Active Ownership Report 2019

For professional and qualified investors only

AEGON Asset Management

Contents

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Our Responsible Investment Approach

At Aegon Asset Management, we are active, engaged and responsible investors. By investing responsibly, we aim to minimize risk and explore new opportunities as we seek to generate value for our clients. As stewards of our clients' capital, we think it's prudent to consider all relevant and material risks and opportunities, including ESG factors, as part of comprehensive securities analysis. Incorporation of ESG factors is a core element of our investment analysis and stewardship activities.

Responsible investment defined

Responsible investment (RI) is an umbrella term that covers various tools and approaches to incorporating Environmental, Social and Governance (ESG) considerations into investment decision-making processes. It may include ESG integration and active ownership as well as dedicated, RI-focused solutions. Related terms may include sustainable or ESG investing.

Building on our rich heritage of responsible investment stretching over the past 30 years, we've built a comprehensive responsible investment approach consisting of three pillars: ESG integration, active ownership and solutions. We integrate ESG factors across our investment platform, lead active ownership activities and provide focused responsible investment solutions.

Responsible investment pillars

	ESG Integration	Incorporating ESG factors into the investment process to mitigate risk and uncover opportunities.
	Active Ownership	Addressing ESG issues by actively engaging with issuers and investee companies and exercising shareholder rights.
	Solutions	Providing focused responsible investment strategies including exclusions, best-in-class, sustainability-themed and impact investments.

Active Management, Active Ownership

Our approach

As active asset managers, our responsibility extends beyond today's investment opportunities. We believe taking responsibility as an investor also means being a truly active owner, not just as a shareholder but as a financier more broadly. With a long-term focus, we have built a robust active ownership program that includes exercising shareholder voting rights in the best interest of our clients and engaging with bond or equity issuers in an effort to mitigate ESG risk, to help better understand the opportunities that companies face and encourage more sustainable practices. Our dedicated Responsible Investment team leads the firm's active ownership program alongside our portfolio managers (see Appendix 1).

Engagement

At Aegon Asset Management, we aspire to influence change by engaging in dialogue with issuers, either bilaterally or as part of an investor consortium. This dialogue can provide opportunities to highlight ESG risks, inform management on sustainability concerns, promote growth in sustainable business lines and advocate changes that align with responsible investment priorities. Successful engagement can create new investment opportunities. Where possible, we vote in line with our engagement efforts.

Aegon Asset Management's engagement efforts can be divided into three types:

1. **Policy-based:** This entails companies that are considered to be in breach of client policies. For example, companies that are non-compliant with the UN Global Compact Principles, OECD guidelines for Multinational Enterprises or UN Guiding Principles for Business and Human Rights. We also engage with those that are considered to be at risk of breaching these minimum standards.
2. **Thematic engagement:** We identify long-term financial risks arising from ESG issues as part of our research process. This may lead to engagement and continuous monitoring on topics such as climate change, health and diversity.
3. **Product support:** Proactive engagements flagged by analysts as part of an investment strategy requiring specific corporate disclosures for the research and investment selection process, or targeting ESG performance improvement.

We introduced a milestone-based approach in 2019, to better track and communicate our engagement efforts. Moreover, we built a proprietary methodology to measure and report on engagements. Please note that this new methodology was applied to engagements conducted for our US and NL operations (with the exception of engagements conducted for multi-manager portfolios) in 2019. The scope of this report is limited to these engagements only.

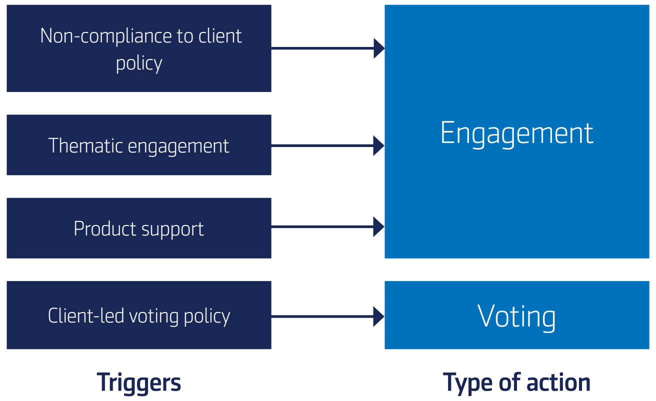
Milestone 1 means that we have flagged our concerns. **Milestone 2** is when the company responds (letter, email, phone call) and the dialogue starts. Once concrete steps are taken to resolve our concerns, the engagement moves to **milestone 3**. Only when the engagement goal has been achieved does the engagement move to **milestone 4**. In some cases, the assessment changes and (after talks with the company) we may decide to no longer pursue the engagement. This is when we categorize the engagement as "no further action required".

Voting

Aegon Asset Management also uses its voting rights to promote responsible investing standards. Similar to engagement, our voting activities seek to ensure our voice as investors is heard, in an effort to improve companies' performance and to pursue competitive returns for our clients. Our approach to voting is also informed by engagement.

For our investment strategies that incorporate equities, we execute votes in alignment with our engagement objectives, often in favour of shareholder resolutions. These efforts are also publicly available online in our dynamic voting dashboard, which provides a real-time overview of our voting activities. Casting votes enables us to align our clients' objectives with the messaging and communication of our engagement activities.

Figure 1: Aegon Asset Management Active Ownership Approach



Progress: Engagement in 2019

The reasons we initiate dialogue with portfolio companies are manifold:

- Exercise our stewardship responsibilities;
- Fulfill client expectations with respect to their RI policies;
- Better understand the companies we invest in and support their long-term financial performance;
- Monitor, manage, and mitigate investment risk;
- Attempt to maximize positive ESG outcomes .

Moreover, where possible, we vote in line with our engagement efforts.

As outlined in Figure 2, within the aforementioned scope of this report, we engaged with 269 companies in 2019. This compares to 74 engagements in 2018. To support our increased engagement efforts, we expanded our team with two new hires in 2019.

One primary focus of our engagements was to ensure our investee companies meet the minimum standards outlined by our **clients' policies**. We engaged with 75 companies who, according to our research provider, are on the watch list or non-compliant to the UN Global Compact Principles, OECD guidelines for Multinational Enterprises or UN Guiding Principles Business and Human Rights. This was often related to human rights (approximately 12% of our engagements) or business ethics (approximately 9% of our engagements). In some cases, we did not agree with the research provider's assessment and we decided to close the engagement, after we spoke to the company in question and investigated the issue. In other cases, we are still in the process of engagement until we believe that the portfolio company is aligned with our clients' policies. If we feel that there is insufficient response or change after several years, we may recommend exclusion to our clients.

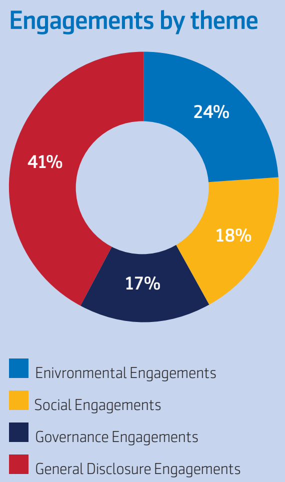
We also selected key ESG issues that pose long-term financial risks to our investment portfolios, such as health and well-being, and climate change (Figure 3). This led to proactive engagements on these themes, often in collaboration with other investors and organizations. The collaborative angle is an important factor for us, as it helps to add more weight to the engagement and, therefore, increases the likelihood of success. It is important to note that we document only those engagements where we play an active role and highlight selective ones in this report. Please refer to the next section, Collaborating for greater engagement impact, for more detail.

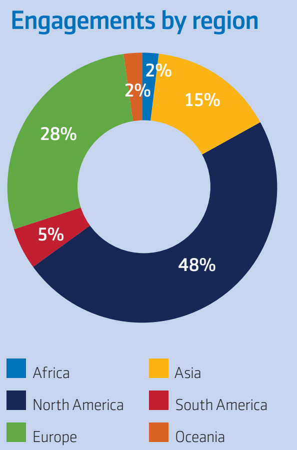
Lastly, our **product support** pillar is a result of our ESG integration journey. This year, we launched new products such as sustainable fixed income and high yield ESG, where focused engagement can help advocate for increased ESG disclosure- and performance to help us make better-informed investment decisions and potentially expand the investable universe. We have also started to increase our efforts in real estate, where

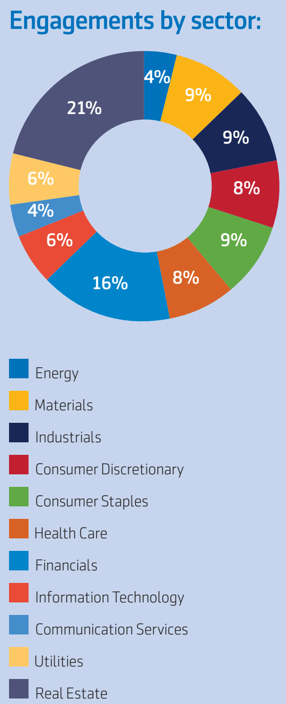
Figure 2: Active Ownership Highlights 2019

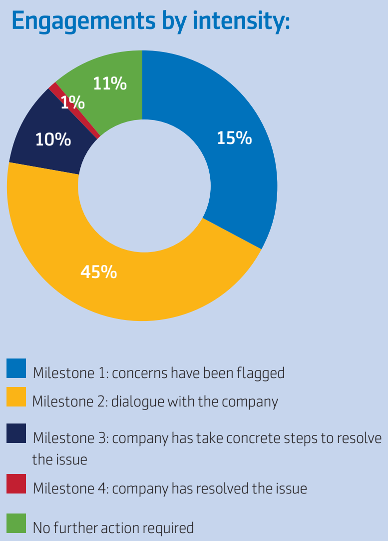
We engaged with 269 companies[2] in 37 geographies

- In 67% of the cases, companies responded and we often followed up with a call or meeting (milestone 2, 3 or 4)[3]
- In 33% of the cases, this was an engagement letter the company has not yet responded to (milestone 1: issue has been flagged)
- In 79% of the cases this was a bilateral engagement
- In 21% of the cases this was a collaborative









1. Please note that this is excluding Kames Capital and TKP Investments numbers.
2. Including Kames Capital and TKP Investments numbers, this amounts to 564 globally. We are currently working on integrating our engagement databases, which means that we are not yet able to provide the above pie charts for all engagements.
3. Please refer to the Continuous Learning section on page 8 for more information on our milestone-based approach.

we encourage companies to participate in the Global Real Estate Sustainability Benchmark (GRESB) and to improve their environmental footprint. These types of product engagements require a high level of ESG disclosure, which explains the large percentage (41%) of general disclosure engagements. Due to limited responses and subpar results within the real estate engagements, in 2020, we are launching a more targeted approach in this sector. Once the company in question discloses according to this high(er) standard, the analysts can complete their assessment and identify the most material engagement topics. The latter are engagements where our Active Ownership Specialists (Appendix 1) and our analysts join forces and leverage their collective expertise to have a constructive dialogue with the targeted companies.

We aim to build a relationship and have regular dialogue with our portfolio companies. Out of the 269 companies we reached out to this year, 181 responded. This response rate is satisfactory, given that this is the first year of the current methodology and considering that our access may be more limited as a fixed income investor. Nevertheless, we will continue to strive for a 100% response rate.

Figure 3: Examples of our efforts under the themes health & well-being and climate change

Health & well-being	According to the UN[5], at least half of the global population still does not have access to adequate health services. To avoid situations in which health emergencies push people into bankruptcy or poverty, we believe it is crucial to strive for universal health coverage and sustainable financing for health. Additional important health issues include antimicrobial resistance, better nutrition and availability of medicine for orphan diseases. Through our engagement activities, we are addressing the opioid crisis via Investors for Opioid and Pharmaceutical Accountability (IOA) and conducting bilateral engagements with big pharmaceutical companies to improve access to medicine. Additionally, we are engaging with Farm Animal Investment Risk & Return (FAIRR) to mitigate ESG risks, such as antibiotics usage, linked to intensive animal production within the broader food system and conducting bilateral engagements.
Climate change	Climate change mitigation efforts made thus far have proven insufficient as greenhouse gas (GHG) levels continue to rise. Worldwide action is required to reduce GHG emissions by 45% by 2030 on the way to net zero by 2050 in order to limit the global temperature increase to 1.5°C and avoid catastrophic consequences. By supporting Climate Action 100+, we aim to encourage the world's largest corporate GHG emitters— including intensive sectors such as oil and gas, utilities and steel—take necessary action. We are also working with ShareAction on the Investor Decarbonisation Initiative (IDI) and with the UN-supported Principles for Responsible Investment (PRI) on engagements to reduce methane emissions with energy and utility companies and on moving companies to 100% renewables. Further, we conduct bilateral engagements on GHG emission reduction and water usage.
Corporate governance	We believe that investing in companies with high governance standards is more likely to lead to better financial performance. We invest in companies listed in many different markets and operating under significantly differing conditions. Therefore, we endeavour to be pragmatic and reasonable in our approach to monitoring and engagement, encouraging all companies to strive towards best practice in many areas including: board structure; remuneration; capital structure; shareholder rights; auditors; and related-party transactions. Where we feel there is insufficient progress on issues we have raised with companies, we follow up in our voting actions at the next available opportunity.

5. https://unstats.un.org/sdgs/report/2019/The-Sustainable-Development-Goals-Report-2019.pdf

Collaborating for greater engagement impact

To effect change on a large scale, we collaborate with other investors and non-governmental organizations. While engagement is undertaken both individually and collaboratively with other investors, Aegon Asset Management prioritizes pre-competitive collaboration: working together with other influential long-term institutional investors to achieve positive impact. In addition, we collaborate with other stakeholders and influencers around responsible investment objectives. Examples of the parties we collaborate with are: the Institutional Investors Group on Climate Change (IIGCC), Eumedion, ShareAction, FAIRR and Coalition for Environmentally Responsible Economies (CERES).

PRI Principles for Responsible Investment	Aegon Asset Management has been a signatory to the PRI since 2011. Membership commits us to upholding the six principles for responsible investment and reporting annually on our progress. We are active in the PRI's methane working group among others.
IIGCC The Institutional Investors Group on Climate Change	IIGCC is a network of 170 investors (managing around €23tn in assets) focused on climate change; the group works with business and policymakers, as well as investors to help mobilize capital for the transition to a more sustainable economy. The IIGCC coordinates Climate Action 100+ in Europe.
Climate Action 100+	Climate Action 100+ is an initiative of 320 investors with more than $33 trillion in assets collectively under management aimed at ensuring the world's largest greenhouse gas emitters take necessary action on climate change. Aegon Asset Management joined Climate Action 100+ in 2017.
ShareAction	ShareAction is a UK-registered charity that promotes responsible investment and works to improve company performance on ESG issues.
FAIRR A COLLER INITIATIVE	FAIRR works on ESG issues related to farming and agriculture. Aegon Asset Management joined FAIRR in 2016.
Ceres Mobilizing Business Leadership for a Sustainable World	The Ceres Investor Network focuses on climate risk and sustainability; the network comprises 163 institutional investors around the world – and organizes regular corporate engagement on sustainability issues.
EUMEDION CORPORATE GOVERNANCE FORUM	Aegon Asset Management is an active member of Eumedion – a forum for institutional investors on corporate governance and sustainability topics.
IOA INVESTORS FOR OPIOID ACCOUNTABILITY	IOA is a coalition of institutional investors, established in 2017. The IOA engages with manufacturers, distributors and retailers on ways to tackle the current opioid crisis in the US. The IOA is one of the investor working groups of the Interfaith Center on Corporate Responsibility (ICCR).

Noteworthy developments this year include:

ShareAction Award: We received a collaborative engagement award from ShareAction for being active in various collaborative engagements and for supporting several shareholder resolutions.

Combating climate change: In alignment with our responsible business principles, our voting activities included climate-positive resolutions filed at oil and gas companies. The oil and gas industry is a critical energy source with considerable climate impacts—and, unlike utilities, is largely outside the direct regulation of government.

Investors for Opioid and Pharmaceutical Accountability (IOPA): Our participation in the IOA collaborative engagement entails fighting the North American opioid crisis (addiction to pain relievers such as fentanyl or oxycodone). We helped develop the Governance Principles for a Sustainable Pharmaceutical Industry which are meant to help companies better understand investors' expectations, especially with respect to responsible governance. More details on this engagement can be found in the Engagement Themes in the Spotlight section.

Accounting firms: Our participation in engagements focused on efforts to include climate risks in the audit process. This could mean adding climate considerations to risk management, accounting judgements and stress testing, as well as having them audited.

Continuous Learning

Engagement with portfolios companies can unlock value and mitigate risks. It can, however, take multiple years before success can be observed and it can be a complicated endeavour. Last year, we discussed that it is difficult to strike the right balance between being positive and encouraging, while also firm and fact-based in our dialogue with companies. Striking this fine balance is tough, but there are other challenges involved in engagement that make for an interesting discussion:

1. What is engagement success?

The answer to the first question becomes clear once we define a specific goal for an engagement. Engagement goals can vary from "becoming compliant with the UN Global Compact Principles and our client's policy", to "disclosing carbon emissions and setting targets in line with the Paris Agreement". It is therefore crucial to formulate clear, specific and measurable goals in advance of the engagement.

2. How do you track engagement success?

The engagement goals will also help facilitate tracking of the engagement progress. For engagement tracking, we launched a milestone-based approach this year. It helps us to better track our engagements and to identify companies who are not making enough progress. This tracking of progress gives rise to the next question:

3. What is an acceptable timeframe in which a company should demonstrate willingness to change?

According to academic research, an engagement takes about three years on average[4]. Nevertheless, this depends on the complexity of the engagement. For example, disclosing an ESG indicator, which a company already tracks internally, may take two years, depending on their reporting cycle. However, disclosing an ESG indicator that is not yet measured and setting science-based targets for this indicator may take much longer. However, regardless of complexity, a company should demonstrate willingness to have a constructive dialogue.

4. Are there specific factors that can increase the likelihood of success?

This last question undeniably requires more academic research, as there is no known formula to guarantee success. In support of our quest for advancing engagement practices, one of our team members became a fellow at the Platform for Sustainable Value Creation at Erasmus University to contribute to engagement research. The research, a collaboration with academics from Oxford University, seeks to better understand the drivers of engagement success.

4. Hoepner, Andreas G. F. and Oikonomou, Ioannis and Sautner, Zacharias and Starks, Laura T. and Zhou, Xiaoyan, ESG Shareholder Engagement and Downside Risk (August 10, 2018). AFA 2018 paper. Available at SSRN: https://ssrn.com/abstract=2874252 or http://dx.doi.org/10.2139/ssrn.2874252

Engagement Case Studies

Active Ownership Type: Thematic, Climate Change
Uniper (Sector: Utilities)

Company Description	**Uniper SE operates as an international energy company. The Company owns and manages a portfolio of power plants located across Europe and Russia, and focuses on commodity trading businesses, such as power, emission certificates and natural gas.**
Engagement Background	Methane – the primary component of natural gas and a climate pollutant **84 times** more powerful than carbon dioxide over a 20-year period – is responsible for a quarter of the global warming happening today. Therefore the **PRI** has launched a new global collaborative engagement, with **36 investors from 11 countries** representing **USD4.2 trillion** in assets under management. We are the **lead investor** for Uniper.
Engagement Goal	To encourage them to improve their **management and disclosure of methane emissions**
Engagement Action	1. **Engagement letter** sent to the company to address the importance of methane management 2. **Phone call** with IR to flag issues once again. Questions on methane management were discussed in particular.
Engagement Outcome	Uniper is looking to make their reporting more inclusive, but need to align internally as they are still in a learning curve. The publication of their next sustainability report around the 2020 AGM will show whether they have succeeded in giving the needed transparency. Engagement is in progress and is categorized as Milestone 2.

Active Ownership Type: Policy-Based, Labor Rights
Prosegur Compania de Seguridad S.A. (Sector: Industrials)

Company Description	Prosegur Compania de Seguridad, S.A. operates in the private security sector globally. The company operates through Security, Cash, and Alarms segments.
Engagement Background	Flagged by our UNGP screening for alleged anti-union practices. What is of particular concern is the duration, breadth and recurrence of Prosegur's labor and human rights violations. There may be systemic issues in appropriately addressing labor risks in their Latin American operations. This is especially worrying, in light of the complaint that was filed against Prosegur with the Government of Spain for alleged ongoing violations of OECD guidelines for Multinationals in January 2017.
Engagement Goal	To better understand the business and the allegations and to ensure that they are or become UNGP compliant
Engagement Action	1. Engagement letter sent addressing labor rights issues and inviting them for engagement 2. Engagement call with investor relations (IR) and head of labour relations to discuss the above mentioned concerns. The company was considerably forthcoming
Engagement Outcome	The alleged anti-union practices seem not to be based on any facts and the allegations are made by one union group with their own agenda. The additional due diligence that was conducted did not find any labor rights issues. Union membership statistics are above average, especially for Spain. We have therefore completed the engagement.

Active Ownership Type: Policy Based, Corruption and Environment
Volkswagen AG (Sector: Consumer Discretionary)

Company Description	Volkswagen, together with its subsidiaries, manufactures and sells automobiles globally. **The company operates through four segments: Passenger Cars, Commercial Vehicles, Power Engineering, and Financial Services.**
Engagement Background	Volkswagen was approached as part of our policy-based screening. They are considered to be non-compliant with the UN Global Compact because of the Dieselgate scandal.
Engagement Goal	To better understand the Dieselgate aftermath and the risks they are facing. Ultimately, they should become compliant with the UN Global Compact again.
Engagement Action	1. Engagement letter sent addressing the Dieselgate scandal and inviting them for engagement. 2. We conducted an engagement call with the Head of IR 3. We attended their ESG convention in Berlin.
Engagement Outcome	The Dieselgate aftermath will likely still last for a number of years, with approximately 20.000 outstanding lawsuits in various jurisdictions. However, they seem to be taking the costly scandal as an opportunity in various ways. During the call we learned that they have flattened their hierarchy, which encourages people to report potential wrongdoings. The evidence of this is visible, as the number of reported cases is now 600+ as compared to half a dozen a couple of years ago. During the engagement call, we discussed their non-compliant status and they explained that they are normally an active UNGC member. However, they voluntarily withdrew their status during the Dieselgate scandal. They are now working together with the UNGC on re-activating their status. Our overall takeaway from the call was that they are now forthcoming about the mistakes they made and that they are turning the scandal into an opportunity. This positive take-away was confirmed when we participated in their ESG Convention. Company representatives showed clear willingness with regard to the transformation of Volkswagen. They set clear timelines for the implementation of golden rules and launched their internal program "together for integrity" for all entities and employees. This is part of the TOGETHER 2025+ multi-year strategy. The second auditor report is out and no new violations were recorded. Additionally, there were fewer recommendations. Other positive items are the improved disclosure on compliance cases and the introduction of clawback for management incentives. Nevertheless, there are few tangible indicators for investors and targets to measure against how the company is progressing. Given the size of the company and the scope of the Diesel scandal, more proof has to be given on the transformation. We have categorized the engagement as Milestone 3.

Active Ownership Type: Thematic, Climate Change
Royal Dutch Shell (Sector: Oil & Gas)

Company Description	Royal Dutch Shell is an integrated oil and gas company that explores for, produces, and refines oil around the world.
Engagement Background	We supported a Dutch collaborative shareholder initiative called "Follow This". The shareholder resolution for Shell requested to set and publish targets for GHG emissions which are in line with the well below 2 degree pathway of the Paris Climate Agreement. Royal Dutch Shell is also on the target list of the CA 100+ collaborative engagement initiative of which we are a member.
Engagement Goal	Shell needs to set and publish targets for GHG emissions which are in line with the well below 2 degree pathway of the Paris Climate Agreement
Engagement Action	Engagement meetings to continue the dialogue from previous years on Shell's emission reduction strategy and to discuss concerns regarding Shell's alignment with the Paris Agreement. Working towards a commitment rather than an ambition.
Engagement Outcome	Shell aims to reduce the Net Carbon Footprint (NCF), of its energy products by around half by 2050, and by around 20% by 2035, in step with society's drive to meet the goals of the Paris Agreement. This is to be applauded but there is also a clear need to set a target and not only an ambition. We feel it is not clearly communicated by Shell that their ambition is in line with the Paris Agreement and complies with the Intergovernmental Panel on Climate Change (IPCC) Pathway. Shell showed examples of the approach to their NCF and reconfirmed their NCF short-term target: a 2-3% reduction by 2021. Targets are linked to executive remuneration through a long-term incentive plan. It nevertheless remains vague how this is put in practice as well as how progress is measured. We are also engaging Shell on disclosure of their lobbying practices. Shell has published their first "Industry Association Membership Review" in 2019. We asked for this via the Climate Action 100+ group, applauded the disclosure and commented that it needs follow-up and regular review. The engagement is still ongoing and categorized as Milestone 3.

Opioids are destroying communities.

Opioid abuse is undeniably a public health crisis across North America and is spreading outside the US as well. The US Centers for Disease Control and Prevention (CDC) reports that in 2016 alone, opioid abuse caused 42,249 deaths in the US, or 115 people per day. In Canada, there were approximately 4,000 opioid-related deaths in 2017, which is a 34% increase from the prior year and a rate of 10.9 deaths per 100,000 people. Despite stricter regulation, addiction to prescription opioids is on the rise in Europe as well. Looking at the UK specifically, there has been a tripling of opioid prescriptions over the last decade. The regulatory and reputational risks associated with exposure to the global opioid crisis are significant and increasingly borderless[6].

In our engagement, we have emphasized opioid manufacturers, distributors, as well as retail pharmacies. For this reason, we have joined the IOA which focuses mainly on corporate governance, compliance and incentive practices along the opioid supply chain. The collective goal of the IOA's work is to utilize governance tools to create sustainable business models equipped to navigate the firms through the opioid crisis, as well as to hold senior executives accountable.

Apart from the concern around misuse and abuse of prescription opioids for public health, the IOA aims to protect their investments from lawsuits, fines, congressional action and financial damage that can accompany a tarnished public image. One opioid manufacturer is facing thousands of multi-state lawsuits related to opioids—a scenario that is becoming typical in the industry. IOA engages with each company by writing a letter to the board of directors and by requesting a meeting to discuss opioid business risks. After attempting constructive direct dialogue with companies, members of the IOA might also file resolutions calling for reports on board oversight of risks related to opioid sales, mechanisms for recouping executive pay in the case of misconduct and disclosure of lobbying spending. Moreover, they may ask for independent board leadership and other adjustments to oversight mechanisms, such as linkages to CEO compensation. We have supported most shareholder resolutions in this context, by exercising our voting rights. We have also demonstrated our support by helping to present these proposals to shareholders at the Annual General Meetings (AGMs) of Mylan and Mallinckrodt. At both AGMs, the IOA proposals about compensation clawback policies received a majority vote and so did another shareholder resolution filed at Mallinckrodt, which called for expanded lobbying disclosure. After various IOA dialogues, Mallinckrodt decided to support it. The resolution ended up receiving 80% of votes.

Another noteworthy action for the IOA in 2019, was the Governance Principles for a Sustainable Pharmaceutical Industry. These principles set out specific investor expectations for board oversight of long-term sustainable business practices in the pharmaceutical sector. We participated in the creation of these principles. The IOA is now proposing these governance principles to the pharmaceutical sector, to get companies to adopt these principles. The engagement started in 2019 and will continue in 2020.

Spotlight on Engagement Themes

The regulatory and reputational risks associated with exposure to the global opioid crisis are significant and increasingly borderless[5].

Mallinckrodt

Mallinckrodt (MNK) faced an IOA shareholders resolutions which we helped to present at their 2019 Annual General Meeting (AGM). The resolutions received a majority, but non-binding vote. Nevertheless, in December MNK announced plans to update its Incentive Compensation Clawback Policy (ICCP) and to develop and publish a report on the board's oversight of risks related to the opioid crisis in the US. These actions were a response to the approval of related shareholder proposals presented at the company's 2019 AGM. The company's ICCP will be updated to include a provision requiring the company to annually disclose the recoupment of any incentive compensation from senior executives undertaken in the previous fiscal year. A summary of these changes will be disclosed in the company's proxy statement to be filed this year, in conjunction with the 2020 AGM. In addition, the board agreed to create and publish a report by March 31, 2020, describing its approach to oversight of opioid-related matters.

6. Investors for Opioid Accountability (Oct. 2019) Two-Year Progress Report, https://www.iccr.org/sites/default/files/page_attachments/ioa_two_year_summary_report.pdf

Our beef with the animal protein sector

The animal protein sector is increasingly scrutinized and in the spotlight this year because of **deforestation**. This issue has reached staggering numbers: Brazil alone has 24 to 25 million hectares devoted to soy production, 80% of which destined for animal feed[7]. Being linked to deforestation can also have negative reputational consequences or restrict market access for companies. For example, the Roundtable on Sustainable Palm Oil decided to take away IOI Group's certification after they failed to comply with the requirements. This resulted in a 7% drop in its share price, as major brands such as Unilever (and 25 others) decided to switch suppliers[8].

Another ESG risk in livestock supply chains are **GHG emissions**. This is a major one, as they account for 7.1 Gt of CO2 per annum, which equals about 14.5% of global anthropogenic GHG emissions. Feed production and processing as well as enteric fermentation are the main contributors, which is why it is important for companies to disclose this. The most polluting animal commodity is beef, with approximately 41% of the sector's emissions[9]. If we were to calculate the financial materiality of these emissions with a comparatively low shadow carbon price of US$46, it costs about US $326.6 billion[10] per annum.

Animal welfare is another important ESG risk, which can significantly impact a corporation's reputation. This effect is amplified by social media, as disturbing videos can be spread globally within a few seconds. According to a report from the Business Benchmark for Animal Welfare in 2018, the main reasons for companies to focus on farm animal welfare are consumer interest, risk management and business opportunities.

One risk with alarming and potentially fatal consequences is the use of **antibiotics**. This is of major concern, as it contributes to the rise of antimicrobial resistance (AMR). According to the OECD (2018) around 2.4 million people could die in Europe, North America and Australia by 2050 due to AMR, without prompt and effective action. They expect this to cost about US $3.5 billion per annum[11]. Another study estimates the potential cumulative GDP loss to be between US $2.1 trillion and US$124.5 trillion. The authors of this study consider this an underestimate of the true costs of AMR as they did not take the rising costs of healthcare into account[12].

Working conditions are another important ESG risk to which the livestock supply chain is exposed. This can give rise to costs relating to compliance, lawsuits, reputation damage and operational disruptions. Although human and labor rights issues are already picked up by our screening (including OECD, UNGP and UNGC), this provides us with an even broader framework to address any potential issues. A May 2016 Oxfam report drew attention to the appalling working conditions of poultry plant workers in the United States. This generated intense media scrutiny and pressure on the companies named to respond to the allegations, including Tyson Foods Inc., Pilgrim's Pride Corp., Perdue Farms Inc. and Sanderson Farms Inc.[13]. These types of incidents may not only result in punitive action and compliance costs, but can also cause reputational damage.

After the enormous success of Beyond Meat, with a market valuation of about US $4.5 billion (Year-end 2019), it is no surprise that it can pay to **diversify into sustainable proteins**. In fact, according to a recent report by Nielsen, annual US sales of plant-based meats rose 42% between 2016 and2019 to USD888 million. This in contrast with traditional meat, which rose only 1% to USD85 billion during that time. Of course, this type of diversification is also related to the other ESG risk factors, as well as to the social and economic costs of unhealthy diets[14].

Not to forget in this list of ESG risk factors is **food safety**. Salmonella and listeriosis outbreaks appear to be happening more frequently as we struggle to feed the growing population. But how much can this cost a company? An outbreak of listeriosis has cost Tiger Brands several lawsuits, a 79% drop in revenue from the meat products division and they have lost 42% in share value since the outbreak.

The last two ESG risk factors among protein producers are **water scarcity** and **waste and pollution**. On the former; food and agriculture sectors use 70% of the world's available water for irrigating crops, as a drinking source for animals, and the production and transportation of food. In 2030, global water demand is expected to outstrip supply by a staggering 40%. This makes water an undeniably material issue for corporations. That is why PepsiCo has implemented effective technologies, including more efficient filtering, recapturing and 'recleaning' of the water they use. This enabled them to save a hundred million gallons of water annually[15].

Waste and pollution is an issue that is becoming more material, as regulation is increasingly strict with companies that commit environmental crimes. Tyson Foods is one of the largest meat producers in the world and is responsible for an enormous amount of toxic water pollution, coming from multiple sources, such as the fertilizer their farmers use to grow feed for animals. Between 2010 and 2014, Tyson Foods dumped 104 million pounds of pollution in US waters, which cost them US$7.5 million in fines in addition to reputational damage[16].

The ESG risks are further described in table 3 opposite, with the corresponding description from the Coller FAIRR protein producer index.

To address the above-mentioned issues in this sector, we launched an engagement project last year aimed at exposing and addressing the shortcomings in the protein producer companies we are exposed to. For this purpose, we used the comprehensive Coller FAIRR Protein Producer Index, which benchmarks intensive livestock and fish farming on ESG issues. Areas of best practice are highlighted and critical gaps are exposed, which supports investors like Aegon Asset Management in their investment decision-making. We identified the gaps for the thirteen companies we are exposed to and started the dialogue. In some cases these were leaders in the space, but in other cases there is room for improvement in ESG risk management. We expect this project to last several years, given the complex elements and lack of data for both investors and companies alike. Nevertheless, this sector needs to become more transparent and take responsibility for their footprint.

Table 1: ESG Risk Factors in the Protein Producer Sector

ESG Risk	FAIRR Description
Deforestation & Biodiversity	Global movements tracking forest loss target factory farming companies and can lead to shareholder divestment and / or weaken customer loyalty
Greenhouse Gas Emissions	Disproportionate amount of GHGs generated by livestock makes companies engaged in factory farming vulnerable to regulatory and social pressures to reduce emissions
Animal Welfare	Poor animal welfare presents operational and reputational risks for companies
Antibiotics	Drug-resistant infections are a serious public health threat which will likely impact productivity on a national scale
Working conditions	Operational risks, which can involve worker injuries and reputational risk, as well as food product contaminated by sick workers
Sustainable Proteins	Company's reliance on animal protein sources and strategy for protein diversification
Food Safety	A series of high profile food safety incidents across the globe have focused consumer concerns on threat of food contamination and foodborne illnesses
Water Scarcity	Beef, pork, dairy, and poultry companies consume large quantities of water both directly and indirectly via their purchase of animal feed
Waste & Pollution	Companies are facing greater scrutiny about the impact of waste on surrounding communities and the environment, meaning potential fines and regulation

Sources: FAIRR Coller Protein Producer Report 2019

In addition to the engagement project above, we are also part of several collaborative efforts organized by FAIRR. For example, these efforts include starting a dialogue with companies that are sourcing from the protein producers above. We believe that we can make more of a difference by engaging with the entire livestock supply chain, as they all need to move forward together.

7. The Yale School of Forestry and Environmental Studies https://globalforestatlas.yale.edu/amazon/land-use/soy
8. https://www.ceres.org/news-center/blog/deforestation-presents-material-risk-investors
9. http://www.fao.org/3/a-i3437e.pdf
10. Median shadow price for the utility sector was found to be the lowest. See Ishinabe, N., Fujii, H., & Managi, S. (2013). The true cost of greenhouse gas emissions: analysis of 1,000 global companies. PloS one, 8(11), e78703. doi:10.1371/journal.pone.0078703
11. OECD (2018), Stemming the Superbug Tide: Just A Few Dollars More, OECD Health Policy Studies, OECD Publishing, Paris, https://doi.org/10.1787/9789264307599-en.
12. Taylor, Jirka, Marco Hafner, Erez Yerushalmi, Richard Smith, Jacopo Bellasio, Raffaele Vardavas, Teresa Bienkowska-Gibbs, and Jennifer Rubin, Estimating the economic costs of antimicrobial resistance: Model and Results. The Wellcome Trust, 2014. https://www.rand.org/pubs/research_reports/RR911.html.
13. https://www.ceres.org/sites/default/files/Engage%20the%20Chain/Ceres_EngageTheChain_Risks_110417.pdf
14. https://www.carbontrust.com/media/671648/the-case-for-protein-diversity.pdf
15. https://www.pri.org/stories/2018-01-11/environmentalists-warn-about-water-scarcity-these-two-companies-are-saving-water.
16. http://theconversation.com/punishing-the-polluters-why-large-fines-are-an-important-step-towards-cleaner-corporations-115727; https://thinkprogress.org/this-meat-company-dumps-more-pollution-into-waterways-each-year-than-exxonmobil-8707fd28d2a1/

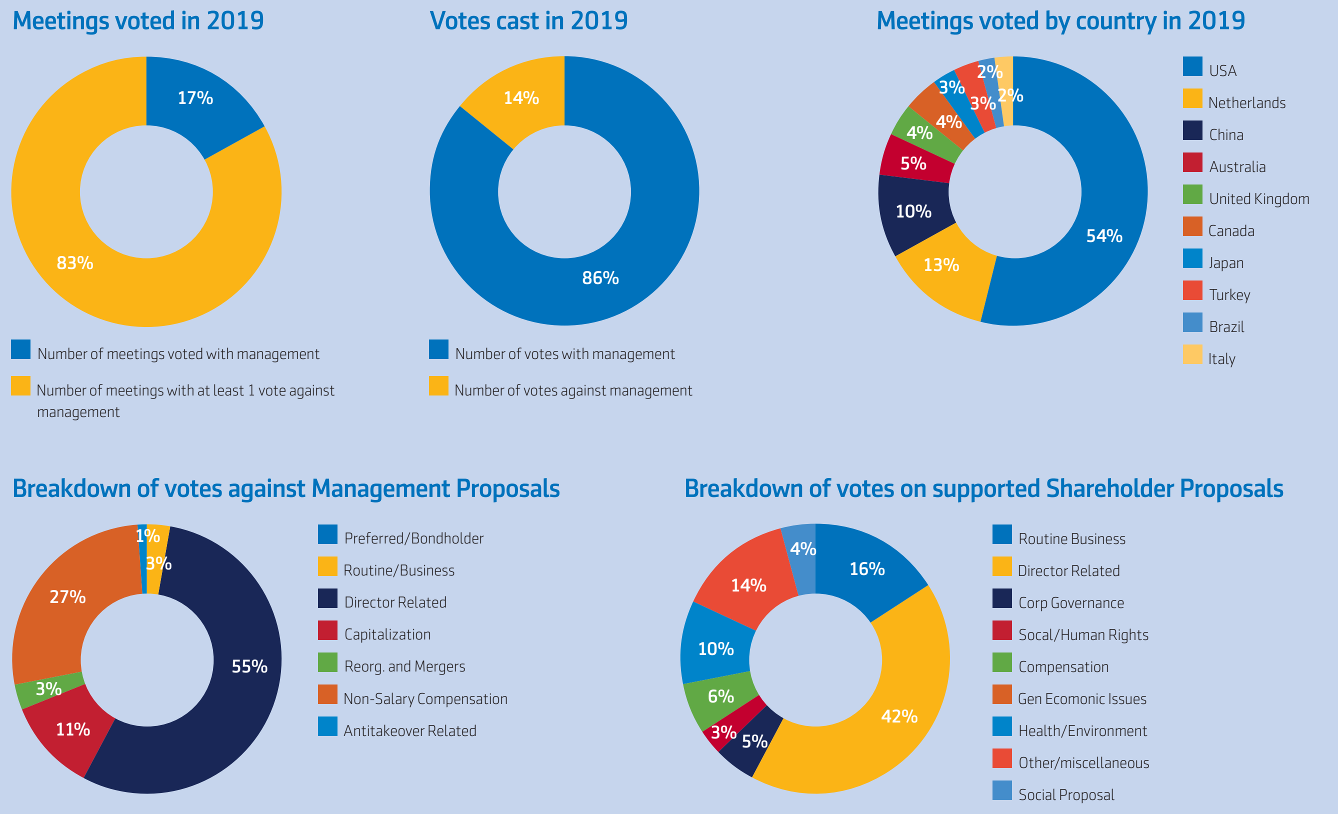
Voting: Exercising our Shareholder Rights

Aegon Asset Management uses voting rights to promote the standards set out in our clients' voting policies. Similar to engagement, our shareholder voting activities seek to ensure our voice as investors is heard, in an effort to improve companies' performance and to pursue competitive returns for our clients. Our approach to voting is also informed by engagement: where there are shareholder resolutions, we may vote for or against, or more rarely, abstain, based on our engagement. We vote on behalf of our clients. Our parent company, Aegon N.V. has a Global Voting Policy in place since 2008. This policy sets out company-wide principles for all business units. It is supported by more detailed local policies in the Netherlands, UK and US. Voting policies are reviewed regularly to ensure they reflect new regulation and the latest developments in the investment industry.

In the Netherlands, Aegon Asset Management makes use of ISS research and recommendations. We use ISS Benchmark, Sustainability and Custom research. When casting our vote for Dutch companies, we make use of our own voting policy. We report on our voting behavior and provide an explanation on all votes against management. Reporting on voting behavior at general meetings of non-Dutch-listed companies is on a case-by-case basis, taking into account factors including the size of the holding and the issues covered by the resolutions.

Within the aforementioned scope of this report[17], we voted on 301 meetings in 2019 (compared to 159 in 2018). Overall, 86% of votes were cast with management, and 14% were against. The percentage of meetings with at least one vote against management was 83%. Most of the votes cast against management are related to resolutions on corporate governance, but we are increasingly voting on environmental and social issues, as these matters become more material to companies and investors (see figure 4). In the event Aegon Asset Management votes against management, abstains, or votes in support of a shareholder proposal, we are prepared to explain the reasons for this voting behaviour to the company's board either pro-actively or per company request. Figure 4 displays a breakdown of the votes against management proposals and the supported shareholder proposals per topic. Please refer to appendix 2 for a voting report on Dutch companies only.

Figure 4: Voting Overview 2019



17. This number excludes Kames Capital and TKP Investment

Voting Cases

ING Groep N.V.

In April, we voted against the discharge of both the management and supervisory boards at ING. The reputation of ING was adversely impacted by a proposal to increase the fixed salary for the CEO by more than 50%. After strong criticism from various stakeholders, the supervisory board withdrew the proposal after a few days. The supervisory board acknowledged that it failed in conducting a good stakeholder engagement. Second, ING settled on a payment of EUR 775 million to the Public Prosecution Service due to shortcomings in preventing money laundering. This was the biggest fine ever handed down by the Dutch authorities to a Dutch-listed company. Anti-money laundering compliance issues were found not only at ING Netherlands, but also at their branches in Russia and Italy. Initially, the supervisory board did not take any disciplinary measure against the members of the executive board. Again, after a week of strong public discontent, the supervisory board came to the conclusion that responsibility should be taken at executive board level. In consultation with the supervisory board, the CFO decided to step down.

These two incidents had serious effects on the reputation and public trust in ING and its license to operate. Also, it was felt that ING's supervisory board did not have sufficient 'feeling' with Dutch society; one of the most important stakeholders of a systemic bank. The bank subsequently has taken measures to change its 'business over compliance' culture, but it is difficult to judge how well a stronger risk awareness culture is already embedded.

Mallinckrodt Group Inc.

In recent years, several shareholder resolutions were filed, to challenge companies to be more transparent about how they exert their influence over legislative and regulatory processes via lobbying. Many won a number of strong votes, including a majority vote of 70% at Mallinckrodt for a resolution on lobbying expenditures disclosure. Moreover, we voted for board oversight - risks related to the opioid crisis (78.86% support) and executive incentive pay clawback (52.92% support). We even helped to present the resolutions at the Mallinckrodt AGM with a floor statement. We believe these resolutions are critical to preserve long-term shareholder value, increase transparency around compliance actions, and discourage misconduct.

Yum! Brands, Inc.

At the Yum! Brands AGM in May, we supported two shareholders' proposals that require the company to report on the supply chain impact on deforestation, and to report on sustainable packaging. Yum! Brands is the largest fast food restaurant company in the world with more than 40,000 restaurants. It is led by its KFC, Taco Bell and Pizza Hut brands and very high rates of plastic deposition. Given that Yum! Brands lags major competitors in key areas relating to plastics use and recycling, a report on sustainable packaging is an important ask.

Additionally Yum! Brands uses several commodities, which are considered leading drivers of global deforestation, including beef, soy, palm oil and pulp/paper. This exposes the company to risks that are not addressed properly. Deforestation contributes to global GHG emissions and causes other issues, such as biodiversity loss and community land conflicts. Moreover, we are concerned that those supply chains that are illegally engaged in deforestation, are vulnerable to disruption as new regulation is implemented and enforced. Risk awareness, board oversight, overarching policies addressing deforestation risk, traceability, and time bound targets are important issues that need to be addressed and therefore we supported this proposal.

Climate proposals at oil companies

Climate action-oriented resolutions have been filed by the shareholders of major global oil and gas companies at several AGMs this year. We supported the far majority of them at BP, Equinor, ExxonMobil and Chevron. The 'Follow This' resolution on climate change targets, at Royal Dutch Shell, was withdrawn. However, we supported this proposal at BP and Equinor, the same goes for the CA 100+ resolution on climate change disclosures at BP. At Chevron and ExxonMobil we supported the proposal to establish a climate change board committee, amongst others. At Chevron, for example, we supported two proposals; one to report on the human right to water and one to report on plans to reduce the carbon footprint to align with the Paris Agreement goals. At Equinor we supported a proposal to exploration drilling in frontier areas, immature areas, and particularly sensitive areas.

Together with other Dutch investors, we issued a statement towards the oil and gas sector which sets out our expectations. We stated that oil and gas companies have an important role to play in the transition to a lower carbon economy and therefore:

- We expect all oil and gas companies to define short-, medium- and long-term targets for GHG emissions related to its operations and products, which are to be in line with the (well) below 2°C pathway from the IPCC;
- These companies should demonstrate credible strategies to achieve these targets and capitalize on the opportunities that the energy transition brings;
- We expect companies to report on their targets and progress in line with the recommendations of the Task Force on Climate-related Financial Disclosures.

A Changing Regulatory Environment

The last year has seen many changes in regulation, as asset managers and owners alike are increasingly expected to be more transparent. This way, they can be held accountable for their investment decisions and demonstrate their contribution to the climate crisis. As demonstrated above, we aim to stay ahead of the regulatory changes and try to be as transparent as possible when it comes to our active ownership program.

One example of such changes is the amendment to the Shareholder Rights Directive, a European Union directive to encourage long-term engagement. The directive also sets out to improve transparency and facilitate better dialogue between investors and companies. For example, it provides companies with the right to identify their shareholders and allows shareholders the right to vote on remuneration. The Shareholder Rights Directive also obliges intermediaries to transmit relevant information and to be more transparent. Important for us, is that the Shareholder Rights Directive II mandates us to publish an engagement policy, to regularly report on how we implemented this policy and to disclose to our clients how the main components of our equity investment strategy contribute to the medium-to-long-term performance of our assets.

Another important regulatory requirement is the Dutch Stewardship Code. This further encourages investors to play an active role in promoting good corporate governance and sustainability. Although it is not our role to manage the companies we invest in, we do have to play an active role in monitoring the boards of these companies. This so-called "stewardship" also comes with the responsibility to engage in regular dialogue with the companies and cast informed votes at annual general meetings.

The last year has seen many changes in regulation, as asset managers and owners alike are increasingly expected to be more transparent.

Looking Ahead: Advancing Active Ownership

This year has been a year of positive changes and we look forward to further strengthening our active ownership program in the years ahead, while advancing best practices across the industry. We have therefore set several key objectives for 2020:

1. Persistently setting expectations towards companies to improve their ESG performance with increased emphasis on climate change, biodiversity, animal welfare and good health and wellbeing;
2. Aim for solid coverage of engagements triggered by our clients' standards. This includes:
   a. Engagements on topics, such as Good Governance, and Human/Labor/Children's rights;
   b. Implementing an escalation/exclusion process for companies that do not meet the minimum standards as set out in our clients' policies and do not show sufficient progress.
3. Continuing and publishing our academic research into active ownership
4. Further expand and integrate our tracking and reporting efforts. Focus will be on how engagements and key votes have been determined, as well as showing engagement progress.

Appendix 1.
Aegon Asset Management Active Ownership Specialists

Roger Wildeboer Schut – Senior Responsible Investment Manager
Roger Wildeboer Schut joined Aegon Asset Management in 2002. Roger has been Senior Responsible Investment Manager in the Responsible Investment team since 2010. Prior to his role in the team, he was responsible for a former business unit's insurance linked investments for several years. Responsible Investment was added to his responsibilities in 2007. Roger holds an MSc in Economics from Vrije Universiteit Amsterdam, a postgraduate certificate in Responsible Investing from Maastricht University Business School, and took several specific Responsible Investment courses. Roger is a Certified Environmental, Social and Governance Analyst (CESGA®).

Heike Cosse – Engagement Manager
Heike Cosse joined Aegon Asset Management in 2018. She is Engagement Manager in the Responsible Investment team. In the ten years prior to joining Aegon Asset Management, Heike worked on various sustainability topics at utility company E.ON, where she headed the Sustainability Reporting and the group-wide community involvement program. Before that, she was a product manager for German business newspaper Handelsblatt. Heike is a fully qualified lawyer and holds a degree from Westfälische Wilhelms Universität in Münster.

Miranda Beacham – Corporate Governance Manager
Miranda Beacham is the Corporate Governance Manager in the ESG Research team at Kames Capital. She is responsible for the monitoring and engagement of investee companies' environmental, social and governance approaches and performance in line with our Responsible Investment Policy. This includes engagement relating to board structure, remuneration, environmental or social issues with public policy makers and investee companies. Miranda's responsibilities also includes voting of investee companies in line with our Proxy Voting Policy. She joined Kames Capital in 1994 as a research assistant in the UK equity team and has 26 years' industry experience. Miranda studied Chemistry at Napier University and has the IMC professional qualification.

Stephanie Mooij – Senior Engagement Associate
Stephanie Mooij, PhD joined Aegon Asset Management in 2019. She is a Senior Engagement Associate in the Responsible Investment team, and joined Aegon Asset Management after finishing her PhD in Responsible Investment at Oxford University. She researched the ESG rating and ranking industry and the obstacles to responsible investment in the investment chain in the United Kingdom, the Netherlands and Germany. Prior to her PhD, Stephanie was an Equity Analyst at equity manager Ownership Capital. Stephanie holds an MSc in Finance and Investments, honors and cum laude, from Erasmus University Rotterdam and a PhD in Responsible Investment from Oxford University.

Gerrit Ledderhof – Responsible Investment Manager
Gerrit Ledderhof joined Aegon Asset Management in 2019. He is a Responsible Investment Manager in the Responsible Investment team and Chair of the Aegon NV Climate Change Working Group. Gerrit joined Aegon Asset Management from the Ontario Ministry of Environment, Conservation and Parks in Toronto, Canada, where he was a project manager in the ministry's Climate Change Programs branch with responsibility for the development of policy, analysis and programs intended to reduce greenhouse gas emissions. Prior to that he was a Strategy Manager at the Carbon Trust in London, United Kingdom. Gerrit holds an MBA from Erasmus University Rotterdam.

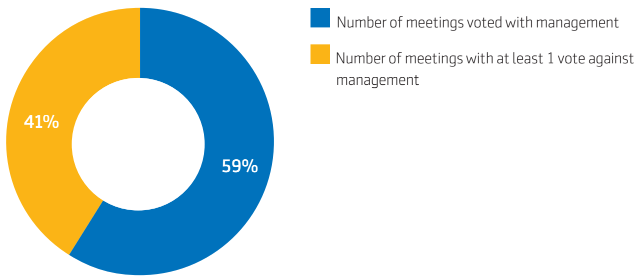
Eduard Wijnoldij Daniëls – Responsible Investment Manager
Eduard Wijnoldij Daniëls joined Aegon Asset Management in 2016. He has been Responsible Investment Manager in the Responsible Investment team since 2018. Prior to his current role, Eduard was company secretary and board adviser for TKP Investments – previously a 100% multi-manager affiliate of Aegon Asset Management. Before joining Aegon Asset Management, Eduard held various positions at utility company Essent – an RWE AG subsidiary, most recently as Manager Corporate Responsibility. Furthermore, he has been a board member of the Dutch chapter of the UN Global Compact. Eduard holds an MSc in Business Administration from University of Groningen and a Master of General Management from AOG School of Management (University of Groningen).

Lauren Joenoes – Responsible Investment Associate
Lauren Joenoes joined Aegon Asset Management in 2019. She is a Responsible Investment Associate the Responsible Investment team, focusing on Engagement. Lauren holds an MSc in Global Business and Sustainability from Erasmus University Rotterdam.

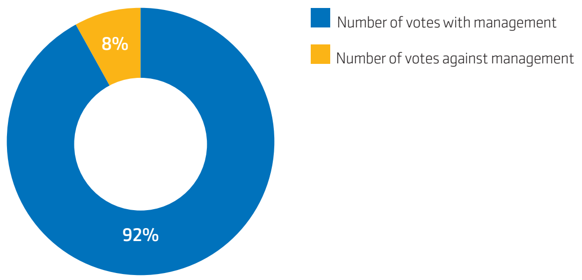
Appendix 2.
Aegon Asset Management Voting Report on Dutch companies

Figure 5: Voting Overview 2019

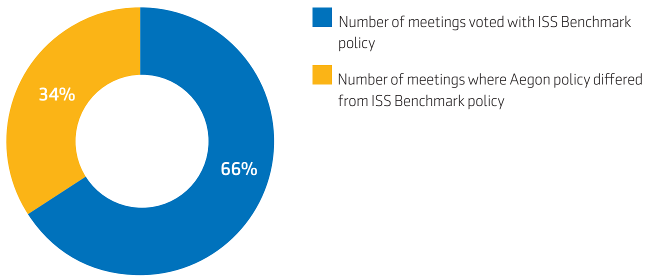
Dutch meetings in 2019 (Netherlands only)



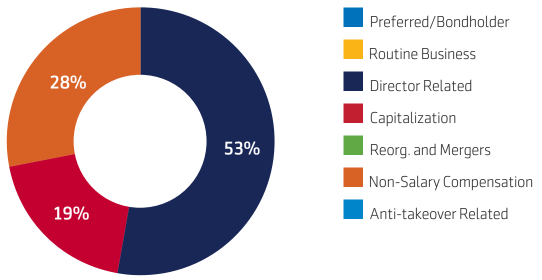
Votes cast on Dutch meetings in 2019 (Netherlands only)



Meetings with/against Benchmark advice proxy-adviser 2019 (Netherlands only)



Breakdown of votes against Management Proposals 2019 (Netherlands only)



Disclosures

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