Asset Management US has long been active in real estate investments, including affordable housing tax credits and commercial mortgage loans. Eddie Downey is an environmental scientist with AURA who does environmental due diligence on properties when we make these investments. Eddie has also been instrumental in raising awareness around impact investment in our US business.

Could you tell us about your role in AURA and how you got interested in Responsible Investment?
I am very much a product of the 70's and 80's. In that time the US saw the enactment of many bedrock environmental laws – think of the Clean Water Act and Superfund. Those actions stood in stark contrast to environmental disasters that underscored the continuing need for improvements. People of my generation would still recognize those names: Love Canal and Times Beach are well-known cases.

All of this fascinated me – so much so, that I went on to study environmental health in college and graduate school and have worked in various aspects of the field throughout my career of 30+ years. There is certainly an environmental angle to Responsible Investment that interests me and that also got me involved in impact and ESG data collection and awareness. When I first learned about the company's ESG integration initiatives a number of years ago I said "Hey, that's what I do!" I feel strongly that we have this responsibility – to address these issues as a large investor, and for me this has all been very rewarding.

So you were doing ESG 'avant la lettre', as it were. Please tell us about your 'brand' of ESG integration.
My main job at AURA is to conduct environmental due diligence for proposed real estate investments in affordable housing tax credits, commercial mortgage loans, real estate equity and now also on solar tax credit sites. I also provide environmental support for our owned real estate investments and Transamerica facilities as needed. I think this is a bit different from what you might call ESG integration, but I think it is an important aspect of our Responsible Investment approach: basically we assess and try to mitigate environmental or engineering risk before making investments.

Could you tell us more about this due diligence process and the types of environmental issues that can arise?
These types of investments aren't covered by your typical ESG data provider. So for commercial mortgage loans we have a network of external consultants that cover the entire US. When a proposed investment is made, before we get into a deal we'll commission consultants to go out and conduct a "Phase I Environmental Site Assessment". I review it and then prepare an internal risk assessment and recommendation. For affordable housing it works pretty much the same, but the developer provides the reports.

It doesn't happen very often that the risks are so significant or unknown that we walk away from a deal, but sometimes sites or the surrounding areas have a history of industrial activity and may be contaminated so we'll commission a "Phase II Report", testing the soil and groundwater. We get that data back and compare it to applicable regulations and see what may need to be done to get the sites up to standards.

In the investment sites where we have identified risks, we encourage and monitor environmental clean-up actions. For example, we may excavate and dispose of contaminated soils, treat contaminated groundwater, install ventilation systems to reduce radon gas levels and remove damaged asbestos materials from buildings. These clean-up actions provide a cleaner environment as well as a more sound investment.

How does environmental due diligence influence investment risk?
Really these things go hand in hand: we're concerned about exposure for individuals, the city and the community to contamination, and we're concerned about managing financial risks. Working in conjunction with our real estate production teams, we collectively do a very good job of identifying and considering environmental risks during the underwriting process. Whenever we do a deal that has some moderate environmental risks it's good to remind ourselves that if there is a default on a loan then we may end up owning this contaminated property – do we want that?

Have you seen a change in the company on Responsible Investment and impact investment over the past several years and where do you think this will go in years to come?
Yes, most definitely. In the business world there is now a fundamental and necessary shift from an environmental compliance mindset to a focus on environmental stewardship and sustainability. In the US, ESG is getting more and more attention and I believe this will continue to increase in the years to come.

In our company, I can say I have been working on impact investment for many years. I think it takes a while for people to grasp it – the combination of financial return and impact – but now across the board I see a good understanding of what Responsible Investment is all about and what constitutes an impact investment. You're seeing a strong commitment from management, which is really helping. People are enthusiastic about this.

"It is clear that my children's generation, our future leaders, care deeply about environmental and social issues."

You know, I have three young adult children who recently graduated from college – when they talk about their interests and their aspirations, it is clear that their generation, our future leaders, care deeply about environmental and social issues. Sometimes I worry, there's still so much to do. But when I talk with them I'm encouraged – this next generation doesn't see this as something separate, for them it's just a normal part of life and business.

"You're seeing a strong commitment from management, which is really helping. People are enthusiastic about this."

Why it Matters

"Aegon is making a difference globally by promoting the environmental aspects of investment. I believe this will be increasingly noticed by today's younger generations, when we consider that they are very much environmental warriors... As well as our future leaders, investors and employees."

"You force yourself to take out the influence of cyclicality. That is exactly what long term Investing should be about."

9 Long-Term Investing

In 2016, 'Long-Term Investing' (LTI) was a much-discussed theme in the world of investments and we see that it still continues to generate a lot of debate today. Harald Walkate, Head of Responsible Investment, spoke with Olaf van den Heuvel, European Head of Tactical Asset Allocation, at Aegon Asset Management. In this role, Olaf van den Heuvel is responsible for developing our company's annual Long-Term Scenarios.

9. Long-Term Investing

Olaf van den Heuvel, European Head of Tactical Asset Allocation

Aegon Asset Management

What is Long-Term Investing?

Good question. We've been following this discussion for some time now, and it seems that it means different things to different people. For us at Aegon Asset Management it's pretty straightforward: it's about a certain mindset in servicing our clients, who for the most part have long-term liabilities to their beneficiaries. When we 'onboard' an institutional client, together we fill out a questionnaire and we determine their risk profile. Every client individually gets a personalized strategy based on their long-term liabilities. Then, for their investments, on an annual basis we adjust what's in the different investment buckets: commodities, fixed income, equities, real estate.

To decide what goes in the buckets we have a 'dynamic asset allocation model'. Every year we forecast what will come over the next five to six years: we look at the economic cycle – are we in an upturn or downturn, what are the long-term trends? Based on this we develop the long-term scenarios that are the starting point for our valuations and asset allocation decision-making – which asset class is going to be attractive? So we're thinking long-term when a client joins, and then revisit this continuously. That to me is long-term investing.

"We're thinking long-term when a client joins, and then revisit this continuously. That to me is long-term investing."

What is the benefit of doing this?

The more you look at financial markets and live with them, the more you find out that everything comes back in cycles. Exuberance is followed by despair followed by exuberance and so on. We know that focusing on longer-term fundamentals and looking through the cycles works very well for our clients and funds. However, ignoring a lot of the noise in the markets, such as Brexit or the outcomes of elections, is not easy and requires a lot of discipline and transparency.

Over the long-term, if you know an equity is expensive, it's very likely to go down, though in shorter time frames it can be very volatile. We've been doing this now for 15 years, and we see that if you do this consistently it gives good results – if you look at attribution it's a major part of the performance we generate for clients. It's because you force yourself to take out the influence of cyclicality. That is exactly what long-term investing should be about.

It sounds very long-term oriented. But a lot of people are saying investors are short-termist. How do you see this?

We do hear this a lot but I honestly don't think it's the case. I think first you have to be clear on definitions: is it about how long you hold an investment, the holding period? There can be many good reasons for investors to sell securities, even though they may start out thinking they will hold it a long time – sometimes their view on a company changes, sometimes there's a market development that hits the company, sometimes they have liquidity needs, sometimes the investments just have short maturities, like some bonds. You obviously don't want to trade too much, that results in additional transaction costs, which hurts performance. But otherwise I don't think the holding period is that relevant.

"I think financial markets as a whole are very good at taking into account longer horizons."

So is it about working with benchmarks? Which benchmark you use is something you have to think about very carefully with your client, but you do need to agree on some performance measure. In short, I don't doubt that some investors are just trying to outperform the benchmark over short time horizons, and maybe trade too much, but I think financial markets as a whole are very good at taking into account longer horizons.

Critics might counter that, this all sounds very good but is there any evidence of this? Company CEOs often say they feel massive shareholder pressure to outperform over the short-term and it hurts their ability to think about and invest for the long-term.

There is actually some good academic research in this area. You can break down the equity value of companies: which part of the value relates to this and next year's activities, and which part to everything after. For most industries, more than half of the share value reflects long-term growth. In some industries it can be as high as 70%. Amazon is an extreme example: three quarters of their value relates to profits they hope to make more than a decade from today. I think that is clearly inconsistent with this allegation of investor myopia.

If company CEOs feel the pressure to perform, I think that's only natural – they are there to create value for their investors and other stakeholders, and we as active owners are obviously pushing them to perform financially over the short-term and

"For most industries, more than half of the share value reflects long-term growth."

the long-term – just like you are asking them to perform on ESG. If they feel this pressure to perform in the short term particularly, this might also have something to do with how their compensation package and targets are structured.

So what do you think LTI has to do with Responsible Investment and ESG?
As portfolio managers we like companies to think about their long-term prospects and challenges. I think that's where we have something in common with our ESG colleagues. Companies that think about long-term business opportunities – like where's our growth coming from? Where do we need to invest? What could frustrate our business plans? – are also more likely to think about issues like climate change for example.

So I think the ESG community has identified 'long-term investing' as a good way to push companies to embrace sustainability. I would say that this is a very good development, but also have two observations for the LTI people.

First, sometimes company CEOs try to convince investors that certain projects, for example acquisitions, are good 'long-term investments', but investors are right to challenge them. History shows that these decisions are often not so great for the company's shareholders in the long term. 'Long-term oriented' sustainability programs are similar. There is nothing wrong with sustainability but as an investor you need to look beyond the slogans and the marketing talk and analyze how sustainability is really integrated in the core business.

Second, what is good in the short or long term can vary greatly by company and by sector. Yes, some companies should invest in a big way in R&D or marketing because this will drive their business in the long-term. But for others that would be a big mistake. So just saying 'investors should be loyal to management and should let CEOs make long-term investments' is not the right approach. That's not long-termist, that's just plain short-sighted!

"I think the ESG community has identified 'long-term investing' as a good way to push companies to embrace sustainability."

Next Steps in LTI

With Olaf, we are working to identify the different aspects in the debate about investor short-termism and long-term investing. We are planning to analyze these aspects, and take a position on them in a series of papers to come out later in 2017.

10 Targeted Investments

"We have impact investments in affordable housing and elderly homes, renewable energy, sustainable timber, microfinance, development banks and green bonds."

10.1 Targeted Investments

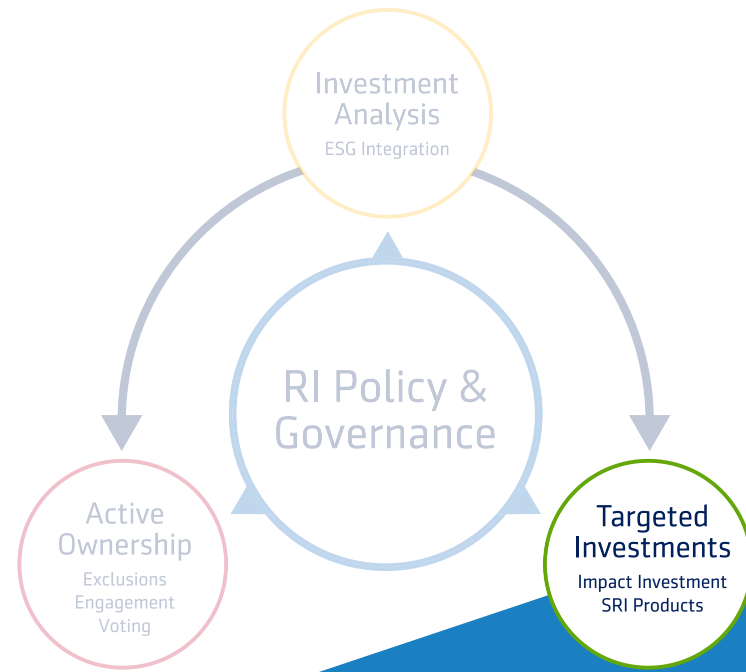
Aegon Asset Management defines targeted investments as investment opportunities that have explicit social and environmental goals, in addition to financial ones.

Impact investments

We define impact investments as 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. We have impact investments in affordable housing and elderly homes, renewable energy, sustainable timber, microfinance, development banks and green bonds.

SRI funds

SRI funds offer investment strategies that often revolve around exclusions for a specific ESG issue, or a combination of ESG issues. For example, companies with poor environmental or human rights records, or companies that are active in the arms or tobacco industries may be excluded from investment considerations. Aegon Asset Management currently offers a number of SRI funds in the UK, the Netherlands and Hungary. Our joint venture partners LBPAM (France) and AIFMC (China) are also active in SRI Funds.



Invest in People

Since 2013 TKPI has been helping blind track cyclist, Tristan Bangma, achieve his dream of competing in the Paralympics. Through the young athletes' dedication and perseverance on September 11, 2016 Tristan made it to the Rio de Janeiro's Paralympic games, winning a gold medal on the 1 km tandem trial. Amazed by the young athletes' performance, TKPI will continue to sponsor Tristan as he gears up for the Paralympic Games in Tokyo in 2020.

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

4.8 bn

Affordable housing[4]

Our 2016 US investments provided affordable housing to an estimated 5,824 families and seniors. Stimulating the economy in the first year by USD 449m in local income and creating approximately 7000 jobs.[5]

14 m

Sustainable timber

In 2016 our timber investments consisted of 437,858 acres of US timberland. Equivalent to sequestering 463,000 metric tons of carbon as CO2 equivalencies in one year.*

309 m

Renewable energy[6]

Solar tax credits (USD 166.5 m): Generation from our tax credit investments totaled 158 GWh. Offsets CO2 emissions from electricity use for 11,725 US homes per year.*

US Wind[7]: (USD 3.4 m): Generation from our US wind investment totaled 37,747 MWh, equivalent to the average yearly electricity use of 3,917 US homes.*

Meerwind (EUR 43m): Meerwind generated an estimated 1,134 GWh in 2016, equivalent to avoiding nearly 2 m barrels of oil consumed.*

213 m

Care homes for the elderly

Our care homes have provided specialized accommodation to the elderly in the US, UK and the Netherlands.

1.6 bn

International development banks

Development banks support job creation and income generation to foster growth and improve people's lives in developing countries around the world.

119 m

Green bonds

Green bonds are asset-linked bonds created to fund various environmental and/or climate related projects, such as renewable energy, energy efficiency, and sustainable real estate.

57 m

Green RMBS

The Green RMBS includes dwellings that emit an estimated 14% less CO2 per year than traditional housing.

106 m

Student loans and sport facilities

Our investments in student loans have helped support the Federal Family Education Loan Program by sending millions of low and middle income Americans to university. Post secondary education is estimated to increase lifetime earnings by nearly 66% compared to high school graduates.

Furthermore, our investments in sports facilities have helped fund a top athlete training center in the Netherlands.

43 m

Microfinance

Our investments have helped over 440,000 underprivileged individuals take out loans and 2.8 million individuals open savings accounts.

The UN Sustainable Development Goals are:
1 No poverty 2 No hunger 3 Good health & well-being
4 Quality education 5 Gender equality 6 Clean water and sanitation
7 Affordable and clean energy 8 Decent work and economic growth
9 Industry, innovation and infrastructure 10 Reduced inequalities
11 Sustainable cities and communities 12 Responsible consumption and production 13 Climate action 14 Life below water 15 Life on land
16 Peace, justice and strong institutions 17 Partnership for the goals

* Greenhouse gas emissions equivalencies calculated using the EPA greenhouse gas emissions calculator
4 Aegon Asset Management holds additional housing investments in the Netherlands and UK that we do not have impact data on for 2016.
5 National Association of Homebuilders. March 2010."The Local Economic Impact of Typical Housing Developments."
6 Aegon Asset Management holds additional renewable energy investments that we do not have emissions data for 2016.
7 The number for AAM US wind investments is substantially lower than the number presented last year. This is because returns are predicted on investment owners earning tax credits over 10 year periods based on electricity production, and all tax credit periods for these investments have expired.

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

10.2 Impact Investment

The concept of impact investing has gained significant momentum in recent years. Impact investments are typically defined as investments made into companies, organizations and funds with the intention of generating positive social and environmental impact alongside a financial return.[8] While investors have been making these types of investments for decades, in recent years a collaborative international effort has emerged to accelerate investments that tackle global challenges.

In looking to identify impact investment opportunities for Aegon Asset Management to invest in, our top responsibility is to ensure our clients' assets are managed in such a way that we cover their liabilities. As such, investments should first be evaluated from a risk and return perspective.

As a result of internal reviews we have put in place structures that facilitate further discussion about impact investments and continue to look for opportunities to further our impact. This has led to investments in new areas, including green bonds, microfinance, and renewable energy. It has also led to deeper integration of impact thinking and ESG into our investment processes, as demonstrated by a new investment fund called the Government Related Investment Fund (GRIF), which targets 50% of its investments in impact areas (this fund is discussed in more detail on page 70). Since 2012, we have been an active member of the Global Impact Investing Network (GIIN), participating in industry discussions on the market, challenges and opportunities.

Barriers to impact investing

The GIIN Annual Impact Investor Survey highlights two critical challenges to impact investing: (1) there is a lack of appropriate capital across the risk-return spectrum; and (2) there is a lack of high-quality investment opportunities in impact areas, particularly for institutional investors. We need to find solutions to these challenges in order to stimulate growth.

Regardless of this shortage, investors are already beginning to catalyze interesting projects that fit with institutional investors mandates. Harry Hummels, Professor of Ethics, Organizations and Society at Maastricht University, already sees growing opportunities for institutional investors to participate in the impact investment arena. "This is still a very young field of investment. Right now the challenge is creating financial structures that will allow insurance companies, pension funds and institutional asset managers to invest in impact projects. Blended finance and collaboration with governments and foundations will be increasingly important to scale up investments in areas where money is really needed."

Impact measurement

Measuring impact has also emerged as a central element to impact investment. Impact measurement includes some form of quantitative or qualitative evaluation of an intervention to determine what effects it has had on society or the environment. Impact measurement is thought to allow investors to make more effective investment decisions and reduce reputational risks around negative social consequences.[9] However, there is no straightforward and generally accepted way to accurately evaluate the impact of these investments.

Many people in the industry have been working to develop tools to capture impact. These approaches typically start by identifying investor's impact objectives and selecting appropriate metrics and indicators that monitor changes overtime. "The most important first step when trying to determine how to measure your impact is to know what you are trying to achieve with your investments," says Kelly McCarthy, Senior Manager for Impact Measurement at the GIIN. "From there you can develop a strategy to understand whether you are meeting those goals and then shape your future investment strategy accordingly."

What are the SDGs?

The SDGs are a set of 17 global goals that call on the international community to take action in order to end poverty, promote prosperity, and protect the planet. The goals are spearheaded by the UN and officially came into force on January 1, 2016 after being adopted by world leaders in September 2015 at the UN Summit.

The goals aim to further a sustainable planet by improving health and education, making cities more sustainable, combating climate change, and protecting oceans and forests. Achieving the SDGs will require a significant amount of international collaboration between governments and the private sector. The UN estimates the costs of implementing the SDGs at around USD 1.5 trillion per year.[10]

8 The Global Impact Investing Network.
9 O'Flynn, Peter and Chris Barnett. 2017. "Evaluation and Impact Investing: A Review of Methodologies to Assess Social Impact."
10 Sustainable Development Solutions Network. November 2015. "Investment Needs to Achieve the Sustainable Development Goals: Understanding the Billions and Trillions."

"There is no straightforward and generally accepted way to accurately evaluate the impact of these investments."

But the impact can be positive or negative, intended or unintended, says Marlon van Dijk, founder of social impact management software and consultancy company Sinzer. Marlon also says investors should realize not all changes are caused by their investment and believes a number of factors need to be taken into account in this respect. First, you need to consider 'deadweight' – what would happen anyway, if no intervention was made. Second – can you attribute the impacts directly to your investments or are they due to other factors? Third is displacement – are you actually solving a problem or just placing it somewhere else? Last is dropoff – what is the duration of the outcome, and it will bring long-lasting change. Marlon also recommends that in assessing impact institutional investors involve relevant stakeholders, only include what is material, value only what matters, and verify the results. Along, of course, with being transparent, and not 'overclaiming' your contribution.

That's quite a hefty recipe, even for a large company such as Aegon Asset Management. While a number of methodologies are being developed to do all of these things, these are typically only applicable on individual, well-resourced projects. For investors like Aegon Asset Management, with billions invested in hundreds of projects, typically with the involvement of other investors, funds and intermediaries, collecting this type of detailed data is costly and time-consuming. As a result, many investors have employed simpler tools that place greater attention on measuring outputs, such as jobs created, families fed, and so forth. While these indicators tell us less about the broader social impact of our investments, they offer a start to communicating impact.

Wouter Scheepens, a consultant in impact and sustainability at Steward Redqueen, believes that although the data is not yet perfect we need to start acting if we are going to get anywhere. "For example, right now we have flawed estimates of companies carbon footprints. While the information is not perfect it does tell us something about the dynamics of our investments. If we continue to wait until we have better data it will take decades for anything to happen."

For Harry, measuring impact is all about gathering intelligent information. "Investors don't necessarily need to gather a lot of detailed information to know they are creating an impact. It should contribute to understanding the investment better and whether you are really meeting the needs of the beneficiaries and improve the quality of the investment."

This year we decided to take a deeper look at our impact investments and the data that is available to determine if we could gain more insight into the broader social impact they are creating. The outcomes of these investifations are discussed throughout this chapter.

Insurers' Investors on Impact Investment

In **2014** Aegon Asset Management established an informal network of investment specialists at insurance companies and their affiliated investment arms. This network shares insights and best practices on impact investments, and discusses how greater clarity can be created in the impact investment community on how insurance companies invest, especially with the impact of Solvency II, liability driven investments, and focus on fixed income investments. The group also discusses opportunities for cooperation in impact investment. The other participating members are Axa Group, Zurich Insurance Group, SwissRe Asset Management, Prudential (US), Standard Life Investments, Allianz, and QBE.

"It is estimated that the total first year annual impact of building 100 apartments results in USD 7.9 million in local income, USD 827,000 in taxes and other local government revenue, and 122 local jobs."

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

10.3 The Impact of Affordable Housing

Access to adequate, safe and affordable housing for all plays an important role in the socio-economic success of society. It is also one of the main United Nation's Sustainable Development Goals for 2030. Providing families with homes is said to improve community development, raise school attendance and performance and improve their sense of security and safety. However, many people still lack access to this basic resource. The World Bank estimates that 1.2 billion people live in sub-standard housing around the world and this is expected to increase to three billion by 2030.

"An estimated 1.2 billion people live in substandard housing around the world."

Aegon Asset Management has been investing in social and affordable housing in the US, the Netherlands, and UK for several decades. Affordable housing programs aim to provide vulnerable groups and low-income families with higher quality, affordable housing than is otherwise available. As a result, families and their children grow up in more positive and stable environments and are not forced to save on other crucial expenses, such as food, energy, transport, education, sports and other social activities.

Affordable housing in the US and the Netherlands

In an effort to understand more about the impact of our affordable housing investments, we focused on our two largest housing investments markets, the US and the Netherlands. In the US, Aegon Asset Management invests in affordable housing through the Low Income Housing Tax Credit (LIHTC) program, a 'dollar-for-dollar' tax credit program set up to encourage private investment in high quality, affordable rental housing for low-income families. The LIHTC is widely viewed as one of the most effective federal housing programs in the US. Since inception the LIHTC has placed over 2.8 million units into service.

In the Netherlands, the social housing system has been delivering high quality and affordable housing to residents for more than a century. Under this system, not-for-profit social housing enterprises typically provide dwellings to families with an annual income below EUR 29,000, but also to the elderly, disabled, students, refugees, and homeless persons. They are long-term partners in vulnerable communities. On average, social housing rent levels are 30% below the maximum permitted rent, averaging EUR 502 per month (2015). Today more than four million people in the Netherlands are housed through these associations. Of these households, 70% earn less than EUR 40,000 per year. In the rest of the housing market (home-ownership and commercial rent), only 27% of households earn less than this amount. Also, one out of three tenants in social housing are single parent families and 59% of tenants have no formal income.

"Today more than four million people in the Netherlands are housed through social housing associations."

Are we better off with social housing?

Both programs have been developed to maximize social impact. In the Netherlands, the social housing federation Aedes supports social housing providers and helps to raise the level of professionalism in the sector. Aedes conducts regular monitoring benchmarks and stakeholder engagements to ensure social housing providers maximize their social impact in a financially sustainable manner.

Similarly, the LIHTC program aims to provide more than just housing. The program develops homes that provide tangible economic and social benefits. Within general guidelines set by the Internal Revenue Service, the US tax authority, state housing agencies administer the LIHTC, prioritizing projects that serve the lowest-income tenants and ensure affordability for the longest period of time. Once a property is built, state agencies are responsible for monitoring LIHTC properties on an annual basis. Those that are found to be non-compliant can lose their credits.

Given the size of these programs, gathering data about the social-economic impact can be a challenge. Most information and reports focus on key financial indicators, output levels and investments regarding properties, communities and target groups. However, interest in understanding and measuring the broader social impact of these programs is growing. For instance, in the US, the National Association of Home Builders has developed a model to estimate the local economic benefits of LIHTC properties. The model captures the effect of the construction activity itself, the ripple impact that occurs when income earned from construction activity is spent and recycled in the local economy, and the ongoing impact that results from new apartments being occupied by residents who pay taxes and buy locally produced goods and services.[11] The study estimates that the total first year annual impact of building 100 typical family apartments results in USD 7.9 million in local income, USD 827,000 in taxes and other local government revenue, and 122 local jobs.

In the Netherlands, housing associations are also starting to conduct social cost-benefit analyses of their investments. In Amsterdam for instance, social housing association Eigen Haard recently conducted an analysis to evaluate the impact of EUR 42 million investments aimed at improving the quality of life in neighborhoods. The largest investments were directed towards care, policing, housing fraud, neighborhood management, resident participation and physical improvements for the quality of life. They found that providing these improvements resulted in higher property prices in the neighborhoods and reduced costs for police and judicial systems due to lower crime rates. Furthermore, Eigen Haard's investments improved the quality of life for other residents and home owners in the neighborhoods. It showed that measured social benefits were higher than the costs and thus generating a net positive social impact for the residents in these communities.

Another positive output of the Dutch social housing program has been its priority on energy efficiency measures. This generates multiple benefits: higher comfort for tenants, lower energy costs and positive environmental impacts. The energy performance and affordability of the stock of Dutch social housing providers is monitored on a yearly basis. The percentage of housing association homes with a B label or higher rose from 18% in 2012 to 27.3% in 2015. The sector's report on evictions is another metric that can account for the effectiveness of preventive measures, even if fluctuations are mostly determined by general economic trends affecting vulnerable groups, including income and unemployment levels. In 2016, the number of evictions decreased by 14% compared to 2015.

One social housing provider from the eastern part of the Netherlands explains,"We will provide 4,000 of our tenants with solar panels without any rent increases. This saves them around EUR 10 per month." The housing provider also tries to prevent evictions of people with debt. "Evictions result in high costs for society, often a multiple of the debt itself. We have a joint responsibility together with our local authorities. That's why our staff go together with a social worker when we visit a tenant in arrears."

Further steps needed

While these studies suggest the overall impact of providing affordable and social housing is positive at the local level, without more robust data it is difficult to calculate and report on the exact impact on society, let alone the impact that can be attributed to us as investors. For instance, where affordable housing projects are located can play an important role in determining important life outcomes. With every extra year a child spends growing up in higher income neighborhoods, his or her likelihood of attending college and improved future earnings increase.[12] The LIHTC program has been criticized for not developing properties in higher income areas, but developers counter that the costs of building in these areas are often much higher so there would be fewer units to rent.[13] Furthermore, with state allocating agencies receiving applications for more than twice as much LIHTC financing as what is available in projects, this is not likely to change soon.[14]

In conclusion, the benefits of the US and Dutch affordable and social housing programs seem apparent. However, Aegon Asset Management also sees the need for more research to more accurately quantify the impact, and further improve on these programs. Representatives from both the LIHTC program and from Aedes expressed interest in working with us in further researching and evaluating the wider impacts of these investments.

"The benefits of the US and Dutch affordable and social housing programs seem apparent."

Aegon Asset Management believes these state-initiated but privately funded programs are well-designed, and are good examples of how government and institutional investors can work together to achieve impact for society.

[11] National Association of Home Builders. 2010. "The Local Economic Impact of Typical Housing Tax Credit Developments."
[12] Raj Chetty and Nathaniel Hendren. 2016. "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Project."
[13] New York Times. 2015. "Where Should a Poor Family Live?"
[14] Novogradac & Company LLP. "Low-Income Housing Tax Credit Showcase."

"It is difficult to calculate and report on the exact impact on society, let alone the impact that can be attributed to us as investors."

Next Steps in Impact Investment

Beginning in 2017, Aegon Asset Management will participate in an Institutional Investor Advisory Group, led by the GIIN. The group will focus on raising awareness of impact investing with institutional investors and facilitating investment opportunities.

"This investment has the multiplier effect that we look for in microfinance."

Cajou Espoir – responsAbility

Cajou Espoir is a cashew nut processing factory in Togo that has received financing through the responsAbility fund. The company was founded in 2004 by two Togolese entrepreneurs with a vision to help alleviate poverty in rural areas of West Africa. Growing consumption of cashew nuts, coupled with a very labor-intensive curing process, made this business ideal for job creation in the region. And, since opening its first factory in 2004, the company has provided employment to over 700 individuals, 80% of whom are women.

"The earnings not only benefit employees but also the community."

"The women who work for us now earn 70 to 80 dollars a month, instead of just 20," explained François Locoh-Donou, co-founder of Cajou Espoir. "When asked how they use this additional income, they say that they can use half to buy school uniforms for their children rather than having to beg for clothes. They can dress properly and go to family gatherings that they were previously too embarrassed to attend." The earnings not only benefit employees but also the community. The women say they only keep about half their earnings, using the rest to support other family members.

QR code to video:

10.4 The Impact of Microfinance

Gaining access to financial services poses another significant challenge for many individuals. The World Bank estimates that two billion working-age adults lack access to formal financial services, mostly in Africa, Asia and Latin America. To help bridge this financial gap, in 2016 Aegon Asset Management made its first investments in the Triodos and responsAbility microfinance funds.

These funds provide local financial institutions, in-tune with local knowledge and expertise (also referred to as micro-finance institutions or MFIs), the resources to help build accessible and well-functioning financial sectors that offer products and services that meet the needs of the people. Providing access to financial services is thought to be an important building block in helping to end poverty, by enabling individuals to better manage their daily lives, cope with unexpected difficulties, develop skills, and plan for the future.

In 2016, Aegon Asset Management invested EUR 43 million in Triodos and responsAbility and a further EUR 32 million was invested in 2017. (In the 2014 and 2015 Responsible Investment reports we documented the process of market analysis and fund due diligence that preceded these investments.)

An impact guided approach

Generating impact is a fundamental element to both Triodos' and responsAbility's approach. This is why they have both developed extensive due diligence and measurement approaches to assess and monitor the impact of their investments.

Both funds regularly report figures for the number of clients they reach through their investments. Since its inception, responsAbility has reached over 400,000 microentrepreneurs and 42 million MFI clients. Triodos has reached over 18 million loan clients (averaging EUR 1,163 per loan) and 11 million saving clients.

Some investments from the responsAbility fund were also made to drive the development of the sustainable energy sectors in developing countries; by improving the efficiency of existing energy sources, increasing renewable energy production, or creating energy access solutions. Their energy investments contributed to a reduction of 214,244 metric tons of CO_2 emissions in 2015, equivalent to five million trees grown for ten years. Triodos recently also began broadening its impact strategy toward renewable energy and sustainable agriculture. However, both funds agree that these simple numbers cannot capture the true impact of these investments, which is why they also conduct in-depth case studies to understand what is happening on a local level. We highlight two of these case studies in this chapter.

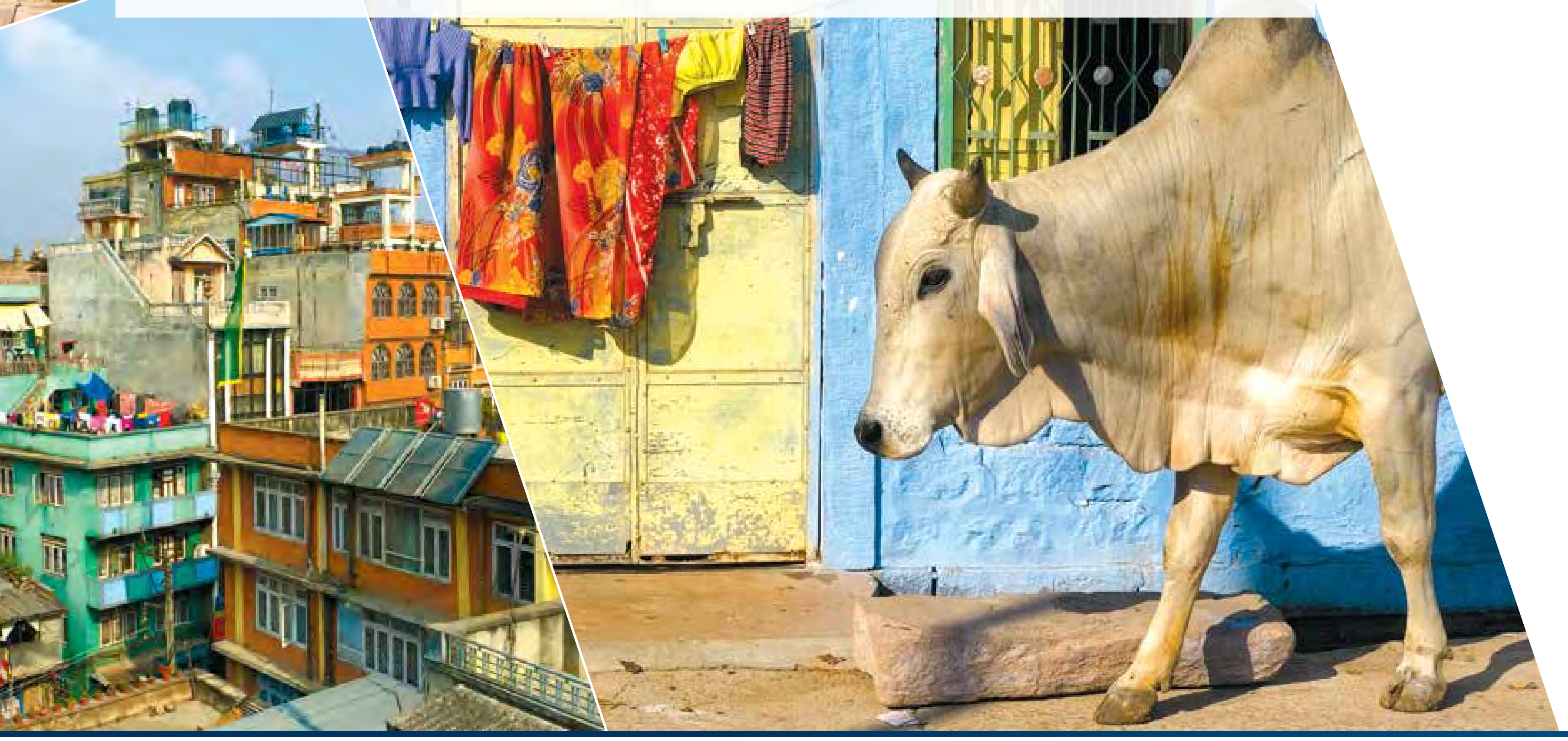
An evolving approach

Over time, both Triodos and responsAbility have developed more sophisticated approaches to impact measurement. responsAbility initially used a rating system to evaluate companies on a range of factors including outreach, female empowerment, poverty alleviation, financial inclusiveness, and efficiency. The fund embedded these criteria in their screening process with the aim of funding companies with the highest ratings. As responsAbility started to grow and expand their investment spectrum to areas such as SMEs, agriculture and energy, the fund manager expanded its measurement approach to look more broadly at the industry by creating sectoral output indicators aligned with the IRIS taxonomy managed by the GIIN, considered by many to be the industry standard.

'Photo: Shubham Housing, India.'

"A better home leads to better sanitation, better health, better social standing and increased confidence."

Chiranjeev is a manager at a private firm in India who took out a loan through Shubham Housing Development. He knew that in order to build a better life for his children, not only should they have a good education but also safety and security. He and his wife are among millions of Indian couples who work hard every day to provide these things. He hopes that someday he can retire and become a social worker to give to those who do not have the means to fulfill their dreams. "Everyone was really helpful and forthcoming and made the experience of applying for a home loan a pleasant one."



Triodos has increasingly put more emphasis on governance factors. Last year it started looking at data at a more granular level, for example by differentiating between the types of financing (microentrepreneurs as compared to SMEs). It also adopted a new policy and a set of procedures to strengthen sustainability assessments.

Greater emphasis has also been placed on alignment with the UN Sustainable Development Goals (SDGs). This year responsAbility launched the third iteration of its impact management methodology, around a cluster of impact themes, based on the SDGs, focusing on six areas: basic needs, well-being, decent work, healthy ecosystems, climate stability, and markets & infrastructure. Throughout 2017, it will work to score investees on these goals to obtain clarity on how responsAbility is contributing to the global agenda.

Impact measurement: Conclusions for Aegon Asset Management

As a large investor that has made a commitment to impact investment, we endorse the need to measure the social and environmental impact of our investments. At the same time, we see a lack of available data and consensus on which methodologies to apply – the science of impact measurement is still evolving, and is at a very early stage. The goal of a single 'impact' metric that can be taken together with 'risk' and 'return' to form the basis for every investment decision, if not unattainable, seems far away.

However, we see that academics, impact organizations such as the GIIN, and private companies such as Sinzer are putting a lot of effort into making advances in this field and we want to follow these developments closely. Meanwhile we strive to obtain and provide insight into the impact our investments have beyond providing a financial return to our clients, through the types of quantitative measures that are readily available to us and through the stories behind our investments that we feel are a powerful reminder of the role that institutional investors like Aegon Asset Management can play in improving people's lives.

Shubham –Triodos

In 2016, Triodos offered its first microfinance loan in the affordable housing finance space, to Shubham Housing Development Finance Company, in Haryana, India. Shubham is a leader in providing housing finance solutions to those with informal incomes.

Today, more than half of the 350 million urban Indian population still lives in slums or low-quality housing. Because these individuals continue to face difficulties gaining access to formal credit, Shubham has set up a system to help provide first time borrowers with a channel to own a home.

"Owning property has a life changing and cascading effect on the borrower and their entire family. A better home leads to better sanitation, better health, better social standing and increased confidence. Furthermore, it allows borrowers to build up a credit history that can open other doors. For example to take out a loan to start or expand a business," explains Sanjay Chaturvedi, Chief Executive Officer at Shubham.

Through extensive engagement with customers about their life story, Shubham develops a holistic view of their customers and how they will be able to pay back their loans every month. The company specifically focuses on rural, self-employed or micro-entrepreneur customers who are moving away from being tenants to becoming owners. To date, it has 87 branches in 82 cities across India and has served over 13,700 households. With the help of investors like Aegon Asset Management by providing financing to Triodos, Shubham will be able to further increase its outreach in the coming years.

QR code to video:

10.5 Sustainable Development Goals

Marc van Weede, Global Head of Strategy & Sustainability
Aegon N.V.

Many in the financial services community have embraced the UN Sustainable Development Goals (SDGs) as a guiding framework for impact investment. The arrival of the SDGs has not gone unnoticed at Aegon Asset Management, or at its parent company Aegon N.V.. We spoke with Marc van Weede, Head of Strategy & Sustainability, about the SDGs and Responsible Investment more broadly.

How do you see the SDGs as being relevant to your work?
I think it's a great development that we now have one global agenda with key objectives that we as a global community should seek to address. At Aegon, we believe we have an important part to play in achieving the goals. In 2016, we performed an analysis and identified three SDGs that are most relevant to our business – SDG 1 (no poverty), SDG 3 (good health & well-being), and SDG 8 (decent work and economic growth). This year we're using the goals as a classification tool, in our Annual Review, – we list the SDGs and indicate how we contribute. However, it's part of a process to develop a more focused approach on how we can use them to select the areas we want to invest in.

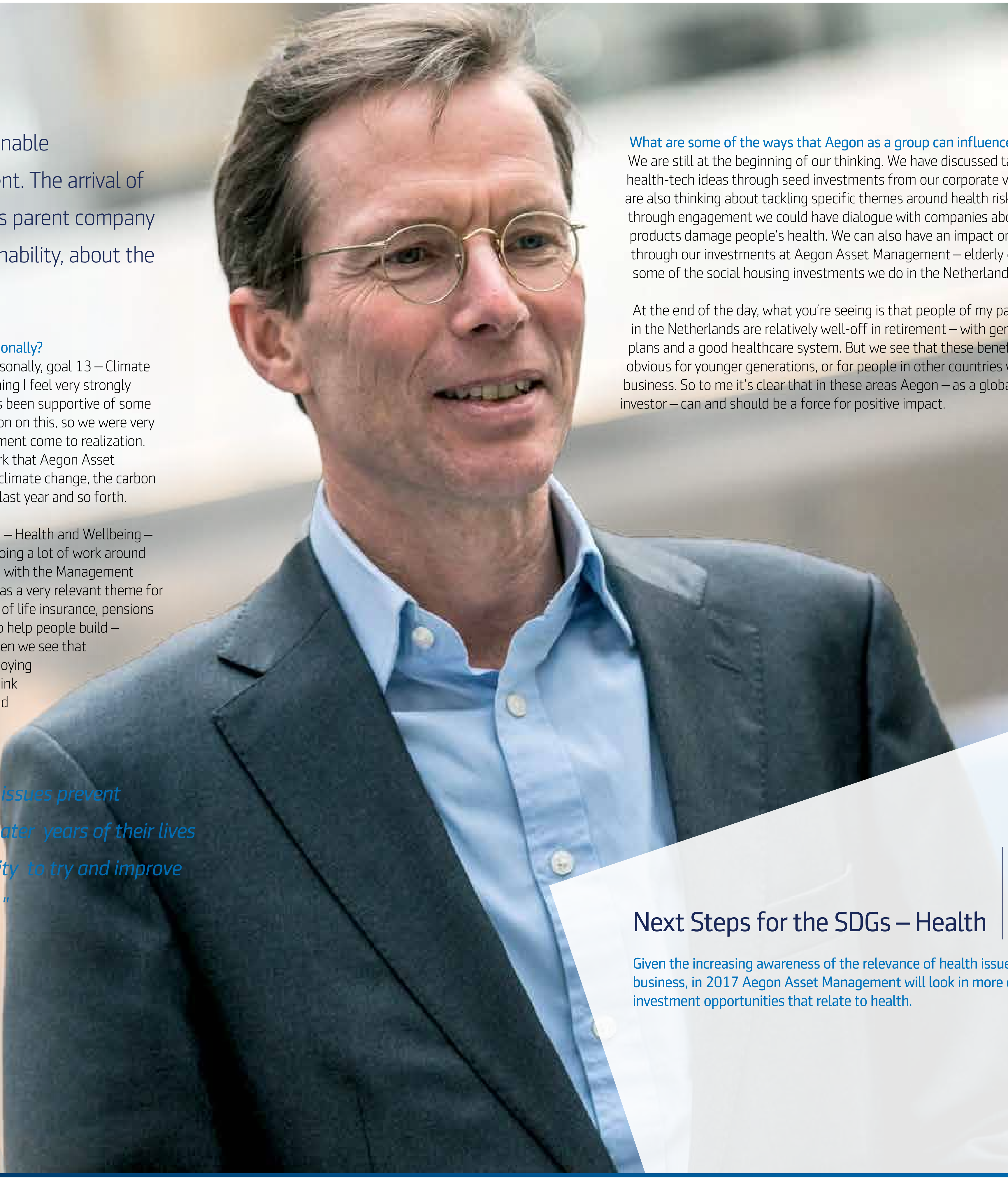
"At Aegon we believe we have an important part to play in achieving the Sustainable Development Goals."

In 2016, Aegon was part of a Dutch consortium that analyzed investment opportunities around the SDGs – can you tell us more about this?
We joined a number of other Dutch pension funds, insurance firms, and banks to evaluate the SDGs as a framework for impact investing. The outcome of this work was a report titled 'Building Highways to SDG Investing', that we presented to the Dutch Minister for Foreign Trade and Development Cooperation, Lilianne Ploumen. In the report, we offer a number of concrete ways in which we can accelerate and scale investing in the SDGs and we also identify some barriers. Of course, we recognize that as large asset owners we can contribute to these goals but we also need to be clear on the responsibility governments have to determine how they want to reach the goals and to create programs and vehicles that we can invest in. Unfortunately, for many of the goals, there simply aren't easily accessible options for us to invest in.

Which SDG appeals most to you personally?
That's a difficult question! For me personally, goal 13 – Climate Action – is very important. It's something I feel very strongly about and as a company we've always been supportive of some kind of international government action on this, so we were very happy to see the Paris Climate Agreement come to realization. I've also been very engaged in the work that Aegon Asset Management has been doing around climate change, the carbon footprinting, the Climate Risk Project last year and so forth.

But, speaking for the company, goal 3 – Health and Wellbeing – is probably the key one. We've been doing a lot of work around our responsible business strategy and with the Management Board we identified 'wealth & health' as a very relevant theme for our company. Of course, as a provider of life insurance, pensions and savings solutions, we are trying to help people build – a lifetime of financial security. But often we see that health issues prevent people from enjoying the later years of their lives and we think we have a responsibility here to try and improve people's health outcomes.

"Often we see that health issues prevent people from enjoying the later years of their lives and we have a responsibility to try and improve people's health outcomes."



What are some of the ways that Aegon as a group can influence these issues?
We are still at the beginning of our thinking. We have discussed targeting specific health-tech ideas through seed investments from our corporate venture fund. We are also thinking about tackling specific themes around health risk, for instance through engagement we could have dialogue with companies about how their products damage people's health. We can also have an impact on a larger scale through our investments at Aegon Asset Management – elderly care homes or some of the social housing investments we do in the Netherlands come to mind.

At the end of the day, what you're seeing is that people of my parents' generation in the Netherlands are relatively well-off in retirement – with generous pension plans and a good healthcare system. But we see that these benefits are not so obvious for younger generations, or for people in other countries where we do business. So to me it's clear that in these areas Aegon – as a global business and investor – can and should be a force for positive impact.

Next Steps for the SDGs – Health

Given the increasing awareness of the relevance of health issues to our clients and business, in 2017 Aegon Asset Management will look in more detail at impact investment opportunities that relate to health.

10.6 Clean Energy

As part of our work on climate change and the energy transition (see pages 18-30) Aegon Asset Management has the ambition to better understand developments in clean energy technologies and to invest more in this area. It is clear that the planet is undergoing an energy transition and is moving from fossil fuels to an economy driven by more efficient use of energy, by maximizing production of renewable energies and by cleaner conventional energies. This energy transition will require a significant amount of capital over the next decades. As a major investor with the aim to support climate change mitigation, we want to investigate how we can best facilitate the energy transition.

In order for our company to grow its share in this segment we need to better understand developments in clean and renewable energy markets and potential investment opportunities. We also want to understand if clean energy investments can mitigate risks for our current fossil-based energy investments. Part of our exploration focuses on the challenges arising from the long term nature of investments in renewables that often do not match our clients' preference for shorter maturities.

Below, we highlight a number of investments that have been made across our company, and portfolio managers and analysts in different Aegon Asset Management units provide their views on the market situation in 2016.

Solar tax credits – United States

In 2014, Aegon US Realty Advisors (AURA), began investing in the Solar Investment Tax Credit (SITC). The SITC is a federal tax policy mechanism implemented to support the deployment of solar energy in the US by offering a dollar-for-dollar reduction in an investor's federal income tax. The SITC program has been widely successful in incentivizing the development of rooftop solar for residential and commercial applications as well as utility-scale solar facilities in the US. Since its implementation in 2006 solar installation has grown by over 1,600%. The general sense in the solar industry is that with improved, more efficient technology and lower manufacturing costs, the cost of a new solar installation (measured as USD per MWh) will continue to decline over the next decade.

Today, AURA has a total of five SITC investments, four with affiliated clients and one with an unaffiliated client. These five investments are comprised of 28 utility-scale facilities ranging in size from 2 MW DC to 50 MW DC and total nearly 2000 MW DC. Power generation across these investments for 2016, a year in which many of the facilities were coming online and were not fully operational, totalled 158 million kWh. In 2017, total power generation may reach 275 million kWh; enough to power more than 20,000 homes.

In 2016, AURA successfully established a USD 75 million solar energy fund on behalf of a single unaffiliated client. The now-closed fund has invested in eight solar facilities in North Carolina that are operated by Cypress Creek Renewables, a solar energy provider that owns and operates solar assets across the United States. "The creation of our first solar energy fund was a significant accomplishment. My colleagues Lynn Ambrosy and Aron Hansen, among others, worked for several months to structure and close this complex investment," says Ryan Jacobs, Asset Manager at AURA, who manages the fund. "The investment is designed to generate an attractive financial return for our client, while the energy produced by the solar facilities in the fund will provide clean, affordable energy to many thousands of homes."

"The investment is designed to generate an attractive return for our client, while the energy produced by the solar projects will provide clean, affordable energy to many thousands of homes."

Structuring tax-advantaged investments is a business that AURA has specialized in for nearly 30 years through its Community Investments Group. Until recently, however, AURA's focus was solely on Low Income Housing Tax Credits. Now, the new solar fund marks the first time that AURA has transferred its longstanding expertise in tax credits for low-income housing to the renewable energy sector. Ryan says, "We are taking the collective experience and expertise we already have in our Production, Legal, Asset Management, Fund Management, Real Estate Distribution, and Engineering and Environmental Services groups, and applying it to solar and offering it to the broader market. Going into solar is a natural extension of what we already do and broadens the spectrum of our responsible investments."

"We are taking the experience we already have, applying it to solar and offering it to the broader market."

Windfarms in Germany and Norway

Aegon Asset Management invested in an offshore windfarm located in the German North Sea, called Meerwind, early in 2016. The investment was made by the Asset Backed Securities (ABS) team, who were seeking more illiquid infrastructure investments that could achieve higher spreads. The project, consisting of 80 turbines with a total capacity of 288 MW peak, is meeting the electricity demand of approximately 360,000 German households.

The Dutch Rates & Money Markets (sovereign) team at Aegon Asset Management also made a EUR 22 million investment in wind energy, in the Tellenes windfarm in Norway. The windfarm includes 50 wind turbines, capable of generating 500 million kWh of energy annually, for use in Google data centers. The investment was made for the Government Related Investment Fund (GRIF), and was backed by an Export Credit Agency guarantee.

Maarten Jan Hoefnagel of the ABS team explains that investments like these are still relatively scarce. "The opportunities for investors like Aegon to participate in renewable energy projects are still limited, due to Solvency II requirements. Almost all these investments – by nature – have very long maturities, which makes them unattractive for insurers."

Emerging market opportunities

Renewable energy investment opportunities are also arising in emerging markets. In August 2015, AURA made its first investment in a diversified portfolio of clean power generation assets in high growth emerging markets, through Terraform Power Inc. The investment will help serve commercial and residential customers' utility needs while delivering attractive returns. Sarvjeev Sidhu, Global Head of Emerging Market Debt at Aegon Asset Management, believes that renewable energy will continue to grow in emerging markets at a much faster rate than other countries. However, he notes that support is needed to push new investment forward. "Currently our clients do not provide specific impact or sustainability goals in their investment mandates, which means that renewable energy investments will only be considered if investment returns are equal or superior to other potential investments," says Sarvjeev. "It's important that regulators and rating agencies like S&P take into account ESG and impact elements more – this should facilitate these types of investments and will help us get beyond this stage where these investments are driven only by financial metrics."

Government support and intervention

How the clean energy market will develop is also highly dependent on (international) government policy and support. In most developed – and increasingly also emerging – countries, new energy sources are facilitated by subsidies, or feed-in-tariffs, often through tenders. But also the fossil-fuel industry receives broad government support in many countries. Commentators following the energy market feel that such support needs to be removed in order to create a better level playing field, that is one that also takes climate change mitigation into account. This requires that a realistic penalty on carbon emissions is introduced, preferably on a global scale. The penalty should reflect the true societal costs of climate change. Most economists agree that to create a true market competition that drives the energy transition, there needs to be a realistic price on carbon.

That government policy is a key factor for investors is illustrated by the United States. In December 2015, the US Congress – with bipartisan support – extended the Production Tax Credit (PTC), which supports the wind industry and the Solar ITC. "That decision came as a surprise and breathed new life into the renewable energy industry," says Ryan, the asset manager at AURA. However, the incoming administration has created some uncertainty around the business and regulatory environment. "The President ran a campaign which supported traditional energy sources and has shown that he is standing behind this. What impact the President's policies will have on the solar and wind industries remains to be seen," says Ryan. Investments in emerging markets also depend heavily on regulatory frameworks and national and global policy initiatives. "You see a lot of desire by governments to move towards renewables when developing their energy sector," says Sarvjeev. "For instance, China has already taken action, targeting 20% renewables by 2030 and in India we see massive growth in solar. But more support is needed to help set up these companies and make them attractive investments."

Prices of solar and wind technology went down significantly over the past years. It is expected that economies of scale of renewable energy technologies will drive down prices even further. For example, recent tenders for off-shore windfarms in the Netherlands have shown historic low kWh prices, contributing to the expectation that renewables may out-compete fossil fuels, even without carbon pricing, in the future. Aegon Asset Management is preparing to play its role in this growing industry.

"It's important that regulators and rating agencies take into account ESG and impact elements more – this should facilitate these types of investments."

Next Steps in Clean Energy Investments

To better understand clean energy markets, and to encourage internal cooperation in this area, we launched a Clean Energy Project early 2017. This project brings together Frank Meijer and Maarten Jan Hoefnagel of the ABS/infrastructure team – an interview on page 68 – as well as portfolio managers and analysts in other Aegon Asset Management units.

The project, supported by an external consultant, aims to increase our knowledge, networks and access to investment opportunities in clean and renewable energies, with the ambition to grow the number of clean energy investments in 2017 and beyond.

10.7 Challenges in Clean Energy Investments

Frank Meijer and Maarten Jan Hoefnagel, ABS/Infrastructure
Aegon Asset Management the Netherlands

Can you tell us how you became involved in clean energy?
Frank: The ABS team started looking at infrastructure investment opportunities a couple of years ago: highways, bridges, airports, and so forth. In this category we also found renewable energy assets like wind and solar farms and we realized they're a bit different from conventional infrastructure projects. At Aegon Asset Management we found renewable projects attractive because they are impact investments and because there is a lot of client interest in the climate change problem. However, the underlying business models are more complex than for other infrastructure investments, they are evolving very quickly, and are often influenced by local government regimes, with subsidies and feed-in tariffs, for example. We did quite a lot of work to analyze these local regimes.

People often say that clean energy is now competitive with fossil-based sources – doesn't that mean that you can now invest in them like in any other profitable business?
Maarten Jan: I understand why people make this assumption but to be honest I think it is a misconception. Almost the only way to invest in this market is by investing directly in assets, for example in windfarms. Developers who build these windfarms have access to very cheap financing because the interest rate is so low, and then typically the assets are financed through auction processes, driving the prices even lower. Of course this is good for the developers and for climate change, but it is not so good for our investment clients. As a result, currently most of the opportunities that cross our desk don't meet our investment criteria.

But your team invested in the German Meerwind project?
Frank: Absolutely, and we are happy with this investment – we invested in a project bond together with our French partners LBPAM. It was a unique opportunity in the sense that the company that issued the bond structured it in different tranches, accommodating different investor requirements. We made this investment for the insurance company, so Solvency II rules apply, which means that relatively short maturities are preferred. In this case, the maturity was about four years, so that worked well for our clients. The feed-in-tariff under German regulations also helped, as it is seen as a very reliable regime and the German government is stable and dependable, reducing country risk. Finally, the bond had good ratings from S&P and Fitch, which we prefer above non-rated loans.

Maarten Jan: When Meerwind first issued this bond a lot of our peers said it would be the first of many. They even won the "Project Bond of the Year" award for this. But unfortunately we haven't seen more investment opportunities like Meerwind so far.

What are the next steps in clean energy investments for you?
Frank: We remain interested in this space. We also see that institutional clients like pension funds would like to do more in clean energy, it fits well with their impact and sustainability goals. But of course they need to cover their liabilities so these must be good investments from a yield point of view too.

Recently we started working with the Responsible Investment team and an external consultant in a Clean Energy Project. We've teamed up with investors in other Aegon Asset Management units that are investing or interested in clean energy – we want to map the differing investment preferences and criteria so that we can send a clear message to the market: "this is what we like".

Maarten Jan: It has been an educational process so far. We're also looking at categories like hydro, geo-thermal, energy efficiency, battery storage. It's interesting to realize: we're in the middle of this transition now and we like to think we can look back later and say 'we made a difference'. But we also need to be able to look our client in the eyes and say 'we made good investments for you!' Of course we want to do both. And that's a fun challenge.

Meerwind | WindMW

The Meerwind farm is located in the German Bight in the North Sea. The windfarm consists of 80 turbines with a power output of 3.6 MW each. The farm has been up and running since February 2015 and at full capacity can produce enough power to support over 360,000 German homes' energy usage for one year. The farm feeds into the German grid, helping the country achieve its commitment to cut greenhouse gas emissions by 50% by 2020, compared to 1990 levels.

QR code to video:

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

10.8 Government Related Investment Fund

Eddo van den Bogaard and Hendrik Tuch, Rates & Money Markets Team
Aegon Asset Management the Netherlands

This year Aegon Asset Management launched the Government Related Investment Fund (GRIF), a fixed-income government-guaranteed private placement fund that aims to invest 50% of the fund in impact investments. The fund demonstrates progress towards further integrating ESG factors into our core investment analysis and decision-making. Eddo van den Bogaard and Hendrik Tuch from the Rates and Money Markets Team discuss the fund and its impact objectives.

Could you tell us a bit about the GRIF and why you decided to set it up?

Hendrik: The GRIF is a fixed-income fund that invests in government-guaranteed private placements and bonds, predominantly in European public entities. Because of the low yield environment and strict rules from regulators, we were looking for alternative illiquid investment opportunities that achieve a higher spread than government bonds. We already had experience in the private placement market, so we decided this type of investment category would be an excellent opportunity.

How does the fund target impact areas?

Eddo: The private placement market in the Netherlands is focused on investments in areas like social housing and renewable energy. We saw this as a good opportunity to create a strategy that also adds impact value for our clients. The goal is to invest at least 50% in projects that have explicit social and environmental goals – such as social housing, hospitals, renewable energy and development banks – but also meets Aegon Asset Management's risk and return criteria. The GRIF, for example, made a EUR 22 million investment in the Tellenes windfarm in Norway and EUR 15 million in an Olympic athlete training facility in the Netherlands.

You don't see too many mainstream institutional funds talking about impact. How did you come to the decision to launch this strategy?

Hendrik: The people in our team have been involved in a lot of impact investment projects and discussions over the years: social housing, green bonds, microfinance and development banks. We like these types of investments and see that our clients are interested too, but often the relevant markets are still emerging or too small for us to create a dedicated fund. Of course our clients have their risk and return requirements that still apply, even if they also want to have positive impact through their investments. So we decided to integrate the impact thinking into the fund development process and this has worked out well. We continue to see opportunities in impact investments so don't expect it to be a problem to meet our goal.

"We decided to integrate the impact thinking into the fund development process."

How to you determine which investments are impact focused?

Eddo: We've been making some of these investments for many years, like social housing, so that's an area there isn't much debate about. Other areas are new for us as a team; for example the Norwegian windfarm we invested in, but we would say that's also a clear-cut case of impact. As for the other areas, the Sustainable Development Goals can be a helpful framework, and of course we can always wander over to the Responsible Investment team to have a chat about a new investment we're considering. It's been interesting to learn more about how the market views this definition issue, it doesn't seem like there's much consensus on this, so we think it's also important for us as a team to discuss it and examine about the non-financial benefits of the investment we're hoping to see.

In the impact community that would probably be called 'intent'! And what are you doing to measure the impact?

Measurement is certainly something we want to do and our clients are asking about it. What we learned from our experience in impact investment is that currently there's no generally accepted way to do this. We intend to use our measurement process from other impact investments: take the readily available data – like carbon emissions saved, and jobs created – despite the challenges in gathering meaningful data.

We're following the developments around this area with interest and we hope we can work with the Responsible Investment team to develop something more sophisticated as the science around measurement evolves.

How do you see the fund developing over the next few years? Is there growing appetite for such a fund?

We do see an increase in interest in the fund. Actually, we received our first Third Party client investment in August 2016 and the fund is now at EUR 350 million. Clients are looking towards higher yielding alternative fixed income investments due to low sovereign bond rates. Many clients have expressed an interest in impact investment, sometimes even have targets. Well, we think we can help!

"It's important for us as a team to think about the non-financial benefits of the investment we're hoping to see."

Norwegian Tellenes Windfarm

The Tellenes windfarm is located on the southern tip of Norway. Construction of the farm began in the summer of 2016 and is expected to finish in autumn of 2017. The windfarm consists of 50 Siemens 3.2 MW turbines, capable of producing over 520 GWh of power a year, equivalent to the electric consumption of around 25,000 Norwegian households. The energy produced from the farm will be used to power Google data centers in Finland.

Tellenes was recently awarded the 'Onshore Wind Deal' of the year by Infrastructure Journal (IJ Global Awards).

"Everything else equal, we would choose the green bond over the regular bond."

10.9 Green Bonds

Jesus Martinez, Doug Weih, Bradley Doyle, Eva Mulder, Wim Almeloo
Aegon Asset Management

With a mix of curiosity, appreciation and also some healthy skepticism, various Aegon Asset Management colleagues have been following developments in the green bond market over the past several years. As we continue to develop our view on this still emerging class we recently had the chance to speak with a number of our colleagues: Jesus Martinez, from the Rates & Money Markets team in the Netherlands, Doug Weih and Bradley Doyle, respectively Head of Public Fixed Income and Senior Corporate Bond Manager, in the US, and Wim Almeloo and Eva Mulder, Head of the Corporate Credits team in the Netherlands and Corporate Credit Analyst.

Jesus, you have been following this market, can you describe the recent developments?

Jesus: When I see new products, like green bonds, coming onto the market I think it is important to look at them seriously and analyze whether they add value to our existing range of investment instruments. We are starting to see greater standards around the industry. This year several members of the green bond market established a set of 'Green Bond Principles', which highlight the importance of tracking proceeds, allocating funds to eligible projects and providing periodic reports on the use.

Why are these standards important?

Jesus: As an investor you want to know what distinguishes this kind of bond from any other bond. What makes it green? Currently the definition can vary substantially from one participant to another. The Green Bond Principles are a first and very important step, but I think this market still has room for improvement.

Can you give an example?

Jesus: The Polish government, who have not exactly been at the forefront of the push to tackle climate change, recently launched a green bond. The bond is said to finance projects linked to renewable energy, clean transport, agriculture, afforestation, national parks and rehabilitation of landfill sites. While everyone applauds their initiative to become a more sustainable economy, the current market framework allows for some creativity in labelling projects. If you look more closely at the projects issuers want to finance, the 'greenness' of some of these projects is questionable. For instance, we looked at a timber company that has been involved in a lot of deforestation, but now wants to qualify for proceeds from the bond for 'sustainably extracting timber.' As an investor you wonder – maybe this is all genuine, but how do you know? You're very far removed from the activities, so it is critical that we develop a framework around these strategies to make sure they are really generating the impact we intend them to.

"As an investor you wonder – maybe this is all genuine, but how do you know?"

Doug, you've been following the market from the US; what is the situation like there?

Doug: I would say that, everything else equal, we would choose the green bond over the regular bond. But unfortunately we have not seen many of these come to the market and overall we don't see them meeting the same standards in terms of pricing that we are looking for in bonds. If clients come to us and ask us to invest in green bonds particularly, of course we can do that. Currently our mandates do not require us to invest in bonds for their green credentials, so we will only invest if they deliver the same yields as other bonds.

I think in the future this will change as the market develops and we get more specific mandates.

Bradley: I would echo Doug's thoughts on this. We recently purchased 10 million of the Apple green bond; with USD 1.5 billion it was the largest green bond to be issued by a US corporation and we wanted to increase our exposure to the name Apple in the ten year maturity. To be honest, the fact that it was a green bond was not a huge driver in our decision to purchase, although if I had to choose, I'd prefer a green bond to a regular bond.

I also agree with Jesus' point on standards – as investor you want some comfort that the 'green' label is justified and as an asset manager we don't have the capabilities or resources to determine all of this ourselves. For the Apple bond it helped that they also used the Green Bond Principles – they engaged Sustainalytics to issue an opinion on the 'greenness.' For example they verified that proceeds of the bond would go to projects that are assessed based on objective standards, like LEED or BREEAM building certifications. As an investor I would like to see more of this kind of independent assurance.

Eva and Wim, you've been looking at green bonds issued by banks. Tell us what you're seeing.
Eva: Banks have started to issue green bonds through unsecured lending investments – so there is no pledged collateral in the case of default. BNP and SEB have been active in green bonds, and we recently participated in the SEB issuance. SEB has done a lot of work to strengthen the technical elements of the bonds and because it came at a price that we found attractive, we decided to invest. Furthermore, because investor demand for these products is increasing we believe we will be able to sell it for a higher price and make a profit on the investment. However, like my colleagues in the US, we have yet to see our clients willing to pay a higher price for the bonds because of their 'greenness.'

Wim: The sector is growing but currently opportunities are fairly limited. In the banking sector we only see about one green bond coming to market each month, although I do think there will be more coming. The banks we have invested in have developed frameworks on what constitutes a green bond, and they also monitor impacts, like GHG emissions. We like the issuer to have a framework for these things, also because of the 'green default risk.'

Our clients have not issued targets for green bonds – it's also not something that we would advise. Sometimes we see prices rise because of the significant demand in the market and then there may be an opportunity to add value for the client by selling rather than by holding it to maturity.

Jesus, you developed a risk framework for green bonds, can you tell us about it?
Jesus: Yes, I analyzed the market and identified five risks around green bonds that any bond investor should be aware of. It is something that we have started applying and we also hope others find it useful as this market further develops.

"We have identified five risks around green bonds that any bond investor should be aware of."

Green Bond Risk Framework

Liquidity risk
There may be liquidity risk in green bonds, because the projects they finance tend to be relatively small. Ideally the investor is compensated for this risk by an illiquidity premium on the bond. However, current high demand for green bonds may be squeezing these premiums, so they might not be what you would expect to see compared to regular debt.

Development risk
Technologies in projects financed by green bonds are often in an early stage of development which makes it difficult to predict future performance. Therefore, when performance of green bonds is linked to the underlying assets, this development risk should be carefully assessed.

Green default risk
Generally accepted standards for green bond labelling and monitoring are only now being developed, so there is a risk that if bonds fail to deliver (for example by misuse of proceeds, lack of transparency), this could affect yield curves of other similar instruments. This is especially the case if investor demand continues to rise and issuance struggles to meet demand, which could result in lax application of standards. This risk may be mitigated by increased research efforts by the investor.

Reputational risk
By extension of the previous point, if 'green defaults' are significant in number or impact, this may also affect the reputation of the market and green bond investors.

ESG risk
Applying a 'green' label to a bond does not mean by default that it meets other investment standards, ESG or otherwise. The investor should still perform a thorough ESG risk analysis like he or she would for any other bond.

10.10 Best-Practices in Developing SRI Funds at Aegon Asset Management

With growing global awareness of sustainability issues, our clients are increasingly seeking out Socially Responsible Investment (SRI) funds.

Aegon Asset Management applies its RI Policies and ESG standards across all investments and for most of our clients this meets expectations. Some of our client groups would like their moral standards or ethical beliefs specifically reflected in their investments. SRI funds are a good way of meeting these specific client needs.

SRI funds typically narrow the investment universe by excluding companies involved in controversial activities (negative screening) or overweight investments in companies that outperform other companies in terms of ESG (positive screening). Over the past year, portfolio managers at various Aegon Asset Management units have worked to develop new, or update existing, SRI funds. To better understand the challenges and opportunities in this area we spoke with a number of colleagues working on these funds.

The customer is king

Marianne Oomkes, Senior Account Manager at TKP Investments was involved in the development of a new SRI fund in 2016 for their client, Stichting Prins Bernhard Cultuurfonds, a not-for-profit charity organization. The client specifically asked TKP Investments to tailor its developed world equity allocation into a more ESG-focused product that would reflect their investment beliefs. Marianne feels that capturing the clients' wishes and appropriately reflecting them in the fund is the biggest challenge in developing an SRI fund. "The long-term relationship with our clients is always our main priority. To develop this product we worked closely with them, by analyzing a number of different indices and advising on fit with their ESG preferences, potential for financial performance, tracking error, and so forth. But the whole process to set up the fund took only a few months from start to finish."

Ryan Smith, Head of ESG Research at Kames Capital agrees with this observation, "Kames has a long history of successfully managing negatively screened 'ethical' funds in the UK. However, we knew this approach wasn't necessarily going to resonate with clients in continental Europe, although we felt we could leverage our reputation for corporate governance research and engagement." Therefore, in developing the new Global Sustainable fund for distribution outside the UK, Kames Capital consulted a number of key clients as part of their market research. Kames also analyzed other funds that were most in demand on the continent and looked at recent academic research linking ESG factors with investment performance.

"Kames Capital has a long history of successfully managing negatively screened 'ethical' funds in the UK."

Sometimes working with 'the client' is not straightforward. Roger Wildeboer Schut, of the Aegon Asset Management Responsible Investment team, is working to develop an ESG benchmark for large portfolios of passively managed equities in the Netherlands. "We get feedback that retail clients who invest in the funds would like to have a strong ESG angle to their investments.

SRI Fund – Fast Facts

EUR 451 m

Federis ISR EURO

La Banque Postale Asset Management

SRI approach: invests in Euro Zone listed equities of companies in four core areas:

1. Economic and energy transition
2. Regional development
3. Sustainable resource management
4. Responsible governance

The fund analyzes sector data and studies from rating agencies, brokers and various other sources. A weighting matrix is then developed to reflect the opportunities and risks specific to each sector. Sectors with more ESG opportunities than risks, such as insurance, real estate and pharmaceuticals, are overweighted. Energy, materials and transport are underweighted. Opportunities and risks within each sector are reviewed on a regular basis. Applying this SRI methodology results in exclusion of approximately 50% of the investment universe.

"There is strong evidence that investing in ESG 'improvers' is an effective way of integrating ESG into investment processes."

But we also observe that only a very small minority of clients switch from the default index funds to the SRI fund that we currently offer, so we are developing an ESG benchmark that will be the default for all these passively managed equities," explains Roger. The benchmark will apply to a fund range that thousands of individual clients invest in, so surveying them on specific ESG themes like TKP Investments has done with its client, one individual institutional investor, is not an option. Nonetheless, he says, "this creates challenges because we need to ensure that when we make changes to the fund the broad group of clients will welcome the new approach."

Lack of ESG disclosure

Ryan identifies the lack of ESG disclosure by companies in certain markets and regions as another hurdle to SRI investments. However, he notes, "Disclosure standards are improving quickly, especially in Asia, and we are firm believers that investing in emerging markets is the right approach as many of the greatest sustainability challenges are faced in these regions. Also, some of the most exciting sustainability solution providers are listed in Asia."

"We need to ensure that when we make changes to the fund a broad group of clients will welcome the new approach."

SRI analysts Paul Merle and Benoit Humeau from our French joint-venture partner LBPAM had similar findings. LBPAM updated its SRI methodology following its recent merger with Fédéris. Both firms had an existing SRI approach and wanted to create a new best practice based on their combined expertise. Paul led the process and believes there is a size-bias in ESG disclosure, "If you simply look at the ESG ratings you have to conclude that larger companies perform better, but we think often this is because they simply have larger departments to track all kinds of ESG indicators and report on them. Smaller companies sometimes don't perform worse, they're just not disclosing it." In order to reduce the effect of this size bias SRI analysts at LBPAM engage with companies to obtain more than just publicly available information.

Kames Capital follows a similar approach. According to Ryan, "In trying to build a picture of a company's ESG performance and journey we use a variety of sources including ESG rating agencies, company disclosures, news and journal articles, broker research, company meetings and our own historical voting data, where we have it."

Pluses or minuses to performance?

A frequently asked (but still inadequately answered) question about SRI funds is whether they help or hurt performance. Looking at the available academic research on the topic, the consensus now appears to be that "it doesn't seem to hurt performance, and there may be a slight positive effect on returns." However, academics also caution about drawing sweeping conclusions for all SRI funds, given that the approaches for the various funds they research differ strongly. At the end of the day it really depends on the underlying ESG approach.

SRI Fund – Fast Facts

EUR 53.1 m

Global Sustainable Equity Fund

Kames Capital

SRI Approach: Launched in April 2016, the fund searches for the best global bottom-up investment ideas, using detailed in-depth sustainability analysis as part of the investment process.

This approach evaluates companies within a sector specific context and considers the sustainability aspects of a company's products and services as well as how and where they operate. Companies are then categorized as being ESG leaders, laggards, or improvers. Investments will only be made in the leader and the improver categories. Rarely do companies score perfectly on ESG but this allows for a more practicable view of their sustainability performance, provides a larger opportunity set of potential investments and avoids the size, regional and value biases of using just a best-in-class approach.

Exclusions: *Tobacco, weapons, nuclear power, gambling, adult entertainment, genetic modification (agriculture).*

SRI Fund – Fast Facts

EUR 80 m

MM World Equity Index SRI Fund

TKP Investments

SRI Approach: Launched November 2016, the fund is a 'Developed World Equity' investment fund with a passive investment strategy.

The objective is to achieve a return that is close to the MSCI World SRI benchmark. It is constructed by applying a best-in-class ESG selection strategy to companies from the MSCI World Index universe. This includes companies with a minimum ESG ratings of 'A' and excludes companies with a score lower than 'BB'. The benchmark represents approximately 25% of the market capitalization in each sector and region of the parent index, after exclusions are applied.

Exclusions: *Any companies involved in alcohol, tobacco, gambling, civilian firearms, military weapons, nuclear power, adult entertainment and genetically modified organisms (GMOs).*

TKP Investments looked into this question for its client by tracking performance of the index it selected for the fund and found that over a time period from 2007 to 2015 the benchmark of the TKP Investments MM World Equity Index SRI Fund performed as well as the parent index, but with a lower degree of volatility (risk). TKP Investments also looked at the diversification in the index (sector and region), a metric that helps determine performance potential. TKP Investments concluded that with approximately 400 holdings, the MSCI World SRI Index Fund offers sufficient diversification benefits.

Because it has an actively managed fund, the LBPAM approach is slightly different from the TKPI one. Benoit believes that identifying companies and businesses that manage resources responsibly and have high-quality governance will improve long-term performance and reduce reputational and financial risks. According to Benoit,"Our approach sets us up well to understand long-term challenges, we focus on identifying companies and sectors that offer solutions and innovation to the main ESG challenges."

Identifying ESG momentum

Kames Capital went a step further in analyzing the question about investment performance for SRI funds. As part of the sustainability analysis of companies for its Global Sustainable fund, it classifies companies as ESG leaders, improvers and laggards (the latter being un-investable).

Ryan commented, "For 'improvers' we outline the key ESG performance indicators that we feel are important for a company and which we will track going forward to measure their improvement process. There is strong evidence that investing in ESG 'improvers' is an effective way of integrating ESG into investment processes. Such an approach avoids the biases that many best-in-class approaches suffer from – such as value, large-cap, European, lack of emerging markets – and provides a larger opportunity set. Focusing on 'improvers' also fits well with our own experience of working with companies on traditional corporate governance issues as they grow from IPO to full listing."

Sweat the small stuff

Finally, all of our colleagues working to build SRI funds point to operational challenges, and to the importance of minimizing costs. For instance, TKP Investments had to decide on the most cost-efficient way for the client to migrate from the original world equity allocation to the SRI allocation, while maintaining full exposure to the equity market during the transfer period. Marianne explains how they "decided to do an in-kind transaction for close to the total original equity value, which was then followed by a buy-and-sell strategy in units for the remaining equity value. The second transaction was really used to optimize currency hedges and to determine the desired distribution between both the hedged and unhedged investment fund."

Roger is also grappling with this issue. As he points out,"Once we apply the ESG benchmark there needs to be a transition where we're selling securities and buying others on a fairly large scale. Of course this comes with transaction costs, but we want to minimize them – otherwise we could easily erase potential performance benefits from the ESG approach by incurring these transaction costs." The solution can probably be found in opting for a longer transition period and having trades coincide with rebalancing – the periodic buying and selling of assets that ensures the fund matches with the benchmark.

" It is hard work but in the end you know that the impact will be huge. That is very rewarding."

Next Steps in SRI Funds

All Aegon Asset Management colleagues working on SRI funds are passionate about their product and are enthusiastic about market opportunities, benefits for clients and – last but not least – having an impact through investments. Marianne comments, "The investment fund is subject to economies of scale. We are convinced that as more participants will invest, and assets under management increase, the costs measured in terms of basis points will reduce significantly."

Paul explains that LBPAM would like to do more to measure how the fund is contributing to global challenges, "LBPAM already discloses some extra-financial and impact indicators for the funds, and LBAPM has also developed tools to publish the performance of SRI Funds compared to their benchmarks on ESG raw data. We also plan to significantly improve on these indicators and extend these activities in 2017."

Roger is aiming to finalize his project to develop the ESG benchmark for the passive equity portfolio in 2017. "We still have a lot of logistical hoops we have to jump through, and all the departments involved have their questions and requirements. But the portfolio is very large, which makes it all worthwhile. That is why I think our integrative approach works: we make ESG part of the very large portfolios that we manage. It is hard work but in the end you know that the impact will be huge. That is very rewarding."

Other SRI funds

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 towards 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 agribusiness.

China

AIFMC Social Responsibility Investment Fund
Covers equities in a number of sustainable industries including: transportation, IT, real estate, culture, sports and entertainment.

AIFMC Green Investment Fund
Covers green technology industries and companies, and seeks companies in traditional areas that are actively environmentally responsible.

"Aegon Asset Management has a combined EUR 3.3 billion in its SRI funds."

Companies Featured in the SRI Funds

Based on its new SRI methodology, LBPAM invested in a number of new companies, including Koninklijke Wessanen, a food company that produces and markets healthy and sustainable products. With growing consensus that consumption of animal products has a highly negative impact on the environment and human health, vegetarian products account for 97% of Wessanen's product range. LBPAM also invested in Gamesa, a Spanish developer and constructor of wind turbines and the construction of windfarms. The company has installed more than 10,000 MW of production in four continents, saving the equivalent of 51.9 million tons of carbon dioxide annually.

Kames Capital invested in Mohawk Industries Inc., a good example of a company that thematic sustainability funds are unlikely to identify if just screening by revenue exposure. Mohawk is an American carpet and flooring company but has integrated sustainability into its operational practices by investing heavily (USD 500m) in plastic bottle recycling facilities (Mohawk is the largest recycler of plastic bottles in the US). The investment reduces Mohawk's exposure to volatile oil based inputs and provides it with a cost advantage versus peers in what is a fairly commoditized market. Ryan states that, "We think Mohawk is a great example of a company where sustainability has provided competitive advantages."

10.11 Publications on Targeted Investments

Aegon Asset Management was in the press on various occasions several times in 2016 for developments in Impact Investment and SRI funds. Read more about our activities by following these links:

Kames launches Global Sustainable Equity Fund

Every Investor. April 2016. "Kames launches Global Sustainable Equity Fund."

Aegon starts investing in Microfinance

Znieuws. August 2016. "Aegon stapt in microfinanciering."

Aegon invests in Green Storm RMBS

Duurzaam Bedrijfsleven. August 2016. "Aegon: EUR 60 mln voor energiezuinige huizen."

Aegon joins consortium to accelerate investment in UN Sustainable Development Goals

Aegon. December 2016. "Aegon joins consortium to accelerate investment in UN Sustainable Development Goals."

Aegon Asset Management launches Solar Investment Fund

The Asset. September 2016. "Aegon lanceert fonds voor zonne-energie."

Aegon Asset Management comments on developments in Green bonds

Ernst & Young Renewable Energy Country Attractiveness Index. October 2016. "Green bonds: power surge."

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

11 Real Estate

11.1 Sustainability – An Integrated into our Real Estate Investments

"The building sector contributes up to 20% of the world's carbon emissions and consumes up to 40% of all energy."

GRESB

GRESB is an investor-driven organization committed to assessing the ESG performance of real assets globally. More than 250 members, of which more than 60 are pension funds and their fiduciaries, use GRESB data in their investment management and engagement process, with a clear goal to optimize the risk/return profile of their investments. Aegon Asset Management joined GRESB in 2013.

Buildings have a significant impact on both the environment and our social well-being. The World Economic Forum estimates that at present the building sector contributes up to 20% of the world's carbon emissions and consumes up to 40% of all energy. As population growth and environmental issues, such as climate change, continue to emerge over the coming decades, sustainable real estate will play an increasingly important role in our efforts to support sustainable development. With the majority of our time being spent indoors, buildings also play an important role in promoting our health and productivity.

Aegon Asset Management is a large real estate investor, and in our work with the different units in the group we've seen that many of our real estate investment colleagues have long been involved in initiatives to make our investments more sustainable for quite sometime. We spoke with a number of them to get a better understanding of what is driving these initiatives.

GRESB – Global Real-Estate Sustainability Benchmark

GRESB has become an important tool for investors to assess the environmental, social and governance performance of real assets. Over the past few years, since joining the initiative in 2013, Aegon Asset Management has increasingly incorporated GRESB data into its investment processes and worked to improve our funds' ratings.

TKP Investments was the first at Aegon Asset Management to begin applying the GRESB data methodologically. René Rijk, portfolio manager for non-listed real estate, is primarily responsible for the implementation of GRESB for TKP Investments. His work involves annually surveying real estate assets on sustainability criteria and engaging property managers on areas for improvement. "We are beginning to see property funds become more serious about their sustainability commitments," says René.

"We are beginning to see property funds become more serious about their sustainability commitments."

"In the past, funds would make some commitments to sustainability initiatives, but now you're seeing more tangible results with strategies and objectives to actually take these initiatives forward." For example, the CBRE Dutch Retail Fund has several projects to replace traditional lighting sources in the Netherlands. "The projects are carried out once original lighting reaches the end of its lifetime, to make buildings more economically efficient," says René. "To improve its sustainability rating the fund recently installed over 200,000 LED lights in a shopping centre in Eindhoven, providing three times more light with only half of the energy usage and costs."

Solar panels and cool roofs

Fund manager Prologis, which invests heavily in solar panels and 'cool roofs', offers another example. "Generally, roofs are an underused resource, but can be great for solar energy projects," René explains. "Prologis has installed cool roofs in logistics facilities; with a white reflective surface they are designed to reflect more sunlight and absorb less heat than a standard roof. Cool roofs can reduce roof surface temperature significantly, which in turn reduces buildings' indoor air temperatures. The roofs also lessen the intensity of the urban heat island effect, by reducing the warming effect that occurs as the sun's heat is absorbed by roads and rooftops."

Real estate investments at Kames Capital

In 2015, Kames Capital hired Bill Coghill to further integrate GRESB into its property investments. Unlike other Aegon Asset Management units, Kames Capital also has direct ownership of properties, so it is not only a user of GRESB data but also carries responsibility for submitting data on its properties to GRESB. With a background in engineering and a strong interest in sustainability, Bill Coghill has been driving initiatives to not only make sustainability a key element to real estate investments, but also to the broader Kames Capital business.

Fund managers can use the GRESB score to help better manage their assets and portfolios. "For instance," says Bill, "a number of improvements can be made to enhance the efficiency of buildings. Reducing water consumption and landfill waste are common improvements we make. We try to take a holistic approach to reduce utilities consumption by putting in insulation, heat recovery plants and installing LED lighting. We also work with our stakeholders to understand their needs. Often making these improvements can reduce tenants' bills and provide better comfort."

Improving GRESB scores

Improvements in Aegon Asset Management's GRESB scores have not only come from advances in the properties themselves but also from becoming more familiar with the GRESB methodology. "In the first year that Kames submitted data to GRESB we were completely new to the process and had no experience with the GRESB methodology and no fund submissions received a Green Star rating," explained Bill. "The subsequent year we became much more conversant with the GRESB approach, and we submitted five funds, three of which received green stars. I think this was because we were already more familiar with the process but also because we had much better data collection and management on things such as greenhouse gas emissions. We also had stronger buy-in from the Kames Capital Sustainability Committee and Management, which had developed a Kames Sustainability Policy to better support the process and submissions. And we made more use of global Aegon Asset Management expertise."

"We submitted five funds, three of which received green stars."

GRESB scores companies on their 'green talk' – does a fund have policies? – and 'green walk' – are the policies implemented? "Kames scores relatively well on the green talking because we have a lot of information on how we manage the ESG side of our business," says Bill. "However, we still score just below average on the green walk and need to work on implementation in order to raise our scores."

According to Bill, as a next step, "Kames believes it is now time to start reflecting the values and commitments that we encourage in our investments in our own business. We decided to create a roadmap to break down sustainability and understand where we could drive change within our business. What came out of this is the Kames Sustainability Committee, which will push more initiatives on the agenda. One of these items is a Kames sustainability report, which I think will create a chain reaction and help us do more."

Bill summarizes his approach, "You have to be evangelical about these things - you are asking people to change their habits and are asking a business to change how it does things – and this requires drive, energy, and senior management buy in. But I also think once you have the system in place it is self-generating. The Chief Investment Officer is the chair of our committee, the Chief Operating Officer is also at the table and so is the head of Human Resources. So I think we now have the momentum and corporate direction to really take this forward."

GRESB Real Estate ESG fund

Boudewijn Schoon, a Portfolio Manager in the Multi-Asset Investment Group with Aegon Asset Management in the Netherlands has also been working proactively with the GRESB data. Since joining the company in 2016, Boudewijn has been developing plans to launch an ESG real estate fund which will target investments with high ESG ratings, "When it comes to climate change a lot of the focus is on things like aviation, transportation and power generation," says Boudewijn. "But people don't realize that real estate and infrastructure are amongst the most greenhouse gas and resource intensive sectors. We could be making significant savings in this area." Asked if GRESB is the right tool to assess sustainability of properties, Boudewijn comments, "Currently I don't think there is anything out there that can compete with GRESB, it has become the most dominant tool in the real estate industry in terms of assessing sustainability." Boudewijn says that he is also considering other data inputs for the ESG fund, and may end up using multiple sources of data, but says of GRESB, "It is very demanding, but also consistent and I think the indicators capture the right factors for a real estate investor."

"We now have the momentum and corporate direction to really take this forward."

Kames Capital – GRESB Green Star Awards:

- Kames Active Value UK Property Unit Trust
- AEGON UK Property Fund
- Kames Property Income Fund

"With 90% of our time spent indoors, our built environment can play a huge role in shaping our health and well-being."

11.2 Aegon Asset Management Hosts GRESB Event in 2016

Phil Clark, Head of Property Investment
Kames Capital

In April 2016, Aegon Asset Management hosted a GRESB event focused on health & well-being in commercial buildings. The purpose was to build awareness about emerging opportunities for property investors to create value and manage risk by promoting health and well-being. The event was chaired by Phil Clark, Head of the Property Investment Team at Kames Capital, who is also on the GRESB Advisory Board. Speakers at the event included Nils Kok, Founder of GRESB, Peter Borgdorff, Director for PFZW, the 2nd largest pension fund in the Netherlands and Lara Muller, Co-founder of Onimpact.

We spoke with Phil about the event and what he learned from it.

Phil, the event was about buildings and 'health and well-being' – is there a problem we need to address?

Yes, it is clear that a modern health epidemic is happening right now. Lara Muller, who spoke at the event said, "Sitting is the new smoking." With 90% of our time spent indoors, our built environment can play a huge role in shaping our health and well-being.

You are on the GRESB Advisory Board – what can GRESB do to help?

GRESB has a new "Health & Well-being module" that focuses both on buildings' ability to foster healthy environments for people and to promote health & well-being products and services. The module helps us understand which companies are leaders and laggards in building health. Nils Kok, who founded GRESB, spoke about this at the event. The module has two areas of focus, (1) the promotion of health & well-being for employees of companies and (2) the provision of real estate products and services that help promote health & well-being for tenants, customers and surrounding communities.

How is this relevant for investors?

As mentioned by Peter Borgdorff, pension funds and other investors have an obligation that goes beyond just providing pensioners with money – we want to make sure that they receive their pension in a liveable and sustainable world, and I agree with him. If we can make good investments and at the same time make sure people stay healthy, it's not only good for them, but also for society as a whole.

11.3 Sustainable Real Estate in the Netherlands

Other Aegon business units have also been working to improve sustainability in real estate. Since 1997 Aegon Netherlands is a 50-50 owner along with pension fund Zorg & Welzijn (PFZW) of the leading Dutch residential real estate fund manager and developer Amvest, who prioritize making the sector more sustainable.

"Amvest aims to develop good quality properties but also to improve the environment and create more resilient cities," explains Wienke Bodewes, CEO of Amvest. "We do this by developing units that offer residents attractive, lively and sustainable living environments and are good places to live – now and in the future. We want our properties to make socio-economic sense, which means we have dialogues with community members and stakeholders to understand the physical space and how it will be used. From there we design properties to meet the wishes and needs of the residents and community. This also makes business sense by creating durable systems that will remain in the market for longer and generate high returns for our shareholders."

Wienke believes that sustainability in real estate should be approached holistically: "Sustainability often revolves around 'hot' topics that come and go, such as acid rain, noise reduction, and now CO2 emissions. There's nothing wrong with this – it ensures problems receive attention and it leads to innovation – but we see that developers sometimes address these issues in isolation. Amvest tends to be more focused on understanding how these problems relate to the system as a whole, and how we can work to create properties that last decades. This means we optimize each project by focusing on sustainability, technology and quality jointly. This isn't always the most 'sexy' approach – because not everything we do gets recognized – but on the whole I'm convinced that the impact is much larger."

A holistic approach

Amvest takes a holistic approach to developing residential neighborhoods. One such example is the Stijp R project located in the Dutch city of Eindhoven. As a former Philips industrial area it was suffering significant soil contamination. "In order to get clearance to build on the site we only needed to replace the top 1.5 meters of soil," says Wienke. "But we wanted to better understand the system we were working in and we discovered that groundwater was carrying pollution all across the area, not just below our site, resulting in a lot of environmental damage. So we worked with local authorities like the water board to assess the best way to remove the heavy pollution deep in the soil in order to control the water flows." The approach turned out to be just as cost-effective as topsoil removal but will lead to fewer environmental problems in the future. "We don't win any awards for this but we'll have more sustainable properties" – by sustainable I mean in the durable sense here. As a result, "We'll have better cities, and happier tenants and investors."

Triggered by this example of well-intended regulations Wienke recalls another project Amvest worked on. Amvest filled out a survey in order to receive a sustainability certification for a project; the surveying organization indicated that Amvest lost points because the elevators were too large – in other words, tenants were not encouraged to take the stairs. Amvest also lost points because public transportation was too far away; in order to be awarded the certification the building would have had to be 100 meters closer to the bus stop. Wienke laughs,"So they want people to take the stairs, but not to walk an additional hundred meters to the building!" With these things we tend to be practical – of course we like to receive an award for a project if we can, but some of these rules and rankings can be a little bit silly. We want to do what's right for the specific project."

"We want to do what's right for the specific project."

Wienke observes that where sustainability in real estate is concerned all the discussion is about new buildings. "But we at Amvest like to think the bigger impact can be achieved with the existing stock of buildings. For example, for the Aegon portfolio we are now developing a plan to upgrade existing buildings – we improve the quality of the lay-out, put in new heating systems, sometimes replace facades and so forth. Some of these buildings are 40 years old, and you will never get them to A-label standard. (A is the highest energy effiency label in the Netherlands). If we can get them from D-label to B-label across the portfolio, the impact on the environment is much larger than if you only worry about building new A-label houses."

Wienke sums it all up by describing the thinking for each project, and emphasizing the link between sustainability and economic benefits, "We're in this to provide a financial return for our shareholders – so we combine all our sustainability thinking with economic return. Therefore we start each project by thinking first about 'quality of life'. This requires thinking second about the 'system' – how does our project interact with its environment and how do we build it so that it is durable or sustainable if you will. Then, third, this should automatically lead to value created for our investors because the project will be the highest possible quality and stays in the market for a long time."

Wienke Bodewes, *Chief Executive Officer, Amvest.*

Living and Care Fund

"Amvest also gives us the opportunity to focus on a theme that is very important to Aegon: old age, longer living, retirement and health" says Edgar Koning, Chief Investment Officer for insurance company Aegon Netherlands. "Currently there aren't many nice places to live for the elderly who are in need of care. Amvest created a fund to support four entrepreneurs who wanted to build small-scale homes for the elderly, and really focus on enhancing quality of life. These properties typically hold 20-24 apartments and are structured like a home. This is important for the residents, who often suffer from Alzheimer's," explains Edgar. "They offer freshly cooked meals, laundry and stable staff, and are available for all income levels. We just started rolling this out in the Netherlands, and every few weeks we are opening a new home."

"Amvest gives us the opportunity to focus on a theme that is very important to Aegon: old age, longer living, retirement and health."

Expanding our impact

Marco Keim, CEO of Aegon Continental Europe echoes this observation on aging and well-being. "Over time Aegon Group has become more focused on the health aspects of retirement – we want our customers to enjoy a long and healthy retirement. Also it is becoming more and more apparent that there is a strong business case for doing good," he says. "Right now you see a big change in thinking, that it is our fiduciary obligation to do the right thing because in the long-term doing good for society will always be better for us as a company. I was raised in a family where respect for people and the planet was valued. But it was only when my children were born that it really became a key part of my thinking – that our generation has an obligation to preserve this world for future generations." Marco believes that we as a company should apply our expertise in financial issues to make the future world a better place for our customers.

Marco also feels that we can make improvements in real estate by engaging with the Dutch government. "Today, for example, in the Netherlands many people rent houses. This gives little incentive to invest in making your home more sustainable – it translates to higher prices for renters in the short-term while they don't experience any benefits in the longer-term." Marco thinks that Aegon can work with the government to help bridge this gap (see also text box "Next Steps in Sustainable Real Estate"). For example, by creating financial incentives, or by financing energy efficiency improvements through a tax surcharge. "This way residents' energy bills would be much lower, allowing them to break even, at a minimum," says Marco.

Next Steps in Sustainable Real Estate

Marco Keim believes financial services companies can make a difference in making real estate more sustainable, and he recently took up the challenge by agreeing to sponsor a working group on the Sustainable Finance Platform facilitated by Dutch central bank DNB, together with the CEO of ING The Netherlands. The working group will be led by ING and Aegon Asset Management staff in 2017 and will make an inventory of existing initiatives to make Dutch buildings more energy-efficient, and focus on the initiatives where financial services companies can add value.

11.4 Green Storm

Balint Vagvolgyi and Maarten Jan Hoefnagel

Aegon Asset Management

Aegon Asset Management was selected to participate in the world's first-ever green residential mortgage-backed security (RMBS), Green Storm. It is a new form of green bond that will be used to finance prime mortgages for new and refurbished homes that meet the highest standards for energy efficiency in the Netherlands. Maarten Jan Hoefnagel and Balint Vagvolgyi from the ABS team at Aegon Asset Management provide further insights.

How did Aegon start participating in the fund?

Balint: The fund was introduced by mortgage lender Obvion, a subsidiary of Dutch bank Rabobank, in July 2016. Investors were selected based on a thorough assessment of their green credentials, including their performance on global standards like the PRI. Aegon Asset Management was selected after receiving a dark green rating. We invested EUR 17 million for Aegon clients and EUR 43 million on behalf of Third Party clients.

"Aegon Asset Management was selected after receiving a dark green rating."

What made this an attractive investment?

Maarten Jan: Green Storm has more or less the same return characteristics as non-green RMBS, and a comparable credit risk. It offers good relative value for our clients while allowing them to contribute to the environment. Green Storm received certification from the Climate Bonds Standards Board and a maximum grade rating from Sustainalytics and Moody's. As an investor you're looking for these things, they provide an additional comfort.

I hope that Green Storm will mark the start of a budding new green RMBS market – where Dutch banks have the potential to take the lead. Investors would like to see more initiatives like Green Storm as there is a large demand for this asset, but the problem is a lack of available housing stock. The market is simply limited by the number of energy-efficient homes.

How can we encourage greater investments like these?

Balint: The key to closing the gap between the supply of energy efficient homes and the demand for green RMBS would be to reward customers for investing in energy efficiency measures through a lower interest rate on their mortgage. The Dutch government is already encouraging more investment in energy efficiency. I would hope mortgage banks will follow this example and play a sustainable role in stimulating this market. I'm not saying that energy efficiency measures should become a condition to get a mortgage, but banks can do more to reward consumers by giving them a lower interest rate.

"We end up saving money, improving tenant retention; and adding value to the investment for our stakeholders."

Fast Facts – Pyramid Building

TRANSAMERICA

- On-site co-generation produces 70% of building's electricity and 100% of heating and hot water needs.
- Annual water consumption reduced by 24% compared to 2012 levels (over six million liters less).
- Pyramid saves $600K-$800K annually on utility costs.
- Recycling and composting programs reduce landfill space.
- Bike storage facilities and access to showers to incentivize biking.

11.5 The Pyramid – Sustainability in the Landmark Transamerica Building

In our US businesses, sustainability thinking has also long been integrated with property investment and management practices – the iconic Transamerica Pyramid that was built in the early 1970s is a good example of this. Even though our offices are no longer in the Pyramid we retained it in our investment portfolio and are consistenly collaborating to make the building more sustainable.

We spoke with Phil Rapoport, General Manager for the Pyramid, someone who has been closely involved in the sustainability program. "The Pyramid was awarded LEED Gold Status in 2009," he said, referring to the Leadership in Energy and Environmental Design credential of the US Green Building Council. "We received this status for improvements in energy savings, water efficiency, CO2 emission reductions, improved indoor environmental quality, and stewardship of resources and sensitivity to their impact." Following further improvements to the building, in 2011 the Pyramid reached even higher standards, "We were awarded Platinum certification, after we earned higher Energy Star ratings," says Phil, referring to the energy efficiency indicator.

Asked what motivated the company to pursue the LEED certifications, Phil refers to both the economic and the societal benefits, "In San Francisco there's quite a lot of competition to be ahead in the sustainability real estate area – the government requires all newly constructed high-rise buildings to be at a minimum LEED Gold certified, and that also puts more pressure on existing buildings to improve their green credentials. "Tenants are just willing to pay a premium to rent more in sustainable buildings," says Phil, adding, "Being energy and resource efficient leads to significant cost savings. Last year the Pyramid saved USD 700,000 on energy costs and a total of USD 2.5 million over the past four years."

Phil also points out the benefits of having happier and healthier tenants, saying it makes for a more attractive work environment, "We encouraged them to be more environmentally friendly on their commute, and we installed bike parking, electric vehicle charging stations and shower & workout facilities. Today the single vehicle occupancy rate is down to 13%."

"Because the Pyramid was built in the 1970's, there were a lot of inefficiencies in the design that we needed to overcome – this makes achieving LEED Platinum all the more of an accomplishment," he says. He believes the Pyramid can serve as an example for other cities, because inevitably much of the focus in terms of sustainable real estate in the developed world will be on retrofitting existing buildings – echoing observations that Bodewes of Amvest, Bill Coghill at Kames Capital and others at Aegon Asset Management also made. "It's becoming increasingly easy and cost effective to implement these technologies. We've shown that this can be done for a relic of the 70s where we end up saving money, improving tenant retention; and adding value to the investment for our stakeholders. I would encourage others to follow our example."

12 Active Ownership

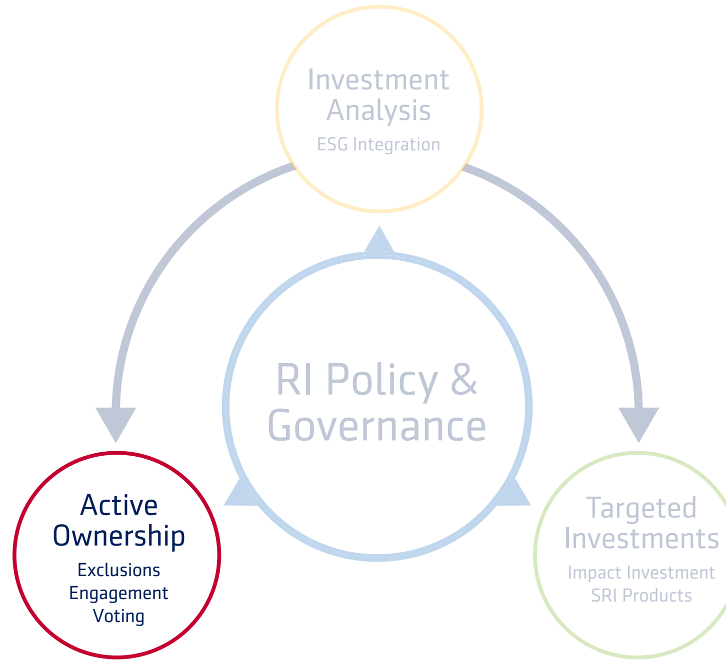
12.1 Active Ownership

As an active owner Aegon Asset Management aims to promote the long-term success of companies in which we invest. We believe it is in the best interest of our clients that we monitor companies' ESG performance and activities, vote on the shares that we manage, and that we engage with companies on issues like strategy, risk and corporate governance. Our active ownership activities include engagement, voting and exclusion.

Engagement:
Involves initiating a dialogue with companies on ESG issues to better understand how they are managing risks and to encourage compliance with our RI policies.

Voting:
Aegon Asset Management has the right to vote at shareholder meetings of the companies that it holds equity investments in.

Exclusions:
Aegon Asset Management excludes companies that do not comply with certain minimum standards set out in applicable RI policies.



12.2 Engagement

At Aegon Asset Management, engagement is an effective strategy to mitigate ESG risk. Engagement involves using our ownership position to make sure companies are aligned with our Responsible Investment policies and to better understand how companies are managing ESG risks. While it can be difficult to measure the direct impact of engagement, evidence shows that it can be a way to positively affect the ESG performance of companies and influence corporate decision-making.

Engagement helps keep sustainability issues on companies' agendas. It can also help companies identify which issues are most important to shareholders, how other sectors are assessing and managing risks, how stakeholders perceive a company's strategy and helps identify which issues are coming on the horizon. For these reasons, we believe engagement is oftentimes more effective than excluding companies from our investment universe.

When a company does not meet our Responsible Investment standards, we initiate a dialogue with company management. During the engagement process, we share our concerns about the ESG issues that we identified and make suggestions for improvement. After the engagement, we closely follow progress made by the company.

We distinguish three reasons for engagement:

A. Policy-based: At a minimum, we engage with companies that our ESG research provider has identified as being non-compliant with applicable Responsible Investment policies. In 2016 we initiated engagement with 21 companies on human rights, environmental, governance, and labour issues. Examples of these engagements are listed below.

B. Risk-based: The Responsible Investment team identifies a set of companies with ESG ratings of BB or lower and works with analysts and portfolio managers to identify which cases are relevant for engagement. A case study of a company selected for engagement is shown below.

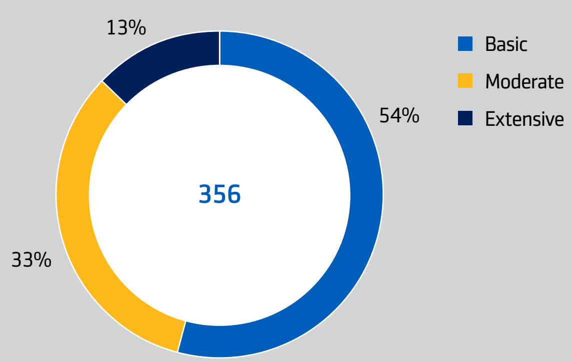
C. Thematic: We also engage with a number of companies on areas which are considered to be strategic priorities for Aegon Asset Management. In order to increase our expertise and in-house capabilities on relevant subject matter, we engage through internal and external workshops, research projects and collaborative platforms. This has led to consultations with academics, NGOs and industry groups and partnerships such as the Institutional Investor Group on Climate Change (IIGCC), the Principles for Responsible Investment (PRI), Eumedion, Farm Animal Investment Risk & Return (FAIRR), Ceres and ShareAction. This year we participated in a number of collaborative engagements to help support our efforts on climate change.

Regardless of the type of engagement, Aegon Asset Management's approach is to partner with the relevant internal investment decision-makers (portfolio managers, analysts) and to seek external expertise to develop our understanding of and redefine our approach towards core sustainability themes.

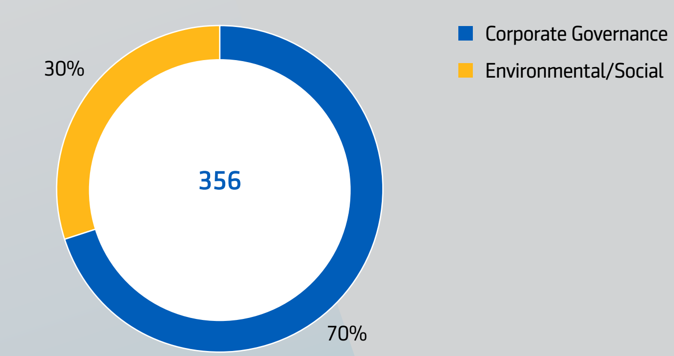
Engagement in 2016

In 2016, Aegon Asset Management engaged with 356 companies, a 30% increase from 2015, with additional focus on environmental and social issues.

Engagement Type



Engagement Topic



A. Policy-based Engagement

The following are examples of engagement activities with companies that were non-compliant with our RI Policy.

BHP Billiton Limited
Environmental and human rights violations

In November 2015, one of BHP Billiton's JV operating assets, Samarco, experienced a catastrophic tailings dam failure, resulting in some 32.6 million metric tons of mining waste to spill into nearby communities. The mud flow caused the death of 19 people, destroyed buildings and other infrastructure and led to widespread environmental damage.

Aegon Asset Management spoke with BHP Billiton several times throughout 2016 regarding the dam breach, and held an initial in-person meeting at the company's headquarters in London. Throughout the engagement BHP Billiton has proactively acknowledged their involvement and demonstrated genuine concern for remediating the situation to the best of their abilities. The company has set up a long-term foundation to implement a number of socioeconomic and environmental projects to restore and rebuild the affected areas. The company has also committed to investigate and improve industry-wide dam management and safety globally.

Aegon Asset Management will continue the dialogue with BHP Billiton, as more information is released into the causes of the dam break and the remediation efforts progress. However, to date we are confident that the company is taking the necessary steps to remediate the situation into the long-term.

Grupo Mexico S.A.B de C.V.
Labor union conflicts

Grupo Mexico has a long history of difficult labor relations, with multi-year strikes at three of its mines in Mexico. Through our engagement the company expressed its commitment to improve employee and union relations, stating that workers now have more freedom of association and are able to join unions. The company has also implemented better practices in order to understand and meet the needs of workers. As a result, Grupo Mexico has not had any labor stoppages at its mines since 2010. Nevertheless, the company's management of human rights and other sustainability issues continues to lag behind industry best practice and could benefit from a more robust group-wide sustainability governance framework. We will continue our dialogue with the company to further improve their ESG performance.

Petroleo Brasileiro S.A.
Bribery and corruption

Petrobras has been involved in a high-profile bribery, corruption, and money laundering scheme, locally known as Operation Car Wash. The company informed us that the bribery and corruption scheme was a result of individual-level corruption and not the result of structural failures. Since the scandal became public, Petrobras made a number of changes to monitor and sanction corrupt practices, including recruiting external compliance professionals to revamp the compliance program, expanding oversight systems, implementing an integrity check for all new senior positions at the company, reviewing the code of conduct and appointing an ombudsman.

The company is cooperating with all relevant investigations to settle on-going disputes and litigations but cannot estimate the duration of these investigations. Aegon Asset Management will continue to monitor Petrobras but no further action is needed at this time.

Next Steps in Engagement

We have been increasingly interested in health-related issues in engagement. In 2017, we plan to arrange a series of discussions with health experts to better understand potential risks with companies we invest in and the opportunities for us to contribute to a clean and healthy planet through our investments.

B. Risk-based Engagement

The following companies were identified for engagement due to ESG risks.

Pfizer Inc.

Product safety

Pfizer was identified during a regular portfolio review between Aegon Asset Management's Spanish investment team and the Responsible Investment team. The company received the lowest possible ESG rating because of a poor track record in product safety. While the focus of the ratings assessment was narrow, the review triggered a broader discussion about the fine balance that pharmaceuticals play in terms of meeting business objectives and providing healthcare as a public good.

Most recently, a series of pricing scandals in the United States which saw quadruple rate increases of some drugs in a single year, has helped to further foment public distrust in the sector. This discussion concluded that pharmaceuticals could not be defined by a single issue such as drug pricing or access to medicine and that responsible companies in the sector are acutely aware and actively manage the juggling act they must play between shareholders, regulators and the broader public. Neither the Spanish investment nor Responsible Investment team felt confident that Pfizer was adequately addressing potential risks and so decided to engage with the company. The engagement is ongoing as of the date of this report and the company has been responsive.

C. Thematic Engagement

Climate change is an issue that Aegon Asset Management has identified as fundamental not only to our business but to the broader public. Engagement provides us with an opportunity both to learn and to impact the wider climate movement by encouraging vulnerable companies to comply with the global 2 degree target. Throughout 2016 we participated in a number of collaborative engagements encouraging companies in the automotive, utilities, oil and gas and food sectors, to develop climate change management strategies, set emission reduction targets, and disclose emissions data:

Farm animal investment risk & return (FAIRR) – Encourages food retailers and producers to use land and cultivate crops more efficiently in order to reduce greenhouse gas emissions.

PRI engagement on corporate carbon footprint disclosure – Encourages multi-sector companies to disclose carbon footprint data, so that investors can better understand and act on climate risks in their portfolios.

PRI engagement on Eco-Efficiency – Encourages automotive, utilities, oil, gas and chemical companies to achieve rapid, absolute, reductions of greenhouse gas emissions within their own operations and supply chains. The end goal is to prompt companies to redesign their products and re-conceptualize their processes in ways that are appropriate for the new era of climate change and water scarcity.

ShareAction RE100 – Encourages companies to source 100% of their energy from renewable sources.

Interfaith Center on Corporate Responsibility (ICCR) Water Stewardship – Urges companies in high-impact sectors, such as food and agriculture, energy production, mining and apparel, to measure and report on their water consumption and impact.

Institutional Investors Group on Climate Change (IIGCC) – Aegon Asset Management has participated in a number of engagements through the IIGCC. Engagement targets sectors strategically exposed to climate-related risks predominantly due to their significant carbon impact. Engagement objectives are directed by the sector-specific investor expectations documents and the 'lobbying letter'. Current sectors include oil & gas, mining, utilities and automotive and may be expanded to cover chemicals, construction materials and airlines.

Multi-Stakeholder Engagement in the Defense Sector

Aegon Asset Management sometimes identifies themes that require a dialogue with a broader set of stakeholders, including industry, government, academia, and NGO's. The Defense Roundtable held early in 2016 is a good example of this type of multi-stakeholder engagement.

Defense Roundtable

Whether or not to invest in the defense industry has long been a topic of debate among institutional investors. In an effort to broaden our understanding of the industry and our stakeholders' views on this, we decided to host a roundtable discussion on the topic in 2016.

Guests included representatives from the peace organization PAX, ESG data provider MSCI, NIDV – a foundation representing the interests of the Dutch defense and security industries, the thinktank Stockholm International Peace Research Institute (SIPRI), the Dutch Ministry of Foreign Affairs, regulatory and legislation advisory firm Philip Sidney, members of Aegon management and the Aegon Asset Management Responsible Investment team. An Aegon Asset Management credit analyst who covers the defense industry also participated. The event was moderated by Rob Lake, an independent consultant, formerly with the PRI and with Dutch pension fund ABP.

All participants were given an opportunity to present their views on the role of the defense industry, and on the stance institutional investors should take on investing in defense companies generally, on controversial arms, or controversial weapons trade. The discussion also touched on the potential for engagement with companies involved in the production of controversial (but not prohibited) weapons and it was agreed this was unlikely to be successful.

Participants also provided clarity on international governance around controversial weapons trade, centering on the UN Arms Trade Treaty of 2013 (ATT), and the potential role institutional investors could play to influence decision-making around arms exports. It was emphasized that (for Dutch defence companies) the Ministry of Foreign Affairs holds responsibility for these decisions, that can barely be influenced by defense companies themselves, let alone investors.

Also, it was noted that views on the legitimacy of investing in defense companies differ widely across countries where Aegon has businesses. The Netherlands, where some people oppose any type of investment in weapons, is considered to be at one end of the spectrum; whereas countries like the US, China and France, that have very large defense industries and where our clients and employees tend to be much more comfortable with investing in defense companies, are at the other end. This makes it difficult for Aegon Asset Management to draw a single line that will be acceptable to all of our stakeholders.

Finally, a discussion took place about the legitimacy of imposing investment exclusion lists on Third Party clients. In the Netherlands this is considered acceptable, perhaps even best-practice, whereas in most other countries where Aegon Asset Management has businesses this would be considered a clear conflict with investment and fiduciary duty principles, especially if the exclusion norms are not clearly based on globally accepted standards.

Aegon's Responsible Investment policies were reviewed and discussed at this meeting, and it was concluded that they can be considered to meet stakeholders' expectations broadly. It was agreed that Aegon should continue to monitor the debate around nuclear weapons and its position in this area.

A take-away from the roundtable discussion was that as a large international financial services company with different types of activities and clients in more than 20 countries, it is difficult to fully satisfy the demands of all of our stakeholders. Nonetheless, we consider this to be an excellent format for in-dept engagement with multiple stakeholders on a single issue and are planning to have more roundtable discussions like this in the future.

Eumedion Participation

Aegon Asset Management NL and TKP Investments are active participants in Eumedion. Eumedion is a Dutch organization that represents institutional investors' interests in the field of corporate governance and related sustainability performance. Eumedion's objective is to maintain and further develop good corporate governance and sustainability performance on the basis of the responsibility of institutional investors established in the Netherlands.

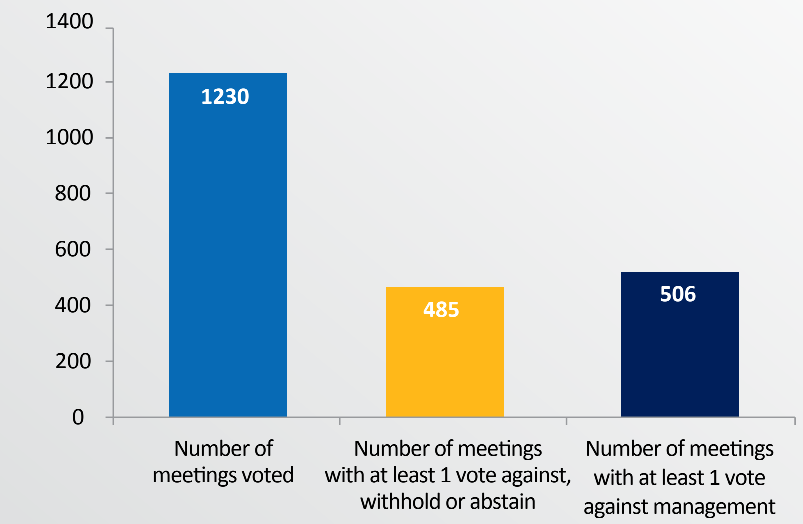
In 2016 Aegon Asset Management continued to be represented on all four Eumedion committees: audit, legal, investment and research. Harald Walkate, as chairman of the research committee, also attends Eumedion board meetings. Participation in the committees informs and supports engagement and voting activities at Aegon Asset Management.

12.3 Voting

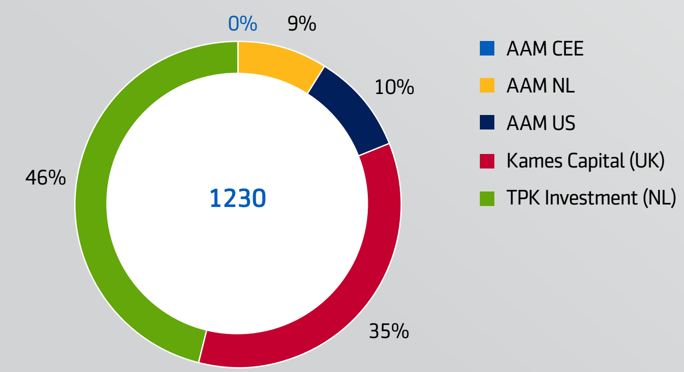
Voting is another important tool that Aegon Asset Management uses to influence the companies we invest in and promote the standards set out in applicable Responsible Investment policies. By exercising our rights as shareholders we also contribute to providing an optimal return to our clients.

Our company's Global Voting Policy sets out company-wide principles for all Aegon Asset Management units, and several of our business units have developed more detailed policies tailored to local practices and governance principles. The majority of issues we vote on are related to governance. However, as our engagement activities have expanded in scope we are also voting more on issues related to health, the environment and human rights.

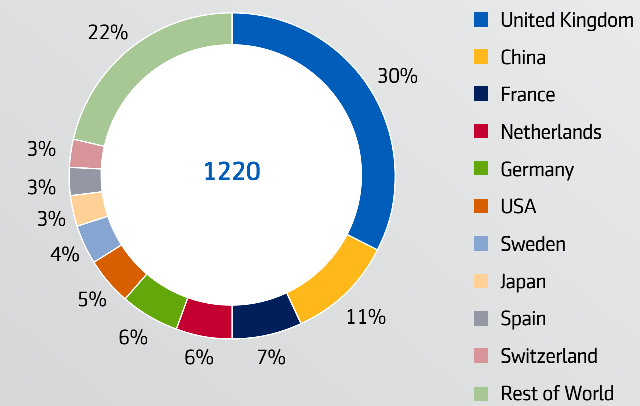
The cases below illustrate how Aegon Asset Management deals with analysis and decision-making around exercising its shareholder rights. Our individual units Aegon Asset Management NL, Kames Capital and TKP Investments disclose their voting records in more detail (see the Appendix for QR links).



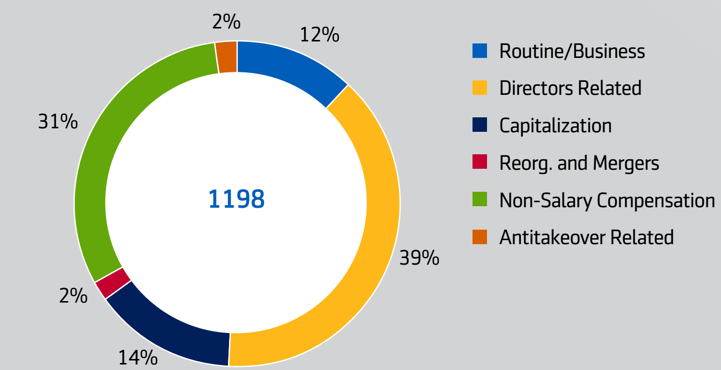
Meetings voted by AAM unit



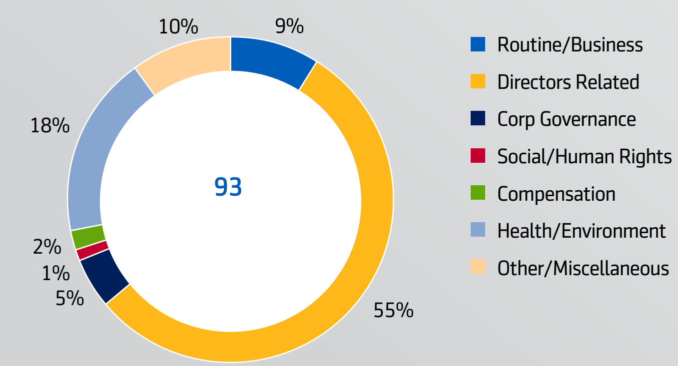
Meetings voted by AAM unit



Break-down of votes against Management Proposals



Break-down of votes on supported Shareholder Proposals



Voting Cases:

Omnicom Group Inc.
In April 2016, Aegon Asset Management held a conference call with Omnicom to discuss a range of AGM issues including board structure and progress on increasing independence, executive compensation and 'blank cheque provisions' (an anti-takeover measure). Details on Long Term Incentive Plan (LTIP) performance targets and progress on diversity within the board and the organization were also discussed. The company demonstrated good progress on diversity in all its forms and we did not believe greater disclosure would provide significantly more benefits for investors. Therefore we voted for all resolutions at the AGM.
In November 2016, we held a follow-up call to discuss board refreshment, CEO-to-chairman issues and progress on diversity.

British American Tobacco Plc
In February 2016 British American Tobacco PLC consulted shareholders on a number of proposed changes to CEO compensation. While Aegon Asset Management supported changes to the LTIP performance conditions we did not support increases to the annual bonus. As such we decided to vote against the remuneration policy and resolution to approve the 2016 LTIP. In our view, the CEO's salary was already at the top end of the company's UK peer group and since the company did not propose to increase the performance conditions, we were not supportive of increasing either the target or the maximum bonus opportunity for the CEO. Neither did we support an increase to the LTIP since award levels are not significantly out of sync with UK peers in our view. Following our vote, we sent a letter to the company outlining why we have voted against their proposal.

Paysafe Plc
In May 2016 Aegon Asset Management voted against Paysafe's shareholder proposal on remuneration and their LTIP. After engaging with the company to discuss concerns over executive compensation practices, namely on the scale of proposed increases, strength of performance conditions, financial director recruitment, and one-off award vesting, we decided to vote against the proposals. We subsequently wrote to the company formally explaining our concerns and outlining how we would like the company to address these concerns.

"Aiming for A" – Anglo American

ANGLO AMERICAN

Aegon Asset Management was part of a coalition of investors who co-filed a resolution at the mining giant Anglo-American in 2016. The purpose of the resolution was to encourage Anglo-American to improve its reporting on how it is addressing climate change risks in its business and to develop more ambitious targets to reduce these risks.

Aegon Asset Management joined the "Aiming for A" coalition with the view that clearer reporting and more aspirational goals are needed in resource-intensive industries because the regulatory environment for these businesses is becoming more stringent, particularly with the Paris Climate Agreement. Given that government policies to obtain the Paris goals have not yet been developed, it is unclear how companies like Anglo-American will be affected in countries where it operates. By proactively demonstrating that it is preparing to deal with regulatory challenges and with other climate change risks, the company can reassure its investors.

Jeremy Thurm, a mining analyst at Aegon Asset Management, explains, "The operating environment for mining companies is extremely tenuous right now, not only are commodity prices taking a free-fall, leaving many companies struggling to slash costs, but we are also hearing more about the potential of 'stranded assets' – that mining companies won't be able to extract resources as a result of environmental regulation. For mining companies, clear strategic goals and reporting is not simply a 'nice to have', it is essential for ensuring the long term future of the business."

The Anglo American Board supported the resolution, and has since developed a 10-year climate change strategy focused on operating more efficiently, applying technology and partnering with stakeholders.

12.4 Exclusions

Aegon may decide to refrain from investing in certain companies, countries, or industries if they are involved in controversial activities that do not fit with the company's Responsible Investment beliefs. We may also decide to divest or exclude companies when our efforts to change company behavior do not make sufficient progress.

It can be difficult for large, international investors like Aegon to decide what should trigger an exclusion. First, because institutional investors tend to hold a large and diverse investment universe, it is almost inevitable to invest in companies that are associated with activities that may be seen by some stakeholders as objectionable or harmful. Second, as an international company with activities in many countries and a diversity of clients, viewpoints on what is unethical do not always align.

Therefore, we follow universally accepted standards as much as possible, and international treaties that have been ratified by a large number of countries usually provide a good indication of these standards. Also, Aegon Asset Management generally does not apply its exclusion list to assets managed on behalf of external clients, recognizing that the asset owner has the ultimate decision on these matters. Where this is in line with applicable investment rules and practices, Aegon Asset Management will engage in dialogue with external clients about the possibility of applying the exclusion list or other exclusions as determined by our clients.

The Aegon Asset Management RI team obtains research from external rating agencies to advise the RI Strategy Committee (RISC) on exclusions.The exclusion list is then set by the RISC and applies solely to the General Account assets of Aegon.

Currently, we exclude three categories:

Companies associated with controversial weapons
Aegon will not invest in companies that manufacture, develop, trade or maintain 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.

Companies involved in thermal coal mining
Following Aegon's commitment to the Paris Pledge for Action last year and our commitment to assess climate change risks in 2016, we decided to add coal mining companies to the exclusion list. Aegon's exposure to coal was already very limited due to our assessment that environmental policies, competition from renewables and low gas prices were making investments in the sector unattractive. Based on further analysis on investment risks in the sector by Aegon Asset Management, the RISC decided to divest from any remaining investments and to add coal mining companies (defined as companies that derive 30% or more of revenues from thermal coal manufacturing) to the exclusion list.

Countries involved in human rights breaches
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, including Freedom House –The Failed States Index and Human Rights Watch country reports.

13 Appendices

13.1 Policies

Below you can find publicly available Aegon and Aegon Asset Management policies and other documentation.

Global Financial Crime Notification and Reporting Procedure

Global Compliance Charter

Aegon Code of Conduct

Statement on Diversity and Non-Discrimination

Aegon Policy for Charitable Donations

Dividend Policy

Aegon Human Rights Policy

Aegon N.V. Responsible Investment Policy

Aegon Netherlands RI Policy (Dutch)

Aegon Disclosure Policy

Global Voting Policy

Aegon Insider Dealing Policy

Kames Capital UK Responsible Investment Policy

Aegon Netherlands Voting Policy

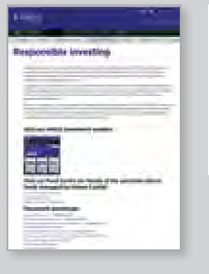
Aegon Environmental Policy

13.2 Business Unit RI and Voting Reports

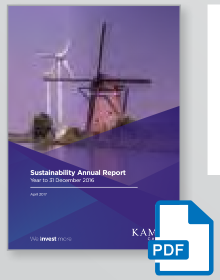
Below you can find available Business Unit RI and Voting Reports.

TKPI Investments

Kames Capital (Responsible Investment documents incl. engagement & voting)

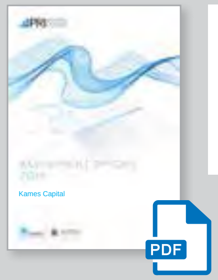


Kames Capital Sustainability Report



AAM PRI RI Transparency Report 2016

Kames Capital PRI RI Transparency Report 2016



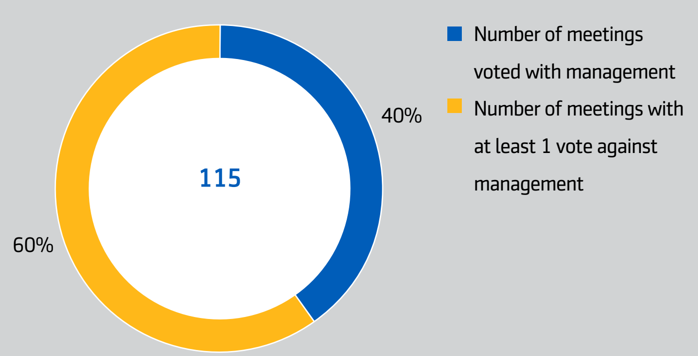
13.3 Cooperation and Collaborative Bodies

Oranization	Commitment	Link
UN-backed Principles for Responsible Investment (PRI)	Aegon Asset Management became a signatory to the PRI in February 2011. Kames Capital, has been a signatory since 2008. Membership commits Aegon Asset Management to the PRI's six principles for responsible investment and to reporting annually on progress towards implementing them.	unpri.org
United Nations Declaration of Human Rights	Aegon N.V.'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.	un.org/en/documents/udhr
International Labor Organization	Please see above	ilo.org
United Nations Global Compact	Please see above	unglobalcompact.org
CDP (formerly known as Carbon Disclosure Project)	Aegon N.V. has been a member of the CDP since 2009. CDP encourages companies to disclose their environmental impacts, giving decision-makers the data they need to change market behavior. Investors signing up to the initiative manage assets worth approximately USD 100 trillion.	cdp.net
Extractive Industries Transparency Initiative	Kames Capital is a member of the Extractive Industry Transparency Initiative, which aims to improve governance in the global oil, gas and minerals sector.	eiti.org
Global Reporting Initiative	Aegon N.V. is an Organizational Stakeholder of the Global Reporting Initiative, which sets guidelines and standards for sustainability and non-financial reporting.	globalreporting.org
International Integrated Reporting Council	Aegon N.V. is currently participating in a pilot organized by the IIRC to develop guidelines for integrated reporting.	theiirc.org
Global Coalition on Aging	In 2010, Aegon N.V. became a founding member of the Global Coalition on Aging, which seeks to raise awareness of aging issues among policymakers and the general public.	globalcoalitiononaging.com
Association of British Insurers	Aegon UK collaborates closely with the 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.	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 interests of institutional and private investors in the Netherlands who wish to contribute to sustainable development.	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.	eumedion.nl/nl
United Nations Environment Program Finance Initiative Principles for Sustainable Insurance	Aegon N.V. 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.	unepfi.org/ps
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.	gresb.com
Global Impact Investment Network	Aegon N.V. 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.	thegiin.org
FAIRR	FAIRR is a farm animal investment risk and return initiative that aims to put factory farming on the ESG agenda. Aegon Asset Management joined FAIRR in 2016 and participates in a number of collaborative engagements.	fairr.org

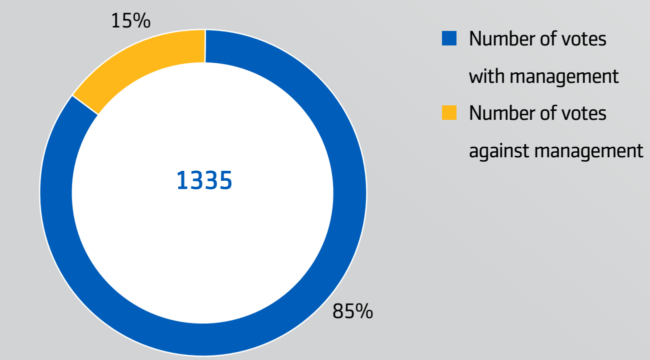
13.4 Voting Report: Aegon Asset Management NL

This appendix shows how Aegon Investment Management B.V., the Dutch Aegon Asset Management entity, voted in 2016

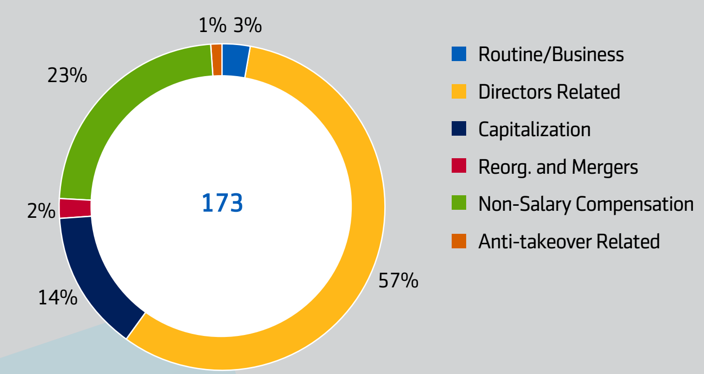
Meetings in 2016



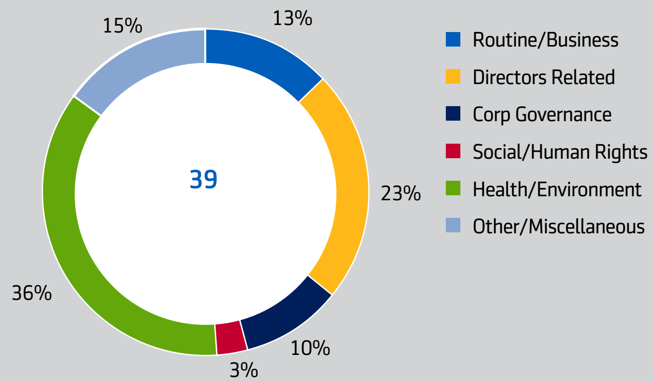
Votes cast in 2016



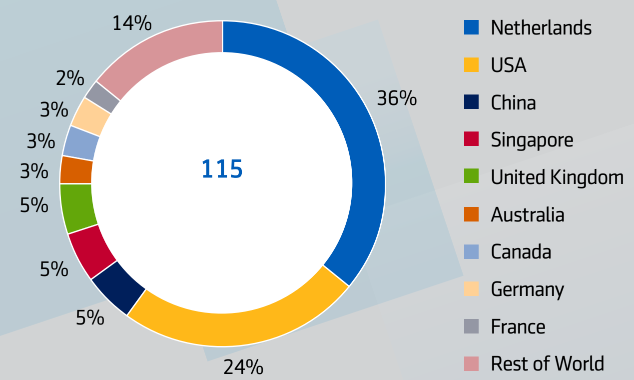
Break-down of votes against management proposals



Break-down of votes against on supported shareholder proposals



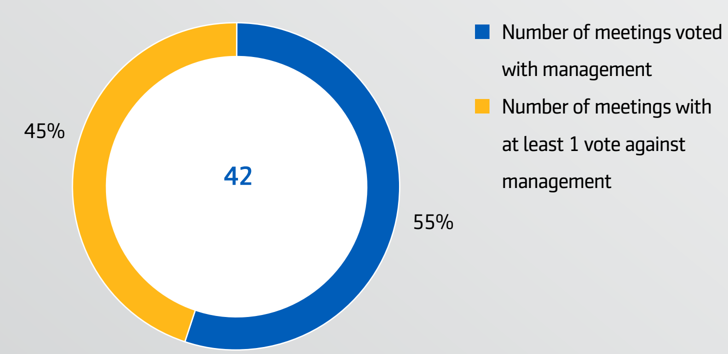
Meetings voted per country



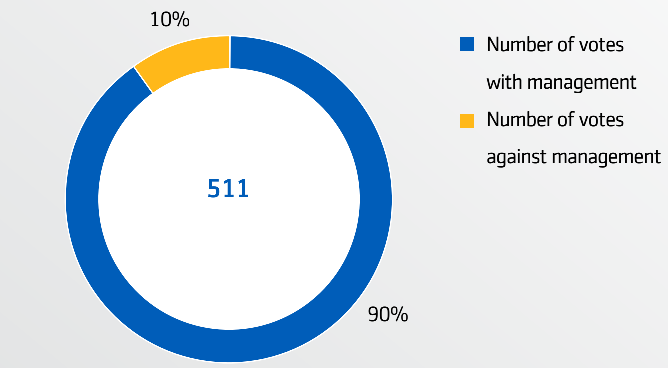
Aegon Asset Management NL Votes Specified for Dutch Meetings

This appendix shows how Aegon Investment Management B.V. voted in 2016

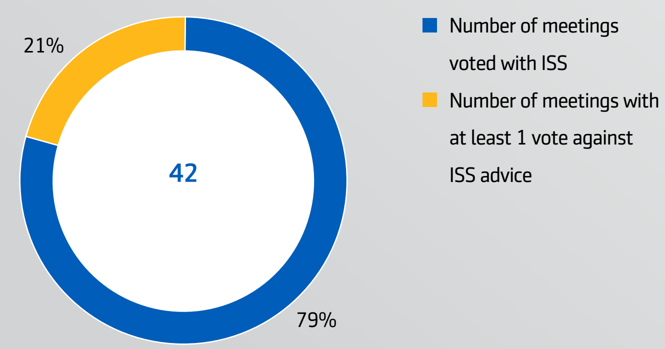
Dutch meetings in 2016



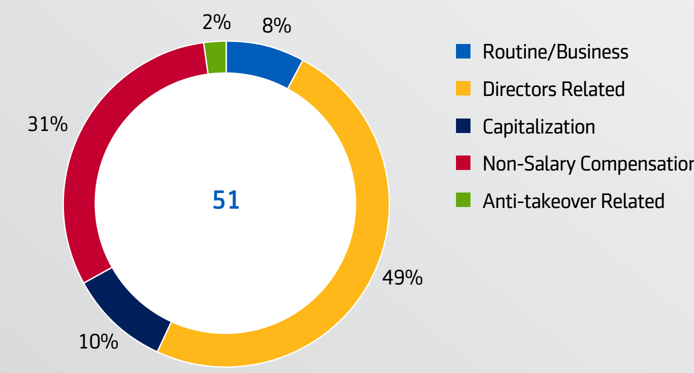
Votes cast on Dutch meetings in 2016



Meetings with/against standard advice proxy-advisor



Break-down of votes against management proposals



13.5 Composition of Global Responsible Investment Committees

RI Strategy Committee (RISC)

- **Mark Mullin (Chairman)**
  CEO, Aegon Americas
  Member Aegon N.V. Management Board
- **Marc van Weede**
  Aegon N.V.
  Global Head of Strategy & Sustainability
- **Joel Coleman**
  Transamerica (Aegon US)
  Chief Investment Officer
- **Edgar Koning**
  Aegon Netherlands
  Chief Investment Officer
- **Nick Dixon**
  Aegon UK
  Investment Director
- **Sander Maatman**
  Aegon Asset Management
  CFO and Member of Management Board
- **Charles Garthwaite**
  Aegon N.V.
  Global Head of Compliance and Operational Risk Management
- **Philip Lemmens**
  Aegon Asset Management
  Global Head of ORM and Compliance
- **Robin Boon**
  Aegon N.V.
  Head of Corporate Communications
- **Harald Walkate**
  Aegon Asset Management
  Global Head of Responsible Investment
- **Roger Wildeboer Schut**
  Aegon Asset Management
  Responsible Investment Manager (Committee Secretary)

RI Technical Committee (RITC)

- **Harald Walkate (Chairman)**
  Aegon Asset Management
  Global Head of Responsible Investment
- **Ryan Smith**
  Kames Capital
  Head of Corporate Governance & Ethical Research
- **Miranda Beacham**
  Kames Capital
  Corporate Governance Manager
- **Marianne Oomkes**
  TKP Investments
  Senior Account Manager and Manager Responsible Investment
- **Oldrik Wilken**
  TKP Investments
  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
- **Thang Chu Huy**
  Aegon Asset Management CEE
  Portfolio Manager and ESG Officer
- **Larina Baird**
  Aegon Asset Management
  Portfolio Risk Management and Control
- **Edwin Downey**
  AURA
  VP Engineering and Environmental Services and AURA ESG Officer
- **Neil Smith**
  Aegon N.V.
  Strategy & Sustainability
- **Natalie Beinisch**
  Aegon Asset Management
  Engagement Manager
- **Emanuele Fanelli**
  Aegon Asset Management
  Responsible Investment Manager
- **Adrienne Hill-Strathy**
  Aegon Asset Management
  Responsible Investment Associate
- **Roger Wildeboer Schut**
  Aegon Asset Management
  Responsible Investment Manager (Committee Secretary)

13.6 Disclaimer

Forward-looking statements

The statements contained in this document that are not historical facts but 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;*
  - *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 premium writing, 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 filed with NYSE Euronext Amsterdam and the US Securities and Exchange Commission, including the Annual Report. These forward-looking statements are valid 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

Aegon Asset Management

Harald Walkate	+31 70 344 8146	hwalkate@aegon.nl
Natalie Beinisch	+31 70 344 5982	nbeinisch@aegon.nl
Roger Wildeboer Schut	+31 70 344 7824	rwildeboerschut@aegon.nl
Emanuele Fanelli	+31 70 344 8248	emanuele.fanelli@aegonassetmanagement.com
Adrienne Hill-Strathy	+31 70 344 4421	ahill-strathy@aegon.nl

Aegon Asset Management NL

Jan Frederik Slijkerman	+31 70 344 7868	jan.slijkerman@aegonassetmanagement.com

Aegon Asset Management US

Jim Lemke	+1 319 355 2110	jlemke@aegonusa.com
Edwin Downey	+1 319 355 5489	edowney@aegonuse.com

KAMES CAPITAL

Kames Capital (UK)

Ryan Smith	+44 131 549 6275	ryan.smith@kamescapital.com

TKP Investments

TKPI (NL)

Marianne Oomkes	+31 50 317 5395	oomkes.ms@tkpinvestments.com
Oldrik Wilken	+31 50 317 5327	wilken.o@tkpinvestments.com

Responsible Investment in 10 Steps

Pension funds and other investors can develop an approach to Responsible Investment, 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 on Human Rights.
4. 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 cooperation.
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 326 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.

Asset Management

Aegonplein 6, 2591 TV, The Hague, The Netherlands

aegonassetmanagement.com

V1. May 2017