Aegon UK

Responsible investment and Stewardship Report 2022

For financial advisers and employers only

AEGON

This document is issued by Aegon UK plc. It may make reference to specific entities and other constructs within the Aegon Group.

To summarise, our company is Aegon UK plc and our parent company is Aegon NV. The leading operating subsidiaries of Aegon UK plc are Scottish Equitable plc (SE), Cofunds Ltd, Aegon Investment Solutions Ltd (AISL) and Aegon Investments Ltd (AIL).[1]

For simplicity and to aid readability, this document may also use terms such as Aegon, we, us, our and similar, as a way of collectively referring to entities and/or other constructs within the Aegon Group – rather than referring to a specific entity and/or other construct.

While this document may use forms of collective reference, each entity or other construct has a distinct role within the Aegon Group. The use of forms of collective reference and simplification within this document do not change this.

For clarity and as shown in this report as much as possible, the extent and application of stewardship activities, as defined by the UK Stewardship Code, varies within the subsidiaries and business models of Aegon UK plc. Certain practices, particularly relating to organisational governance and risk management (for example, conflicts-of-interest policy), apply across all of Aegon UK plc.

There are differences in the application of other responsible-investment and stewardship activities, notably manager monitoring and approach to ESG integration in investment, depending on the nature of the activities in the Aegon UK subsidiaries, such as manufacturing funds and offering access to funds. Our stewardship is mostly focused on the former type of activity rather than the latter, given the significantly greater degree of influence we have of funds.

1 SE and AIL are firms that manage assets, whereas Cofunds and AISL are 'open architecture' platform companies, which enable a broad choice of investments for investors and their financial advisers.

Contents

Forewords

Chief Executive's statement

"Sustainability plays an integral part in Aegon's purpose to help people live their best lives. Our goal is to be one of the top 25% responsible businesses by 2025."

It is a pleasure to introduce our first stewardship report. We are proud to have the opportunity to report on our activities for 2022 in line with the Financial Reporting Council's (FRC's) 2020 Stewardship Code, setting out how we created sustainable benefits for the economy, the environment and for society.

Purpose and member outcomes

Sustainability plays an integral part in our purpose to help people live their best lives. We're committed to helping customers grow their savings over the long term and contribute to a more sustainable world. At the same time, we recognise that change must begin at home and companies like us must also walk the talk. Not only do we have a fiduciary duty to our customers, but we also have the opportunity as a large financial-services business to be part of the transition to a low-carbon economy. As a significant investor in asset managers and companies around the world, we embrace the responsibility that we have and seek to use our influence in the market to improve outcomes for over 4 million customers who are investing for the next 30 years and beyond.

Our customers want to see and hear what we stand for, as they increasingly look to do business with companies that share their values. Nearly three quarters (73%) of our customers agree that climate change is an important risk when investing[2]. Over half indicate long-term return as the most important factor when considering how to invest their pension[3].

Extreme uncertainty – as we all experienced throughout 2021-22 – has a habit of putting values to the test. The continued headwinds facing ESG, including lack of consistency and harmonisation across ESG standards, as well as geopolitical and macroeconomic challenges related to the energy transition, have highlighted the complexities and obstacles when pursuing systemic change such as net zero. Despite short-term difficulties, we remain focused on making sure that the companies we invest in are sustainable and successful over the long term, creating enduring value for our customers.

2 Source: Aegon RI Customer Panel survey, August 2022. Sample size: 1220 customers, mix of Aegon customers and non-Aegon customers
3 Source: Aegon RI Customer Panel survey, April 2022. Sample size: 1220 customers, mix of Aegon customers and non-Aegon customers

Governance oversight and resourcing

A sustainable business begins with having a strong governance structure which enables effective oversight of the business and third parties. This structure is the linchpin for creating long-term value for our customers.

In 2021, Aegon Group established a senior management committee, the Global Sustainability Board, to steer and strengthen the sustainability agenda across Aegon's different country units, with the support of local sustainability boards. In 2022, we enhanced board oversight of our sustainability and stewardship work. We also established the Aegon UK Sustainability Board, a senior management committee for Aegon UK, which supervises our sustainability agenda across the Aegon UK business.

Focus on climate and social

We continue to focus on better understanding and managing the impact of climate change on our business and customers. In 2020, we committed to net-zero carbon emissions for our default funds by 2050, and in 2021 to halving emissions by 2030 (relative to 2019). The first years of that commitment have been far from usual, due to the Covid pandemic and the energy crisis.

As 2030 approaches, we're concerned about the need to make significant real-world progress in reducing emissions – in part through engaging with companies rather than divestment for long-term change.

More information about our progress and plan to achieve the net-zero target is available in our climate roadmap.

On diversity and inclusion (D&I), we believe that there is still much for us to do in our position as an asset owner, platform provider and as an employer. Our efforts in the year included appointing a Head of D&I for Aegon Group to accelerate our progress. We're increasing our focus on human rights, which we introduced as a new stewardship engagement theme in 2022.

As one of the largest asset owners in the UK, we have an important role in influencing the companies we invest in – the third-party asset managers who provide investments and the suppliers we work with. We believe in embracing our role and the unique levers that we have, to make a positive impact.

This report is an important milestone in sharing our progress in 2022 and our direction of travel. We look forward to engaging more closely with our customers, regulators and other stakeholders as we enter the next stage of our stewardship journey.

Mike Holliday-Williams
Chief Executive
Aegon UK

Chief Investment Officer's statement

"As an asset owner, I believe we have both the opportunity and the responsibility to use our influence to strive for long-term improvements in our societies and the environment we live in."

Having recently become a grandparent, it really hit home to me the duty we all have, as stewards of the world we live in. As an asset owner, I believe we have both the opportunity and the responsibility to use our influence to strive for long-term improvements in our societies and the environment that will benefit those that follow us.

We welcome the FRC's definition of stewardship as capital allocation, management and oversight of our investments to support long-term sustainable value creation. As a long-term savings provider, our customers and their interests come first. This belief drives our commitment to improve customer outcomes in a more sustainable world.

Investment approach and monitoring managers

We're an indirect investor, so most of our funds are managed by third-party asset managers. As such, we express our stewardship beliefs through our allocation of capital, as well as manager selection and monitoring strategies.

In terms of capital allocation, at the end of the reporting year in 2022, approximately over £15bn of assets were shifted into passive strategies screened and tilted for ESG across our workplace default funds. We also set and monitored progress on our minimum expectations of our managers, across five areas of responsible investment.

We continue to focus on long-term outcomes as part of our manager monitoring and I'm delighted that, following extensive engagement during 2021 and 2022, our largest asset manager set a climate objective for the underlying funds of one of our key default funds. Through stewardship, we believe we can improve investment returns by encouraging and supporting behaviours and practices that ensure long-term value for our customers.

Voting and engagement

As a universal owner, we own a representative fraction of most of the companies in an economy. Therefore, our ability to drive change to address systemic risks depends significantly on our indirect engagement with companies through our managers, rather than blanket divestment alone. Engagement can be a powerful vehicle to encourage real-world impacts, including reduction in the level of emissions on the planet.

In 2022, we evolved our expectations for managers on their engagement and voting, enhancing our stewardship policy. We introduced a sharper focus on outcomes and expanded engagement themes. We also introduced our new 'expression-of-wish' approach, which we seek to apply in 2023 to select asset managers' voting in our pooled mandates. We'll monitor over time the effectiveness of our approach and how we can continuously improve the alignment between our asset managers and our goals.

Collaborative engagement

As one of the largest platforms in the UK, we have a historic opportunity to innovate collaboratively and challenge, in pursuit of a common vision of the future and of the investment best practices to get there. We're proud of our progress in bringing our scale and influence to bear in engaging with policymakers and wider market participants to help catalyse systemic changes. Our case studies under Principles 4 and 10 respectively highlight the collaborative engagement activities we undertook in 2022 and the positive outcomes we contributed to through this engagement.

Building focus and expertise

I recognise that, to provide the best possible support to our members in an ever-changing and increasingly complex environment, we must dedicate even more people resources to our stewardship activities.

In 2021, we established a new Responsible Investment team and hired our first Head of Responsible Investment. The team has significantly expanded since then, with new appointments in 2022 including a Stewardship Lead, as well as a Climate and Responsible Investment Strategy Lead. Strengthening our capability is fundamental in enabling us to discharge our role as a steward of our customer assets and as a responsible business.

Although 2022 was a year of significant acceleration, we recognise that there is no room for complacency. We hope this report makes clear how we are determined to become ever-better stewards. We look forward to detailing our progress in the 2023 report.

Tim Orton
Chief Investment Officer
Aegon UK

This report sets out Aegon UK's response to the 12 FRC UK Stewardship Code Principles.

We have prepared it in alignment with the UK Stewardship Code 2020, and it covers Aegon UK's activities from 1 January 2022 to 31 December 2022.

Principle by principle, we describe how we implement our commitments to active stewardship and summarise our responsible-investment (RI) activities and outcomes in 2022.

Principle 1. Purpose, strategy and culture

Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.

Stewardship is embedded in our purpose, business model, strategy, investment beliefs and culture, to help customers build a better future for themselves and society.

1.1 Purpose and business model

Our story started over 190 years ago, in the UK, when we were founded as Scottish Equitable Life Assurance Society. Today we're part of Aegon – an integrated, diversified, international financial services group. Our UK team are focused on providing pension, savings and investment solutions for over 4 million customers throughout their lifetime. To do that, we work with financial advisers and employers to help improve people's financial wellbeing.

We've outlined our purpose, business lines and how we add long-term value for our stakeholders in the diagram below.

Driven by our purpose

People are living longer, and we want to help people make the most of their time on our planet and leave it a little better than they found it – however grand or humble their ambitions. That's why our purpose is: Helping people live their best lives.

We also seek to be a wider force for good for our customers and other stakeholders throughout their lifetimes.

Our purpose is underpinned by our five strategic pillars:

1. Financial wellbeing
2. Purpose led culture
3. Exceptional experience
4. Trusted partner
5. Sustainable future

Our vision is to be the leading platform provider in the UK.

Our corporate culture and values guide our behaviour to support achieving our purpose and strategic objectives:

- We tune in
- We step up
- We are a force for good

How we add value

Business lines

Aegon UK's business spans many channels across financial services. A combination of organic growth and acquisition enables us to bring both fund and technology solutions with scale to support all parts of the long-term savings market – both today and into the future. We provide retirement, investment, workplace savings and protection solutions through financial advisers and employers, as well as providing custody, settlement and execution-only dealing services for institutional clients.

Our traditional insurance business consists of older contracts that are no longer actively marketed to new customers. We have an outsource relationship in place with Atos to service and administer the book.

Distribution

We have two principal distribution channels: firstly, financial advisers who advise retail customers; and, secondly, workplace

Competitive advantage

We are here to deliver a lifetime of financial security by supporting intermediaries who wish to operate across channels, providing an end-to-end customer experience.

Long-term value for stakeholders

Customers

Our investment, and retirement solutions support customers as they live longer and healthier lives.

Employees

Our employees are a key part of our success as a company, and we want them to share in that success.

Business partners

Our goal is to cultivate positive long-term relationships that are mutually beneficial for our business and our partners, such as suppliers and distributors.

Investors

We seek to provide a consistent and attractive return on investment to our investors around the world, based on a resilient and sustainable business model.

Society

We strive to add value to communities through our role, both as a major pension provider and a long-term responsible investor.

1.2 Strategy and investment beliefs

Our five strategic ambitions outlined below support our purpose, all of which are inclusive of sustainability-related considerations.

Our strategic ambitions	What this means
Financial wellbeing	We're here to help people feel more in control of their future. Climate change presents a risk to our customers' financial wellbeing through impacts like volatility, impairment of asset value and investment risk. Managing our climate risk means supporting customers' financial wellbeing.
Purpose-led culture	We're passionate about helping our customers succeed and proud of the positive impact we have. Putting our purpose at the core of our investment activities and being consistent in how we do business, invest and engage builds credibility and trust among our employees.
Exceptional experience	We aim to provide outstanding service for all customers. And we want our responsible investment proposition, education and customer insights to be one of the reasons customers are happy to choose and stay with Aegon.
Trusted partner	We're a safe, secure partner and we're here for the long term. A strong and credible stewardship strategy is already a 'hygiene' requirement for a license to operate and for competing in the market. Continuously reviewing, developing and improving our approach will help safeguard our ability to do business over the long term. Improving our approach will help safeguard our ability to do business over the long term.
Sustainable future	As a large, long-term savings provider, using our investment footprint and scale is the most impactful way we can support the transition to a fairer and more sustainable world. Aegon's positive impact in stewardship stems from: 1. Investment products and solutions 2. Manager expectations and monitoring 3. Voting and engagement 4. Educating our customers, employee benefit consultants (EBCs) and advisers, and delivering customer insights 5. Industry advocacy

We provide investments based on a fundamental set of beliefs[4]:

- **Long-term investors:** We incorporate a sustainable-investing framework.

- **Managing investment risk:** We believe investment strategies should be well-diversified and take account of customers' attitude to risk, and how this might change throughout their lifetime.

- **Streamlined choice:** Our products and strategies should meet the needs of our target market and provide choice.

- **Governance:** Good governance is critical to delivering better outcomes for our customers.

Underpinning this is our firm commitment to responsible investing, which guides how we engage with customers, asset managers and the wider financial services industry, as part of our responsible investment strategy.

Figure 1: Our responsible investment beliefs

A fairer and more sustainable world is in everyone's interest, and as a long-term savings provider we have a responsibility to support this.

The consideration of environmental, social and governance (ESG) factors is necessary to protect and grow customers' assets.

Climate change presents significant risks, as well as opportunities to invest in the transition to a low-carbon and climate-resilient future.

Active engagement with the companies our customers invest in, including thoughtful voting at shareholder meetings, is key to driving change.

4 Investment fundamentals, Aegon UK, Nov 2022

1.3 Culture and values

Our focus on stewardship guides our values and behaviours for how we act and interact. This helps us create long-term value for customers, leading to sustainable benefits for wider stakeholders.

Figure 2: Aegon UK behaviours

We tune in

- We serve a diverse, ever-changing world and work tirelessly to stay relevant.
- We're curious and never stop learning from our customers, each other and the wider world.
- We ensure all people around us feel seen, heard and valued.

We step up

- We're a company of ambitious, positive problem-solvers who get things done.
- We excel by committing, following through and finishing what we start.
- We're a team, not a group of individuals. Collaboration is our life force.

We are a force for good

- It is our duty to leave things better than we find them.
- We speak up, ask for help and think before we act.
- We prove our integrity daily, through our words and actions.

1.4 Putting our purpose, beliefs, culture and values into practice to enable effective stewardship

Our purpose guides and enables us to be effective stewards of the investments we manage on behalf of our customers and shareholders. We have put this into practice in a number of ways, as follows:

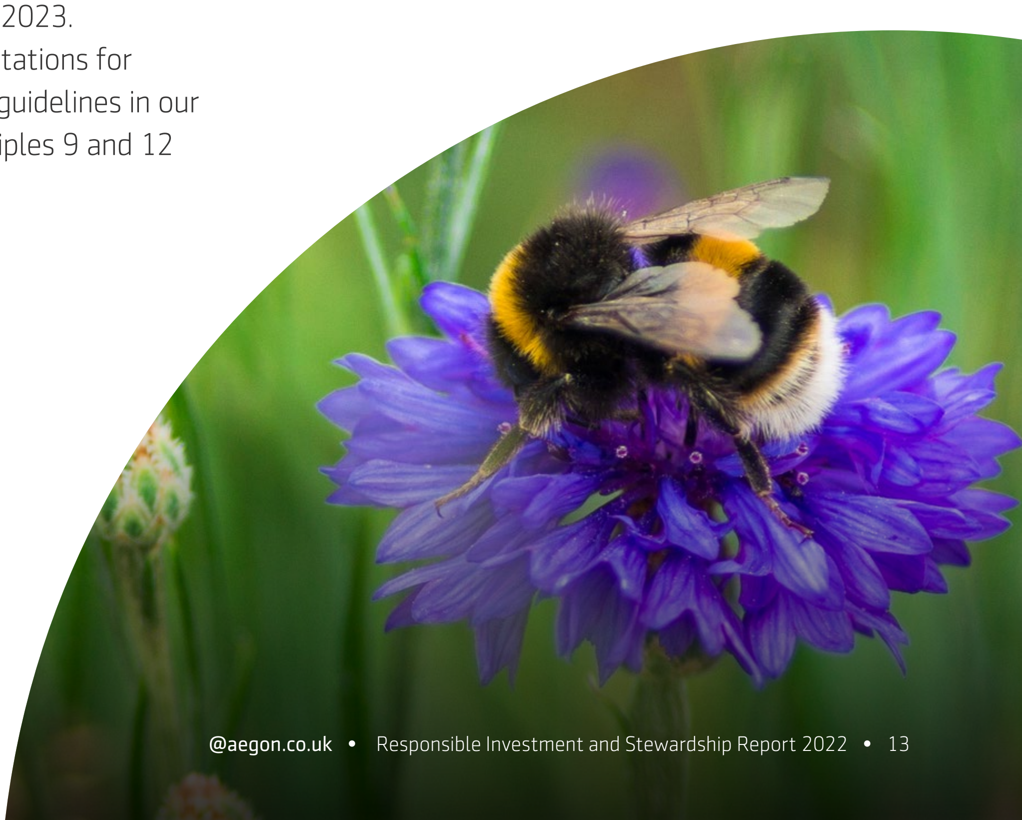
We have enhanced our governance structure to reflect our focus on sustainability, RI and stewardship. While we had some sustainability governance structures in place before 2022, during that year we enhanced both board-level and management-level committees' terms of references to strengthen oversight of sustainability and RI strategy (please see Principle 2 for more details).

Developing our approach to voting and engagement. In 2022, we expanded our key, priority engagement themes to include biodiversity and human rights. We also introduced a new expression-of-wish approach to most significant votes, which we will take forward in 2023. Additionally, we enhanced our expectations for managers through our engagement guidelines in our stewardship policy (please see Principles 9 and 12 for more details).

We have actively engaged on key sustainability matters with our customers to inform our approach. For example, we used the latest 2022 customer-survey feedback to inform the development of our engagement themes, given the interest shown in nature and on social-related matters (please see Principle 6 for more details).

We have continued to develop ESG integration in our investment proposition. As at the end of the reporting period, around £15bn has been shifted into ESG strategies across our workplace default funds (please see Principle 7 for more details).

We have continued to monitor and engage extensively with our managers on their RI practices. This has contributed to our largest asset manager setting a climate objective for one of our key funds – and is just one of the outcomes we achieved in 2022 to enhance our asset managers' practices (please see Principle 8 for further information).



1.5 Assessment of effectiveness in serving the best interests of our clients and beneficiaries

We're proud of what we have already achieved in serving the best interests of our customers and clients (please see Principle 6 for more details on the outcomes of our customer engagement). We will continue actively working to improve and develop in this area.

How we have succeeded in 2022

The Independent Governance Committee (IGC) acts independently of Aegon UK to represent customer interests for the pension products within the IGC's remit (as explained in Principle 5). Based on the Aegon IGC 2022 report[5] , the IGC noted "substantial progress" with the application of ESG considerations across funds, including through significant movement of assets to ESG-oriented strategies while keeping within approved cost limits, as well as increased dedicated resources within our business. The report also noted that the independent investment consultancy Redington judged Aegon's implementation of ESG integration in the default strategies to be a positive development.

The awards we have won and ratings we have achieved in 2022 demonstrate industry recognition of our work and show we're getting things right for our customers.

Corporate Adviser Awards

Best Group Pensions Provider[6]

The Corporate Adviser Awards are voted for by the industry and are the leading awards for the workplace benefits community. In 2022 Aegon was voted Best Group Pension Provider, in particular for our approach to member engagement.

corporate adviser awards 22
WINNER
BEST GROUP PENSIONS PROVIDER

5 Aegon IGC full report, Aegon UK, 2022
6 Awards, Aegon UK, Dec 2022.

Defaqto Star Ratings

4-Star Rating: Aegon Master Trust won a 4-Star Rating.

The Financial Technical Research Centre (FTRC) – Gold rating

The FTRC awarded Aegon 'Gold' overall for our workplace pensions and for auto-enrolment in the 2022 workplace pension and auto enrolment ratings.

Based on a survey undertaken by NMG Consulting with EBCs and corporate independent financial advisers (IFAs) in 2022, Aegon UK stood out in a number of aspects, including:

- As the leading provider in the market for financial wellbeing propositions
- For our personalisation of the member journey
- For leading the way for at-retirement solutions

Areas for continuous improvement

In 2022, in part due to client feedback, we pinpointed some areas for improvement. Going forward, we will:

- Do more to enhance customers' understanding of what our stewardship approach means for the funds they're investing in
- Ensure an ongoing evolution in our customer engagement, including seeking greater input on appropriate goals, to ensure our stewardship strategy is informed by customers' own beliefs and preferences
- Actively pursue opportunities to further shift from ESG tilts and screening of investments to avoid companies based on ESG criteria, as well as opportunities to be leaders in the global drive to address climate change and other sustainability issues

We will continue to evolve our member engagement as well as ESG integration into investment decision-making and look forward to reporting on our progress in our 2023 report.

Principle 2. Governance, resources and incentives

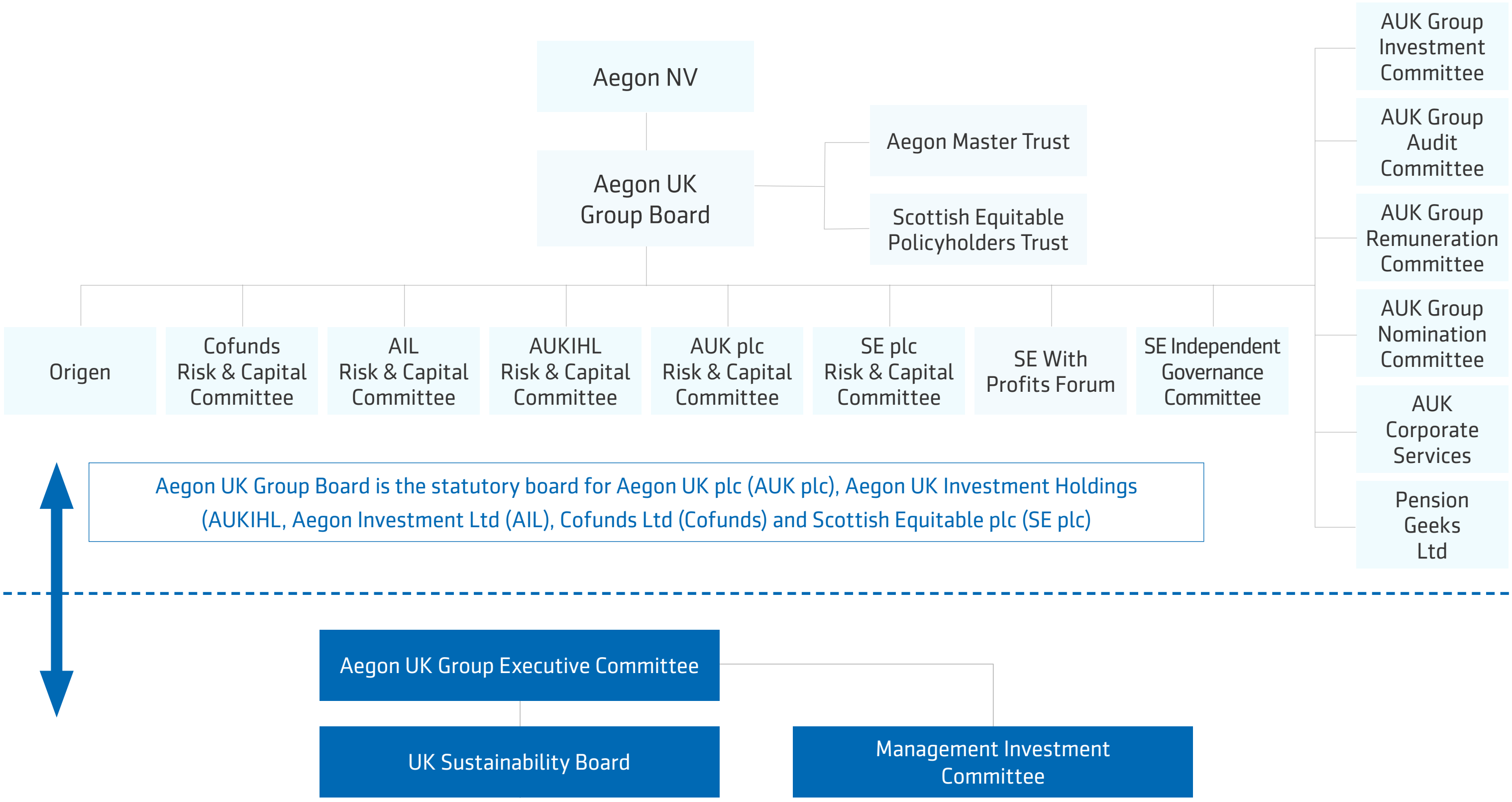
We believe that strong organisational corporate governance, including effective resourcing and incentives, provides the basis for delivering effective stewardship, and for building on and developing our approach for the future.

Signatories' governance, resources and incentives support stewardship

2.1 Governance

Our Board provides oversight of our sustainability efforts, including stewardship, through keeping abreast of key initiatives and challenging these where appropriate. The Executive Committee and its subcommittees support updating the Board on sustainability-related issues. They are typically responsible for designing initiatives that contribute to good stewardship.

Figure 3: Aegon UK Board Governance Structure



In 2022 we undertook a comprehensive review of terms of reference for the Board, its subcommittees and the Executive Committee. This resulted in enhancements to the terms, to strengthen oversight and accountability for stewardship.

An overview of the key changes made is summarised on the next page.

Committee		Overview of key changes/additions to terms of reference (TOR) in relation to roles and responsibilities related to stewardship
Board	AUK Group Board	A new responsibility was added to oversee Aegon UK's overall approach to sustainability and stewardship.
	Board Risk and Capital Committees of SE Plc and AIL	Addition of responsibility to oversee alignment of RI/ESG execution with Aegon UK's company's risk-management framework.
	Audit Committee	Addition of responsibility to include review and approval of the company's sustainability-related financial disclosures report(s), ensuring they are aligned to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Existing responsibilities in respect of reviewing information contained in statutory accounts were expanded to include reviewing the presentation of climate considerations in the financial statements, and considering the approach to identifying and responding to climate-related financial statement risks (as well as their presentation within financial statements).
	Aegon UK Group Investment Committee	Scope has been enhanced to include the following responsibilities: • Having oversight of the approach to RI, including RI and climate-strategy implementation and stewardship activities • Review and recommend to the Aegon UK and Aegon NV Boards strategies related to RI, climate and stewardship, and review and recommend for approval the stewardship report • Recommend to the Risk & Capital Committees to approve policies related to RI, including RI policy and stewardship policy
	Nomination Committee	When reviewing board composition, D&I considerations have been strengthened to take into account Aegon UK Group's approach to sustainability and stewardship. In particular, we have published aspirational targets for D&I among senior management.
	Remuneration Committee	Addition of responsibility when considering executive remuneration to take into account Aegon UK's approach to sustainability and stewardship including, in particular, the company's RI/environmental, social and governance objectives, to ensure alignment.
	With-Profits Forum	The enhanced TOR includes the responsibility to approve the investment policies and strategy adopted within the with-profits funds, to include taking into account Aegon UK's approach to sustainability and stewardship and, in particular, the RI policy.
Executive	Executive Committee	A new responsibility was added to include the management of Aegon UK's approach to sustainability and stewardship, and in particular its RI and stewardship commitments.

We also benefit from being part of a global group company which recognises the importance of sustainability. In 2021, Aegon NV established its Global Sustainability Board (GSB) to enhance governance and oversight of sustainability across relevant country units.

The GSB is supported by Local Sustainability Boards (LSBs) across Aegon business units. The Aegon UK Sustainability Board was formed in January 2022. Its responsibilities include developing and proposing the sustainability strategy for AUK and Aegon NV, in light of UK market dynamics and risk factors; and developing and agreeing the UK sustainability roadmap, ensuring the GSB sustainability agenda and priorities are translated into action in the UK. The Sustainability Board is chaired by our General Counsel and reports directly into the GSB.

In Aegon UK we also have several internal groups and committees which support the Board and Executive Committee on sustainability-related matters:

- RI Steering Committee: Objectives include making recommendations to the Management Investment Committee (an executive management committee) for matters including RI practices and reporting. Members include but are not limited to the Chief Investment Officer, General Counsel, Chief Actuary and Head of Responsible Investment.
- ESG Working Delivery Group: Supports the RI Steering Committee's decision-making on key matters, as well as ensuring coordination and alignment across Aegon UK's business areas on RI.
- Sustainable Future Working Group: Supports the Aegon UK Sustainability Board and coordination and alignment across Aegon UK's business areas on all sustainability topics.

Figure 4: Aegon Sustainability Governance

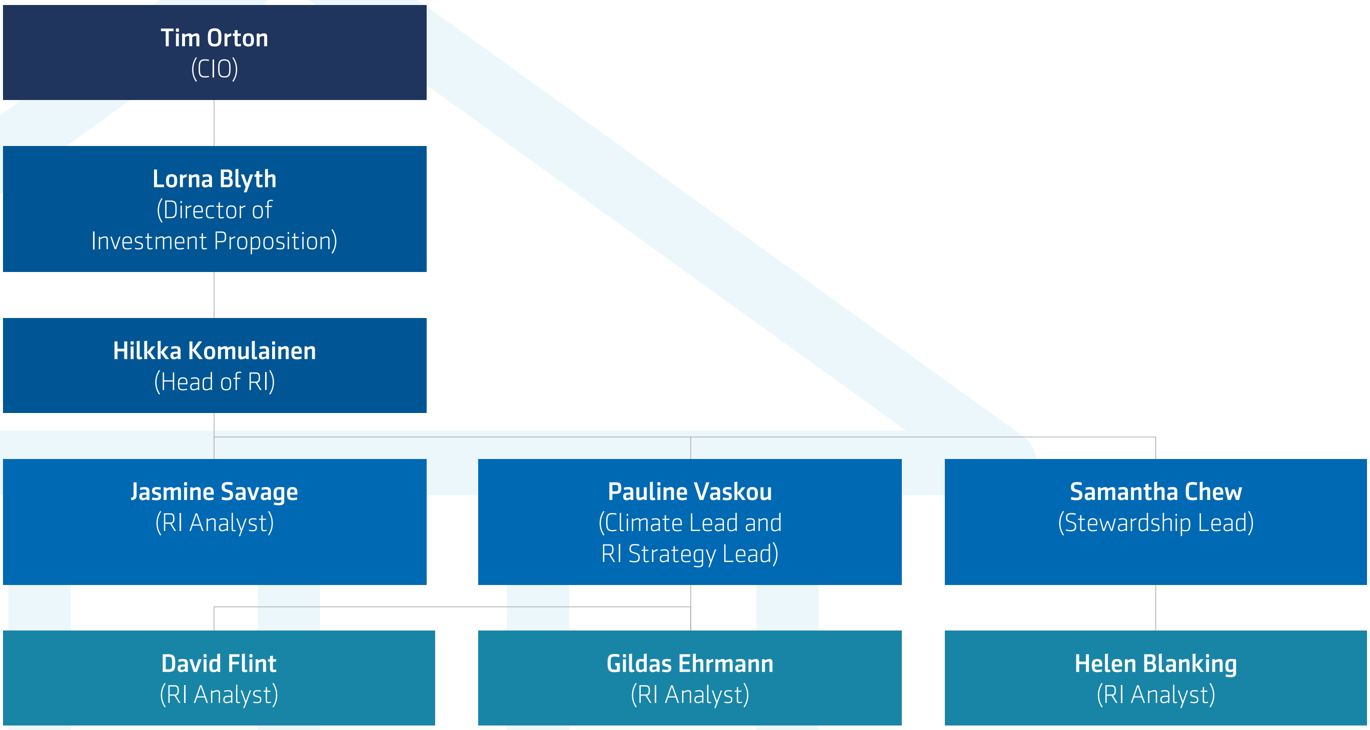
2.2 Resourcing

Resourcing RI and stewardship

The Responsible Investment team sits within the Investment Solutions team. The Investment Solutions team brings together the teams responsible for supporting the delivery of compelling investment products and services. The Head of Responsible Investment reports to the Director of Investment Proposition, who in turn reports to the Chief Investment Officer.

Our Responsible Investment team consists of seven full-time colleagues. In 2022, we made five new appointments, including Climate Lead, Stewardship Lead and three analyst roles, to further enhance our progress towards net zero and deepen our work on wider stewardship to act as effective, impactful stewards of customers' savings. Our Responsible Investment team is broadly organised into three groups. One focuses on climate strategy and reporting, the second on stewardship (including voting and engagement) and the third is responsible for ESG integration and external manager monitoring.

Figure 5: Responsible Investment team structure



Given the broad range of activities the team undertakes – from informing investment approach to addressing market-wide and systemic risks through industry collaboration – we believe it is necessary to draw on a wide range of experience.

Our Responsible Investment team draws upon a diverse range of skill sets to deliver sustainable outcomes for our customers, including but not limited to the following backgrounds and qualifications:

Backgrounds

- Investment
- Accountancy
- Banking
- Law
- Corporate governance
- Biology and natural resources
- Corporate strategy
- Public policy
- Consulting
- Supply chain
- Project management

Qualifications/professional associations

- CFA UK Level 4 qualifications including Certificate in Climate and Investing; Certificate in ESG Investing; and Investment Management Certificate (IMC)
- Chartered Accountant
- MSc Environmental Technology
- MSc Sustainable Development
- MSc International Public Management
- Bar Professional Training Course

Training and development

Our culture is one of continued learning and progression for all individuals, regardless of seniority, role or tenure. We continuously seek to provide our people with the knowledge required to achieve our purpose and make a difference, in the best interest of clients and beneficiaries. Throughout 2022, we continued to develop the stewardship knowledge of our Board and people, through the following:

- Delivering updates and teach-in sessions on sustainability and RI to the Board and Executive Committee respectively
- Conducting at least two firm-wide training sessions, open to all employees, on Aegon's overall sustainability approach, including RI and stewardship, as well as dedicated RI briefing sessions to specific departments such as investments, finance, risk and customer services
- Deploying in-depth bespoke training for our retail-distribution colleagues to educate them on sustainability and stewardship and support the launch of potential new sustainable funds
- Delivering two teach-in sessions covering climate and stewardship more broadly to Aegon Master Trust (AMT) trustees

We are incorporating further teach-in sessions in our plans for 2023 to equip the Board, AMT trustees and senior management with the knowledge to give appropriate direction to the company and ensure challenge and guidance are provided to executives.

Diversity and inclusion (D&I)

As we seek to encourage companies to be more diverse and inclusive as part of our engagement and voting strategy, we actively work towards doing the same.

Case study: Accelerating D&I at Aegon

Context

We want our colleagues to directly reflect the demographic of our society. Our people are our greatest asset, and we want Aegon to be a place where they can be their authentic self at work and focus on delivering on our strategic promises to our customers. One of the D&I aspects we are currently focusing on is gender balance. Having a clear aspiration for a 50/50 gender balance in senior management and at all levels of the organisation will provide a focus and an ambition for the ongoing development of our talent strategy.

Approach

In 2022, our Chief Human Resources Officer was our executive sponsor for D&I and chaired our D&I Council, which brings together the leads of our D&I communities and guides our D&I work. We have a number of communities promoting inclusion, championing diversity and working together to ensure everyone has the opportunity to be themselves and enjoy a successful career with Aegon. In 2022, Aegon NV also appointed a Head of D&I to further champion our inclusion efforts across the group.

We're committed to achieving a true gender balance at all levels of the organisation and to date we've undertaken a number of actions to achieve this, including the following:

- We've improved our shared parental-leave policy to better support the equal sharing of child-caring responsibilities.
- We've placed a particular focus on personal and leadership development at all levels of the organisation to create a sustainable pipeline of female leaders. This includes several initiatives. For example, all of our Senior Leadership Team have participated in inclusive-leadership and unconscious-bias training and we've made unconscious-bias e-learning available to all employees.
- We're a founding partner of the Women in Banking and Finance (WIBF) Accelerating Change Together research programme.

Outcome and next steps

We were pleased to meet Aegon's 33% gender diversity target in January 2022, but that's not enough to fundamentally improve gender diversity and to become a truly inclusive organisation. We're committed to equity and improving gender diversity at all levels of the organisation, and that's why we are proud to now set a new long-term target for 50/50 gender diversity at all levels of the organisation to reflect the gender balance of the society we serve.

Looking forward to 2023, our key corporate priority developments are as follows:

- Enhancing our D&I data, management information and analytics – to provide better insight into the profile of our workforce to help us to tailor our activities and inform future strategy
- Embedding D&I within our talent acquisition and management strategy – which will allow us to review our approaches to candidate attraction, shortlists, interview panels, talent pipelines, personal development, leadership development and mentoring/sponsorship

Processes and using resources of third party service providers

We benefit from our investment in a range of systems, processes, research and analysis to inform and evolve our stewardship. For example, in 2022 we dedicated significant time and effort in developing our own systematic process for monitoring managers on their RI activity. For research and analysis, we continue to use MSCI for our ESG data needs, for instance on climate. We also use our investment consultant Aon's services for its analysis and recommendations related to asset allocation for certain funds of ours.
Please see Principle 8 for further details on our manager-monitoring framework, as well as the extent to which we use and monitor service providers in our stewardship activities.

2.3 Incentivisation

Our reward and incentive structures are designed with ESG in mind. Currently, our bonus-plan funding has a 30% weighting on non-financial business performance indicators, including a 10% weighting on our employee-engagement target, aligned to our strategic ambition of developing an inclusive and diverse, purpose-led culture. In addition, each Executive Committee member's performance objectives must have at least 50% weighting on non-financial matters, and must also have a personal objective relating to D&I. Several of our Executive Committee members, including our Chief Financial Officer and Chief Investment Officer, have objectives relating to ESG and RI that are linked to variable compensation.

In respect of 2023, plans are already underway to strengthen the linking of sustainability metrics with incentivisation, including bonus plans.
All colleagues within our Investment Solutions team are also expected to embed RI within their performance objectives and we will evaluate the effectiveness of this initiative.

2.4 Effectiveness of chosen governance structures and how they may be improved

In light of the rapid development of the stewardship landscape, the Responsible Investment team needs clear lines of accountability and a framework that supports effective decision-making, facilitates collaboration across the business and helps us identify risks and manage financially material ESG risks across our investment estate.

Overall, we believe we have made significant progress on our governance around stewardship in 2022. For example, we increased our Responsible Investment team to ensure sufficient resource, skills and experience in all areas of ESG and stewardship activities; enhanced Board committees' terms of references to strengthen oversight of stewardship; deployed training sessions at Board and other levels throughout the company; and expanded the membership of our local AUK Sustainability Board.

Some of the opportunities that we have identified as key focus items for 2023 include:

- Developing relevant stewardship training for the Board, Executive Committee, Investment team and other key committees/functions, including on our expanded engagement themes such as biodiversity and human rights
- Developing a board skills matrix which includes skills and experience related to ESG, to inform learning and development, as well as succession planning
- Reviewing sustainability embeddedness within the Aegon UK Group governance structure as part of the external board effectiveness review
- Exploring opportunities to enhance incentivisation within the business, to integrate stewardship and investment

Principle 3. Managing conflicts of interest

3.1 Conflicts of interest policy

The trust of customers, business partners and other stakeholders around the world is of great importance to Aegon and means conducting our business with integrity, openness and clarity. All of our employees must promote Aegon's clients and beneficiaries' interests at all times and have an obligation to avoid any potential, actual or perceived conflict of interest.

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

A conflict of interest could arise from our day-to-day business activities and prevent our employees from carrying out their duties in a fair, honest and transparent manner, impairing the integrity and fairness of the products, services and outcomes for our customers.

Examples of situations within our business where conflict of interest may occur include, but are not limited to:

- Acting for one customer in a way that may have detrimental impact on another customer
- An employee may be incentivised not to act in a customer's best interests
- An outside interest could prevent an employee from devoting full attention to their duties
- An employee may, for personal gain, take advantage of customers' information

Our conflicts-of-interest policy sets out the principles that underpin our approach to the prevention and management of conflicts. It includes conflict-of-interest categories that exist in our business, the process for identifying, declaring and managing conflicts, and the roles and responsibilities of our governing bodies and senior management in respect of the policy. The policy itself and all supporting guidance and reporting forms is readily available for employees on our intranet. All employees are also required to complete training on conflicts of interest and complete an attestation on an annual basis through computer-based training.

The policy is reviewed annually and approved by our Aegon UK plc Board Risk & Capital Committee (BRCC). As part of the 2022 review cycle, the policy was updated to explicitly include stewardship-related conflicts, examples of where these may occur and mitigating actions. We also made updates to our stewardship policy to include stewardship-related conflicts (see Principle 5 for further detail), demonstrating our continuous improvement on effective conflict management for the best interests of our customers.

3.2 Identification and management of conflicts

Employees must do everything possible to ensure any conflicts are avoided and, where a conflict cannot be avoided, it must be identified as soon as possible. Factors considered and questions raised on whether a conflict exists or is perceived to exist include, but are not limited to:

- Is Aegon likely to make a financial gain or avoid financial loss at the customer's expense?
- Where Aegon is providing a service to a customer or a transaction is carried out on behalf of the client, does Aegon have an interest in the outcome which is separate and distinct from that of the customer?
- Does Aegon have a financial (or other) incentive to favour the interests of one customer (or group of customers) over the interests of another customer (or group of customers)?
- Does Aegon undertake the same business as the customer?
- When providing a service to a customer, does Aegon receive any inducement (monetary or otherwise) for that service, other than from the customer?
- Is there a risk to customers or Aegon that a personal conflict may prevent an employee from carrying out their role impartially?

Employees are responsible for identifying and reporting any actual, potential or perceived conflict of interest to senior management.

Our Executive Committee has overall accountability for ensuring that appropriate and effective organisational controls are in place for their prevention and management. All actual or potential conflicts are recorded in a conflicts-of-interest register along with details of the risks and controls applied. Any conflict of interest that cannot be managed or prevented is escalated to the relevant governance forum for discussion and agreement of next steps.

Our Company Secretariat team undertakes ongoing monitoring in respect of the interests of the directors of our companies. A separate director interests register is maintained and reviewed annually by the Company Secretariat, with any concerns escalated to the Chair of the respective Board. Conflicts are also considered at every Board and Committee meeting held throughout the year.

Stewardship conflicts

In relation to stewardship conflicts, there is the risk that we allow commercial interests to affect stewardship decisions, in addition to the risk of our stewardship decisions resulting in loss of existing or prospective customers.

We see potential or actual stewardship conflicts arising in three key areas in our business. We have described these areas in the following table with details of how they might arise, and the mitigating actions we take.

In 2023, we will be exploring opportunities to potentially include stewardship considerations in other business policies. We will continue to raise awareness amongst Aegon employees of potential or actual conflicts related to stewardship, including through training related to RI.

Figure 6: Potential or actual stewardship conflicts in our business

Area	Conflict of interest scenario	Mitigating action
Voting and engagement activities undertaken by our asset managers when engaging with portfolio companies	Engagement or voting activities affecting one of our existing or prospective corporate clients.	We ensure the parts of our business with responsibility for client relationships have no influence on our engagement or voting decisions. As a courtesy we inform our proposition team of the activity that AUK and asset managers are carrying out, so that they can manage their relationships.
	Engagement or votes affecting a company where staff, who could have an operational influence on stewardship activity, own securities or have a personal relationship with senior employees in the company.	Our Responsible Investment team must identify and declare their conflicts related to stewardship, where appropriate, to the Head of Responsible Investment.
	One of our asset managers engaging with a contrary position to our expression of wish with a company in which we hold shares.	Where we believe that an asset manager's activities or policy on conflicts presents a risk to the effectiveness of its stewardship activities undertaken on our behalf, we will escalate to the Investment Oversight team and seek to engage with the asset manager.
Our external service providers	Our asset managers and/or other service providers have a stewardship conflict that prevents them from undertaking stewardship activities effectively on our behalf.	
Interacting with other members of the Aegon Group	Engagement with Aegon Asset Management as one of AUK's key strategic asset managers.	AUK engages with Aegon Asset Management at arm's length, as would be the case with all other asset managers.

In 2023, we will be exploring opportunities to potentially include stewardship considerations in other business policies. We will continue to raise awareness amongst Aegon employees of potential or actual conflicts related to stewardship, including through training related to RI.

3.3 How we managed stewardship conflicts in 2022

Case study: Stewardship conflicts on one of our funds, involving an asset manager which is part of Aegon Group

Issue

As part of a global group, we benefit from the expertise of an in-group asset-management business, Aegon Asset Management (AAM), and participate in group-wide initiatives and collaboration with them alongside other Aegon NV business units. AAM is also a valuable partner on the development of the Aegon NV group-wide sustainability approach. Our investment estate is managed by a range of asset managers, including AAM. This can create risks of conflicts of interest, such as where AAM opines on RI topics that may impact fund selection or manager selection.

In 2022 we established an oversight group intended to support propositional developments relating to RI. This group is composed of our Chief Investment Officer, Director of Investment Proposition, Head of Responsible Investment and two AAM colleagues, including the Head of Responsible Investment.

Approach

Following initial feedback on the terms of reference of the oversight group, we identified a conflict of interest for AAM, as the oversight group intended to review and challenge Aegon UK proposals for external fund selection and fund review, and to provide recommendations.

To avoid creating a conflict for AAM, we updated the oversight group's terms of reference to consist only of Aegon UK members, with AAM colleagues invited to attend as observers but not vote on any decisions.

Outcome and next steps

This action resolved the conflict. We also updated both our stewardship policy (as outlined in section 5.5) and our conflict-of-interest policy to include further detail and guidance relating to managing stewardship conflicts.

Principle 4. Promoting well-functioning markets

We identify and respond to market-wide and systemic risks, as evidenced in our risk-management framework and engagement with others, including policymakers, as well as through our contribution to research.

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

4.1 Risk management to identify and respond to market-wide and systemic risks

Our risk function is led by the UK Chief Risk Officer, who has reporting lines to the Group Chief Risk Officer (CRO) and the UK Chief Executive Officer (CEO).

The main responsibilities of the risk function include:

- The development and maintenance of the enterprise risk management (ERM) framework
- Monitoring risk exposures and compliance with the risk policies, in particular risk tolerance and risk policy limits
- Ensuring appropriate risk-management information is prepared for use by Management, Executive and Risk Committees

ERM framework

The Aegon ERM framework is well embedded and continues to provide the framework for identifying, measuring, monitoring, managing and reporting on market-wide and systemic risks.

Our ERM involves:

- Understanding the risks the company faces
- Maintaining a company-wide framework through which risk-return trade-offs can be assessed
- Maintaining risk tolerances, risk indicators and supporting policies for the level of exposure to a particular risk or combination of risks
- Monitoring risk exposure and actively maintaining oversight of the company's overall risk and solvency positions

Our risk appetite and risk tolerance guide our response to market-wide and systemic risks, including climate risk. Risk appetite describes how we think about, measure, manage and monitor risk. In 2022, we updated our risk-philosophy statement specifically on sustainability, to capture the broader scope of our sustainability work.

Aegon UK's sustainability risk philosophy (updated in 2022)

Sustainability matters to Aegon UK. We want to be a responsible business, and this is a core part of our purpose and strategy. As part of this commitment, we aim to minimise our own environmental impact and support our customers by providing choice and minimising the environmental impact of our products and services. We recognise that investing responsibly matters, as does financial security, the environment, our people, giving back and governance.

Risk identification and assessment

Our risk framework sets out our policies and processes for identifying and assessing market-wide and systemic risks. We track regulatory developments through horizon scanning of the political and regulatory outlook. When we identify initiatives, we rate them for potential impacts and track them through a cycle of engagement and planning to implementation.

Aegon Risk universe

The Aegon Risk Universe is grouped into four risk categories, and more granular risk types, as described below.

Figure 7: Aegon's risk universe

Investment & Counterparty Risk	Mismatch Risk	Operational & Conduct Risk	Underwriting Risk
• IR1 Fixed Income (Credit) • IR1D/M default migration • IR1S spread • IR2 Equity • IR3 Alternative Investment • IR4 Counterparty • IR5 Equity Volatility	• MR1 Interest Rate • MR2 Interest Rate Volatility • MR3 Currency • MR4 Liquidity	• OR1 Business • OR2 Legal, Regulatory, Conduct & Compliance • OR3 Tax • OR4 Financial Crime • OR5 Processing • OR6 Information Technology & Business Disruption • OR7 People • OR8 Facility	• UR1 Mortality / Longevity • UR2 Morbidity • UR3 Persistency • UR4 Property & Casualty • UR5 Expense

Case study: Embedding climate risk in our risk-management framework

Issue

Our emerging-risk process identified climate risk as an issue, and we have undertaken work to improve our understanding of the potential impacts.

Approach

We have embedded climate risk within our ERM framework through:

- **Governance:** Enhancing Board-level oversight of sustainability risks (see Principle 2 on changes to Committees' terms of References in 2022 to reflect our broader work on Sustainability). The AUK Chief Actuary is the designated Senior Management Function with accountability for managing the financial risks from climate change. Climate risk is overseen by our Board Risk and Capital Committees.
- **Risk process:** We view climate change as a contributory factor across the existing risk universe. We recognise that the physical and transitional impacts from climate change are highly uncertain in timing and magnitude, and could cause investment, operational and underwriting losses. We report on a number of climate-risk metrics in our TCFD report. Our risk policies, risk philosophy and risk-tolerance statements all explicitly consider the broader issue of sustainability.
- **Scenario analysis:** We run quantitative scenario analysis to assess the impact of climate change on our business. Scenario analysis includes an assessment of the potential impact on our asset portfolios, underwriting and operations under a range of climate scenarios which are based on the Ortec Finance Climate MAPS model. We carry out this analysis as part of our annual own risk and solvency assessment. We engaged with our data provider MSCI on the limitations of available scenarios to improve climate scenario analysis available to financial markets.

Outcome and next steps

We will continue to consider how best to measure our exposure to the financial risks from climate change and will set our risk appetite and risk limits in respect of these risks accordingly. We will continue to invest in our scenario-modelling capabilities to ensure our scenario analysis reflects best practice, and that climate risk and opportunity is more fully embedded in strategic decision making.

You can find more information on our risk-management approach in relation to climate in our 2022 annual climate-related financial disclosure report.

4.2 Promoting well-functioning markets

We actively work with others to address market-wide and systemic risks (as described in the following case studies and in Principle 10) and contribute to research to improve the way the market operates.

Case study: Calling for public policy to support sustainable finance

Issue

We believe in the power of investors to help catalyse systemic change to create sustainable benefits for the economy, environment and society. A key action that investors can take as financiers and shareholders is engaging with companies on their business practices and to encourage positive change. Nevertheless, we agree with the conclusions reached by the Net Zero Asset Owner Alliance that there are limits to corporate engagement alone.[7]

Regulations and policy frameworks set 'rules of the game' which may not always incentivise. In some cases, they may even inhibit needed change in behaviours. Investors should work to influence the rules of the game to support customers' long-term interests through policy engagement, in collaboration with other stakeholders. We expanded our own policy-advocacy activity in 2022, in addition to engaging with our asset managers on their industry advocacy (as outlined in our section on Principle 8).

In 2022 we established an oversight group intended to support propositional developments relating to RI. This group is composed of our Chief Investment Officer, Director of Investment Proposition, Head of Responsible Investment and two AAM colleagues, including the Head of Responsible Investment.

Approach

In 2022, our policy engagement work included:

- **Highlighting the need for more policy action on climate,** including signing the Global Investor Statement to Governments on the Climate Crisis ahead of COP27 (September 2022) and a private-sector letter to the UK government on the need to deliver a net-zero investment plan within its Green Finance Strategy (October 2022).

7 Net Zero Asset Owner Alliance, 2022: The Future of Investor Engagement: A call for systematic stewardship to address systemic climate risk

- **Responding to FRC Lab's call for participation by asset owners on use of stewardship reports** (September 2022). We participated in a one-to-one interview with FRC Lab to contribute to its research to support the continued work of the FRC on stewardship, including guidance on reporting to the Stewardship Code, the consultation on the Stewardship Code and review of the regulatory framework for effective stewardship that is planned for late 2023.
- We were **one of 150 investors to have signed a private-finance statement at the UN Biodiversity Conference (COP15) calling for the adoption by governments of an ambitious global biodiversity framework** (November 2022). A key outcome was a landmark COP15 deal, which included a target to protect 30% of nature on earth by 2030.

Outcome and next steps

We're pleased to play an active and involved role in promoting the policy and regulatory frameworks that enable effective stewardship, and necessary action on climate and nature. We will continue to engage with our peers, standard-setters and other market players, including governments and policymakers, to help accelerate the journey to net zero and a more sustainable future.

Case study: Responding to government and regulatory consultations

Context

We believe we have the relevant expertise to offer useful, meaningful insight to help inform public policy and regulation to ensure it meets our customers' best interests and promotes a well-functioning financial system. We aim to have our say and feed in to as many relevant regulatory consultations as possible. Responding to these consultations also helps us stay at the forefront of fast-evolving industry developments and contributes to our policy-advocacy strategy.

Approach

In 2022, we responded to a number of government and regulatory consultations, including the following:

- **FCA new consumer-duty rules**. This very wide-ranging, new regulatory approach is designed to deliver good outcomes for customers right across the retail financial-services world. We have provided extensive input throughout the lengthy consultation period to help make sure it's effective for consumers and workable in a proportionate way for the industry. We successfully called for a staggered implementation timeline, and a wider range of workplace pensions to be included. We also highlighted the need for industry collaboration and have been working closely with the adviser community and industry bodies on this.
- **The Department for Work and Pensions (DWP) consultation Enabling investment in productive finance.** This proposed changes to the regulatory charge cap that applies to the default funds of occupational defined contribution (DC) pension schemes used for automatic enrolment.
- The aim is to allow DC schemes to access a broader range of illiquid asset classes that have the potential to result in positive outcomes for members. The DWP further consulted on the draft regulations and guidance covering the exemption of performance-based fees from the regulatory 0.75% pension-charge cap. We were keen to highlight the interconnected considerations facing trustees and that the charge cap is not the only or main barrier to investing in illiquid asset classes.

- **HM Treasury financial services future regulatory framework review.** The government has been consulting on high-level changes to the regulatory framework for financial services now that the UK is no longer in the EU. While we believe the current framework works well, we have identified certain areas where we believe there could be improvements for UK consumers of financial services. We're pleased to see the government moving away, as we had recommended, from some particularly prescriptive disclosure regulations, as we did not believe these met the needs of UK customers.
- **FCA consultation on improving outcomes in non-workplace pensions.** The FCA recognised that, while there have been many improvements to workplace pensions, less attention has been given to improving outcomes for those who invest in non-workplace pensions. We have offered our thoughts on what can be learnt from workplace pensions and on the specific proposals (now finalised), which are to offer a default fund and to introduce warnings to those holding a large proportion of their pension pot in cash.
- **The DWP's call for evidence, Helping savers understand their pension choices,** looked at the pension-freedom options and the support that members of trust-based DC schemes receive when making retirement-income decisions. It highlighted FCA regulations in this area for members of contract-based pension schemes. We believe members of trust-based schemes should have access to the full range of the pensions freedoms, either in-scheme or through signposting to a third party. We argued that FCA and DWP regulations should be aligned so that members have consistent pre-retirement communications for contract and trust-based schemes.

Across the year, we were also active within various industry bodies, including The Investing and Saving Alliance (TISA) and the Investment Association (IA), where we shared our thinking as part of industry responses to consultations. In the second half of 2022 we joined the Pensions and Lifetime Savings Association (PLSA) as a master-trust member.

Outcome and next steps

We're pleased with our progress with our public-affairs work, on contributing to improvements of the functioning of financial markets, as well as with our level of influence, as outlined above. Aegon was quoted in the government's response (paras 52 and 81) to the March 2022 – Facilitating Investment in Illiquid Assets – chapter 2: introducing Disclose and Explain Policy proposals and consults on draft regulations and guidance to achieve the policy intent. We will continue our work in this area and look forward to sharing our progress in our 2023 report.

Case study: Contributing to research to promote well-functioning markets

We produced a white paper to explore whether auto-enrolment has helped or hindered saving psychology (October 2022), in partnership with the University of Edinburgh Business School and based on research with a nationally representative group of 2,000 adults. We provided key recommendations for government and policy, employers and pension providers, to support the shift in focus from enrolment to engagement, as well as improving financial mindset.

Our work on this is relevant to our focus on member engagement (please see Principle 6).

We also produced a white paper to consider the case for including private markets in DC investing (December 2022), to determine if, and how, master trusts could access the opportunities of private markets, and whether they can do so while mitigating risks and overcoming the barriers to investing. Investing in private assets could assist DC schemes to meet their net-zero commitments, amongst other benefits, our paper found.

4.3 Aligning our investments in response to systemic risks

To help ensure our investments are aligned with our net-zero commitment and a more sustainable future, we have enhanced our ESG integration, particularly in our default strategies. For example, by the year end, more than £15bn across our default funds had been moved into funds that take ESG factors into account (please see Principle 7 which provides more detail on how we integrate ESG considerations into our investment approach).

4.4 Our effectiveness in promoting well-functioning markets

We agree with the FRC that 'responses to risk may be difficult to measure'. An assessment of progress against plans will be used to measure the status of the sustainability risk tolerance while a more in-depth approach is developed. In the reporting period, our sustainability risk tolerance did not change from that of 2021 but measurement was updated to include our operational carbon footprint, our net-zero/climate-change roadmap and the percentage of women in senior management.

As mentioned in our case studies, we're pleased with the outcomes and progress we have achieved in order to increase our effectiveness in identifying and responding to market-wide and systemic risks.
Our achievements include the following:

- Enhancement of Board oversight of sustainability (Principle 2)
- An increase in the ESG content of default funds as a first step towards our net-zero commitment (Principle 7)
- Expansion of our engagement themes to reflect biodiversity and human rights, which are significant systemic threats to the stability of the financial markets (Principle 9)

In 2023 and beyond we will seek to explore, develop and improve:

- Our approach to climate risk and disclosure
- Our industry and policy engagement on sustainability
- Customer-facing, sustainability-related materials or engagement tools to support informed decision-making

Principle 5. Review and assurance

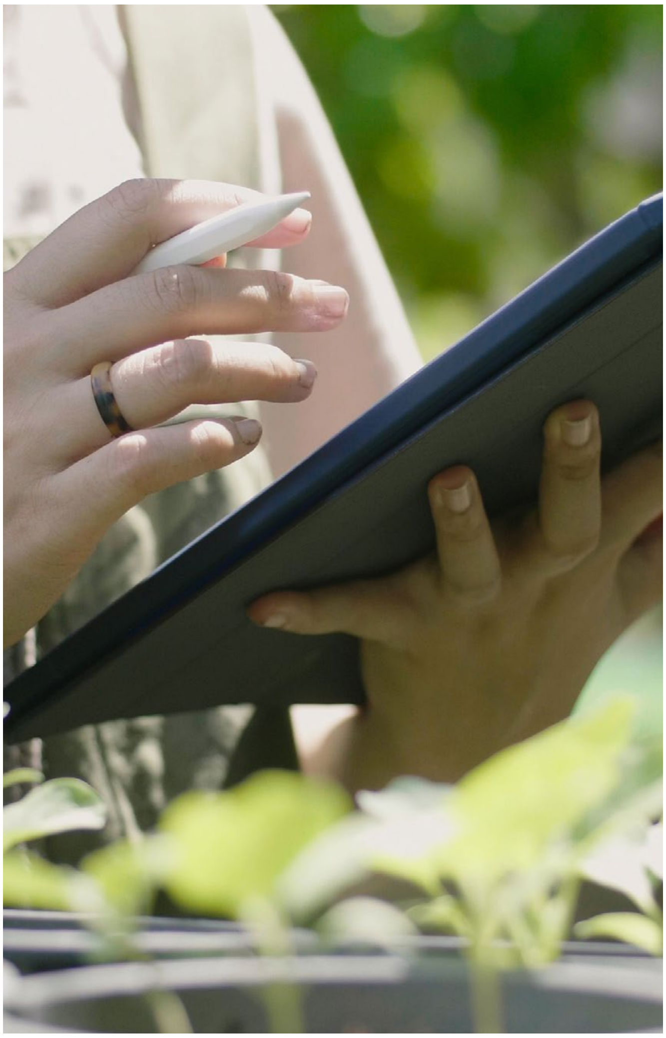
Signatories review their policies, assure their processes and assess the effectiveness of their activities

We recognise the value of assurance activities in our efforts to continuously improve our stewardship approach. We used internal and external assurance on a range of our stewardship activities in 2022, including our stewardship and RI policies, this stewardship report and our intended launch of a new range of ESG funds.

5.1. Review of our policies to enable effective stewardship

The key policies that enable effective stewardship are our RI policy and our stewardship policy, which we typically review annually. In 2022, each policy review was informed by our customer views, industry best practice, regulatory developments and our governance committees. We consulted with key stakeholders within our business on items requiring review on each policy, before taking these forward for review and approval by our Management Investment Committee (an Executive subcommittee). Our RI policy was also subjected to review and approval by the Board Risk and Capital Committees of SE plc and AIL.

5.1. Review of our policies to enable effective stewardship



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The RI policy sets our minimum expectations of managers across five key areas of RI, such as RI governance and industry advocacy, while the stewardship policy primarily covers our expectations and monitoring process of managers in relation to engagement and voting. Please see case studies in 5.5 for more information on key updates in 2022 made to these policies.

5.2 Internal assurance activity

Our internal-audit function

Our internal-audit function acts as the third line of defence. It assists management, the Board and Executive Committees in protecting our assets, reputation and sustainability. It does this by maintaining effective controls, and by independently and objectively evaluating the design, implementation and effectiveness of internal controls, risk management and governance processes. We may identify opportunities to strengthen the management-control environment, its effectiveness and Aegon's reputation during internal-audit activities. We produce an annual internal audit plan, which we risk-assess using a top-down and bottom-up approach. Through this approach, internal audit has recognised ESG as a key risk.

During 2022 and in 2023 to date, we undertook the following internal audit activities to support our stewardship activities:

- **ESG fund audit review (2022):** We undertook an internal audit review in respect of the development and design process of new funds with ESG objectives. The audit assessed whether the key controls in relation to the development and pre-launch activities for the fund are fit for purpose, and whether the management information available supports the monitoring of the project progress. The audit found that the controls in place for managing the development of the funds were well designed and operating effectively.

- **Stewardship report (2023):** We carried out an internal audit review of aspects of our application to become a UK Stewardship Code signatory in advance of its final approval by the Board. Specifically, this included reviewing a sample of case studies included in the application against the principles of the UK Stewardship Code and assessing whether the statements made are fair and transparent. Overall, the review concluded that each case study sample accurately reflects activities performed throughout the year and that statements made within these are fair, balanced and address highlighted FRC principles. The review also documented actions where the case studies would benefit from further formality, notably on documenting of Head of Responsible Investment approval and systematic evidence retention. We addressed these actions during the finalisation of the report.

Looking forward, through the audit planning process outlined above, an audit of ESG and net-zero commitments has been added to the audit plan for 2023. The audit will consider Aegon's strategy and approach to ESG practices. The proposed scope will include how the strategy was set, and how it's executed and monitored.

Policy attestation

A key aspect of embedding a policy is testing conformance to ensure it's being deployed appropriately. We have two types of policy:

Tier 1 – A risk-based policy with an element of judgement and/or a policy which, due to its materiality, warrants wider communications across the business

Tier 2 – A policy that's required for legislative purposes and/or to provide direction on general business requirements

As our RI policy was elevated to Tier 1 in 2022, it will be subject to an annual policy attestation exercise overseen by our risk team, which we expect to take place in 2023. Our stewardship policy is currently considered as Tier 2, but we're considering elevating it to Tier 1 in 2023 in line with our increased focus on stewardship.

5.3 External assurance on stewardship

We're required to report our total company energy and carbon emissions under the Streamlined Energy and Carbon Reporting (SECR) regulations within our annual financial accounts. The emissions data is included in the strategic report section of the accounts, which is reviewed by independent external auditors. The emissions data is supplied by an external specialist consultancy firm and is reviewed by our property and finance colleagues. As we anticipate that a full external audit of this data may be required in the near future, we've set up a project to enhance the documentation and operation of our internal controls in relation to carbon reporting. As part of this project, we're also reviewing our processes and controls for wider sustainability reporting.

We recognise that there are further areas for us to continuously improve in respect of external assurance of stewardship activities. This is demonstrated within our Group sustainability roadmap, a 28-point plan outlining how we'll further integrate sustainable practices across our business leading up to 2025. This also includes a target of robust ESG reporting with limited assurance. We have planned actions to meet this target, which include the UN Principles for Responsible Investment's (PRI's) annual external assurance and further development of our internal audit activities, as previously described.

5.4. Additional independent oversight

The role of our IGC is to act independently of us and as a customer advocate. It reviews whether our workplace pensions provide value for money, by challenging accordingly and making recommendations to Aegon UK's Board regarding value for money for workplace-pension scheme members.

Another body within our independent governance structure includes the trustees of the AMT.

They provide governance and independent oversight of our stewardship activities, insofar as they relate to AMT's investments, and work for the best interests of the scheme members, alongside employers.

In 2022, as part of their remit, the IGC and trustees of the AMT reviewed and provided feedback on our ESG integration in investments and wider stewardship activities.

5.5 How we ensure stewardship reporting is fair, balanced and understandable

We consider the following criteria in all parts of our stewardship report:

- Reflecting not only on our successes, but also on opportunities for development
- Detailing activities in the current year and previous years, as well as our forward-looking outlook
- Ensuring focus and balance in our narrative, and that it's representative of our assets under management (AUM) and geography

Our stewardship report has undergone an extensive drafting, review and approval process with a wide range of stakeholders (as per figure 8) to ensure it's fair, balanced and transparent.

Figure 8: Overview of the review and approval process for the AUK stewardship report 2022

Report drafting & review	Internal Audit review	Management Investment Committee review & approval	Aegon UK Board review & approval
Input and review from relevant functions, e.g. risk, investment solutions, legal	Reviewing a sample of case studies in the stewardship report	A sub-committee of our Executive Committee and includes review by our Chief Investment Officer	

5.6 How review and assurance led to continuous improvement of stewardship policies and processes

Case study: 2022 improvements to our RI policy

Issue

Within this year's annual review of our RI policy, we assessed our asset-manager expectations and found these could benefit from updating, in line with our RI strategy and industry practices.

Approach

We used data collected as part of our manager-monitoring exercise and subsequent manager scoring to calibrate new minimum expectations to ensure our asset managers provide a minimum level of management of ESG risks, aligning with our RI beliefs and supporting our default funds' net-zero commitment. The new proposals and draft policy update were discussed with key stakeholders, including the Chief Investment Officer and legal, actuarial and risk functions, before review and approval by appropriate governance forums (as per 5.1).

Outcome and next steps

The updated policy was approved in September 2022. Please see 8.1 for further details on the minimum expectations of our asset managers, and activities we have carried out when implementing these new expectations to support more effective stewardship. In 2023, we will review our RI policy, which will also be subject to policy attestation, as previously described in section 5.2.

Case study: 2022 improvements to our stewardship policy

Issue

In addition to our review of our RI policy, we also found that our stewardship policy should be updated to be more specific in relation to our engagement and voting activities.

Approach

To update our voting and engagement approach we considered and reviewed customer-survey results (please see Principle 6); industry and market best practice; and policy and regulatory developments.
We then held extensive discussions with stakeholders, including our investment proposition, distribution and legal teams. We concluded that the proposed updates would help enhance our engagement and voting activities, and provide a clear way for us to share our wishes with asset managers on voting policy in respect of our most significant votes (ie expressions of wishes).

The updates also provided more detail on principles and guidelines for asset managers on our engagement themes; commitment to collaborative engagement; and our approach to managing conflicts of interest arising from stewardship to align with updates made to our wider conflicts policy (please see Principle 3). We then took the policy updates forward for review and approval by our Management Investment Committee.

Outcome and next steps

The updated policy was approved in October 2022 and includes the following improvements within the table on the next page.

Figure 9: Our stewardship policy updates in 2022

Area	New addition or enhancement to the policy	Improvements made in 2022
Engagement themes	Enhancement	Expansion of existing priorities in respect of climate and D&I, to include human rights as a third new engagement theme
Manager oversight (engagement principles and guidelines)	Enhancement	Setting out of guidelines related to good practice on engagement for our asset managers
Manager oversight (expressions of wish)	New	Introduction of a new approach to set expressions of wish (ie non-binding requests for managers to vote a certain way) to support coherence of our stewardship impact
Collaborative engagement	New	Articulation of our existing commitment to industry advocacy
Conflicts of interest related to stewardship	New	Consideration of our management of conflict of interests related to stewardship activities

In 2022, we further embedded the changes to the policy within our business. We updated our Aegon UK conflicts-of-interest policy (available internally to our employees and as summarised under Principle 3) and customer-facing information that we provide on conflicts to reflect our considerations in relation to stewardship.

We also engaged with our key managers on our updated engagement themes and our expressions-of-wish approach (please see case study under 12.1).

Principle 6. Client and beneficiary needs

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

This section focuses on providing an overview of our assets, as well as on customer profile and engagement.

As referenced under Principle 1, we help people to achieve a lifetime of financial security and are one of the UK's leading savings, protection and investment service providers, serving over 4 million customers[8]. We work with employers, advisers (including EBCs and corporate and retail advisers) and individuals to offer long-term savings, investments and pension solutions through our workplace and retail-business channels.

6.1 Overview of our assets

Assets under administration

As at 31 December 2022, our total assets under administration (AUA) were approximately £186bn. An approximate breakdown of our AUA is provided below:

Type of AUA	Approximate AUA £ (bn)
Retail – as described below and further in Principle 7	49.5
Workplace – as described below and further in Principle 7	46.3
Institutional – as described in our business model in Principle 1	61.5
Traditional products – as described in our business model in Principle 1	29.5

8 Information as at 31 December 2022

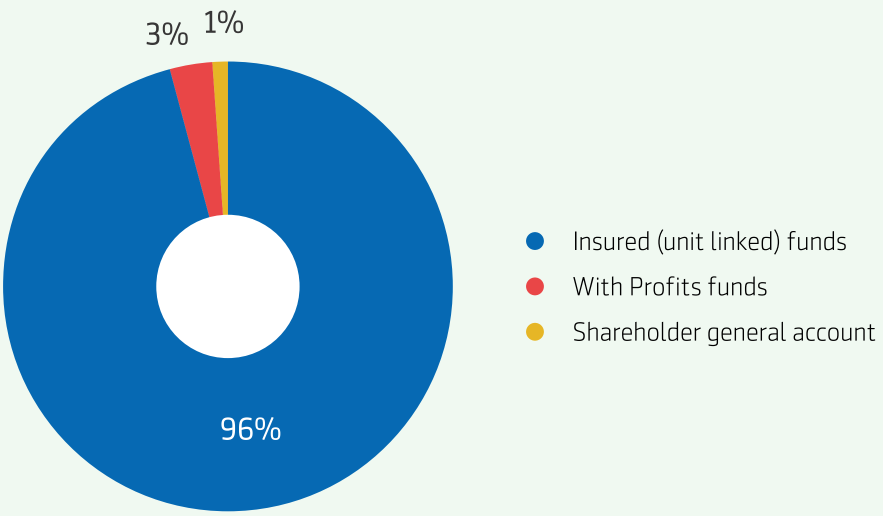
Assets under management (AUM)

The following provides the approximate split of our investment AUM as at 31 December 2022, covering funds in scope of our RI policy and stewardship policy. These funds make up, in total, approximately £95bn (over half of our total AUA described in the table above).

Our AUM could be broadly categorised as the following, excluding third-party funds that are available on Aegon's platform:

- Customer assets in our insured funds, which include our workplace default funds, self-select funds and other customer solutions
- Customer assets in our with-profits funds, which are segregated mandates whereby certain profits and losses of the pool are shared fairly amongst the participating customers
- Shareholder general account investments are those where the financial risks are not borne by our customers but by our shareholders, and we have control over how these assets are invested

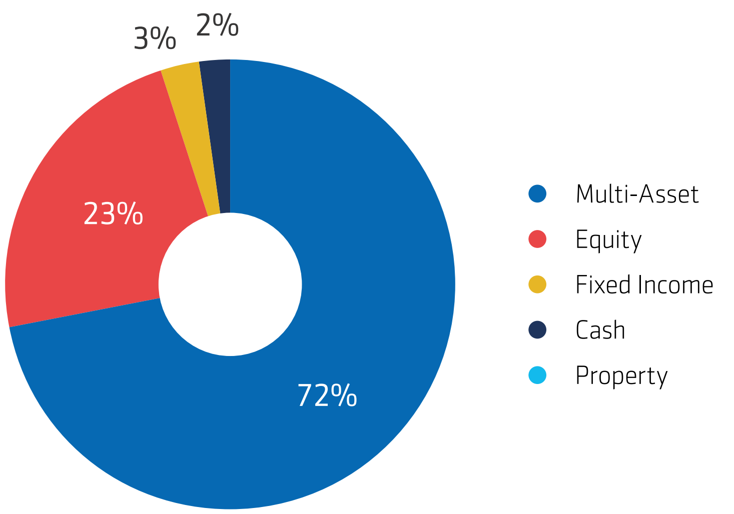
Figure 10: Approximate split of AUM, ie those in scope of AUK RI and stewardship policies (as at 31 December 2022)



AUM split by asset type

We invest our assets across different asset types, the majority of which are multi-asset strategies, for our insured funds (which make up the majority of our AUM (as per figure 6). These multi-asset strategies utilise different asset classes, including equities, fixed income and cash. However, as a long-term investor with long-term liabilities (the average age of our customers is 45), our multi-asset solutions are heavily weighted towards equities.

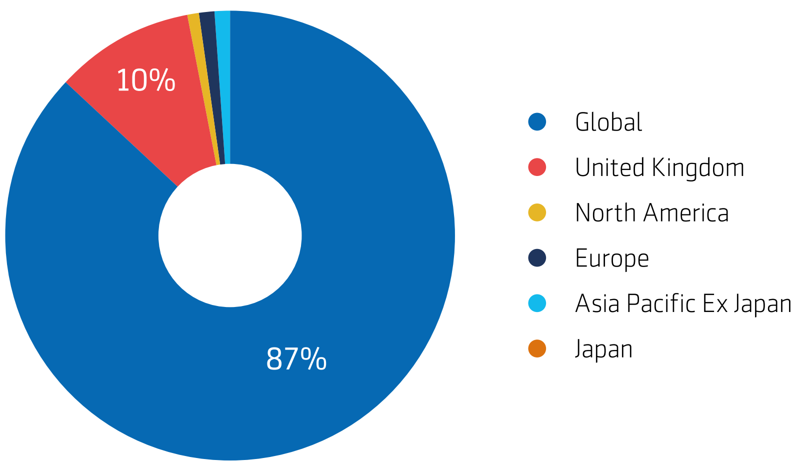
Figure 11: Approximate split of insured funds by asset class (as at 31 December 2022)



AUM split by geography

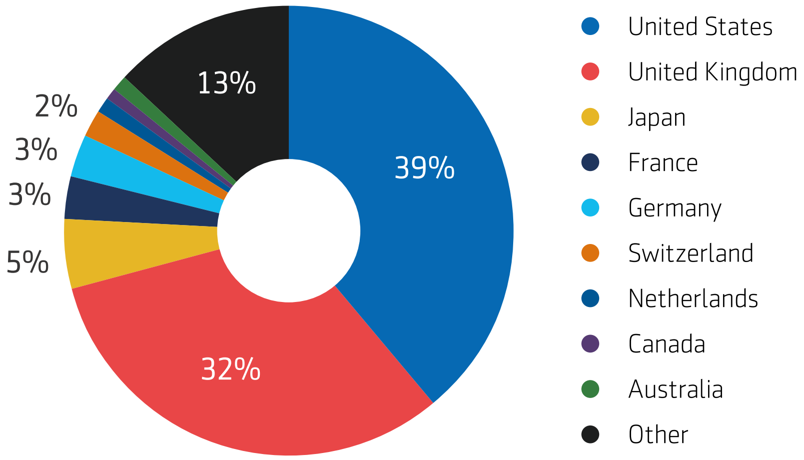
The diagram below demonstrates the split by geography for our insured funds, which make up the majority (approximately 96%) of our AUM (see 6.1.2).

Figure 12: Approximate split of Insured funds by geography (as at 31 December 2022)



The following diagram illustrates the approximate geographic split across our workplace default funds, a strategically important portion of our investment estate, which accounts for approximately £34bn (ie over a third) of our total AUM.

Figure 13: Approximate split of default funds by asset class (as at 31 December 2022).



'Other' covers approximately 100 world countries, where each individual country makes up less than 0.4% of the overall AUM for our default funds

Direct and indirect investments

We're an indirect investor, so most of our funds are managed by third-party asset managers.

The largest share of our assets is in pooled vehicles where we are one of many investors. It is therefore vital for us to maintain a good degree of alignment with and influence over our asset managers and their stewardship activities, in order to meet our customers' best interests.

You can find more details on our manager-monitoring approach under Principle 8.

Our investment time horizon

We have a long-term investment time horizon due to a number of factors, including but not limited to the increasing life expectancy of customers. The age of our average customer is 45, so they will typically continue investing for decades to come. There are nuances in how we consider our investment time horizon across our business model, depending on a number of factors, such as investment objective, customer age, risk appetite and the type of financial asset.

We design and offer default investment solutions for customers throughout all stages of their retirement journey. The investment mix changes from a growth focus (predominantly holding asset classes such as equities) to a defensive focus (holding more in bonds and cash like investments) as customers approach their retirement age. In addition, time horizons are important to consider beyond an individual's retirement date, and the design of the end points within the default investment solutions are optimised to reflect this. For example, three differing investment mixes are used for annuity, cash and flexible endpoints.

We design our long-term investment solutions for retail customers considering the expected outcomes of a broad set of asset classes over a 10-period, and with those solutions that generally have a recommended minimum holding period of five years. We'll use alternative approaches for solutions where there are specific short-term customer needs, and will attempt to optimise outcomes relative to that need. Drawdown solutions, such as those used for retirement pathways, is an example of this.

Our with-profits fund is now closed to new business and in run-off, so its investment time horizon is gradually shortening over time, with an average remaining policy duration of around seven years. The Principles and Practices of Financial Management of With-Profits Business, published on our website[9], provides detailed information on the management of the with-profits fund and its investment strategy.

6.2 Customer profile and engagement

Through our workplace channel, we support over 10,000 employer schemes and, as at 31 December 2022, manage the savings of approximately 1.3 million workplace customers. The average age of our customers is 43. We offer a range of workplace solutions for employers, including contract-based schemes, trust-based DC schemes, investment-only services and master-trust arrangements.

Through our retail proposition we offer investment and retirement options to customers directly or through financial advisers and other strategic partners (for example, Nationwide). As at 31 December 2022, we have approximately 2.2 million retail customers. Their average age is 50.

We engage with our customers on our stewardship, RI activities and outcomes in a number of ways to help our customers connect their savings and beliefs, as outlined in the following sections.

9 With-profits (aegon.co.uk)

Seeking our customers' views

We seek customers' views and feedback on sustainability and RI by carrying out customer research at least once a year, through customer-insight surveys comprised of our customers and a small number of our colleagues. In 2022, we conducted a total of four customer-panel surveys, as described in the table below, where customers shared their views on RI, including on beliefs, activities, concerns and views on environmental and social issues (please see further on in this chapter for examples on how findings from these surveys have informed our stewardship approach).

Figure 14: Customer surveys we conducted in 2022

Survey	When	Sample size	Engagement topics
Conflict in Ukraine customer-panel survey	March 2022	1221 customers	What companies should be doing in response to the current conflict in Ukraine
RI customer-panel survey	April 2022	1224 customers	What actions customers take in support of a sustainable society
RI customer-panel survey	August 2022	1179 customers	Customer views on environmental issues, including biodiversity, as well as emerging sustainability topics such as human rights
ESG data in factsheets survey	August 2022	877 customers	Approach to and understanding of ESG info and climate metrics on fund factsheets

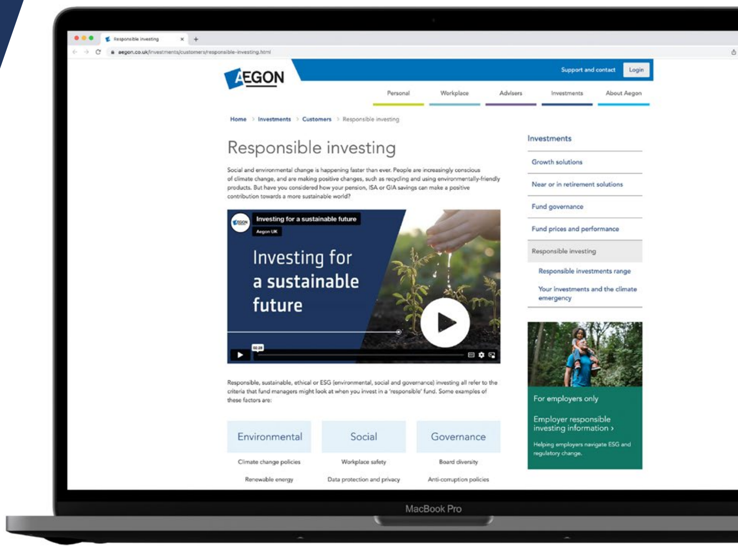
As part of our Connecting with Customers programme, to help our employees gain a better understanding of the needs and expectations of our main customer groups, we hold live customer panels. For example, in December 2022, we hosted a Q&A panel with our investment-solutions department which allowed us to engage with three of our customers and one financial adviser. Key topics discussed include customer priorities on their savings and feedback on Aegon UK's products and services.

You can find examples of how we have reflected customer insights within our stewardship activities further down in this section.

Wider customer engagement on stewardship

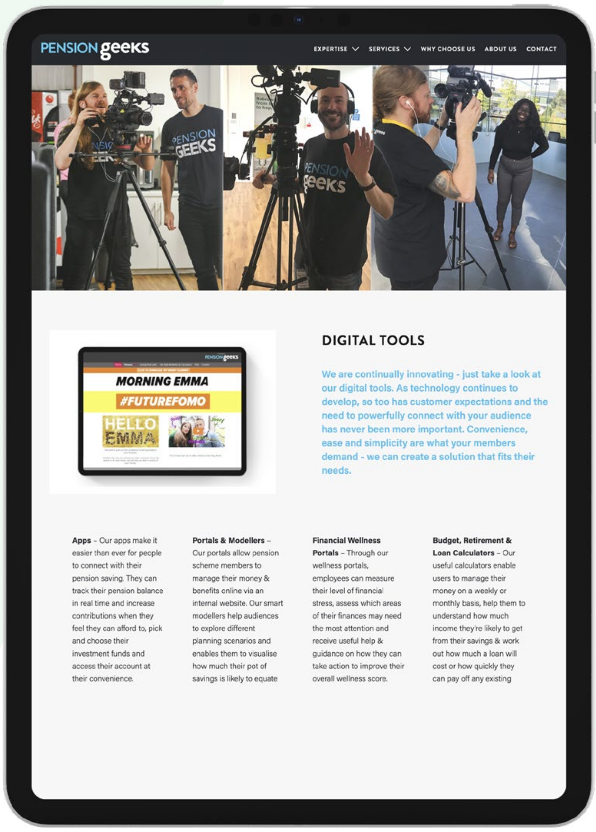
We deliver targeted, segmented communications to engage with our customers, using visual, clear and innovative approaches, which educate and provide clarity to help them to make informed decisions.

Our responsible investing hubs on our public website offer a variety of materials designed for customers and employers, including our RI and stewardship frameworks, as well as educational videos, guides and regular newsletter articles to help build understanding of RI.



We deliver educational materials through Pension Geeks, a digital platform that specialises in connecting people with their finances through innovative engagement techniques and events, to make pensions as easy as possible to understand. The platform includes a range of features such as webinars, a one-to-one chat facility and a video library to help customers engage with and manage their finances.

Pension Geeks also deliver the Pension Awareness Day event, a yearly initiative that aims to raise awareness of saving enough for the future. This offers practical help to the public and workplaces on how people can achieve the lifestyle they want in later life. It also helps with other financial matters, such as other savings, investing, debt, mortgages and loans. We continue to work with Pension Geeks to help employers encourage their people to engage with workplace benefits programmes.



Engagement with IFAs and consultants on stewardship

We work closely with IFAs to support them in delivering expertise and advice to individual retail customers, and with EBCs who advise employers on workplace pensions. We hold regular strategic updates with key EBCs as well as participating in regular market events where we seek to engage with and receive feedback from EBCs on our proposition and wider stewardship activities.

Similar to versions for our customers and employers, we also have an RI web hub dedicated to the needs of advisers where we regularly update and add video content, news bulletins and other supporting materials.

Examples of AUK reflecting direct customer feedback in RI and stewardship activities

- **Tailoring ESG reporting on fund factsheets:** We surveyed our customer panel on ESG metrics in August 2022. Approximately 60% of respondents viewed climate-related data as important, with close to half wanting to see ESG information prominently placed on factsheets where a fund has an ESG mandate. Knowing the overall ESG rating of a fund was also important to 65% of respondents. This customer feedback informed our decision-making when selecting the most appropriate ESG metrics for inclusion on our fund factsheets. These are on track to be available in 2023 (please see case study in section 8.4.2 for more detail).
- **Formulation of engagement themes:** In the summer of 2022, we asked 1,200 of our UK customers about their views related to ESG concerns and considerations on their investments. When asked which environmental developments they have concerns about, 51% indicated they're concerned about threats to biodiversity, with 65% being concerned about deforestation and 57% about the marine environment. Human rights was identified as the top 'social' topic of interest by our customers, with 48% of respondents considering human rights as a social factor in their investment decision-making. Guided by these customer insights, we updated our engagement themes in 2022 to also include biodiversity and human rights.
- **Conflict in Ukraine customer survey and subsequent portfolio activity**: We surveyed our customer panel in March 2022 to understand their views on the conflict and find out what actions they believe companies like us should be taking in response. Of those surveyed, 95% agreed companies like us should comply with government sanctions against Russia, 80% wanted to stop proactive investment in Russian companies and 80% thought disinvestment should be done as soon as practical.

We engaged with our asset managers to ensure they are adhering to changes in sanctions and to discuss how they intend to address our customer feedback. We also communicated with our customers about fund suspensions linked to the conflict[10]. Additionally, we announced we would look to wind down our already negligible investments in Russia within our general account investments, and by November 2022 we had reduced our exposure to practically zero[11].

10 Fund suspensions linked to the current conflict in Ukraine – Aegon UK, March 2022
11 Aegon reduces investment exposure to Russia to practically zero – Aegon Group, November 2022

How we have evaluated our effectiveness in understanding and reflecting our customer needs

Overall, we're pleased with the progress we've made on engaging with customers in 2022. Key indicators that we use to assess our effectiveness in understanding and reflecting our customer needs include the following:

- **Industry awards** – as already outlined in section 1.5.
- **EBCs ratings and consultant surveys** – We track EBC ratings of our overall investment proposition, including our RI and stewardship approach, on a quarterly basis. We are also included in consultant surveys throughout the year, such as the NMG consulting survey in 2022 (please see 1.5).
- **Net promoter score** – We measure our overall customer satisfaction through quarterly customer-satisfaction surveys and benchmark through a net promoter score (NPS). While we saw some improvements in 2022 in our overall NPS score, this remains a key area for further development across our business.

We recognise there are opportunities to continue developing our approach to customer engagement. During 2023 we will continue to survey customers to develop a deeper understanding of our customers' preferences to inform our stewardship approach. We also plan to further enhance customer engagement, including through creating digital tools to help customers understand the relevance of RI to their beliefs and to help identify funds relevant to them. We will be following the development of the FCA's Sustainability Disclosure Regulation (SDR) and leveraging that and other industry frameworks to support clarity for and engagement with customers.

6.3 Where asset managers have not followed our stewardship policies

Consideration of customers' best interests and preferences is an integral element in the development of our stewardship policies and practices. Where our managers haven't followed our stewardship and investment policies, we take action to escalate our concerns and influence their approach. Under Principle 8, we provide examples of where managers did not meet our expectations in 2022, the reasons for this and the actions we subsequently took.

Principle 7. Stewardship, investment and ESG integration

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

7.1 Overview of our approach to ESG integration into our investment approach

This year we made further progress on our journey to integrate ESG factors across our investment estate, with a focus on our workplace default funds. A default fund is a type of lifestyle fund that members of a pension scheme are automatically invested in, if they don't choose to select their fund(s) when they join the scheme.

By the end of 2022, we reached over £15bn in passive strategies screened and tilted for ESG following the transition of assets across both our Aegon Master Trust default strategy and Aegon Workplace Default funds.

RI considerations are also part of our selection, appointment and monitoring of asset managers. We leveraged our monitoring to assess prospective and existing managers against our minimum standards across five areas in our 2022 RI policy: RI governance; climate; D&I; industry advocacy; and voting and engagement (please see Principle 8 for more detail on our monitoring of asset managers).

In 2023 and beyond, we will be implementing our climate roadmap for our default funds, as detailed in section 7.3.

7.2 Process for integrating stewardship and investment

The Investment Proposition team builds investment solutions using funds from third-party asset managers. These take a range of factors into account, such as customer objective, risk appetite and time horizon, as well as sustainability risks and opportunities.

The Investment Oversight team is responsible for conducting annual due diligence on new and existing asset managers. Our Responsible Investment team assesses our asset managers' compliance against our minimum expectations on RI. Results of this assessment subsequently inform the Investment Oversight team's work and our broader investment proposition development. For example, we'll only launch a new fund with managers who either already satisfy our minimum RI expectations or are credibly working towards meeting them within eighteen months from when they were first notified by us for failing our expectations. We perform reviews to ensure that asset managers satisfy our minimum standards on an ongoing basis (see Principle 8.1). In 2022, we evolved our retail-fund analysis process to include sustainable criteria and this now forms part of our fund research activity.

We have several governance structures in place that support the integration of ESG considerations into our investment approach, as explained under Principle 2.

7.3 Integrating ESG into workplace and retail solutions

The investment products that we provide can be broadly divided into two categories: workplace investments and retail investments.

Workplace investment solutions

Workplace investment solutions include the default strategies which are designed to make it easy for members to save and invest without making an investment decision. As the designer of the default strategy and glidepath, we have management control and select funds from third-party asset managers to whom we delegate day-to-day fund-management activities. In addition, we offer a range of funds for members who feel more comfortable making investment decisions.

The key ways in which we align our capital allocation in workplace solutions to help mitigate sustainability and climate-related risks are as follows:

1. Integrate sustainability considerations in the investment approach of the workplace default strategies and implement a climate roadmap. This has been achieved through integrating ESG optimised and screened funds. For example, working with BlackRock we have now achieved over 80% ESG integration in the growth stages of our flagship Aegon Master Trust default arrangement, LifePath.
2. During 2022 we challenged BlackRock to create solutions which supported our net-zero commitment across the Aegon Workplace Default. This resulted in the development of a range of six ESG equity index mutual funds and in the summer we transitioned £3bn of assets from the Aegon Workplace Default and a range of other Aegon default fund options into the new funds[12]. There is now 70% ESG integration into the growth stage of the Aegon Workplace Default arrangement; and 25% ESG exposure in our legacy default arrangement, the Universal Balanced Collection.
3. Targeting an allocation of £500m to invest in climate solutions which support the transition.

4. Providing greater fund choice to our workplace members. In 2022, we redesigned the range of funds available for Aegon Master Trust members, adding funds that target investments fulfilling certain sustainability criteria. This has resulted in 23 funds which either incorporate a range of exclusions or, for the active funds, are designed to deliver against a sustainable objective.
5. More broadly, we have made available over 200 funds integrating RI into their strategies across Aegon platforms.

Integrating ESG strategies into our flagship default strategies

We have flexibility and diversification of choice in fund selection due to our investment approach, where we select funds from a range of asset managers. Using a set of capital market assumptions, we optimise our default funds to a set of risk targets which we believe are appropriate over the long term for a balanced investor. We review these assumptions to understand how climate risk is embedded and to identify what asset-allocation changes may be required to maintain an appropriate level of diversification and risk-return profile for our customers.

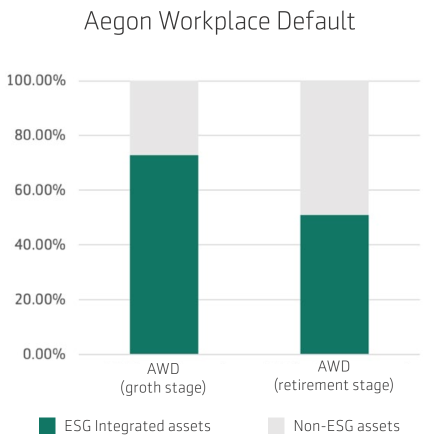
On the next page, we've outlined below our progress to date on integrating RI into our three largest default fund solutions:

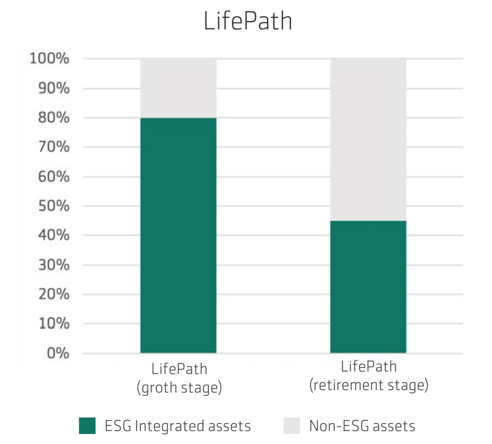
12 Aegon, Aegon UK to double ESG exposure in Workplace Default fund by investing £3bn in new BlackRock ESG index fund range, April 2022

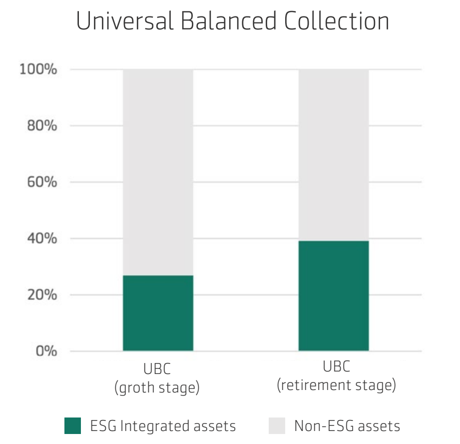
Figure 15: Our progress to date on integrating RI into our three largest default fund solutions

Aegon Workplace Default (AWD)	LifePath	Universal Balanced Collection (UBC)

Approx. % ESG as at Q4 2022







ESG exposure Achieved through:[13]

Aegon Workplace Default (AWD)

Developed World Sustainable Equity Index Fund
FTSE Russell – Optimises to target a 50% carbon emissions intensity reduction and 50% fossil fuel reserves intensity reduction relative to, and 20% (FTSE) ESG rating improvement against, the parent index.

ESG Index Funds
Morningstar – Optimises to target a 30% carbon emissions intensity reduction relative to, and ESG Risk Rating better than or equal to, the Parent Index.

ESG Sterling Corporate Index Fund
iBoxx – Applies the below exclusions, as well as to companies with exposure or ties to tobacco, oil sands, fossil fuel reserves, and oil and gas extraction, production or services.

LifePath

World ESG Equity Index Fund
MSCI – Optimises to target a 50% carbon emissions intensity reduction, and 50% carbon reserves intensity reduction, relative to the parent index.

World ESG Equity Screened
MSCI – Applies the below exclusions, as well as to companies involved in tobacco production, distribution or supply, oil and gas production or extraction, or those that have violated the United Nations Global Compact (UNGC).

Regional Index Funds (FTSE)
FTSE – Applies the below exclusions, as well as to companies with ties to oil sands.

ESG Sterling Corporate Index Fund
iBoxx – Applies the below exclusions, as well as to companies with exposure or ties to tobacco, oil sands, fossil fuel reserves, and oil and gas extraction, production or services.

Universal Balanced Collection (UBC)

Regional Index Funds (FTSE)

FTSE – Applies the below exclusions, as well as to companies with ties to oil sands. Active ESG exposure through a Global Sustainable Sovereign Bond fund, a Global Sustainable Equity fund and a Global Sustainable Diversified Growth fund.

13 The Benchmark Index applies certain ESG-related screens to the 'Parent Index', as set by the index provider, which seek to limit and/or exclude from the Benchmark Index corporate issuers within the Parent Index which are determined by the index provider (often by reference to specific revenue thresholds or to any connection to an activity regardless of any revenue received) as having exposure to, or other ties with, certain activities outlined above.

Figure 15 (continued)

Aegon Workplace Default (AWD)	LifePath	Universal Balanced Collection (UBC)
Asset Class / Strategy for ESG exposure		
Equities (passive) Corporate bonds (passive)	Equities (passive) Corporate bonds (passive)	Equities (passive and active) Sovereign bonds (passive and active)
Exclusions (applied across all ESG-screened or optimised passive funds)[14]		
• Civilian firearms • Controversial weapons • Nuclear weapons • United Nations Global Compact (UNGC) violators • Thermal coal • Controversies	• Civilian firearms • Controversial weapons • Nuclear weapons • Thermal coal • Controversies	• Civilian firearms • Controversial weapons • Nuclear weapons • United Nations Global Compact (UNGC) violators • Thermal coal • Oil sands • Controversies

14 All ESG-integrated index tracker funds will apply these exclusions at a minimum, and some ESG-integrated index tracker funds will apply further exclusions. Revenue thresholds are set at the direction of the index provider.

Implementing a climate roadmap

In 2021, we committed to net-zero emissions across our workplace default funds by 2050, and a 50% reduction in carbon emissions by 2030. In 2022, we developed our climate roadmap, informed by the IIGCC Net Zero Framework, outlining our actions to enable us to meet this target.

Increasing exposure to ESG strategies that exclude thermal coal, or that optimise to reduce carbon emissions, is a key mechanism for reducing climate-related risks in these portfolios. We do, however, acknowledge that optimisation through tilts and screens is not enough to reach net zero.

We also review our capital-market assumptions and asset-class mix through a climate-risk-and-opportunity lens, while maintaining an appropriate level of diversification and risk-return profile for our customers. To support investments that aid the transition to a low-carbon economy, we have set a target to invest £500m into climate solutions by 2026.

In addition to capital allocation, we also recognise the importance of engaging and collaborating with our asset managers to identify climate solutions and influence positive climate-related outcomes.

Aegon UK climate roadmap overview

Our climate strategy has three pillars, supported by nine practical actions. Actions are underpinned by a set of activities and targets that will enable us to deliver our transition plan.

We'll track our progress against our targets, including short-term emission-reduction targets, continue to influence market decarbonisation and collaborate with our asset managers to transition our portfolios.

Figure 16: Our climate roadmap pillars and actions

ALIGN with science and industry best practice	**INCREASE responsible investments in the context of climate change**	**ENGAGE for long-term value and systemic change**
Aligning the default portfolio with the Paris agreement to reach net zero emissions by 2050	Increasing responsible investments to support climate change mitigation/ adaptation and the low-carbon transition	Engaging with asset managers and the wider market to increase concrete climate ambition and action
1. Setting short- and medium-term targets **2.** Using pathways for decarbonisation **3.** Reviewing strategic asset allocation	**4.** Increasing investments in assets aligning to net zero **5.** Increasing investments in climate solutions	**6.** Partnering with asset managers and data providers to decarbonise our portfolio **7.** Supporting climate policy regulation **8.** Collaborating with industry groups to collectively reach net zero **9.** Engaging with customers and advocating for their financial wellbeing

Case study: Engaging BlackRock to set a climate target for Aegon BlackRock LifePath Flexi

Issue

In 2021, Trustees of the AMT agreed to set a 2050 net-zero target and interim 50% carbon-emissions reduction by 2030 target for the AMT default. In light of this commitment, the trustees requested that we enhance monitoring of asset managers on RI and climate.

Approach

BlackRock is a strategic partner and the asset manager of the AMT default fund, LifePath. The fund itself is made up of a number of component funds and had no specific sustainability targets built into its objective, despite BlackRock already having taken action to increase the fund's ESG exposure. However, following a programme of engagement over 2022 from both Aegon and the AMT trustees, BlackRock proposed the addition of a 2029 target to halve carbon-emissions intensity across Lifepath. We see this proposal as the first step towards the roadmap to net zero for this fund.

Outcome and next steps

One of the key outcomes of our climate engagement was the commitment from BlackRock to implement a climate target for LifePath covering £9.2bn of assets. In December 2022, the LifePath UK investment strategy formally incorporated an ESG policy, which includes a climate objective and other sustainability-related objectives, into its fund prospectus. For each LifePath fund, the update includes the aim to:

- Achieve an absolute reduction of 50% in carbon emissions intensity by sales over a 10-year period (starting from July 2019)
- Invest a minimum of 80% of the assets held in corporate issuers in ESG screened/optimised strategies
- Invest a minimum of 80% of the assets held in sovereign issuers in strategies with an ESG sovereign rating of BB or higher
- Provide additional flexibility to invest in non-index funds
- We'll continue to engage with BlackRock on its delivery plan to meet the 2029 objective, including leveraging stewardship to support emissions reduction in the underlying investee companies, and sector and strategy-specific decarbonisation pathways.[15]

15 Environmental Finance, [£9.2bn flagship BlackRock pension strategy adopts climate target - Environmental Finance (environmental-finance.com)](environmental-finance.com), Dec 2022

Case study: Collaborating with BlackRock to design and launch new ESG indices

Issue

The Aegon Workplace Default is available to schemes through our Group self-invested personal pension (SIPP) product. In 2021 we set a 2050 net-zero target and an interim target of 50% carbon emissions reduction by 2030. At the start of 2022, we approached BlackRock, which manages the underlying funds used within the default to design and launch new funds, to support this commitment.

Approach

We worked with BlackRock on the design of these funds, which aim to maintain risk characteristics in line with standard market benchmarks and manage emerging ESG tail risks, a critical requirement when building diversified portfolios. The new fund range also aimed to address the increasing demand for investment strategies that enable a transition to greater sustainability.

Outcome and next steps

Using these funds, as well as an existing BlackRock ESG fixed-income fund, ESG exposure in the Aegon Workplace Default fund doubled for investors still in the growth stage of their retirement journey, from 30% to 60%, and increased to 40% for those in retirement.

The new range of six ESG equity index funds track newly launched Morningstar ESG Enhanced indices. They target a 30% reduction in carbon-emissions intensity and apply a set of exclusionary screens to limit exposure to controversial companies.

Several other Aegon default fund options were also able to use the new BlackRock funds.

Providing greater fund choice for our customers

Aegon offers over 200 RI options across our platforms, ranging from screened or exclusions-based passive funds to active social or environmental thematic strategies. In 2022 ,we made further progress in improving accessibility to sustainable products for our customers (see our website for more details).

Case study: Aegon Master Trust 2022 Core Fund Range Review

Issue

We conducted a review of the AMT Core Fund Range as part of ongoing governance and identified the range could be enhanced to better integrate sustainability.

Approach

We then carried out an in-depth review of the fund range, which included the requirement to incorporate ESG integration into the range as far as possible and to use an RI framework to identify suitable funds.

Outcome and next steps

These are the key outcomes of this review:

- Including 16 passive funds that use ESG screens and seven actively managed funds that specifically target investments that fulfil certain sustainability criteria to deliver on specific and measurable sustainability outcome(s)Providing access to every major asset class, including several new multi-asset funds.
- Using a clearer and a more consistent set of fund names, aiding member selection.
- The new fund range was made available for new business in Q1 2023 and will be open for all participating employers by Q3 2023.

Retail solutions

We provide investments designed to meet the needs of advised customers. These range from risk-managed, multi-asset solutions to over 4,500 investment funds available via our retail platforms and partner distribution channels. We offer over 200 funds that integrate ESG considerations across our investment platforms.

As we move into 2023, we believe that there is a customer need for a range of good-value risk-targeted multi-asset funds that support customers who want to access funds with a sustainable objective aligned to their risk profile. We're developing a solution in this area to meet our customers' requirements.

Case study: Aegon adds sustainable DFM solutions from specialist providers

Issue

Research carried out by NextWealth on our behalf showed that over a fifth (21%) of advisers expect to increase usage of discretionary fund manager (DFM) model portfolio services in the coming year16. This demand is being fuelled by a desire for more efficiency, a greater consistency of outcome for clients and increasing regulation around usage of ESG and sustainable funds.

Approach

In response to this increasing adviser demand, and as part of our ongoing commitment to improving the adviser experience, we began the process of onboarding specialist ESG providers such as EQ Investors and Tribe Impact Capital for those advisers seeking more specific sustainable solutions.

Outcome

These solutions will be made available for new business in January 2023. We also believe there's a requirement from customers for a range of good-value, risk-targeted multi-asset funds that support customers looking to access funds with a sustainable objective that aligns with their risk profile. We are therefore also developing a solution in this space that will meet these needs.

16 Aegon UK, Aegon embraces adviser demand for model portfolios by expanding range, 30 January 2023

7.4 Shareholder general account assets

As referenced in 6.1, shareholder general account assets are investments in which we have control over how they are invested and sit on Aegon's balance sheet. In 2021, Aegon NV Group signed up to the Net Zero Asset Owners Alliance, with a commitment to reduce the weighted-average carbon intensity of corporate bonds and listed equity held in the general account by 25%, by the end of 2025, relative to 2019 levels.

Directly owned assets in Aegon UK are small relative to the rest of the Aegon Group. Any assets which are deemed carbon intensive will be allowed to run off and replaced with less carbon intensive assets. Please see Principle 6 for Aegon UK's approximate total general account assets in the year (around £853m).

We hold no direct equity in the general account and so have minimal opportunity to exercise voting rights. However, we have 'soft' influence through our ability to direct capital towards climate-positive opportunities. In respect of Aegon UK's activities in our general account to support net zero, in 2022, all new bond purchases were completed in line with strict ESG criteria, with the result that the carbon intensity of the open portfolio was 80%-85% lower than the carbon intensity of our legacy asset portfolios. These legacy portfolios continue to run off, with a reduction of absolute carbon footprint over the year.

7.5 How integration of stewardship and investment has differed for funds, asset classes and geographies

While our investment estate has a strong equity bias (as explained under Principle 6), our focus on ESG integration in investments extends to asset classes beyond listed equity. For example, in respect of sovereign bonds, at COP26 in 2021, we launched the Global Sustainable Sovereign Bond Fund in collaboration with Aegon Asset Management. The framework was developed in collaboration with the Global Ethical Finance Initiative (GEFI) and enables Aegon Asset Management to conduct ESG analysis at the country level, using a sustainable development goals (SDG) ranking methodology that builds off the work of the Bertelsmann-Stiftung and Sustainable Development Solutions Network (SDSN) partnership.

Case study: Building a sustainable portfolio in sovereign bonds

Issue

Given the substantial share of investments in government bonds globally, one might believe that the integration of ESG factors in government debt analysis would be well advanced. However, this is not the case, for reasons including but not limited to the availability and timeliness of data relevant for sovereign ESG analysis. In 2021, Aegon UK partnered with AAM and GEFI to launch the new Aegon Global Sovereign Bond Fund, which was featured at COP26.

Approach

The fund was launched in November 2021, and Aegon then allocated a £100m investment to the Universal Balanced Collection, one of the workplace default strategies. This contributed to our commitment to make our default pension offerings carbon net zero by 2050, and to halving carbon emissions by 2030. The fund invests in investment-grade government bonds (BBB- and higher), focusing on countries that are demonstrating significant progress towards the sustainability targets defined by the UN Sustainable Development Goals (SDGs).

In 2022, this fund was added to the AMT Core Range as a self-select option, demonstrating our commitment to make sustainable solutions more widely available to our customers.

Outcome

We're pleased with our progress in supporting ESG integration in government-bond strategies, as well as developing financial products aligned to the UN SDGs. We'll continue our work to further integrate sustainability into investment decision-making across asset classes, including through collaboration with stakeholders and manager monitoring, to promote responsible capital allocation.

Similarly, we made a crucial step forward in integrating ESG considerations across different geographies. In 2022, we transitioned over £3bn of our regional equity strategies into screened and optimised ESG funds, which we designed in collaboration with BlackRock. These new index funds target a 30% reduction in carbon emissions intensity and apply a set of exclusionary screens to limit exposure to controversial companies.

We also monitor how our asset managers integrate ESG considerations across different geographies and asset classes. Examples of questions we have asked in our 2022 RI manager-monitoring questionnaire include the following:

- Please disclose how stewardship practices, not limited to voting, engagement and collaboration on climate-change issues, are integrated into your investment approach across asset classes (equities, fixed-income and real assets) and investment strategies (active and passive).
- How do you use voting and engagement as a tool to further D&I in the companies you invest in? Please give examples of how you do this for companies in both active and passive strategies across different geographies.

7.6 Tenders include a requirement to integrate stewardship and investment, including material ESG issues

ESG integration is now a key factor in our awarding of new business and manager appointment.

Awarding investment mandates to asset managers

Beyond manager monitoring, our minimum RI expectations extend to the design and award of new mandates.

Implications of minimum RI expectations for tendering new business

New asset managers are required to adhere to all our RI minimum expectations in order to be appointed.

No new business can be awarded to existing asset managers that fail to meet our minimum expectations and are already in the scope of our RI policy, unless they're credibly working to meet these expectations.

Please see Principle 8 for detail on our minimum RI expectations.

Integrating responsible investment criteria into Investment Management Agreements (IMAs)

We view IMAs as a mechanism to articulate our expectations and enhance accountability of asset managers in respect of responsible investment and corporate governance in mandates awarded across our investment proposition.

Case study: Appointment of new manager | Negotiating the IMA to include stewardship-related considerations

Issue

In late 2022, we selected an external manager for a property segregated mandate. Once we identified the manager, we reviewed the underlying legal documentation to ensure we could hold the manager to account in the context of our minimum expectations and overall approach to stewardship.

Approach

We thought it important to clarify our expectations in line with our RI policy and stewardship policy, in what is ultimately the most important item of legal documentation governing the asset owner-manager relationship.

To this end, we undertook a series of discussions, supported by our external legal advisers, with the manager and its legal team.

We considered that it was vital the IMA itself ensured, among other matters:

- The manager is a signatory in accordance with the PRI and the UK Stewardship Code and, if not, should provide written notice and the manager's plan for reapplication (as appropriate).
- The manager participates in collaborative engagement with stakeholders to manage and mitigate systemic risks.
- We receive sufficient and timely information that supports our own reporting obligations related to ESG (for example, TCFD and PRI).

Outcome and next steps

The IMA will be finalised in early 2023. We believe that our views in negotiating these additions to the IMA contributed to achieving an appropriate balance between what is reasonable for the manager to provide and our stewardship requirements. In keeping with market developments, we will continue our progress in this area and explore opportunities to further integrate our stewardship approach into the process of awarding new business or mandates. We look forward to reporting on progress in our 2023 Stewardship Report.

7.7 How stewardship informs acquisition, monitoring and exit decisions, either directly or on our behalf

Our investment assets are broadly in passives, as with much of the pension default strategies across the UK's DC pensions. While historically funds which track market-cap indices are most common, we have shifted £15.6bn of assets into passive strategies screened and tilted for ESG across our workplace defaults. For most of our funds, ie those which invest in pooled investments, our appointed managers apply ESG integration and engage with portfolio companies, which we oversee, influence and enhance with our targeted activity.

Earlier in this section, we provided more details on how we integrate ESG considerations into our investment estate. Principle 8 explains how stewardship features in our manager monitoring and engagement approach.

Principle 8. Monitoring managers and service providers

We collaborate with asset managers to provide workplace and retail-investment products (see section 7.3). The majority of our AUM is invested indirectly with third-party asset managers. We view asset managers as our first line of defence in the management of all investment-portfolio-related risks and opportunities, including in relation to sustainability. Therefore, manager selection, appointment and monitoring forms an instrumental part of our investment strategy. Our monitoring allows us to share our expectations and focus areas with asset managers and investee companies, and is one of the strongest mechanisms at our disposal to support systemic change.

Signatories monitor and hold to account managers and/or service providers.

Aegon also contracts third-party service providers, which we monitor and scrutinise to identify improvement areas, including with regards to responsible investment (please see section 8.4).

8.1 How we monitor asset managers

Through our monitoring work, we seek to drive greater alignment by our appointed managers with our stewardship values in pursuit of our customers' best interests. Our monitoring of asset managers starts at manager and fund selection and is carried out on an annual basis.

Prioritising asset managers for monitoring and engagement

Given our scale and range of manager relationships, we prioritise our monitoring and engagement through manager tiering. This enables us to effectively leverage the scale of our investments for agency in our stewardship, and to allocate resources accordingly. We place the most emphasis on managers of assets where we are the investment decision-maker (such as our workplace default funds or our general account), with less emphasis on those where we administer assets, such as across our retail platforms (Tier 4).

Figure 17: Aegon UK's manager prioritisation framework

Tier[17]	Justification	Range of monitoring and engagement activities
Tier 1	**Key Aegon Workplace Default Solution Asset Managers:** This covers key asset managers who have responsibility for managing Aegon's mandated funds or for managing component funds of Aegon's multi-asset default workplace solutions, or both. They also have responsibility for managing general account assets and with-profits funds. Most of the assets in this tier are invested via pooled vehicles, where we are one of two or more investors. However, for funds that we invest via our default solutions with these asset managers, we will often represent the largest, or a top three largest investor in the funds. As a result, we're able to maintain regular dialogue on stewardship. Aegon mandated funds are directly invested assets where we delegate investment management activities to an asset manager. This means that the asset manager is responsible for all stewardship activities with assets in the portfolios, including voting and engagement with underlying companies. These portfolios represent only a small proportion of Aegon's assets.	**Activities we undertake include:** • Setting an expression of wish outlining our preferences and voting expectations for asset managers • Regular engagement meetings on stewardship expectations and climate (funds are in scope of Aegon net-zero commitment) • Annual responsible investment manager monitoring and follow-up engagement • Collaborative engagement with other investors via industry groups

17 This tiering is only used by the Responsible Investment team for manager monitoring and engagement purposes and is not reflective of commercial relationships with asset managers.

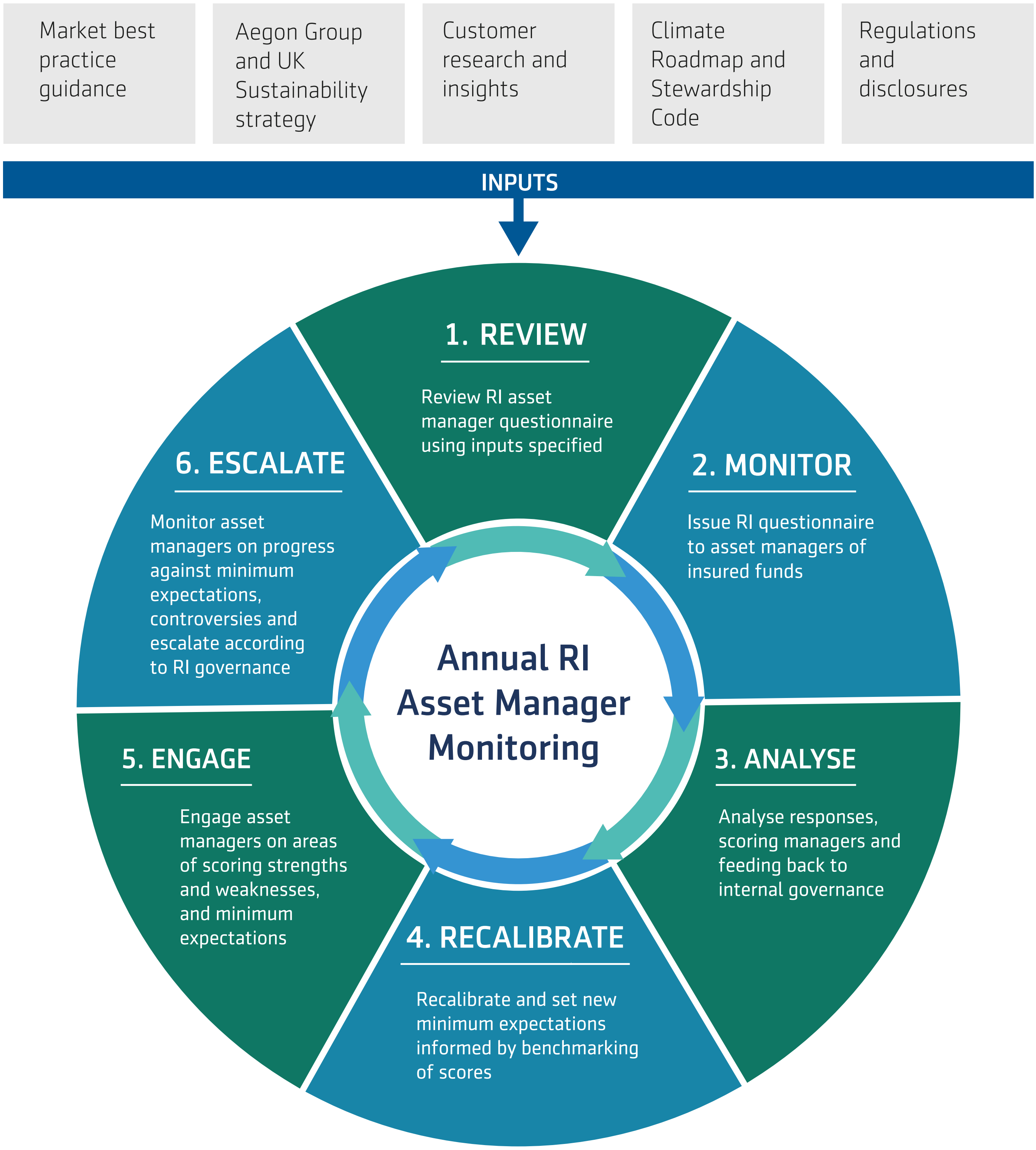
Tier	Justification	Range of monitoring and engagement activities
Tier 2	**Other Aegon Workplace Default Solution Asset Managers:** This covers managers of assets invested via pooled vehicles, where we are one of two or more investors, where not captured above. We'll often represent one of the largest investors in funds used in our default solutions	• Regular engagement meetings on climate (funds are in scope of Aegon net-zero commitment) • Annual responsible investment manager monitoring and follow-up meeting where a manager fails to meet minimum expectations • Collaborative engagement with other investors via industry groups
	Aegon Master Trust Asset Managers: These asset managers manage Aegon funds that are available as part of the Core Fund Range for the Aegon Master Trust (AMT). The AMT has additional layers of governance, including the Trustees and their investment adviser, which offer additional layers of oversight over the Aegon fund range and asset managers (see Principle 5).	**Activities we undertake include:** • Annual RI manager monitoring and follow-up engagement where a manager fails to meet minimum expectations • Collaborative engagement with other investors via industry groups
Tier 3	**Asset Managers of Other External Unit-Linked Funds:** These asset managers' funds are made available to customers through an Aegon-insured wrapper. These are made available as self-selecting fund ranges across our workplace and retail platforms.	**Activities we undertake include:** • Collaborative engagement with other investors via industry groups • Annual responsible investment manager monitoring and follow-up engagement via email where a manager fails to meet minimum expectations
Tier 4 (out of scope)	Funds that are offered via Aegon's online technology platforms. These funds are not covered by the Aegon UK RI Policy as we don't own the assets. This prevents us from taking investment decisions regarding the products.	**Activities we undertake include:** • Monitoring and engagement may take place where asset managers' funds are in-scope of the above categories

Assets managers within tiers 1-3 are covered by annual monitoring. This enables us to actively assess how their practices align with our expectations across key categories that we have deemed material to the horizon over which our customers are invested (please see section 8.2).

Our asset manager monitoring and engagement lifecycle

The diagram below outlines our process for assessing the RI credentials and practices of asset managers for new and existing managers in an annual lifecycle, from issuance of our questionnaire to analysis of responses and scoring.

Figure 18: RI asset manager monitoring lifecycle



Our monitoring questionnaire is subject to regular review. In 2022, we used a range of inputs to inform our questions, from industry guidance to customer surveys, and sought feedback on the draft questionnaire from several asset managers before issuance. Examples of key feedback received by managers that we considered when enhancing our questionnaire design included:

- Welcoming the opportunity to provide a mix of quantitative and qualitative responses
- Highlighting where answers to questions could be cherry-picked from sustainable funds
- Noting that diversity at portfolio-management level should be included within D&I metrics, given the importance of having diversity where investment decisions are being made

Our minimum RI expectations

Our RI policy outlines our approach to selecting, appointing and monitoring managers, including a set of minimum expectations on manager practices. We regularly review these as the market evolves and regulations and market expectations increase. Our monitoring allows us to benchmark asset-manager practices on an annual basis on five critical areas of responsible investment. Although performance and scoring against these may differ depending on managers' circumstances, we believe these minimum expectations are achievable by all managers, regardless of size and investment-strategy type.

Figure 19: summary of our manager minimum expectations

Responsible investment category	Minimum expectations
1 Responsible investment governance	Ensuring robust and adequately resourced governance is in place
2 Voting and engagement	Driving active engagement and voting, informed by material sustainability issues
3 Climate change	Supporting our climate ambition and net-zero commitment
4 Industry advocacy	Using their voice to drive systemic sustainable changes in the economy
5 Diversity and inclusion	Improving representation for better decision making

In 2022, we assessed asset managers on five key categories of RI capabilities and practice to provide an overview of most material practices and policies as illustrated below.

RI Governance

Effective central governance to identify and risks, and prevent greenwashing in portfolios.

Climate

Supporting our stewardship priorities, net zero commitments, and climate-related risk management across portfolios.

Diversity and Inclusion

Supporting diversity in investment decision-making and supporting our sustainability priorities.

Industry Advocacy

Supporting systemic change as a universal owner and challenge standards in the industry.

Voting and Engagement

Encouraging effective stewardship and aligning engagement with companies across different portfolios.

Figure 20: Example questions used in our monitoring are included below

RI governance	• Please provide a breakdown of the resource and governance structures dedicated to responsible investment in your organisation, and how this is integrated into portfolio management teams. How has this changed over the last three years (2019, 2020 and 2021)? • Do you have a firm-wide training programme on ESG issues? Please provide details of the training, and the frequency of training that your analysts receive on climate-related risk. • How do you monitor external data providers on the methodology used to obtain ESG data, its quality and its scope?
Climate	• Does the firm have a net-zero carbon-emissions framework in place forits AUM? If so, please provide detail including timescales; interim targets; proportion of total AUM this covers; the rationale behind assets excluded from this commitment (if relevant); and how this links to group-level or equivalent operational objectives. • Do you have any baseline exclusions applied across all/some/none of your strategies, for example thermal coal or oil sands.If so, please detail these, including any thresholds. • Please quantify the impact of physical and transition risk on the portfolios we invest in. Please also provide details of the process, including any underlying assumptions and output of your modelling, with regard to how portfolio value will change under different climate- change scenarios (for example, Paris orderly, Paris disorderly or failed transition), and outline actions that will be taken to mitigate these risks.
Diversity and Inclusion	• What D&I KPIs/targets do you have and how do you measure progress? Do you have a link between D&I KPIs/targets and pay? • Who is accountable for the D&I agenda at the firm? • How do you use voting and engagement as a tool to further D&I in the companies you invest in?
Industry advocacy	• Are you a signatory to the UK Stewardship Code and the PRI? If not, why not, and when do you expect to be a signatory? • Are you a member of any voluntary climate-related organisations? Please detail which ones, and provide examples of how you have actively participated as a member over the past 12 months. • Are you supportive of collaborating with other investors/investment managers in order to align engagement strategies to generate positive ESG outcomes in a company? Please provide examples from the past 12 months.

Voting and engagement	• Please provide evidence showing how you have identified and prioritised engagement with companies across portfolios following analysis of ESG risks and opportunities. Please provide a summary of the key climate-related issues you have engaged companies on and confirm whether you engage companies on 1.5°C and/or under 2°C aligned transition plans. • Please disclose how stewardship practices, not limited to voting, engagement and collaboration on climate change issues are integrated into your investment approach across asset classes (equities, fixed-income and real assets) and investment strategies (active and passive). • To what extent and under which circumstances do you file your own shareholder proposals? Please provide rationale and desired outcomes for all proposals filed over the previous 12-month reporting period.

8.2 Performance of asset managers against our monitoring framework

Our process involves scoring and ranking our asset managers using our proprietary criteria, with scores assigned between 0-3 for each category. A score of zero indicates failure to meet minimum expectations, restricting the awarding of new business. A score of 3 illustrates best practice.

Our Responsible Investment team analyses these responses in collaboration with the wider Investment team. We ask multiple team members to score the responses received, and take an average of these scores, to minimise bias. We report these scores and the associated heatmap to governance bodies, including the Group Investment Committee, AMT Investment Sub-Committee and Responsible Investment Steering Committee, for consideration.

As part of the 2022 review of our RI policy, we identified some asset managers that failed to meet our minimum expectations across one or more categories, including tier 1 and tier 2 asset managers. We engaged with managers on these cases throughout Q3 and Q4 2022. This engagement included meetings between our Chief Investment Officer and Investment Proposition Director and senior representatives from the asset management organisation to discuss alignment across our RI expectations.

Figure 21: Examples from our manager monitoring scoring framework

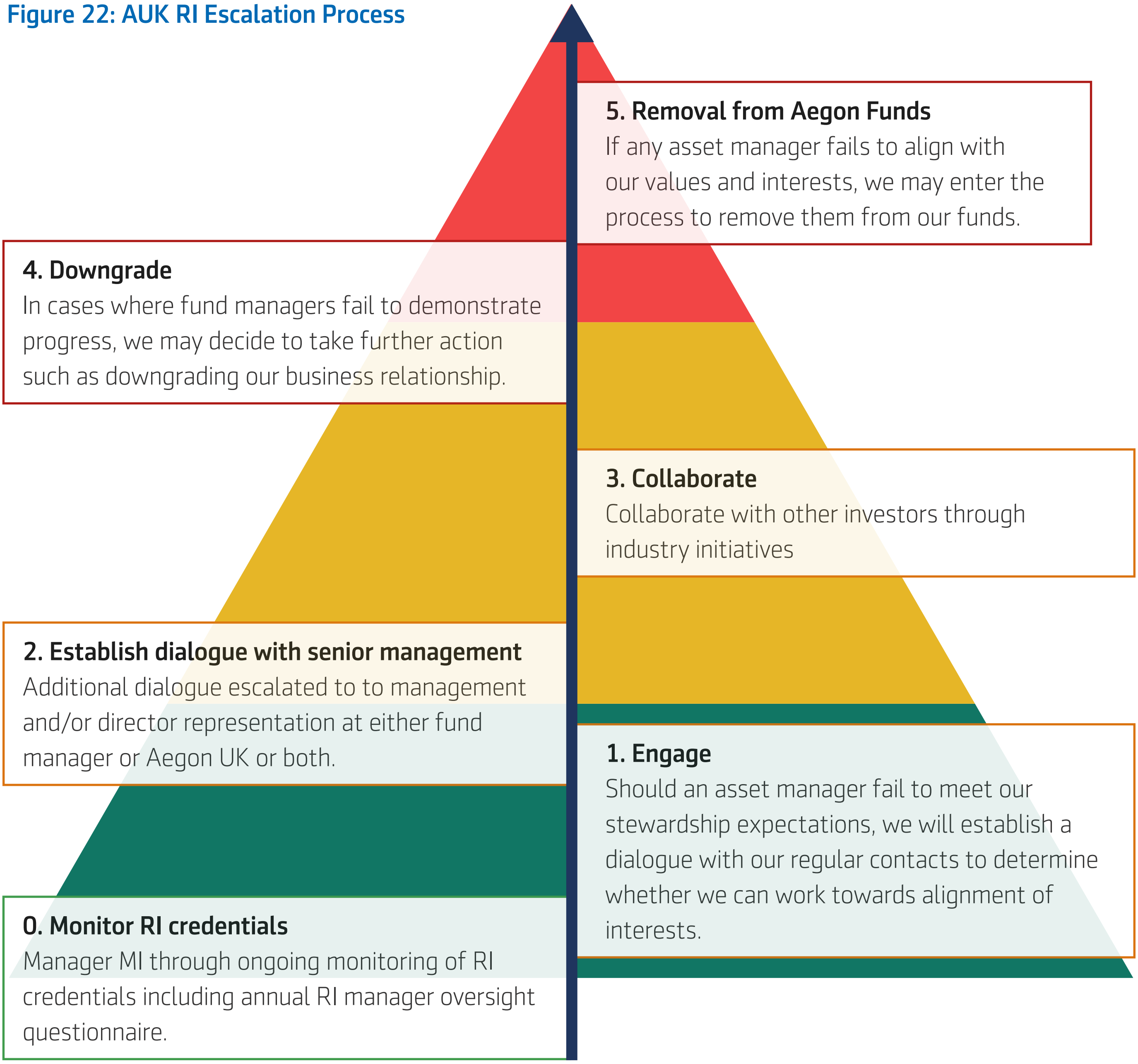
Category	Examples of best practice from managers, according to proprietary framework
RI governance	The Responsible Investment team supports all areas of responsible investment, from stewardship to portfolio management. The team holds monthly ESG seminars for all investment teams. Steady growth in team over the past three years. Key performance indicators include: the accuracy of company screening undertaken; the identification of investment-relevant ESG issues that feed into our active asset managers' analysis; and success in positively influencing the ESG activities of individual companies. All investment team members, Responsible Investment team members and senior management are incentivised.
Climate	**Climate commitment covers:** Engaging with companies to encourage them to address climate change by measuring, managing (through sound transition plans) and reducing their real-world carbon footprints Supporting initiatives that look to improve disclosure and quality of carbon data, as well as drive the uptake and implementation of transition plans Focusing on advocacy that encourage governments and policymakers to adopt policies to limit climate change in a fair and inclusive way 2050 net-zero commitment covers all corporate equity/debt.
D&I	Targeting quantitative D&I outcomes across gender, ethnicity and disability for UK operations, and gender and ethnicity for global operations. Evidence of active participation across industry initiatives. Provide quantitative data across most organisational levels specified.
Industry advocacy	Listed >15 climate-related organisations and evidenced participation across global markets and geographies. Discussed relevant workstreams they participate in, where they're a funding partner, and example of co-authoring material that these groups produce. Listed examples with description of collaborative engagements they have undertaken in Asian markets and in UK markets with other investors.
Voting and engagement	Able to explain how conflicting votes are reconciled using appropriate governance. Relevant, timebound and outcomes-based engagement examples, with clear escalation policies and strategy in place.

8.3 Escalation actions where asset managers have failed to meet our minimum expectations

Our asset-manager monitoring process provides an opportunity to share insights and encourage best practice among our partners. It also helps us understand steps managers are taking to address any expectations not met.

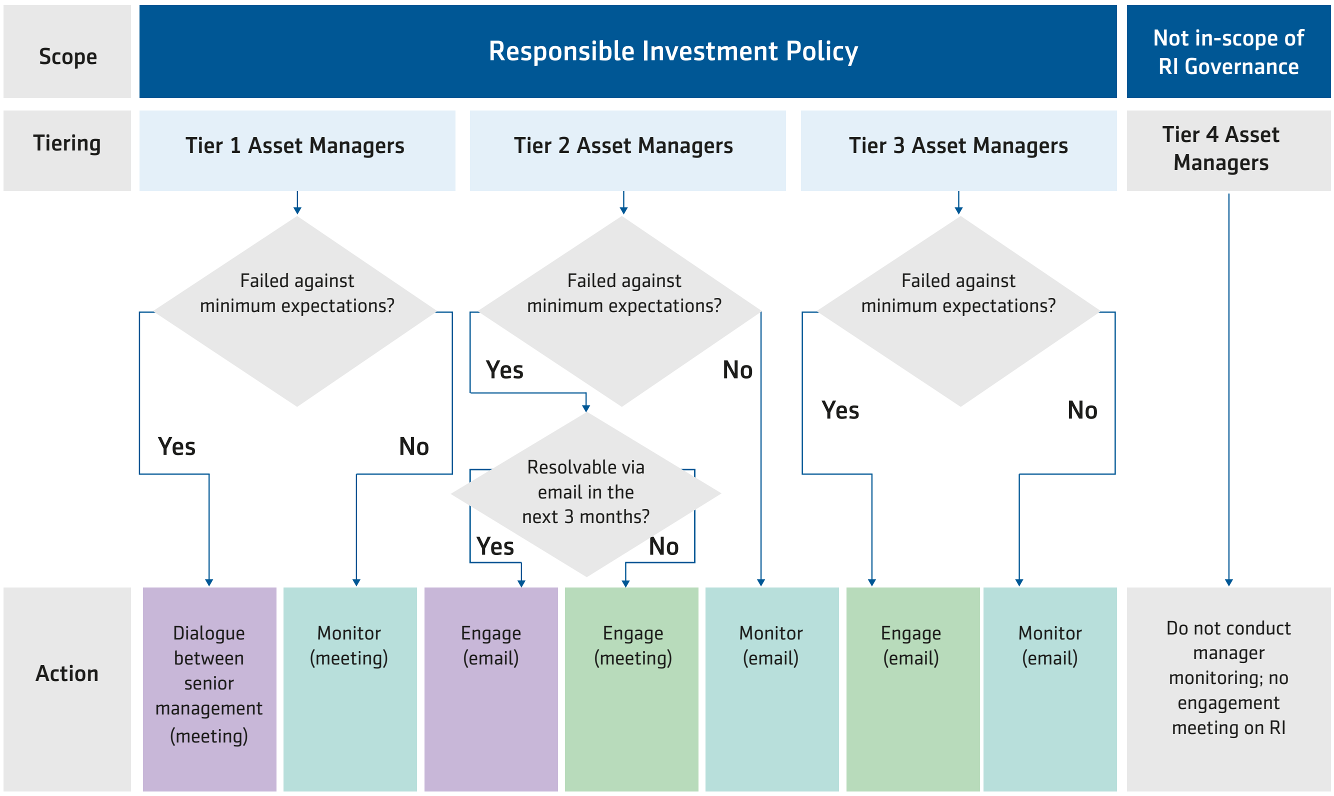
Our stewardship policy outlines the escalation process where managers continue to fail to meet expectations after an 18-month implementation window. This could ultimately result in downgrading the business relationship or removal from Aegon funds.

Figure 22: AUK RI Escalation Process



For those who met all our minimum expectations, we continue to monitor and meet with only Tier 1 partners to discuss their scoring.

Figure 23: Overview of initial engagement process as part of our RI escalation approach.



Examples of asset manager escalation actions following manager monitoring in 2022

Case study: Holding to account manager UK Stewardship Code signatory status and capacity building

Issue

In 2022, we learned that one of our asset managers failed to be accepted as a UK Stewardship Code signatory, which we consider to be one of many indicators of alignment with our values, purpose and long-term investment beliefs. In addition, we recognised the opportunity for the asset manager to enhance its resourcing to support ESG integration, following our manager-monitoring review. While we recognise the Stewardship Code sets a high bar, we expect our asset managers to work towards meeting evolving stakeholder expectations, as also evidenced by the Stewardship Code.

Approach

Our Head of Responsible Investment and Head of Investment Oversight engaged with the asset manager to drive further alignment and accountability. We engaged to understand the explanation and feedback received from the FRC as to why the manager was unsuccessful in its renewal application to the UK Stewardship Code, and the manager's intended timeline for reapplication. We also challenged the lack of resources dedicated to RI, relative to peers, which we observed through our manager-monitoring exercise.

Outcome and next steps

Following the meeting, we were pleased to see that the manager demonstrated improvements in its resource and investment in its RI function over the year. It was also successful in becoming a Stewardship Code signatory after engagement on this topic since 2021. We believe our discussions and escalation played a role in catalysing such developments.

Case study: Aligning manager climate action and industry advocacy

Issue

In 2022, one of our key asset managers scored low against our RI manager-monitoring framework, particularly on supporting our net-zero commitment. It also showed a low score on its approach to collaborative industry dialogue. Climate action and industry advocacy are two priority areas for us, as highlighted in our minimum RI expectations (see 8.1).

Approach

Our Chief Investment Officer, Head of Responsible Investment and Head of Investment Oversight met with senior leadership of this asset manager to reiterate the importance of our RI approach.

They challenged the asset manager's approach to climate strategy, as well as its involvement in supporting industry initiatives. These points were also reiterated in dialogue with our Board Group Investment Committee. This triggered a meaningful discussion and assurances around regulatory constraints and work in progress of the manager's net-zero, collaborative-engagement approach, as well as areas that were under-reported in previous manager reporting, such as outcomes of activities.

Outcome and next steps

We'll continue to track progress and engage with this manager, particularly on areas related to our climate roadmap implementation, as well as encouraging the manager to develop its market and policy engagement to drive change. To support the latter, earlier this year we invited and encouraged the manager to join a series of workshops to provide input into the development of a questionnaire to support net-zero stewardship, organised by the IIGCC Asset Owner Alignment Working Group, which we are a member of (please see the case study in principle 10).

Case study: Engagement on ESG controversy

Issue

In 2022, controversial public statements related to sustainability were made by a senior executive belonging to a group closely affiliated with one of our asset managers. This triggered concerns from us on its culture and broader governance. In addition, we had identified opportunities for further development in the manager's governance and resourcing dedicated to RI activities as a result of our manager-monitoring exercise.

Approach

At meetings involving the asset manager's Global Chief Investment Officer and Head of Sustainability, we discussed this issue to challenge the potential lack of focus on RI governance and culture, covering key areas such as resourcing and governance structures, as well as review and assurance processes to mitigate the greenwashing risk. We also asked questions to understand measures taken or planned by the manager to address implications from the controversy, and about how they would mitigate and prevent the risk of this happening again.

Outcome and next steps

We welcomed the discussions and the further information provided by the manager. This helped us to better understand progress made to enhance its credibility and practices related to RI oversight. We were encouraged by its relatively strong performance overall in our manager monitoring on RI activities. We'll continue to engage with this manager to further ensure accountability and alignment with our expectations.

Please also see the case study in section 7.3 on engaging BlackRock to set a climate target for Aegon BlackRock LifePath, the default arrangement of the Aegon Master Trust. Following our extensive dialogue and engagement with BlackRock in 2021 and 2022, it has set a climate objective for the funds of one of our key defaults. We believe our focused engagement with BlackRock has contributed to this ESG risk mitigation and positive developments, as described in the case study.

8.4 Monitoring other service providers

We ensure that third-party data providers are engaged throughout our relationship with them to support the integration of ESG into our business. Each key service provider is subject to a rigorous review process to ensure our expectations are met. Where our standards are not met, we have escalation processes and take action to improve performance.

Aegon UK's key service providers from an investment perspective in 2022 include:	
External asset managers	Most of our funds are managed by third-party asset managers (see section 8.1 above)
MSCI	Provides data on ESG matters, such as climate
FE fundinfo	Supports the creation of our fund factsheets, including ESG metrics
Aon	Provides asset-allocation recommendations that act as inputs to the investment process for a number of Aegon investment products

MSCI

Our Investment Proposition Director is accountable for ensuring appropriate governance is applied. This includes monthly relationship meetings to monitor service levels, raise any data issues and challenge the MSCI offering. Our Climate and Responsible Investment Strategy Lead is responsible for identifying issues and determining the long-term strategy with our data provider, supported by RI analysts who engage with MSCI on a weekly basis. In addition to one-on-one engagement, we also take part in MSCI consultations, such as the consultation on ESG rating methodology and coverage for funds in July 2022.

Key parameters that we consider when assessing MSCI include:

- Data quality (universe covered, metrics availability, robustness of data, methodologies and models used)
- Service level (whether responses to queries are timely and whether issues are resolved within a week, depending on their nature)
- Strength of relationship (whether it is acting as a significant Aegon UK partner to understand and respond to our particular needs, such as delivering bespoke training, supporting automated solutions or connecting us to experts)

Case study: 2022 RI data provider MSCI engagement | Striving for continuous improvement

Issue

We're engaging with our ESG data provider MSCI to continually improve decisions that can be made with the data we have access to, in partnership with our clients and asset managers. Over the course of the reporting period, we focused our ongoing engagement with MSCI on three areas where we believe improvements will most benefit climate-risk management across both our portfolio and the wider market. In addition, where we had specific challenges on accessing or analysingdata, we escalated issues to senior management.

Approach

Challenging methodology for climate scenarios: We identified that the scenarios offered by MSCI, specifically under a 1.5°C orderly transition, 1.5°C disorderly transition and 3°C failed transition scenario, were not giving consistent results, with the widely accepted view that a failed transition will be more costly to society. We engaged in multiple discussions with MSCI to understand why the failed transition pathway underestimated the physical risk of a failed transition and encouraged it to improve its methodology in the future.

Exploring emerging areas for data collection and insights: We understand that environmental data providers have a large influence on investment decisions made in the context of climate change. We asked MSCI to provide a teach-in on biodiversity data and metrics in September 2022. We discussed which ESG ratings include biodiversity metrics and where there is a gap for dedicated biodiversity metrics, in addition to the limited coverage for these. By sharing our use cases for biodiversity metrics, our discussions contributed to our data provider's expanded offering and to how resources will be allocated to develop new products and solutions in the near future.

Outcome and next steps

In July 2022, MSCI announced the introduction of new climate scenarios with improved physical risk, aligned with the IPCC scenarios. Through dedicated discussions with its climate specialists, we have continued to feed back our concerns on MSCI scenario analysis to make sure that improvements are sufficient. In addition, in December 2022, MSCI announced the release of new biodiversity and deforestation metrics. We continually monitor the data quality and services of our data provider, and seek opportunities to influence availability of critical data across the pensions sector.

In 2022, Aegon Group started a review of ESG data service providers to ensure that we have the resources and tools we need to effectively undertake sustainability activities.

FE fundinfo

FE fundinfo supports us in providing the data and tools for our funds. In 2022, the company supported the development of our fund factsheets, which covered a review and the inclusion of relevant ESG metrics, informed in part by customer views (please see Principle 6).

For our work with FE fundinfo we have a Vendor Manager who manages the governance activities. Our Investment Services Director is responsible for managing the relationship and the Chief Investment Officer is the accountable executive.

We monitor the services provided by FE fundinfo through two different governance meetings. The first of these is a service review and in 2022 these took place in February, August and November. The meetings were attended by the Investment Services Director, members of the Investment Services team, the Vendor Manager and FE fundinfo representatives. In these meetings we discussed various topics, such as service-level agreements, commercials, risks and project progress. The other governance meeting is an account review and in 2022 these took place in February and August. These meetings were attended by the Chief Investment Officer, the Investment Services Director, members of the Investment Services team, the Vendor Manager and FE fundinfo representatives. These meetings focus more on strategy and topics such as future plans.

In 2022, we found that FE fundinfo had provided satisfactory services and no issues were identified in meeting our needs.

Case study: How FE fundinfo supported meeting our needs | Tailoring ESG reporting in fund factsheets

Issue

With an increase in awareness of climate change and RI, supported by customer-survey outcomes, Aegon made the decision to include ESG and climate metrics in fund factsheets to provide customers with greater information on how their investments are aligned to RI factors and the transition to a net-zero future.

Approach

We set up an internal project team to review and consider the most important RI and climate metrics to include in the factsheets.

FE fundinfo, which manages the creation of fund factsheets on our behalf, provided guidance and support on which climate and ESG metrics were available from its service offering and, therefore, could be included on the factsheets. This guidance and support included the creation of mock-up reports which were reviewed by key stakeholders within Aegon, supported by FE fundinfo.

Outcome and next steps

From this exercise, we selected several key metrics to be included in the factsheet, along with wording to explain the metrics.

Upon internal sign-off and at our request, FE fundinfo incorporated the climate and ESG metrics.

The updates to our factsheets are being rolled out to customers in 2023. We'll continue to monitor the development of RI and climate metrics, and to seek feedback from customers to assess the usefulness and understanding of these metrics. Based on feedback and market developments, we'll update the factsheets as and when required. This will be managed as part of our day-to-day relationship with FE fundinfo in line with agreed service and governance levels.

Aon investment consultant

In addition to providing asset-allocation recommendations, Aon also provides us with capital-market assumptions, including expected return, volatility and yield, across a range of asset classes. Fund objectives may be set against these metrics. While Aon doesn't make specific recommendations relating to RI, its recommendations can impact the size of our holdings – including where those holdings are expressed using responsible product.

Our Head of Portfolio Management is responsible for managing our relationship with Aon. At each quarterly review point, our Portfolio Management team reviews all the data we received from Aon, as well as undertaking a detailed assessment of the potential impact for affected Aegon investment products.

This involves reviewing the investment rationale behind the data and challenging Aon where appropriate. This process takes place over several meetings, both internally and with Aon. A substantial analysis pack is produced as part of the process. Ultimately, it falls to our Head of Portfolio Management to accept or reject Aon's recommendations.

The nature of the process is highly collaborative between Aon and Aegon's Portfolio Management team. We continue to challenge at each quarterly review point until expectations are met, providing a continuous feedback loop. Our relationship with Aon is relatively new, but to date this process has worked well and overall our needs have been met.

8.5 Monitoring other service providers

Beyond managers and RI data providers, we have a variety of suppliers providing a wide range of services, from multi-year business-process outsourcing arrangements to the provision of basic commodity items. The Aegon Group Vendor Code of Conduct applies to all our vendors in order to enable us to manage the most material, associated business conduct, social and environmental risks. We ask our most critical suppliers to confirm adherence to this code on an annual basis.

In line with our sustainable future strategic ambition (please see Principle 1), we're committed to responsible procurement and want to take this further. We prefer selecting and working with vendors that actively seek to improve the way in which they manage social and environmental impacts beyond the minimum standards.

Some of our 2022 achievements include:

- ESG questions built into our supplier due-diligence questionnaire. Topics include human rights; energy and carbon; water; waste reduction and recycling; benefits to wider society and social value; and responsible-procurement ethical sourcing.
- Real Living Wage (or equivalent if not UK based) paid by our most material group of suppliers (Tier 1) and by in-house suppliers.
- Inclusion of EcoVardis scores in our internal, quarterly, supplier-oversight report where available. EcoVardis is a provider of holistic sustainability rating services to independently assess performance and verify responses given by our vendors. A vendor which falls short on its commitment to one or more standards is required to take steps to improve performance.
- We have committed to diversifying our supply chain to include more social enterprises and spent over £90,000 in 2022 with plans to grow this in future years.

We'll explore opportunities to further enhance our engagement and work with suppliers on sustainability-related matters, including understanding our scope 3 emissions and how our suppliers are planning to reduce their emissions, as well as over what time period in line with our own net-zero plan. To support us with this, we're planning for our Procurement and Supplier Relationship Managers to be trained and accredited by the Carbon Literacy Project.This is scheduled for H1 2023.

Principle 9. Engagement

In Principles 9-12, we explain our engagement and voting strategy, and include case studies from our core managers: BlackRock, HSBC Asset Management (HSBC), and Aegon Asset Management (AAM). Our assets managed by these three asset managers cumulatively cover approximately 76% of our total AUM.

Signatories engage with issuers to maintain or enhance the value of assets.

9.1 Ways we engage

We support and apply the Investment Consultants Sustainability Working Group's (ICSWG) definition of engagement, which is 'purposeful, targeted communication with an entity (company, government, industry body or regulator) on particular matters of concern with the goal of encouraging change at an individual issuer and/or the goal of addressing a market-wide or system risk (such as climate)'. Regular communication to gain information as part of ongoing research is an important part of investor research but will not be considered as engagement.

We prefer engagement to unquestioning blanket exclusions or divestment. This means we can influence real-world sustainability instead of: avoiding; or passing specific investments to potentially less-responsible investors who are less likely to hold management to account on sustainability strategy and practices.

We have two main approaches to engagement: collaborative engagement with other stakeholders (as explained in Principle 4 and Principle 10); and indirect engagement with portfolio companies through our asset managers, which this section focuses on.

Currently we invest in mostly pooled funds and some segregated funds managed by external managers. As a result, we cannot exercise our voting rights directly and do not engage directly with the companies our funds invest in. Instead, our asset managers engage and exercise our voting rights on our behalf in accordance with their own policies. We assess the degree to which our managers adhere to our expectations and align with our views related to engagement as part of our manager selection and monitoring process (see Principle 8.1).

We value alignment in our managers' voting and engagement, and it's important to us to partner with managers who share our view of the world and recognise the importance of stewardship as part of responsible investment.

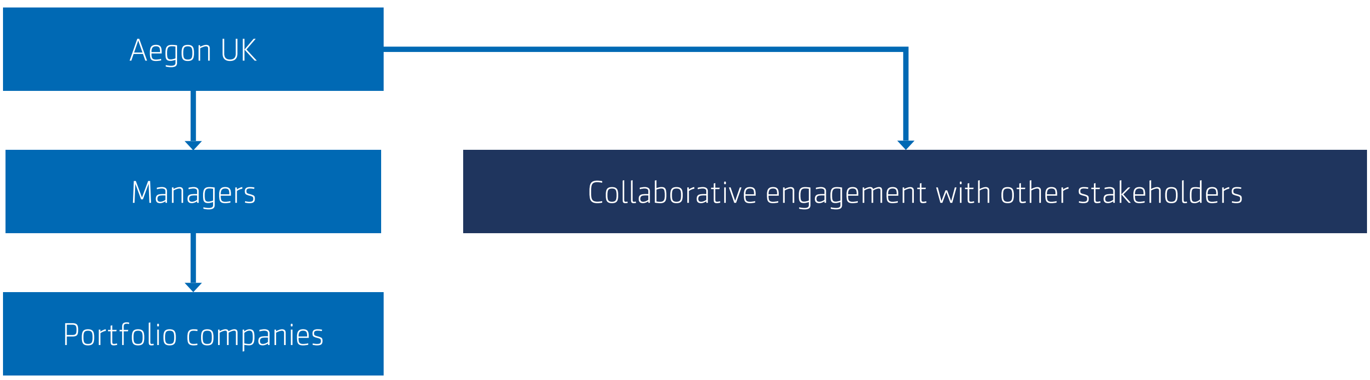
9.2 Our engagement themes

It's not feasible to engage all companies on all topics. Prioritising engagement themes that are material to our investment objectives, and that are of relevance to key stakeholders, helps focus our engagement. We believe we can have most impact by focusing our limited resources on a limited number of specific themes to drive long-term value for customers.

We select and prioritise engagement based on a variety of factors, including:

- The materiality of thematic issues in our investment portfolio
- The materiality of sustainability topics on financial and/or operational performance
- The level of company exposure
- Our likelihood of success and ability to drive change
- Customer views and preferences on sustainability
- The potential to catalyse broader change in the market

Figure 24: Our approaches to engagement.



Climate change and D&I were identified as priority sustainability topics across our group entity Aegon NV in 2021, based on their systemic nature and impact across our business. In 2022, we broadened the focus in our engagement themes to also include biodiversity and human rights, given in part the increased evidence and stakeholder expectations that support increasing consideration of nature and social issues.

The table on the next page provides further detail on our rationale for our engagement themes.

Figure 25: Our engagement themes

Engagement theme	Rationale for prioritisation with reference to our purpose (Principle 1) and customer needs (Principle 6)
Climate change, including net zero and biodiversity	• A successful net-zero transition is crucial to support better outcomes for our customers and broader society – our customers cannot live their best lives in a world with unmitigated climate change. • Halting and reversing biodiversity loss is essential to maintain a stable climate and reduce carbon emissions. • In 2022, 51% of our customers indicated they are concerned about threats to biodiversity, as explained under Principle 6.
D&I, including board diversity	• Including multiple and diverse perspectives is key to better decisions and we want to create an inclusive and diverse culture where everyone has equal opportunities and feels seen, heard and valued, without fear of judgement or discrimination.
Human rights, including modern slavery	• Human rights are universal and inherent to all human beings. Every person around the world deserves to be treated with dignity and equality; we are all equally entitled to our human rights without discrimination. We follow the UN Guiding Principles on Business and Human Rights with regards to our corporate responsibility to respect human rights, which extends to our investments. • In 2022, 48% of our customers considered human rights as a key social factor in their investment decision making, as explained under Principle 6.

9.3 Our expectations of managers that engage on our behalf

Our RI policy sets out our minimum expectations for asset managers that include engagement, to "drive active engagement and voting, informed by material sustainability issues." Our stewardship policy includes engagement guidelines outlining our view on good practice, which we use to hold managers to account. Figure 26 on the next page is an extract of these engagement guidelines.

For examples of engagement-related questions we asked to inform our manager assessment in 2021/2, please see section 8.1 above.

During 2023, we plan to increase our engagement with managers on their outcomes, reporting and activities on our enhanced engagement themes, including human rights and biodiversity.

Figure 26: Extract from our engagement guidelines:

Area	We expect our asset managers to:
Engagement outcomes	• Define pre-defined SMART (specific, measurable, achievable, realistic and time-bound) engagement objectives where appropriate • Provide case studies and metrics on engagement outcomes, instead of just engagement activities • Demonstrate a robust approach to escalation strategy, which employs a range of escalation tools (for example voting against the board or filing a shareholder proposal) and in which divestment is a last resort (not a first response)
Specific engagement themes	**Climate change** • Demonstrate practices in line with the Net Zero Stewardship toolkit as developed by the Institutional Investors Group on Climate Change (IIGCC), for listed equity and corporate fixed income • Engage with companies on the transparency of their climate disclosures, net-zero commitment(s), and associated transition plans to reduce greenhouse-gas emissions, aligned with a well below 2°C future, preferably 1.5°C • Engage with companies on how they identify, assess and manage nature-related risks and opportunities in the context of climate change
	D&I • Support greater transparency by companies on D&I policies and practices at board and management levels, and throughout the workforce • Consider engaging on D&I with companies in respect of their business processes (including talent life cycle, from recruitment to retention and advancement) and product and/or service development and supply chain, taking into account diversity beyond gender, intersectionality and corporate culture
	Human rights • Have an engagement programme on human rights, and be able to provide data on level of engagement with companies in relation to human rights and modern slavery (particularly within sectors and/or geographical areas where the risk of labour exploitation is higher)

9.4 How our engagement differs and evolving our approach

Our expectations for effective engagement by managers apply across funds, asset types and geographies, while recognising the need for strategies to be adapted for circumstances such as local market considerations.

We expect engagement to impact all investment strategies, across both long and short time-horizons, and whether active or passive. For example, for passive strategies, while the purpose of the portfolio is to recreate the financial return arising from the benchmark index at a minimum cost, we believe effective engagement improves companies' financial performance – and, therefore, investment returns.

While we invest in some sustainability-focused funds, it is important to note that our engagement expectations apply to all funds where we have management control as per the scope of our stewardship policy. Helping to enhance company practices on sustainability is an opportunity for us to influence and support real-world change for the better.

As listed equity is the major asset class we invest in, we focus more extensively on this area in our engagement guidelines and associated monitoring. However, we recognise that stewardship practices are fast evolving beyond equities. In 2023 and beyond, we will therefore explore developing more asset-class-specific manager expectations and monitoring beyond listed equity, for example, fixed income.

9.5 Asset manager engagement in 2022

Engagement case studies

The following are a selection of case studies[18] carried out by our core asset managers on our behalf. These are reflective of our engagement themes, the asset classes we invest in and the different types of outcomes achieved, including successes and setbacks.

HSBC Case study: Apple | Raising concerns in addressing human capital issues and controversies

Issue

Despite Apple having a robust human-rights policy, it continues to see numerous allegations of human-rights violations in its supply chain. A significant part of Apple's supply chain is located in countries with higher human-rights risk concerns, and HSBC believes this is a key area that Apple needs to focus on.

Approach

HSBC requested engagement with the company to discuss supply-chain labour practices, among other concerns. It wanted to know what Apple was doing to investigate these and provide adequate remedy on the ground where violations were found. HSBC also asked the company to provide additional transparency of its labour and human-rights due diligence, including for its suppliers and sub-suppliers.

At the company's AGM, HSBC supported a shareholder resolution calling for a report on forced labour, so that Apple can address how its policies and procedures protect workers in the supply chain. HSBC also supported shareholder resolutions calling for a report on a civil-rights audit and a median gender/racial pay gap, as well as the use of concealment clauses.

Outcome and next steps

Apple acknowledged HSBC's concerns and reiterated that it has robust policies and practices in place. HSBC will continue to monitor the matter and will engage with the company on this and other areas of concern. It will assess any potential further reports on labour and supply chains that the organisation may publish.

18 Case studies supplied by Aegon's asset managers are reworded for Aegon's stewardship reporting purposes. Please visit each asset manager's website for more information

HSBC case study: PepsiCo | Holding meetings with management in Improving nature outcomes

Issue/objective

PepsiCo is one of largest food and beverage companies in the world. Given its scale, small changes in PepsiCo's products can have major positive impacts on ecosystems through changes to farming practices in its supply chain. One of HSBC's engagement objectives for the company is to develop interim regenerative agriculture milestones.

Approach

Following a request to meet with subject-matter experts, HSBC met with the company's Vice President of Global Environment Policy in Q2 2022 and pressed it to add interim targets to the company's regenerative agriculture policy and make clear how it would achieve a 2030 goal (including disclosure on the farming practices they consider regenerative). After this meeting, HSBC shared its proprietary regenerative-agriculture engagement research.

In a separate meeting with PepsiCo's regenerative-agriculture lead in Q3 2022, HSBC learned more about the implementation of the company's regenerative agriculture plan and how key variables would be measured. It also probed the pre-competitive work PepsiCo does to raise standards across the fast-moving consumer goods (FMCG) industry and within its supply chain, with farmer training a key challenge.

Outcome and next steps

PepsiCo has acknowledged HSBC's concerns about the lack of detail in its regenerative agriculture goals. After meeting the company's regenerative-agriculture lead in Q3 2022, HSBC encouraged better disclosure on regenerative agriculture and giving investors shorter-term milestones. PepsiCo promised to raise these points with its external disclosures committee. HSBC has been following up on this as part of its ongoing engagement.

Blackrock case study: Total Energies | Ongoing engagement to support the energy transition | Climate

Issue

Total Energies SE (Total) is a global energy company headquartered in France. It produces and markets fuels, natural gas and electricity. BlackRock Investment Stewardship (BIS) has engaged regularly with Total over the last several years to discuss a range of corporate governance and sustainable business matters that it believes contribute to a company's ability to deliver the durable, long-term shareholder returns that clients depend on to meet their financial goals.

Approach

Consistent with its long-term focus on the impact of the global energy transition, BIS engagement with Total in 2022 focused on how the company is addressing the material climate risks and opportunities in its business model. At the 2022 annual general meeting (AGM), management proposed an advisory, non-binding shareholder vote on the progress made to date against the company's sustainability and climate transition plan.

Total originally proposed the sustainability and climate transition plan during the 2021 AGM and received nearly 92% of shareholder support, including from BIS.

BIS's stewardship approach is based on its fundamental role as a fiduciary to its clients. As the world transitions over decades to a low-carbon economy, it is interested in hearing from the companies in which its clients are invested, about how it is assessing and managing the risks and opportunities arising from the decarbonisation of the global economy, while also putting in place a reliable energy supply and a just transition. The company also looks for companies to demonstrate that they have strategies in place that address and are resilient to a range of scenarios, including likely decarbonisation pathways well below 2°C, as well as global ambitions to limit temperature rise to 1.5°C.

BIS supported this proposal in 2022 based on its belief that Total's sustainability and climate transition plan demonstrated clear policies and action plans to manage climate risk and opportunities, and that it provided a well-defined roadmap towards the company's stated climate ambition and targets.

Outcome and next steps

Overall, BIS engagement and voting has been carried out in recognition of the company's clearly disclosed climate transition plan to manage climate-related risks and opportunities, and the progress made with the plan, including a new target to reduce methane emissions by 80% from 2020 levels by 2030.

BIS also noted that the company broadened its 2030 scope 3 emissions reduction target from a primary focus on Europe to now include emissions globally, and that in the past year, Total has scaled up transition-resilient investments, including in liquified natural gas (LNG), while also focusing on opportunities across the renewable-energy value chain.

AAM case study: Whitbread PLC | Engagement on plans to improve employee pay

Issue/objective

In 2021 there was strike action taken at a number of Whitbread's sites over company pay structure. This was largely driven by union action. AAM's engagement objective was to understand how the company was planning to improve employee pay and relations.

Approach

When AAM initially spoke to the company it was clear there was a lack of policy and disclosure on the subject within the company's annual report. It was interesting to get colour around the profile of the employees at Whitbread and the fact that only 10% of the employees are unionised, through choice rather than through any corporate pressure. This is a hospitality company and therefore a lot of its work is attractive to people seeking part-time jobs to fit around other aspects of their lives.

The subsequent annual report improved on the level of disclosure and the company has committed to pay in excess of the living wage that was announced in April 2022. Further discussions between AAM and the Chair highlighted the work the company does in ensuring the staff are paid fairly throughout the country. Whitbread took the decision to bring back in-house the cleaning staff, as outsourcing had meant the company had less control over pay.

Overall it appears the company behaved responsibly throughout Covid and the most recent conversation with AAM included the measures being put in place to ensure staff are well cared for during the current cost-of-living crisis.

Outcome and next steps

Disclosure and policy has now improved and the company has demonstrated ability to pay in excess of living wage.
AAM will continue monitoring the company in light of the cost-of-living crisis.

Engagement outcomes

As referenced under 9.3 in relation to our engagement guidelines, we expect our managers to provide metrics on engagement outcomes, instead of just engagement activities. We found from our manager monitoring in the year that not all managers were able to provide such information.

This is a continued point for engagement for us and we encourage our managers to develop their systems for tracking progress, as has been done by some of our managers, such as AAM, which adapted the ICSWG Engagement Reporting Guide as shown in the figure below.

Figure 27: AAM engagement tracking metrics for 2022

Milestone 1	Contact with the company	121	25%
Milestone 2	Contact acknowledged	102	21%
Milestone 3	Company begins to make progress	130	27%
Milestone 4	Engagement completed	57	12%
No further action	Result of information gathering	65	14%

Spotlight on climate engagement

As detailed in our engagement guidelines, we expect our managers to engage with companies on the transparency of their climate disclosures, net-zero commitments, and associated transition plans to reduce greenhouse-gas emissions, aligned with a well-below 2°C future, preferably 1.5°C.

Our 2022 manager monitoring results (see below) revealed that, while the majority of our managers have committed to a net zero target, less than a third of them are engaging companies on aligning with 1.5°C aligned pathways. We will continue engaging on this point in our manager monitoring to promote better alignment with our manager expectations and climate roadmap ambitions.

Figure 28: Manager engagement relating to net zero pathways

	% of Aegon asset managers
1.5% aligned pathways	24
1.5 % and 2.5 % aligned pathways	6
Neither	70

Principle 10. Collaboration

We see collaborative engagement with stakeholders (which may include investors, issuers, service providers, policymakers, not-for-profits, regulators, associations and academics) as a key lever to influence market standards, practices or policy, or produce a tangible outcome that will bring positive, real-world change.

Signatories, where necessary, participate in collaborative engagement to influence issuers.

We choose to participate in collaborative engagement activities, where:

- The issue aligns with our core engagement themes (climate, D&I and human rights) and business model
- There are clear objectives, roles and outcomes
- We believe we can have the most impact and can be influential in driving positive change (see 9.2 above on how we prioritise engagement)

Our collaborative engagement contributions

Beyond actively engaging with public policy (as seen in Principle 4), we also actively participated in wider industry collaborative engagement activities in 2022. The table on the next page has further details of these.

Figure 29: Aegon UK's collaborative engagement activity

Initiative	Level of involvement (Basic/ moderate/ advanced)	Alignment with engagement priorities	Remit of committee/ initiative	Our contributions in 2022
Net Zero Asset Owner Alliance (NZAOA), Engagement track	Advanced	Climate	Sharing best practice, developing guidance and position papers, and collaboration on asset-manager engagement on net zero	Led questions in two asset-manager engagements on climate change (see case study below for further detail). Contributed to drafting of guidelines for managers on aligning and disclosing lobbying and policy activities with net zero commitments, and a chief executive letter to asset managers on AOA client expectations. Both publications are expected to be released in 2023.
Institutional Investors on Climate Change (IIGCC)	Advanced	Climate	Provide practical resources to strengthen and promote asset-owner and asset-manager alignment on net-zero stewardship	Actively contributed to drafting of IIGCC Questionnaire for Asset Managers on Net Zero Stewardship for consultation in Q1 2023 (see case study below for further detail). Promoting industry best practice by leveraging IIGCC Paris Aligned Investment Initiative Net Zero Investment Framework 1.0 for our climate transition plan (our climate roadmap). Joined new engagement track to engage with top-emitting companies beyond CA100+ target list, including CEO-level company communications.
DWP Taskforce on Social Factors (TSF), Modern Slavery Sub-group (Lead)	Advanced	D&I and Human Rights	Promote integration of social-related considerations in pension stewardship	As an inaugural member, we contributed to the development and formation of the TSF objectives and terms of reference (see case study below for further detail). We also lead a TSF sub-group focused on helping trustees understand how to manage risks posed by modern slavery and supply chain issues. The work of the Taskforce is expected to continue through 2023.

Figure 29 (continued)

Initiative	Level of involvement (Basic/ moderate/ advanced)	Alignment with engagement priorities	Remit of committee/ initiative	Our contributions in 2022
Global Canopy, Deforestation Guidance working group	Medium	Climate	Develop guidance to promote data transparency and action needed for global markets to address nature-related impacts	Contributed to the development of guidance for pension schemes to tackle deforestation, conversion and associated human-rights abuses in their portfolios (see case study below for further detail).
The Investing and Savings Alliance (TISA), Responsible & Sustainable Investment Committee	Medium	General	Help firms understand, implement and develop industry good practice guides for ESG	Contributed to the development of guidance to help firms better understand TCFD, what is required of them and best practice (see case study below for further detail).
Pension Inequalities Group, Government / Policy working group (Co-Chair)	Medium	D&I	Collaborate between organisations looking to take action to reduce pension outcome inequalities faced by women and individuals from minority groups	As an inaugural member, we contributed to suggested outputs for the group's objectives. We are also a member of the Steering Group.
TNFD Forum	Low	Climate	Develop a disclosure framework for nature-related risk reporting	Joined the Forum in 2022
Climate Action 100+	Low	Climate	Engage with the world's largest corporate greenhouse gas (GHG) emitters to take necessary action on climate change	Supporter of the CA100+'s "Three Asks" for 165 focus companies that are key to driving the global net-zero emissions transition. The asks being: implement strong governance, take action to reduce GHG, and provide enhanced climate disclosure
UN Principles for Responsible Investment (PRI)	Low	General	Setting a global standard for responsible investing	Signatory (through Aegon NV Group) since November 2022

Driving progress through collaboration – outcomes of our engagement activities in 2022

Case Study: NZAOA | Leading on two asset manager engagements on climate

Issue

Over 2022, we actively contributed to the NZAOA engagement track through fortnightly asset-manager engagement working-group calls. We took part in a range of activities, ranging from collaborative engagement with asset managers to supporting on engagement track outputs, including developing climate-lobbying guidelines for asset managers.

Approach

The NZAOA engagement track undertook specific collaborative engagements with two large global asset managers' stewardship teams on their net-zero implementation. Through our active participation in the engagement track, we contributed to agenda setting for the engagement calls by helping to identify key topics as systemic stewardship practices, policy and lobbying; the scope of net-zero commitments; and climate solutions and products.

In engagement meetings we took the lead on agenda points relating to how managers are addressing limits of corporate engagement on climate change (as outlined by the 2022 NZAOA Future of Investor Engagement white paper[19]) and developing their engagement practices on i) sector and value chain engagement, and ii) climate policy engagement and lobbying. Finally, we also led questions on how the manager was supporting clients who want to allocate capital to climate solutions.

Outcome and next steps

The asset managers we engaged with in the year welcomed the AOA's engagement and shared either their existing approach to policy engagement or considerations on their ability to engage beyond corporate issuers. While we are pleased with the managers' recognition of the importance of also engaging beyond corporate issues, we note the continued need for further transparency on systemic stewardship practices. We expect to continue to deploy both individual and collaborative engagement with asset managers in our net-zero stewardship strategy.

Additionally, participating in collaborative engagement through the NZAOA allowed us to leverage the strength of peers in discussing our expectations for systemic stewardship for systemic climate risk with asset managers, deepening the reach of our bilateral engagement. Dialogue with peers also allows us to reflect and learn from others – many of these learnings were reflected in our own policy-engagement practices and 2022 stewardship-policy review.

While sector and value chain and policy engagement are less widespread focus areas for asset managers' engagement activities, these meetings helped set out a coordinated ask from asset owners for managers to address these as part of their climate action.

19 The UN-convened Asset Owner Alliance (2022): The Future of Investor Engagement: A call for systemic stewardship to address systemic climate risk

Case Study: IIGCC Asset Owner Alignment Working Group | Contributing to the development of questionnaire for asset managers on net-zero stewardship

Issue

In Q4 of 2022, IIGCC convened a working group of asset owners, including Aegon UK, to support asset owners and managers undertaking stewardship to achieve net-zero ambitions. This builds on IIGCC's work on its Net Zero Stewardship Toolkit (April 2022) to support investors in meeting their portfolio-alignment goals. This initiative is of great relevance to us, considering that almost all our assets are externally managed, and we expect our managers to demonstrate stewardship practices aligned to the published toolkit (as per 9.3).

Approach

In 2022, we have been an active participant, contributing to the development of the working group's proposed outputs, including the development of a net-zero stewardship questionnaire to support the selection, appointment and monitoring of external managers.

We contributed to the creation of the net-zero stewardship questionnaire, which seeks to enable a more standardised and less burdensome process for both due diligence and reporting.

Our specific inputs for the questionnaire included:

- Feeding into a gap analysis of existing guidance on manager selection and monitoring processes which informed the drafting of the initial output
- Sharing our relevant policies and practices on managers' net-zero stewardship
- Providing our feedback and reflections on the quality as well as the overall application of IIGCC's questions

We also engaged with our key asset managers to understand their application of IIGCC's net-zero stewardship toolkit and signposted the development of IIGCC's questionnaire to encourage manager adoption.

Outcome and next steps

We're pleased with our impact within this group this year, sharing our views and lessons learned, as well as voicing our desire to improve net-zero stewardship. Early this year, we invited our largest asset manager to join a series of workshops, hosted by IIGCC during January and February 2023, to gather feedback from managers to feed into the development of the questionnaire prior to public consultation aimed at all stakeholders – including asset managers. We expect IIGCC to launch the consultation of the questionnaire by end of Q1 2023 and we'll use the outputs from the questionnaire to inform the development of our RI manager-monitoring questionnaire this year.

Case study: DWP Taskforce on Social Factors | Supporting pension-scheme engagement with social factors

Issue

The DWP set up the TSF in 2022 with the aim of providing guidance for pension schemes and trustees to support common understanding of social risks and opportunities that can be applied by pension-scheme trustees, industry and policy makers.

Approach

We identified the TSF as a priority group to participate in given its focus on improving standards and practices across the spectrum of social issues, including modern slavery and human rights (one of our engagement themes), and the opportunity to collaborate across investors, standard setters and regulators on systemic stewardship issues.
We have been an active participant of the TSF since inception and contributed to its shape and design, suggesting actions and outputs for each of the objectives of the Taskforce (which are being delivered through three working groups).

Outcome and next steps

In 2023, Aegon will be leading one of the TSF working groups focused on helping trustees understand how to manage risks posed by modern slavery and supply-chain issues. A key output is expected to be a written chapter or chapters and recommendations within a wider guidance document for pensions and trustees. The working group is also expected to focus on the following:

- Rationale: Explaining why modern slavery and poor due diligence could pose a financial risk to pension schemes
- Lived experiences: Providing commentary on the lived experience of modern-slavery survivors
- Case studies: Providing examples on the successful management of this risk (for example, successful due-diligence processes)
- Broader learnings: Exploring lessons learnt from the context of managing the modern-slavery risk and how they can be applied across other social risk factors
- Data sources: Investigating data sources to help manage modern-slavery risks could be included
- We'll report on further progress and outcomes from this work in our 2023 Stewardship Report.

Case study: Global Canopy | Developing deforestation guidance for pension funds

Issue

Pension funds are exposed to the risk of deforestation, conversion and associated human-rights abuses through investments in companies and through direct investments, for example in land for forestry and agriculture. This creates further risks for pension funds, from market access, regulatory restrictions, physical risk and reputational risk.

The deforestation guidance working group is a joint initiative by Global Canopy and Make My Money Matter (MMMM), and in 2022 the group worked together to develop guidance for pension schemes on deforestation-free pensions.[20]

Approach

Aegon participated in the development of the guidance through attending working groups with other pension providers, hosted by Global Canopy. We offered verbal feedback on the guidance, highlighting areas for it to address, particularly around data limitations for identifying exposure within our portfolios. We have maintained regular dialogue with MMMM regarding deforestation commitments and are using the guidance to inform our stewardship approach and conversations with asset managers.

Outcome and next steps

As a result of our participation, we've been able to support more consistent reporting across the financial industry. We're also using the guidance when assessing the nature risks and opportunities of our own portfolio.

20 Guidance: Pension Funds – Deforestation-Free Finance (globalcanopy.org)

Case Study: The Investing and Savings Alliance (TISA) | Contributing to development of TCFD guidance

Issue

Given the introduction of TCFD reporting requirements across UK financial services, the TISA Responsible and Sustainable Investment Committee stepped in to support its members and the broader advice industry by developing an introductory guide to TCFD rules and disclosures. This was aimed particularly at supporting smaller firms with fewer resources to dedicate to climate risk disclosures.

Approach

Aegon is a member of the TISA RSI Committee, and in 2022 we joined the small group of five RSI members volunteering to review the draft guide and feed into its development.

We particularly emphasised the need to adapt guidance depending on the nature of the business, and to clarify the audience of the guide and the different applications of the TCFD framework and its disclosure requirements.

Outcome and next steps

The group decided that the audience of the guide would remain broad, reflecting the membership of TISA, but specified a target audience of asset owners and asset managers. TISA added further clarity on the asset-management activities and types of asset owners considered in the guide.

The guide also seeks to give guidance to firms of different sizes, given that resources available for TCFD reporting vary significantly between firms. Following multiple rounds of review by the RSI committee volunteers, the TISA TCFD Guide was published in October 2022. We're pleased to have been able to share our insights on TCFD to support industry peers in preparing for their TCFD reporting requirements.

Principle 11. Escalation

Engagement is not always effective. However, we don't see divestment or exclusion as an immediate solution, as it results in losing influence and the opportunity for future dialogue to drive behavioural change and create positive outcomes. This is why escalation remains a key tool in our engagement strategy.

Signatories, where necessary, escalate stewardship activities to influence issuers.

11. 1 Managers escalating on our behalf

Our expectations set for our managers

We expect our asset managers to escalate on our behalf where the company fails to respond constructively in engagement. Before escalating our engagement, we expect asset managers to think about the relevant factors, including:

- The materiality of the issue on investment performance
- The adequacy of the company's response to engagement
- Any history of adverse behaviour
- The outcomes and likelihood of success

Rather than Aegon prescribing specific actions, managers have the flexibility and discretion to escalate in the manner they feel is appropriate. We expect our asset managers to consider all escalation tools available, which may include:

- Joining or forming a collaborative initiative that includes the company as an engagement target
- Voting against relevant members of the board of directors and disclosing the rationale for doing so
- Filing, co-filing or supporting a shareholder proposal setting expectations for sustainability performance improvements
- Considering shareholder litigation in respect of the company's failure to address the issue
- Escalating the dialogue from the executive to the board of directors or from one board member to the chair and/or a more amenable board member
- Making considered public statements at the company AGM meeting and/or press comments
- Divestment

As outlined in our stewardship policy, we expect our managers to 'demonstrate a robust approach to escalation strategy, which employs a range of escalation tools and in which divestment is a last resort, not a first response'. In part through our annual RI manager-monitoring questionnaire, we engage with our managers on their escalation strategies and effectiveness. Examples of the monitoring questions we ask are about the circumstances for filing shareholder proposals and the extent to which managers do so.

Escalation undertaken on our behalf: case studies

The following examples[21] reflect escalation activities conducted by our core managers

AAM case study: Barclays Bank | Escalating climate transition progress

Issue

Barclays Bank remains the seventh largest fossil fuel-funding bank in the world, according to the Banking on Climate Chaos report launched in March 2022. AAM has been engaging with Barclays since 2020, when it was targeted by Shareaction at the AGM. This engagement has a combination of direct and collaborative engagement with the Investor Forum, with the aim to understand its transition strategy, monitor progress and maintain pressure to improve in line with the Paris Agreement.

AAM also seeks to ensure Barclays understands that this is a material business issue and that it expects Barclays to show leadership commensurate with its position as one of the UK's leading investment banks.

Approach

Engagement started well, with details being shared as to how Barclays plan to meet the 2050 net zero commitment. This included the following:

- Focus on the energy and power sectors as they're the most carbon intensive. Hard targets have been set for reduction over the next five years
- Setting a carbon limit per year for funding activities, so that they'll need to be budgeted
- Cease funding of fracking and oil sands in Europe and enhanced due diligence in the US

Initial progress was good, with sector guidelines being implemented and a commitment to roll out further sector guidelines in the future. However, when Barclays updated investors this year it became clear to AAM there had been a degree of backtracking because of the energy crisis.

The US had been carved out of their coal commitments and the new sector guidelines around power and steel had minimum targets that would fail to meet their own net zero commitments.

Outcome and next steps

Progress has slowed, so AAM voted against the progress report on the transition plan and has continued to engage post-AGM to motivate the company back onto an acceptable pathway. AAM will monitor this closely and will further escalate if the forthcoming transition plan update disappoints.

AAM also noted progress is slowly being made against its milestones, but it will need to maintain ongoing engagement with the company to ensure it is aligned with the overall ambitions regarding climate.

21 All case studies have been provided by our asset managers and re-worded for AUK stewardship reporting purposes. Please visit each manager's website for more information

HSBC case study: Writing and meeting with independent directors | Thermo Fisher | Escalating human-rights concerns

Issue

HSBC noted there had been allegations that Thermo Fisher (TMO) genetic-sequencing equipment had been used to create DNA profiling for minority populations in some countries, potentially facilitating heightened police surveillance with possible human-rights impacts. HSBC's engagement objectives focused on risk management around product misuse in sensitive applications, and company reporting on respecting human rights, using the UN Guiding Principles (UNGP) framework.

Approach

Following initial requests for formal meetings, HSBC met with various TMO teams to discuss the issue; share concerns about impact on communities from rogue customer actions and potential reputational and financial risks to company; and to press the company for information on human- rights guardrails for sales and distribution.

They then wrote to the lead independent director asking for TMO to report on respecting human rights, via the UNGP framework. The company subsequently confirmed that it was not currently reporting in line with UN Guiding Principles on Business and Human Rights.

HSBC then met with the lead board director in June 2022 to discuss board oversight of human-rights risks, pressing the director on how the board gains insight into key topics like human-rights risk, and how the company structures will evolve to manage emerging product-misuse challenges. HSBC also fed back to the company via a consultant-led investor-perception study, emphasising their asks and providing feedback from credit-investment teams, before meeting again in December 2022 to discuss progress on human-rights policy, workforce management and board diversity.

Outcome and next steps

The initial meeting gave HSBC reassurance, noting the company presented strict distribution arrangements and cut-off for any distributors associated with rogue customers, and had added extra sales-team training for colleagues to spot potential use cases that are not ethical.

The lead-director meeting indicated that the company took HSBC's letter seriously and showed willingness to change. TMO is reviewing its human-rights reporting and assessing the UNGP framework, as requested in HSBC's letter.

While pleased with the outcome so far, HSBC is mindful of the lead director's comment about ensuring new structures to manage product-misuse risks are "implemented diligently". It will therefore follow up on this issue with the company, as well as continuing to press for progress on its human-rights reporting.

HSBC case study: Objectives-led and milestones-based approach in practice | Toyota Motor | Escalating on climate, D&I and shareholder-rights concerns

Issue

HSBC has three objectives for its engagement with Toyota: better alignment of its business strategy with the Paris Agreement; for the board to have at least two female directors or 20% female representation; and a reduction of at least 30% in cross-shareholdings. The rationale for these objectives is based on the following:

- Increased global battery electric vehicle (EV) sales targets and plans to only s ell zero emission vehicles in Western Europe by 2035, but targets remain unambitious in Japan
- Toyota's public policy positions have raised questions, including the chief executive's open scepticism about the shift to electric vehicles
- Only one of the company's nine directors is female
- The company has a large volume of cross-shareholdings and has formed new ones in recent years

Approach

In 2022 HSBC's engagement and escalation activity included:

- Discussing how the company's new EV strategy is aligned with the 1.5°C climate scenario, challenging its reluctance to set a more ambitious target for transitioning to EVs
- On the company's inaugural report on public policies/ lobbying, suggesting that it should acknowledge the negative influence of industry bodies under review, and discussing how the company's chief executive is often seen as being against a rapid take-up of EVs and how the board sees this
- Challenging the formation of new cross-shareholdings in recent years against investor expectations
- Meeting with the company's independent director in April 2022, voicing concerns about the low levels of independence and diversity among directors and asking what the Board's view was, as well as assessing overall Board effectiveness
- Communicating its decision to vote against the chair, due to the low gender diversity among directors and the appointment of a new non-executive statutory auditor due to concerns about his independence
- Undertaking two further meetings in Q4 2022, including a robust discussion with a senior executive on 1.5°C alignment.

Outcome and next steps

HSBC has recognised that being invited to the company's first investor meeting with an independent director in 2022 is a big step for a Japanese company of its size and influence. Toyota published its second lobbying report in Q4 2022, where it elaborates its position on key policies in major markets, including its support for and commitment to meet the EU's 2035 target to reduce vehicle emissions by 100%. HSBC will also communicate its voting policy to the company on executive pay in 2023.

HSBC case study: Objectives-led and milestones-based approach in practice on climate action| BHP | Escalating Climate concerns

Issue

BHP is one of the world's largest producers of iron ore, mining a range of other minerals and maintaining oil and gas production. The company had been a leader in its sector in addressing the challenges of carbon transition but needed to make new commitments to meet rising investor expectations.

Approach

In 2022, HSBC engaged with the company's Chief Sustainability Officer to discuss a range of climate-related issues, including pushing for more meaningful interim targets (including scope 3 emissions) within the company's climate-action transition plan; the importance of conducting impact assessments on physical climate risk and adaptation; and the pivot towards natural climate solutions and offsets.

In respect of disclosing a just transition strategy, HSBC highlighted expectations from the latest sets of reports from the Intergovernmental Panel on Climate Change (IPCC) and shared the www.mining2030.org initiative led by the Church of England Pensions Board, asking BHP to consider a more nature-based approach to land restoration.

HSBC formally requested a more structured plan on how the company identifies assets subjected to physical impact and its just transition strategy for customers, suppliers, employees and local communities. At a live engagement session with the company's Chief External Affairs Officer Caroline Cox, HSBC assessed the quality of the company's just transition plan, which was closely connected to the new social-value framework that BHP formally launched on 28 June 2022.

Outcome and next steps

BHP published its social-value framework, part of its just transition strategy, which is aligned with the promise made during its engagement with HSBC in Q1 2022. The assessment also covers nature-positive commitment, land restoration and a responsible water strategy.

In June 2022, BHP also announced that it is not proceeding with the divestment of the Mount Arthur thermal coal mine in the Hunter Valley, New South Wales, Australia and will cease mining by 2030. This is aligned with HSBC's target that miners should minimise real-world emissions and consider running down existing mining assets.
The company confirmed that social-value assessment has been a consideration of this decision.

BlackRock case study: Declining new deals in Global High Yield | Escalating Climate concerns

Issue and Approach

BlackRock's Fixed Income investment team aims to assess the fundamental financial prospects for public and private companies and highlight where they believe ESG factors are material to credit views. Their assessments leverage both their proprietary research and external data sources, and they partner with teams across BlackRock regarding engagement with companies; sovereigns; underwriters; ratings or index providers; and industry associations and regulators, |where these relate to fixed-income investments.

Seche Environment is in the business of hazardous waste disposal and industrial end market. BlackRock deemed the core operations of Seche to be non-ESG friendly. The reasons for this included:

- The nature of operations exposing employees and local communities to various hazards, such as fires, health risks (such as toxic waste and asbestos) or mishandling of industrial equipment
- High exposure to landfills in emerging markets and the lack of a mature regulatory framework
- Landfill gas capture that is currently undertaken carries further risks related to fire and explosion
- In addition, they noted additional governance concerns, including refusal to be rated by a rating agency, the chairman and chief executive controlling approximately 78% of voting rights, and that former employees have testified regarding the falsification of waste labelling to circumvent regulations

Outcome

Credit deals from this company were declined by Blackrock's Global Fixed Income team.

11.2 Divestment and exclusions on our own holdings

Where we believe there's a long-term risk to the value and sustainability of an investment, we will consider selling our holding. Aegon has a Group-wide exclusion list that applies to our shareholder general account assets. To give a few examples, Aegon excludes investments in tobacco companies, any Russia-or Belarus-based companies and in any form of government bonds from countries that we believe systematically breach human rights (see Aegon NV Responsible Investment Policy).

Principle 12. Exercising rights and responsibilities

Companies need to use their comparative advantage to maximise impact. In respect of exercising rights and responsibilities, we believe that the most effective way we can deliver positive change is not through duplicating our managers' activities, but through raising the bar for stewardship.

Signatories, where necessary, escalate stewardship activities to influence issuers.

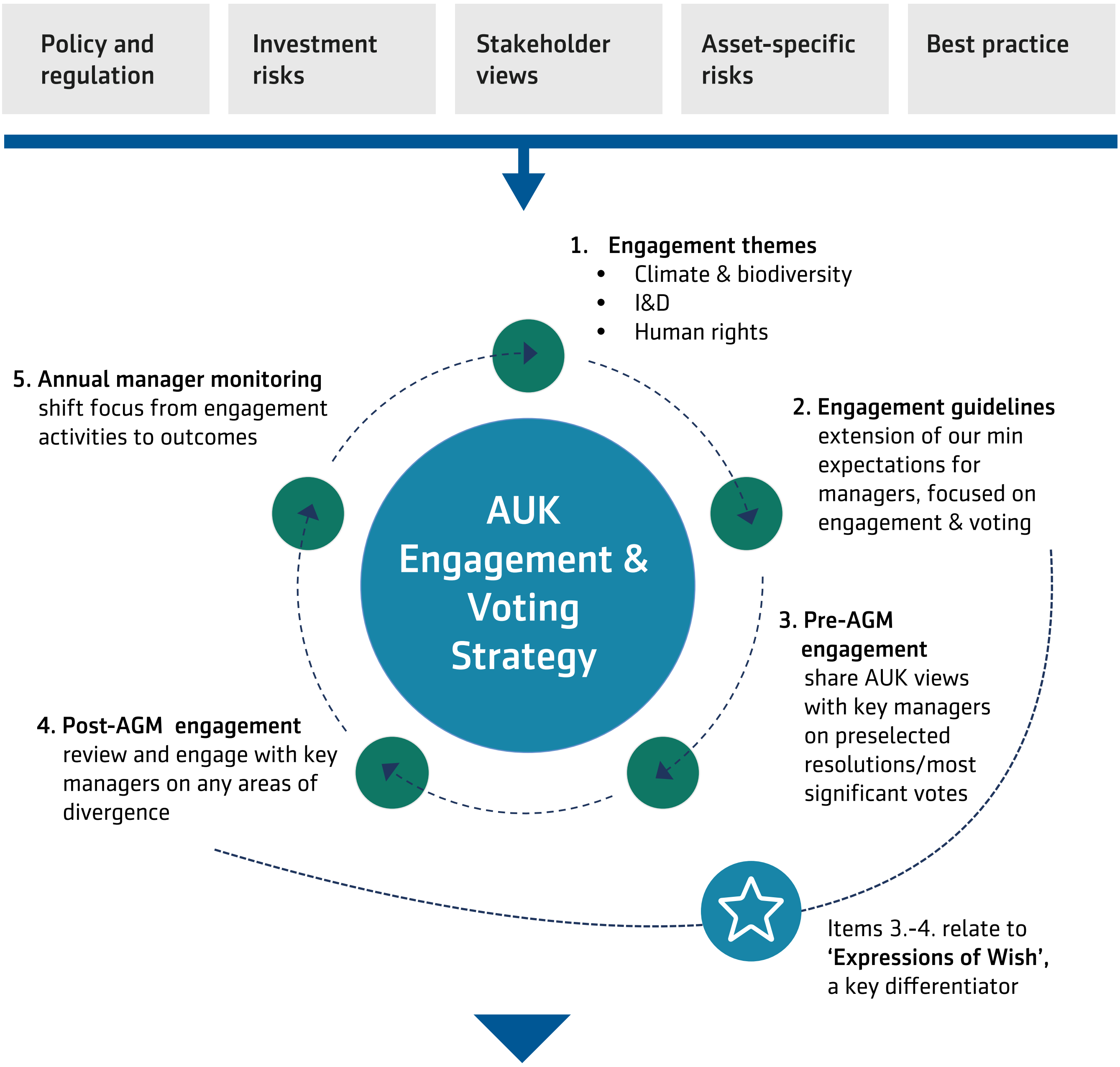
12. 1 Expectations set for asset managers that exercise rights and responsibilities on our behalf

We expect our managers to exercise their rights and responsibilities in line with:

- Our core engagement themes (see section 9.2)
- Our minimum expectations of managers related to engagement and voting (see section 9.3)
- Our engagement guidelines which seek to promote alignment among our managers in line with our values (see section 9.3)

Looking forward, in relation to most significant votes, we also expect our key asset managers to consider our expression of wishes, ie voting preferences (see the following case study).

Figure 30: Overview of how we set the tone for our managers on their portfolio company engagement



Enhanced AUK & manager alignment and outcomes on Stewardship

- Receiving manager reports months after voting happened leaves limited room for AUK to engage/influence what action is taken within its own portfolios
- If we don't set own voting policies and/or 'expression of wish', there is a risk of contrary votes in duplicated holdings amongst multiple managers in pooled funds giving rise to concerns on our Stewardship impact
- Having our own viewpoints enable more meaningful discussions with fund managers on outcomes
- Few managers have been criticised for having too much power and for not using it to push for more changes at companies
- Fund manager voting policies are variable in their quality and transparency

Case study: Introduction of our new expression-of-wish approach | Promoting pension stewardship in pooled funds

Issue

We are pleased to see the increased openness in the industry to considering asset owners' views and/or preferences on voting in pooled funds. Given most of our investments are in pooled funds, we believe that exercising pension stewardship to reflect the interests of customers in the context of pooled funds and regardless of size is important, even though our ability to influence may be lesser in pooled compared to segregated accounts. We welcome the work by the Taskforce on Pension Scheme Voting Implementation, which recommended in its September 2021 report that all asset managers should offer pooled-fund investors the opportunity to set expressions of wish on request.

In line with the push for shareholder democracy, there's a growing trend of asset managers providing clients with the option to participate in the proxy-voting process and to set their own voting policy. While we welcome the opportunity to have our views heard by managers when setting voting policies, we have concerns about the unintended consequences of voting set by clients, especially as many asset owners don't have the resources managers have for in-depth engagement and analysis of resolutions. Without careful consideration and implementation, this could add pressure on already resource-constrained, asset-owner sustainability teams, shield asset managers from scrutiny on their voting and engagement practices, and confuse companies that receive 'mixed' signals from an asset manager.

Approach

We believe asset managers, in most part, are best placed to vote on our behalf, not least due to their position to achieve continuity between engagement activity and voting. However, we recognise the risk of contrary votes in duplicated holdings among multiple managers in pooled funds. Therefore in 2022, as an extension of our work to ensure the activities of our managers are aligned with our stewardship values, we introduced a new expression of wish approach under our stewardship policy (as referenced in the case study in section 5.5).

During November and December 2022, we engaged with our key managers on our expressions of wish approach in anticipation of implementing this in the 2023 UK AGM season for our most significant votes. Factors that inform our definition of most significant votes include size of holdings and alignment with our engagement themes, as well as the degree of impact on our financial or stewardship outcomes.

Outcome and next steps

We're proud of the further progress we have made on stewardship during 2022, including developing our expression of wish approach to voting. We'll make clear to specific key managers our voting preferences on our most significant votes in advance of those votes being taken. We'll also monitor the relevant managers' voting decisions against our expression of wishes to engage on any areas of divergence. We look forward to reporting on our progress in our 2023 stewardship report.

12.2 Use of proxy advisors

We don't use proxy advisors as we don't vote on behalf of customers or engage directly with our portfolio companies. Instead, we monitor the degree to which our managers adhere to our stewardship expectations, including that managers don't solely rely on recommendations from proxy advisors to inform their voting decisions.

12.3 Voting in segregated and pooled accounts

We don't seek to direct votes in either segregated or pooled accounts. Our segregated mandates are managed by AAM, which is delegated to vote in line with its own policies. The same applies to our pooled-fund managers. However, in 2023 and beyond, we seek to apply our expressions of wish approach with select key managers in our pooled mandates (as explained in our case study in section 12.1 above).

12.4 Stock lending

Securities lending is a process used by some funds to generate additional returns by temporarily lending some of the shares, bonds or derivatives it holds. Although we don't actively participate in securities lending, the underlying asset managers of our Aegon-linked funds may do so.

We share the FCA's view as expressed in its SDR consultation paper (October 2022) that a firm should clarify its securities-lending policy and the steps it takes to ensure this is coherent with its sustainable-investment strategy. In 2023, we'll look to incorporate this consideration into our manager-monitoring activities. As part of our annual review process, we'll consider updates to our RI policy, including specific references to stock lending.

12.5 Engagement and voting activities undertaken on our behalf by asset managers in 2022

Voting statistics by key managers

As stewards of capital for beneficiaries, we hold managers to account on their voting performance, particularly on environmental and social issues.

The table below illustrates a summary of voting activity undertaken for the 2022 period by our key asset managers. As explained under Principle 9, the cumulative assets managed by these three managers cover over approximately 76% of Aegon UK's AUM.

Overall, we are pleased that managers are exercising their votes more than ever, however we recognise there is room for improvement by a few of our managers to vote more proactively in favour of meaningful ESG resolutions and to support action-oriented resolutions as much as disclosure oriented-resolutions. We will continue to engage on these points and will report on our progress in next year's report.

	BlackRock	HSBC Asset Management	Aegon Asset Management**
Number of voteable proposals	1978*	1140	10,695
% of resolutions voted upon where eligible	98.69%*	93.4%	55%
% voting for/against on management proposals	97.62%* / 2.38%*	88% / 12.1%	95% / 5 %
% voting for/against on shareholder proposals	12.61%* / 87.39%*	76.1% / 23.8%	41 % / 59%
Link to public voting records	https://www.blackrock.com/corporate/insights/investment-stewardship#guidelines	https://vds.issgovernance.com/vds/#/MjIwNw==	https://www.aegonam.com/en/responsible-investment/

*Based upon top-100 equity holdings held across the top 20 BlackRock funds, holding the largest proportion of Aegon UK assets

**Aegon Asset Management statistics are from Active Equity assets. In line with their active ownership policy, of voting only international companies with holdings > 0.1%

Wider overview of voting activities beyond key managers

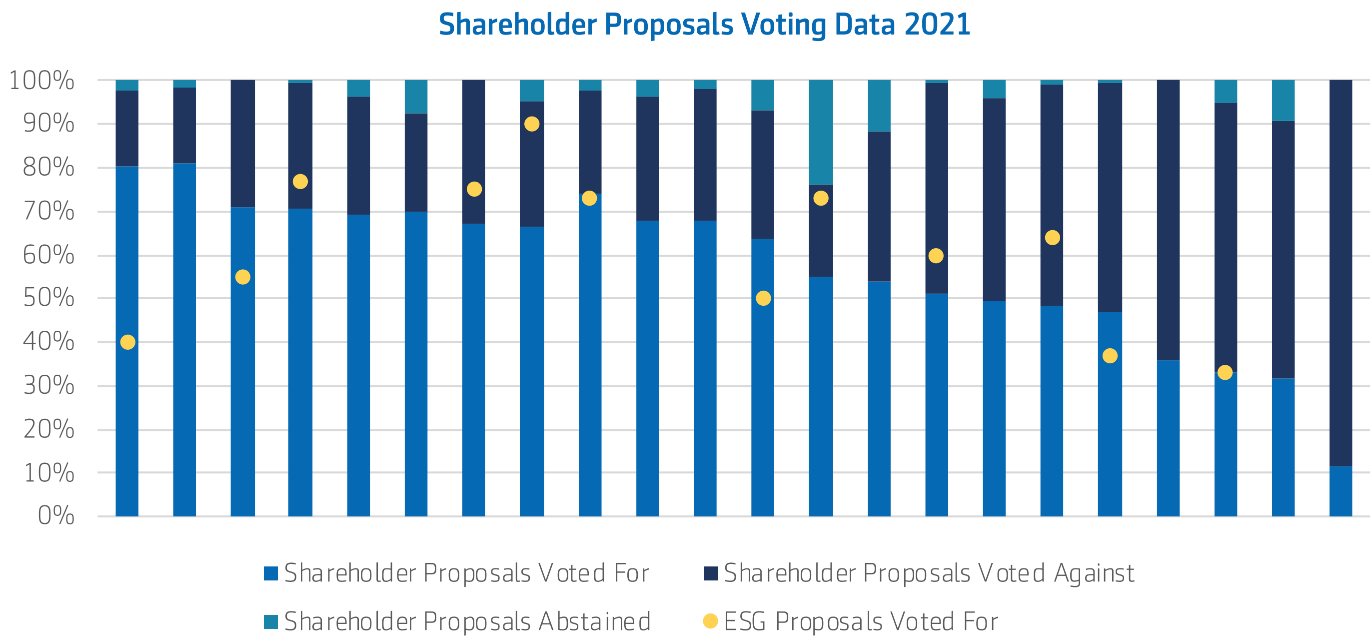
Beyond our key managers, we monitor the voting performance across our other managers (see below). The below shows voting data collected in our 2022 manager monitoring analysis relevant for 22 asset managers that provided detailed voting statistics.

Among other matters, our 2022 manager monitoring findings revealed varying levels of support for environmental and social resolutions (see below).

We see support for meaningful shareholder proposals as a key mechanism for driving positive change in companies.

In the past year, we engaged where a manager had, for instance, a strong propensity to vote for shareholder resolutions, but demonstrated decreased or low levels of support for environmental or social shareholder resolutions. Looking ahead, we will continue to encourage our managers to vote on effective shareholder resolutions that try resolve environmental and social problems, or require them to provide an explanation where they do not.

Figure 31: Voting data collected in our 2022 manager monitoring analysis



Voting and engagement case studies

AAM case study: Rio Tinto | Voting decision on a climate action plan

Issue

In 2022, Rio Tinto sought shareholder approval for its Climate Action Plan which displays the company's ambitions on emissions targets, and actions to achieve said targets. Rio Tinto had made progress on its climate change commitments in the previous year by committing to a 50% reduction in scope 1 and 2 emissions by 2030, and committing US$7.5 billion to support meeting this target. However, it had not applied the same ambition to its scope 3 emissions.

AAM felt Rio was lagging peers in this area. In 2022, scope 3 emissions composed 95% of Rio Tinto's total footprint, and as such AAM expects the company to be leading in its scope 3 measurement and ambitions.

Approach

AAM sought the opinion of external expertise on the company's climate ambitions, as well as engaging with the company directly. This allowed AAM to form a balanced view on the company's progress to date and whether its commitments were ambitious enough.

AAM came to the decision that abstaining on the approval of the Climate Action Plan was the most appropriate action. Rio Tinto had made progress in numerous areas of its approach to climate management. However, the company was still lacking in key climate disclosures, timelines and measurable targets around scope 3.

Outcome and next steps

The Climate Action Plan received 84% support at the AGM, and there will be no further opportunity to vote on the climate plan until 2025.

AAM will analyse Rio's progress against the commitments it has already made, and any further updates that strengthen its approach. While AAM doesn't have an opportunity to vote on the company's plan for some time, it will continue to engage with the company to encourage continuous improvement.

HSBC case study: Amazon.com Inc. | Voting activity on labour rights

Issue

HSBC voted against management on a shareholder proposal at the company's AGM in May 2022, requesting the company adopt a policy of including hourly employees in the initial list of candidates from which board nominees are chosen. Given controversies related to working conditions and treatment of workers, and the fact that Amazon's business relies heavily on the safety and wellbeing of its warehouse workers, having employee representation on the board could potentially provide the company with meaningful insights into its workforce's needs.

Approach

HSBC believes adopting a policy to include non-management employees on the board could help the company resolve worker grievances and address shareholder concerns. HSBC communicated its thinking on the shareholder approval well ahead of the AGM and voted for this proposal, against management recommendation. The vote against management was one of HSBC's criteria for assessing this vote to be most significant, along with the company having a significant weight in HSBC's pooled-fund portfolio (6.36% as at the date of the vote).

Outcome and next steps

Although the shareholder proposal did not pass, HSBC will continue to engage on the issue along with other issues of concern and will likely vote against a similar proposal should it see insufficient improvements.

BlackRock case study: Holding directors to account on gender diversity | China Tower Corporation

Issue

In January 2022, BlackRock voted against the re-election of the two incumbent directors on the Nomination Committee of China Tower, a state-owned telecommunications company and the world's largest telecommunications-tower-infrastructure service provider. It believed the company should be held accountable for the lack of gender diversity among the proposed candidates. BlackRock generally would not consider single gender boards as diverse boards. It expects companies to have at least one female board director and may vote against the re-election of director(s) responsible for the lack of female representation on such boards.

Approach

BlackRock was concerned that the lack of gender diversity on the company's board may undermine board effectiveness and potentially impact the company's ability to create long-term shareholder value. It also noted concerns on the proposed board composition failing to comply with the local regulatory requirements of HKEX before the next scheduled election of the board, when these regulations would be in force.

Although it engaged with the company to communicate its concerns, BlackRock was of the view that the two members of the Nomination Committee should take a more proactive approach towards achieving a minimal level of gender diversity.

Voting against the re-elected directors was also in line with BlackRock's proxy-voting guidelines for the region, where it expects companies to have at least one female board director.

Outcome and next steps

The resolution passed, but BlackRock will continue to engage with China Tower to provide constructive feedback and to monitor progress.

BlackRock case study: Voting against management re-elections for the second consecutive year | Warrior Met Coal

Issue

Warrior Met Coal, Inc. is a US-based producer and exporter of metallurgical (met) coal used for steel production. BlackRock's stewardship team (BIS) has engaged with management representatives over the past several years to discuss a range of ESG issues with the company, including issues related to climate risk and sustainability reporting. At last year's shareholder meeting in April 2021, BIS did not support the election of two directors due to concerns, including that the company provided limited disclosures on how it's managing climate-related risks and opportunities.

Approach

BIS notes that these issues have not been addressed since last year's shareholder meeting and have also been exacerbated by events that occurred in 2021 around a labour dispute. BIS looks to company leadership to provide disclosures consistent with the recommended frameworks like TCFD. It believes that companies which critically evaluate their emissions baseline, set rigorous reduction targets and act on an accelerated timeline are those most likely to avoid operational and strategic disruptions in the future as the global economy decarbonises.

At the time of the re-election of two directors in March 2022 (the same two directors BIS did not support election of in 2021), BIS found the company had not aligned its climate-related disclosures to the TCFD framework, reported scope 1 and 2 GHG emissions or set emissions-reduction targets and again voted against the re-election of the two directors.

Outcome and next steps

The resolution passed. While BIS appreciates the company's aspiration to be a responsible partner in the global steel-supply chain, it does not have enough information to assess how the company is positioning its strategy in the transition to a lower-carbon economy and takes the view that the company's plans to navigate the energy transition should be much further along in development.

BlackRock case study: Engagement in capital markets: Green Bonds issuance example | Climate

Background

BlackRock has an ESG Capital Markets Working Group which engages with companies, sovereigns and underwriters at the point of new issuance or refinancing of green or social bonds, to drive innovation and to diversify issuance in ESG-oriented fixed-income securities. It works directly with issuers and dealers to expand issuance across sectors and to market new concepts and evaluate new green or social-bond issues, using its proprietary taxonomies.

Coca-Cola HBC is the strategic bottling partner of the Coca-Cola company. It primarily engages in the production, distribution and sale of mainly non-alcoholic, ready-to-drink beverages across a broad geographic footprint of 29 countries in three continents, and will be issuing green bonds under its green-bond framework.

Approach

BlackRock's ESG Capital Markets Working Group reviewed Coca-Cola's green-bond framework in 2022. It found the framework and use of proceeds outlined quite comprehensive, addressing the complete sourcing and production to end-of-life treatment of its product.

The working group's findings included the following:

- On the design within circular economy, the investments to reduce packaging are commendable and if the issuer added a recyclability target/rate with the design phase investments, this could be quite a good project, in the medium green range of BlackRock's propriety taxonomy.
- Investments in energy efficiency/renewable energy for on-site energy improvements/renewable energy integration are welcomed.
- Raw-material acquisition with third-party standards are commendable and could achieve an overall medium green rating.
- However, on circular economy, while the raw-material sourcing of rPET and bio-PET is not virgin in nature, it can still be categorised as single-use. There is an attempt in the use/reuse phase to include initiatives/efforts for refillable bottles/packaging and investments in packaging-free delivery systems/business models, but given the largely single-use nature, this would still be difficult to qualify.
- For on-site improvements to water efficiency, the framework could benefit from some quantitative thresholds.

Outcome and next steps

The use of proceeds does not overall pass Blackrock's minimum safeguards test. The main portfolio (74%) is comprised of sugar-sweetened beverages or soda. With the harm on human health packaged in the product, and with certain elements above that contended in the framework, there is a potential of a customer health-and-safety breach. There is also fossil lock-in potential, and soil and biodiversity issues that need to be addressed in the supply chain.

For these reasons, Blackrock have decided to avoid any newly issued bonds issued under this framework to be off-scale of the BlackRock proprietary green-bond taxonomy.

BlackRock case study: Partnering with index providers on approach to green bonds | Climate

Issue

Over the years, more issuers have come to the market with green bonds, contributing to significant growth of the asset class. Regulatory standards on what constitutes a sustainable investment have also evolved, as sustainability considerations have received heightened scrutiny from investors. The Bloomberg MSCI Global Green Bond Index methodology is based on MSCI's green-bond framework, which takes into account four eligibility criteria aligned with the green-bond principles.

Approach

In Q3 2022, BlackRock engaged with Bloomberg and MSCI on a consultation to implement additional ESG screens to the Bloomberg MSCI Global Green Bond Index. The aims of these enhancements were to increase consideration of ESG and climate headline risks, as well as to achieve greater alignment with developments in regulatory standards such as SFDR.

Outcome and next steps

As a result, the Bloomberg MSCI Global Green Bond Index now screens out issuers involved in serious ESG controversies.

This is implemented by removing issuers with a red MSCI controversy flag or environment controversy flag. Additional screens on thermal coal mining and controversial weapons involvement have also been added to the Bloomberg MSCI Global Green Bond Index.

These updates are a result of consultation between the index and ETF providers, including BlackRock. This recent consultation showcases how indices stay relevant and evolve in response to industry developments and client needs.

Looking forward: Direction of travel

During 2023, we will continue to progress key initiatives and focus areas, including the following.

Governance and training

We will continue to support embedding and integrating sustainability considerations in the business. We expect all members of our Investment team to have at least one performance objective related to RI and sustainability as an integral part of overall investment decision-making. In addition, we have plans to offer regular RI training to the AUK board, Aegon Master Trust trustees and a wider cross-section of business functions, including marketing and distribution. We'll be reviewing sustainability governance embeddedness as part of Aegon UK's external board effectiveness review. We're also preparing to support Aegon NV to develop a sustainability academy training programme, covering sustainability content for all employees, as well as more specialist learning for key functions such as risk and procurement, keeping our customers' best interests in mind.

Climate roadmap

Following our commitment to transitioning our workplace auto-enrolment default funds to net-zero carbon emissions and cutting emissions by 50% by 2030, we have published a Climate Roadmap. This is our public transition plan to net zero, setting out our vision for decarbonising the default funds and credibly outlining the steps we're taking. We continue to progress the implementation of this transition plan and will review this annually.

Customer engagement

We expect to further develop customer engagement on sustainability and RI, including digital tools to help customers understand the relevance of RI to their beliefs and to help identify funds relevant to them. We will be following the development of the FCA's SDR and leveraging that and other industry frameworks to support clarity for customers and engagement on sustainability in their pensions and savings.

Expanding our focus on climate justice, biodiversity and human rights

Following the formulation of our 2023 engagement themes, we expect to develop our understanding and management practices around the human impacts of climate change, including climate justice, as well as developing our practices on biodiversity and nature-related risks, and human rights. We hope to leverage our participation in collaborative initiatives like the TNFD Forum and the DWP Taskforce on Social Factors (TSF) to anchor our own work in industry standards and good practices.

Manager monitoring

During 2023, we'll monitor the performance of our asset managers against our increased expectations in line with our RI policy and stewardship policy, engaging with them on areas of divergence. We'll also express our voting preferences to key asset managers in pooled mandates, on specific resolutions related to our biggest holdings and our stewardship priorities. Based on the learnings from the AGM season 2023, we'll refine our expression-of-wish approach further to continue ensuring value alignment between ourselves and our managers.

Industry advocacy

In our industry participation, 2023 will be about deepening our participation in existing collaborative industry initiatives, including the DWP TSF, and increasing our policy engagement to input on a wide range of key sustainable-finance developments, including SDR and the FRC's upcoming revision of the Stewardship Code.

Hilkka Komulainen
Head of Responsible Investment

- Responsible for overall responsible investment strategy and implementation
- Ensures ESG considerations are embedded in investments and long-term business strategy
- MSc International Public Management, MA International Relations

Pauline Vaskou
Climate and Responsible Investment Strategy Lead

- Responsible for Aegon UK Climate Roadmap and RI policy
- Leads development of climate reporting and net-zero commitments implementation
- MSc Environmental Technology, CFA Investment Management Certificate (IMC), CFA Certificate in ESG Investing and CFA Certificate in Climate and Investing

Samantha Chew
Stewardship Lead

- Responsible for Aegon UK Stewardship Code report and stewardship policy
- Leads development of stewardship practices, with a focus on manager monitoring, voting and engagement, as well as corporate governance
- Called to the Bar of England and Wales, Chartered Accountant (CA), CFA Certificate in ESG Investing

Helen Blanking
Responsible Investment Analyst, Stewardship

- More than 15 years' experience in asset management
- Supports stewardship implementation, including asset managers' monitoring and analysing voting and engagement activities
- Currently studying for CFA Investment Management Certificate (IMC)

David Flint

Responsible Investment Analyst, Climate

- More than 30 years' experience in financial services
- Analyses climate data across investment estate to inform strategy and reporting
- BA Business Studies, RSGS Climate Solutions Professional qualification

Gildas Ehrmann

Responsible Investment Analyst, Climate

- Drives climate reporting including TCFD
- Develops data-led climate insights, supporting climate strategy
- MSc Sustainable Development, CFA Certificate in ESG Investing

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