Aegon AM NL Sustainability Risks and Impacts Policy

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Contents

At Aegon Asset Management (Aegon AM), we are active, engaged and responsible investors. We consider investing responsibly a part of our investment philosophy and process as we believe responsible investment practices are critical to securing long-term value for our clients.

This policy applies primarily to Aegon Investment Management B.V, part of Aegon Asset Management. This policy adopts elements of the socially responsible investment policy of ASR Vermogensbeheer (hereinafter a.s.r., and their policy referred to as a.s.r. SRI policy). Aegon AM NL also partners with a.s.r. to implement certain aspects of this policy, further details are specified in the relevant section of this policy.

This policy enshrines Responsible Investment (RI) practices in Aegon Investment Management (Aegon AM NL or AIM) funds as well as any mandates[1] managed in line with the principles of this policy (together: 'products'). The Aegon AM Responsible Investment Framework and Active Ownership Policy act as important reference documents for this policy, which remains consistent with the key principles of those documents

This policy describes conceptually how sustainability risks are incorporated into the investment process of the products concerned. The specific process, however, is adapted to each asset class. It also describes the way in which we identify, prioritize and mitigate the principal adverse impact(s) (PAIs) of investments on sustainability factors which helps form our exclusionary criteria and guide our active ownership activities. This policy also outlines our approach to assessing good governance practices of investee companies, which is largely based on international norms and standards.

We refer to product documentation for additional information on how specific products achieve ESG integration, consider principal adverse impacts, and to what extent and how these funds promote ESG characteristics or have a sustainable objective.

This policy applies to all funds, including any funds where portfolio management is delegated, managed by Aegon Investment Management B.V. with the exception of the Aegon Emerging Markets Debt fund and the Aegon US High Yield Bond Fund to which this policy does not apply. Furthermore, the policy applies to all mandates[2] managed in line with the principles in this policy, that specifically opt-in. The policy does not apply to Multi-Management funds, which are governed by the Aegon AM Sustainability Risks and Impacts Policy for Multi-Management funds, or to funds sub-advised by Aegon AM UK, which are governed by the AAM UK Sustainability Risks and Impacts Policy, or mandates that do not "opt-in" to follow the principles of this policy. In the case where an AIM fund in scope of this Policy invests in a multi-management fund, then with respect to that multi-management fund exposure the Aegon AM Sustainability Risks and Impacts Policy for Multi-management funds applies.

Definitions

- **'Sustainability Risk'** means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.
- **'Environmental, Social and Governance Integration'** or **'ESG Integration'** means the practice of systematically considering financially material ESG factors in the investment decision-making process with the aim of identifying Sustainability Risks.
- **'Engagement'** means the process of entering into a dialogue with issuers to exercise one's influence as an investor, with the aim of reducing sustainability risks, promoting good governance or mitigating PAIs.
- **'Principal Adverse Impact'** or **'PAI'** means the potential or actual negative impact of investment decisions on sustainability factors (environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters).
- **'Screening'** means the process of identifying which issuers in the investment universe meet certain criteria.
- **'Voting'** means exercising voting rights stemming from being a shareholder in a company.
- **'Active Ownership'** means the process of being an active owner of financial securities through Engagement and Voting.

[1] Mandates which are managed according to a client preference not in line with this policy may or may not consider PAIs. This is discussed with the client in the specific client file.
[2] Mandates which are managed according to a client preference not in line with this policy may or may not consider PAIs. This is discussed with the client in the specific client file.

- **'Exclusion'** means the removal of securities from the investment universe, or the set of securities in which relevant products are allowed to invest.
- **'Sustainability indicators'** means metrics that are used to measure the attainment of the ESG characteristics that a particular investment strategy promotes.
- **'Sustainable investment'** means an investment in an economic activity that contributes to an environmental or social objective, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance. This definition is proprietary to Aegon Asset Management and may have overlapping elements with sustainable investment definitions coined in the SFDR and Taxonomy Regulation.
- **'Taxonomy aligned sustainable investment'** means an investment in an economic activity that is considered sustainable based on the requirements as laid out in the EU Taxonomy (Reg. (EU) 2020/852)

Consideration of Sustainability Risks

We consider sustainability risk (or ESG risk) as being relevant to asset classes where environmental and / or social factors have an impact on the value of the financial instrument. For some asset classes, we consider sustainability risk as not relevant, such as money market instruments, cash, foreign exchange, commodity and interest rate derivatives. We measure sustainability risk for direct exposures, and do not consider it for indirect exposures via ETFs or index-based derivatives.

In cases where we consider sustainability risk, we aim to integrate financially material ESG factors throughout our investment decision-making processes in order to ensure we have a holistic understanding of our investments. By taking account ESG factors alongside traditional financial considerations in the investment appraisal process, we develop a clear understanding of the Sustainability Risks facing an individual investment. This allows us to make informed decisions about the potential risks to an investment's value should a material ESG risk event occur. We can then act, if needed, to protect the value of our clients' investments.

For actively managed portfolios, Sustainability Risks are systematically considered in our bottom-up research process for public corporate fixed income and equity issuers. We also consider Sustainability Risks in the investment analysis process for sovereign and securitized issuers. We aim to build our own in-house view of issuers' Sustainability Risk profiles where possible and as appropriate, using a combination of internal and external data sources.

Where we identify high or poorly managed Sustainability Risks among the public corporate issuers in which we invest, we aim to exercise our influence as an investor through Active Ownership, with the objective of mitigating Sustainability Risks. These activities are carried out in line with the Aegon AM Active Ownership Policy, which governs Engagement and Voting activities across Aegon Asset Management.

For the avoidance of doubt, Sustainability Risks can only be managed by AIM in this way in actively and internally managed portfolios. Passive and externally managed portfolios are not subject to proprietary investment analysis and those investments therefore may not consider Sustainability Risks. Passive portfolios that use ESG indices as benchmarks may make use of the respective benchmark provider's consideration of Sustainability Risks, according to their proprietary methodology.

Identifying and monitoring Principal Adverse Impacts

We aim to identify and monitor the PAIs on sustainability factors of all investments made by the Products covered by this Policy where data is available. Such information may come from data vendors or from inhouse manually constructed PAI databases (depending on the types of assets). Appendix 1 lists the PAI indicators we utilize to identify, monitor and report on these PAIs. Our approach to considering such PAIs is outlined in product disclosures.

To identify and monitor PAIs, we measure and report the PAI indicators for the holdings of the products in scope of this policy, subject to the availability of PAI data at issuer level. We rely on external vendors to provide PAI data per issuer into appropriate Aegon AM systems. This data is then used to measure aggregate portfolio and entity-level PAIs. Measurements are performed at least on a quarterly basis, while reporting is completed annually by the reporting teams. The PAI indicators are listed in Appendix 1.

Where such data is not available from specialized vendors, the investment team may, on a best efforts basis, seek to collect this information from the relevant issuers or borrowers.

Ensuring good governance

We have developed and implemented an annual process to identify companies in actual or potential breach of good governance standards. This process covers our listed corporate (debt and equity) investments.

Our process is based on the due diligence cycle outlined in the OECD Guidelines for Multinational Enterprises. It starts with an annual identification process whereby we screen our investments for compliance with global norms (e.g. the United Nations Global Compact Principles, the United Nations Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises) and relevant international treaties and conventions. In addition to trying to identify companies that are non-compliant with global norms, we also try to identify those that are at risk of breaching global norms. Where required, this allows us to take action to address poor governance.

Our screening process aims to identify any environmental and social controversies that the companies we invest in have caused, contributed to, or are connected with. As part of our controversy screening, we aim to evaluate how severe the controversies in question are – both for the world and for our investment – and to estimate the most likely outlook for the controversy going forward.

We continue to develop our annual screening process as new and better data becomes available, allowing us to implement the requirements of the OECD due diligence cycle more accurately. This has included expanding the screening process in recent years to attempt to identify potential or actual governance issues in the supply chains of the companies we invest in.

When implementing our annual screening process, we make use of third-party ESG research providers who assess an individual company's compliance with global norms, treaties and standards and categorize all controversies a company faces using a wide range of ESG data and criteria. This research serves as a starting point for our identification process, and we follow up with subsequent analysis and assessment. This screening process is subject to the availability of external ESG data from these specialized vendors, and as such is limited by their research coverage.

Companies identified through this process enter our annual engagement program whereby we seek to verify the external research opinions and sources that identify potential and actual breaches, and seek to better understand if and how companies are addressing such breaches.

We allow a maximum period of one year for engagement with companies identified as being non-compliant with global norms, and three years for companies identified to be at risk of non-compliance. After this period, the identified companies may be excluded from our investment universe and added to our Exclusion List, unless we determine that the company has taken sufficient steps to address the identified actual or potential breaches. The ultimate decision to exclude these companies is made with the relevant stakeholders.

Furthermore, in our active ownership activities we follow the Corporate Governance Guidelines outlined in the Aegon AM Active Ownership Policy. Appendix 2 lists the metrics we utilize to monitor good governance practices of the companies we invest in.

Sustainable investments and Taxonomy aligned sustainable investments

For some products, AIM has decided to make and measure sustainable investments. These are sustainable investments made according to the AIM proprietary methodologies. These methodologies vary per asset class and are clearly disclosed in the product documentation.

It is currently not possible to apply the EU Taxonomy methodology for sustainable investments to construct sustainable investment portfolios, given the lack of reliable and verifiable data and the fact that the EU Taxonomy still involves a lot of regulatory uncertainty. Nevertheless, as required by the regulation, AIM will measure and report the alignment of its sustainable investments to the EU Taxonomy using third-party data. These reports will therefore be subject to the limitations of such third-party data with respect to research coverage, estimation models and methodological interpretations taken by the third parties.

Exclusions

To partially mitigate certain adverse impacts, we apply exclusion criteria and aim to identify issuers that engage in activities associated with such impacts and exclude them from the investment universe. We rely on our partner a.s.r. to identify these issuers by using these exclusion criteria outlined in Appendix 3, which also serve as sustainability indicators used to measure attainment of the environmental and social characteristics promoted by certain products offered by AIM. Issuers identified in connection with these activities are added to the exclusion list, which is available to our clients upon request. AIM ensures the exclusion list is adhered to.

Products covered by this policy may not invest in securities from issuers identified as involved in the activities defined by the Exclusion Criteria in Appendix 3. These criteria are reviewed periodically in consultation with internal and external stakeholders.

The Exclusion List is compiled bi-annually by a.s.r. However, since it is subject to the availability of appropriate research data from third-party vendors, it should not be considered as a fully comprehensive list of issuers involved in excluded activities. The Exclusion List is not applied to investments in index-based derivatives, such as futures or options, or structured credit.

Active ownership

Active Ownership activities are broadly governed by the AAM Active Ownership Policy. We seek to use our influence as bondholder or shareholder to enact change and help mitigate certain adverse impacts. However, we recognize that we cannot address and mitigate all potential and actual adverse impacts through exclusion and active ownership. To be effective we need to focus our efforts and prioritize.

We engage with certain issuers on certain adverse impacts identified using available PAI indicator data, other relevant information sources and available collaborative engagement initiatives. We prepare annually an Active Ownership Plan prioritizing engagement activity related to adverse impacts and good governance practices for the year, for approval by the relevant stakeholders. We also exercise voting rights where applicable in line with its ongoing engagement activities.

Engagement progress is tracked using Aegon AM's milestone system and is reviewed on a regular basis to determine where engagement goals have been achieved or where escalation is warranted.

Reporting

To provide clients with insights into the PAIs associated with their portfolio, as well as how PAIs and Sustainability Risks are being managed and mitigated, we periodically report on these topics. We report on our active ownership activities annually in the Aegon AM Responsible Investment Report.

Appendix 1: Principal Adverse Impact Indicators

A1.1. Climate change

For corporate issuers:

Adverse impact indicator	**Metric**
GHG emissions	Scope 1 GHG emissions (tCO_2e)
	Scope 2 GHG emissions (tCO_2e)
	Scope 3 GHG emissions (tCO_2e)
	Total GHG emissions (tCO_2e)
Carbon footprint	Carbon footprint (tCO_2e per EURm invested)
GHG intensity of investee companies	GHG intensity of investee companies (tCO_2e per EURm investee company revenue)
Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector (%)
Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage (%)
Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector
Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement

For sovereign issuers:

Adverse impact indicator	**Metric**
GHG intensity	GHG intensity of investee countries
Share of bonds not issued under Union legislation on environmentally sustainable bonds	Share of bonds not issued under Union legislation on environmentally sustainable bonds

For real estate investments:

Adverse impact indicator	**Metric**
Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transportation or manufacture of fossil fuels
Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets
Energy consumption intensity	Energy consumption in GWh of owned real estate assets per square meter

A1.2. Inclusion & diversity

For corporate issuers:

Adverse impact indicator	**Metric**
Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies
Board gender diversity	Average ratio of female to male board members in investee companies

A1.3. Biodiversity

For corporate issuers:

Adverse impact indicator	Metric
Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity sensitive areas where activities of those investee companies negatively affect those areas
Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average
Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average

A1.4. Social

For corporate issuers:

Adverse impact indicator	Metric
Exposure to controversial weapons (anti-personnel mines, cluster munitions)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons
Lack of a human rights policy	Share of investments in companies without a human rights policy

For sovereign issuers:

Adverse impact indicator	Metric
Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law.
Average income inequality score	The distribution of income and economic inequality among the participants in a particular economy including a quantitative indicator explained in the explanation column.

Appendix 2: Good governance metrics

This Appendix lists the metrics we utilize to monitor good governance practices of the companies we invest in.

Indicator	Metric
Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
Lack of processes and compliance mechanisms to monitor compliance with UNGC principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/complains handling mechanisms to address violations

Appendix 3: Exclusion criteria

A3.1. Climate change

Exclusion criteria	Associated sustainability indicator used to measure attainment of the promoted environmental or social characteristic
• All companies deriving revenue from the mining and production of thermal coal.	Share of investments in companies deriving revenue from the mining and production of thermal coal.
• Companies deriving 5% or more of their revenues from thermal coal-fired electricity generation.	• Share of investments in companies deriving 5% or more of their revenues from thermal coal-fired electricity generation.
• Companies that own coal-fired electricity generation capacity greater than 10 gigawatts and are actively expanding coal-fired electricity production capacity, even if this is less than 5% of revenues. •	• Share of investments in companies that own coal-fired electricity generation capacity greater than 10 gigawatts and are actively expanding coal-fired electricity production capacity, even if this is less than 5% of revenues.
• Companies deriving 5% or more of their revenue from unconventional oil and gas extraction and production.	• Share of investments in companies deriving 5% or more of their revenue from unconventional oil and gas extraction and production.
• Companies deriving 5% or more of their revenue from arctic oil and gas extraction and production.	• Share of investments in companies deriving 5% or more of their revenue from arctic oil and gas extraction and production.
• Companies that have more than 50% revenues generated by nuclear energy-related activities (i.e. nuclear power generation and sale, nuclear parts and services, and/or uranium mining).	• Share of investments in companies that have more than 50% revenues generated by nuclear energy-related activities (i.e. nuclear power generation and sale, nuclear parts and services, and/or uranium mining).

A3.2. Biodiversity

Exclusion criteria	Associated sustainability indicator used to measure attainment of the promoted environmental or social characteristic
• Companies deriving 5% or more of their revenues from palm oil production and/or distribution.	• Share of investments in companies deriving 5% or more of their revenues from palm oil production and/or distribution.
• Companies managing forests with 75% or lower FSC certification coverage.	• Share of investments in companies managing forests with 75% or lower FSC certification coverage.

A3.3. Good health and well-being

Exclusion criteria	Associated sustainability indicator used to measure attainment of the promoted environmental or social characteristic
Companies that derive any revenues from tobacco production, and at least 10% revenue from tobacco distribution and/or retailing.	Share of investments in companies that derive any revenues from tobacco production, and at least 10% revenue from tobacco distribution and/or retailing.
Companies that have at least 5% exposure to gambling activities within operations and/or derive at least 10% revenue from gambling products (e.g. machines, IT products, payment solutions).	Share of investments in companies that have at least 5% exposure to gambling activities within operations and/or derive at least 10% revenue from gambling products (e.g. machines, IT products, payment solutions).

A3.4 Human rights

Exclusion criteria	Associated sustainability indicator used to measure attainment of the promoted environmental or social characteristic
Companies that are involved in offensive products, defensive and auxiliary military products and dual-use products or services, companies that produce and /or sell controversial weapons: anti-personnel landmines, cluster munition, nuclear and chemical weapons, and bacteriological weapons. In addition, companies that produce and /or sell offensive weapons. Also, companies that derive any revenue from the manufacture and retail of civilian firearms and ammunition.	Share of investments in companies involved in offensive products, defensive and auxiliary military products and dual-use products or services, companies that produce and /or sell controversial weapons: anti-personnel landmines, cluster munition, nuclear and chemical weapons, and bacteriological weapons. In addition, companies that produce and /or sell offensive weapons. Also, companies that derive any revenue from the manufacture and retail of civilian firearms and ammunition.
Companies that produce and/or sell defensive, auxiliary and/or dual-use products when there is a risk that they will be used against humans or be delivered to questionable authorities (such as those in power in corrupt or fragile countries, or as defined in the EU common rules governing the control of exports of military technology and equipment).	Share of investments in companies that produce and/or sell defensive, auxiliary and/or dual-use products when there is a risk that they will be used against humans or be delivered to questionable authorities (such as those in power in corrupt or fragile countries, or as defined in the EU common rules governing the control of exports of military technology and equipment).
Russian and Belarussian companies.	Share of investments in Russian and Belarussian companies.

A3.5. Country and State-owned enterprises[3] exclusion criteria

Exclusion criteria	**Associated sustainability indicator used to measure attainment of the promoted environmental or social characteristic**
Countries lacking basic political freedom. Countries with high corruption. Countries with poor environmental performance based on the SDG Index.	Share of investments in debt instruments issued by countries lacking basic political freedom, with high corruption and with poor environmental performance based on the SDG Index.

[3] Country exclusions applies to sovereign and quasi-sovereign issuers according to market classification.