For financial advisers and employers only

Responsible investment and stewardship report 2023

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 Limited. 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).*

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 over funds.

The value of investments may go down as well as up and isn't guaranteed. Investors may get back less than they invest.

The information in this report is based on our current understanding of markets and legislation and may have changed since publication. The opinions expressed throughout are those of Aegon.

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* 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.

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'Stewardship is our way of creating long-term value for our customers, and key to helping them live their best lives.'

Mike Holliday-Williams, CEO, Aegon UK

Introduction

As proud signatories to the UK Stewardship Code, I'm pleased to introduce our second annual stewardship report, charting our progress during 2023, and setting our course for 2024. We've used the process of preparing this report to reflect on who we are, on the duties we owe to our customers and how those duties define our approach to the stewardship of the assets that we manage.

Our purpose and commitment to stewardship

At Aegon UK our purpose is to help people live their best lives. We do this through acting as responsible and professional stewards of their money. Stewardship means that we invest intentionally and carefully, that we manage risks – including environmental, social and governance (ESG) related risks – throughout our customers' lifetime of investing with us, and that we embed long-term thinking in our investment strategy, practices and processes. Stewardship is central to the long-term commitment we make to our customers.

The importance of stewardship is emphasised by the extremely challenging geopolitical and macroeconomic landscape that we need to navigate. The high inflation and cost of living pressures seen in the UK and elsewhere have made it difficult for people to plan for the future. Ensuring that we invest in companies that manage these threats well, that we support efforts to build a fairer, more sustainable and more resilient society, and that we're constantly focused on delivering long-term value to our customers are all central to how we deliver on our purpose of helping people to live their best lives.

Our strategy

We've continued to develop our business in a way that allows us to strengthen our strategic focus on our core retail and workplace platforms, and on our pension and investment propositions.

Some important changes to our business

In 2023, we took an important step in supporting our strategic focus on our core retail and workplace platforms. We extended our strategic partnership with Nationwide Building Society which saw the building society transfer its financial planning service to Aegon UK in early 2024.

We also announced the sale of our UK individual protection business to Royal London, with transfer set to complete in 2024, subject to approvals.

Despite all of the macroeconomic challenges, the ability to save in pensions and in other investment vehicles is one of the most critical things impacting peoples' long-term futures. We offer investment and pension products that allow people to do so easily and cost-effectively. We underpin that by making sure that our customers' money is invested in organisations that share our commitment to their long-term financial wellbeing.

This report shows how we do that in practice:

- We consistently press our investment managers to integrate sustainability considerations into their investment processes and into the discussions they have with the companies they invest in.
- We hold these investment managers to account for the actions they take.
- We work with our industry peers to drive action on climate change.
- We recognise that asset owners need to be prepared to lead and we've done this by developing and supporting the wide adoption of guidance on how asset owners can influence their asset managers.
- We share, as with this report, our experience and lessons learned, positive and negative.

We do this through stewardship, and we're committed to strengthening our approach in the coming years. If there's one message I wish to emphasise in this foreword it's that stewardship is our way of creating long-term value for our customers, and key to helping them live their best lives. This is how I believe we should be judged on the effectiveness of our stewardship activities.

Mike Holliday-Williams
Chief Executive
Aegon UK

Managing Director, Investment Propositions' statement

'2024 will be the year where we strengthen our focus on sustainability as a systemic risk, where we define the key interventions that need to be made and where we build collaborations that can help us transition to a sustainable, resilient and more stable economic system.'

Lorna Blyth, Managing Director, Investment Propositions, Aegon UK

The case for stewardship

The investment case for stewardship is clear. We know that issues such as climate change can have a major impact on cash flows and asset valuations. We know that disputes with communities, customers and other stakeholders can damage brands and reputations. We know that there are many investment opportunities associated with the low carbon transition. We believe that companies that are well governed and take a proactive approach to sustainability are less at risk of negative corporate events and are more likely to represent better investments.

And we know that our customers care about these issues. **53%** of customers have told us they're interested in investing sustainably because of a broader positive impact on the environment and society, while **54%** stated they would favour impact investments over traditional investments, where they both have the same risk and return profile.[1]

How we've responded to our customers' demand for responsible investment

It's therefore unsurprising that responsible investment is part of our Investment Proposition team. Responsible investment is here because it's integral to our fiduciary duty when designing and managing investment solutions for the long term. Responsible investment is here because it allows us to manage the downside risks and take advantage of the opportunities presented by sustainability issues such as climate change.

Over the past two or three years, we've invested substantial resources in responsible investment – building the team, building our systems and processes, integrating sustainability into our investment manager monitoring and review processes, working with our peers in the wider investment industry, including leading industry working groups, to drive change across the investment market.

Achievements in 2023

In the past year alone, we've achieved a number of key milestones:

- We've strengthened our investment processes.
- We've completed a review of one of our largest default funds as part of which we explicitly asked potential managers to demonstrate their approach to climate considerations and net-zero alignment.
- We launched a new self-select range for the Aegon Master Trust which offers a much wider selection of funds considering sustainability factors in their investment processes.
- We made improvements to our customer communications including digital, video and website content for sustainability-related topics.

Ambitions for 2024

This work will continue and accelerate in 2024. We'll develop and promote solutions that integrate sustainability factors and themes, including climate change, through initiatives such as the Mansion House Compact. This is a voluntary initiative between the largest nine defined contribution (DC) pension firms in the UK to allocate at least **5%** of DC default funds to unlisted global equities. We'll continue to increase assets in responsible investment strategies. We'll explore how we can integrate sustainability considerations more thoroughly into our overall strategic asset allocation processes, looking at how sustainability can be explicitly considered in sector and geographic allocation decisions and in our risk modelling and scenario analysis.

We'll also focus on our role in the wider investment system. Many of the challenges we as investors face – specifically major environmental issues such as climate change and biodiversity loss, social issues such as conflict, economic issues such as resource conflict – are global in cause and systemic in nature. We can't directly control these risks, nor can we diversify away from them by avoiding particular activities or geographies. We therefore need to work with others – other investors, companies, governments – to identify effective strategies for managing and mitigating these risks. We already have a track record in this area through our work with organisations such as the Institutional Investors Group on Climate Change (IIGCC) and the Net Zero Asset Owners Alliance. 2024 will be the year where we strengthen our focus on sustainability as a systemic risk, where we define the key interventions that need to be made and where we build collaborations that can help us transition to a sustainable, resilient and more stable economic system.

Key objectives for 2024:

- We'll continue to work with other like-minded organisations focused on sustainability, resilience and fairness.
- We'll increase assets in responsible investment strategies.
- We'll further embed sustainability considerations in our overall strategic asset allocation processes.

Lorna Blyth
Managing Director,
Investment Propositions

The Mansion House Compact (MHC)

0.5% of UK DC pension assets are invested in unlisted UK equities.[2] This not only limits the capital available to innovative companies but deprives UK savers of the potential higher returns associated with these companies. Subsequently, this hampers their prospect of securing a retirement income that ensures a comfortable standard of living throughout retirement. The MHC aims to allocate at least **5%** of DC default funds to unlisted global equities by 2030.

The value of investments can go down as well as up and isn't guaranteed Investors may get back less than they invest.

An introduction to stewardship at Aegon UK

Welcome to our 2023 stewardship report. In this report we set out our response to the 12 Financial Reporting Council (FRC) UK stewardship code principles. Principle by principle, we describe our commitment to stewardship, how we implement it, and our stewardship-related activities and outcomes in the period from 1 January 2023 to 31 December 2023.

The UK Stewardship Code 2020 defines stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society. Throughout this report, 'stewardship', 'responsible investment' and 'sustainability' are used interchangeably to convey our stewardship approach, practices and progress. 'ESG' refers to environmental, social and governance factors as considerations in our overall approach and in our investments.

About our approach to stewardship

As the UK's largest investment platform, intentional and considered stewardship is key to helping us deliver our purpose of helping people live their best lives. For this to be a reality, we must be a responsible business. We aim to create long-term outcomes for customers by providing choice and fostering positive outcomes for the economy, the environment and society through our products and services.

Our stewardship approach is defined by our purpose, by our role and responsibilities as a long-term savings provider and an asset owner, and by our position in the financial system.

Below we provide an overview of our approach to stewardship based on who we are, what this means for us as stewards and how it informs our actions.

Who we are defines how we act as stewards. We take an intentional approach to stewardship which is guided by who we are as a business and what this means for us, and our ability to act and improve in order to support our customers and stakeholders for a more sustainable world.

Who we are defines how we act as stewards

Who we are	What this means for us as stewards	How we act as stewards
We provide long-term savings, retirement and workplace solutions to help approximately **four million customers live their best lives**.	As stewards of our customers' assets, we act responsibly. Investing responsibly matters, as does good governance and intentional action that enables a more sustainable world.	Our stewardship activities and the policies that support them allow us to manage risks over the range of time frames that are relevant to our customers. We embed long-term thinking in our investment strategy, practices and processes, with a focus on ensuring the resilience of our investments to systematic risks such as those presented by climate change.
Our people are our greatest asset and sustainability is an essential part of what we do. We have over **2000 employees** across four office locations in the UK.	We want our colleagues to directly reflect the characteristics of our society and for Aegon to be a place where they can bring their authentic self to work and do all they can to deliver on our strategic promises to our customers. We recognise the importance of corporate sustainability. We have a responsibility to 'walk the talk' and challenge ourselves to do more.	We've established an ambitious workplace with an expansive inclusion and diversity agenda, where people can reach their full potential, are rewarded fairly and are comprehensively supported. We take a holistic approach to reducing our footprint, whether it's eliminating waste, improving travel practices, reducing our overall climate impact, or supporting local biodiversity. We provide time and resources to our wider community through charity and voluntary efforts.
As a **universal owner** we're widely invested across the economy. This means we own a representative fraction of most of the companies in an economy, rather than merely holding specific stocks or industry stocks.	We're exposed to systemic risks, such as those presented by climate change, that are inherent to the entire market and that could have adverse impacts on our ability to deliver on our purpose and our responsibilities to the wider economy and our planet.	We identify, assess and manage systemic risks, with the support of our asset managers in respect of our portfolios as part of our fiduciary duty to our customers. We believe in engaging with companies rather than blanket divestment. This means we can influence real-world sustainability (such as reduction in the level of emissions on the planet), 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.

Who we are defines how we act as stewards

Who we are	What this means for us as stewards	How we act as stewards
We're the **largest investment platform in the UK**. Our **£88 billion in investment assets under management (AUM)** account for just under half our £203 billion in total assets under administration (AUA).	We have scale and influence to actively challenge and support public policy and wider industry initiatives to help enable the effective management of systemic risks. We have a responsibility to use our position and scale to engage our industry and guide our customers towards sustainable financial wellbeing goals.	Our responsible investment activities focus on systemic risk and leverage our position in the financial system to add weight and amplify a collective voice to manage risks and bring about change. We focus on collaborative engagement, support innovation and reform and actively challenge or support public policy on systemic issues that may impact our ability to deliver on our fiduciary duty to our customers. We engage with and support our customers and their advisers through targeted communications which educate and provide clarity to help them make informed decisions.
We're **predominantly an indirect investo**r, which means we build the majority of our investment solutions using funds from **third-party asset managers**. These are often in pooled investment vehicles where we're one of many investors	We recognise that our most significant impacts on the environment and society are through our investing activities. Ensuring that we invest and manage assets in a responsible manner and in line with our customers' needs is critical to our purpose. Manager monitoring is a crucial aspect in supporting our purpose. We need our managers to do their job well and responsibly, both in terms of returns and risk management and how they align with our customers' responsible investment and stewardship goals. As indirect investors, proactive communication of our wishes is essential to secure alignment and positive outcomes in our investments.	We integrate ESG into our investment proposition and provide access to a range of responsible investment options on our platforms. We believe ESG integration into investment solutions and providing choices to customers, while taking into account client needs and views, is an important part of our practice. We monitor managers closely and carry out an annual review which includes an assessment of their alignment with our RI expectations to ensure they're acting in the best interests of our customers. All asset managers must comply with the minimum expectations in our Responsible Investment Framework and consider the broader expectations set out in our Stewardship Framework. We made Expression of Wish (EofW) integral to our stewardship strategy and began implementation across our top managers, starting with the biggest in terms of the assets they manage on our behalf. This is significant as it asks managers to vote a specific way on material resolutions so that they're aligned with our sustainability goals including the implementation of our climate roadmap.

The tools we use

To put our approach into practice, we draw on our toolkit for sustainable investment outcomes which comprises a range of components, as illustrated in the diagram below. When combined, these elements enable us to deliver a stewardship approach that we believe will not only support our fiduciary duties, but add value to our customers and stakeholders and help us realise our purpose of helping people live their best lives.

Our toolkit for sustainable investment outcomes

- ✓ Delivering responsible investment products and solutions
- ✓ Focusing on manager expectations and monitoring
- ✓ Allocating dedicated resource to responsible investment
- ✓ Responding to and managing our exposure to market-wide and systemic risks
- ✓ Using our voice in voting and engagement
- ✓ Engaging with our customers, employers and advisers
- ✓ Amplifying our impact through industry and policy advocacy and collaboration
- ✓ 'Walking the talk' as a business, as an employer and as a member of the communities in which we operate

On the next page, we provide some key highlights from 2023 which show some of the most notable outcomes of our actions, using the stewardship tools available to us.

Aegon UK 2023 Stewardship highlights

The following are some of the key highlights we delivered with our toolkit for sustainable investment outcomes during 2023.

Delivering responsible investment products and solutions

We made significant progress on the review of one of our largest default funds as part of which we explicitly asked potential managers to demonstrate their approach to climate considerations and net-zero alignment. See Principles 7 and 8.

As part of our commitment to delivering positive environmental outcomes and minimising systemic risk, over half (£23.4 billion) of assets in our DC scheme default solutions apply screening or are optimised for ESG factors. See Principle 7.

We launched a new fund range for Aegon Master Trust, designed with reference to the Investment Association's RI Framework. 23 of the 25 funds in the range now integrate ESG to some extent in their investment process. See Principle 7.

Across two of our largest default funds, we used business as usual (BAU) cashflows to reallocate our UK equity exposure towards UK equities with ESG screens. Taking this approach allows us to increase our ESG integration levels, whilst managing transaction costs for our customers. See Principle 7.

Responding to and managing our exposure to market-wide and systemic risks

We identified climate change as a key systemic risk but recognised that our ability to assess and manage means we need to use scenarios that properly recognise the scale, form and timing of the risks to our portfolios. In 2023, we sought to improve our approach by further embedding climate risk in our risk management framework and expanding our approved risk scenarios to include 'climate tipping point' and 'climate backlash'. See Principle 4.

To ensure the long-term interests of our customers and the health of our planet, we're committed to net-zero across our default range by 2050.* In 2023, we rolled out our climate roadmap clearly signposting the steps we must take to achieve this goal.

Biodiversity loss is increasingly recognised as a key systemic risk for investors and according to the World Bank could result in a decline of $2.7 trillion GDP annually by 2030.[3] In light of this, we published a biodiversity white paper in 2023 that provides insights to pension providers on the need to focus on nature and biodiversity related risks, as well as guidance on how to mitigate these risks in their investment portfolios. See Principle 4.

Focusing on manager expectations and monitoring, including voting

We're continually working to strengthen our expectations for managers regarding collaboration, engagement themes and transparency. In 2023, we introduced new criteria for those operating within fixed income. See Principles 5 and 12.

Our annual manager monitoring assessment evaluated the 38 managers in scope of our RI and Stewardship policies on their performance across RI governance, climate, industry advocacy, voting and engagement and human rights. Engagement on the results is ongoing. See Principle 7.

We committed to strengthening our approach to voting, testing our EofW preferences with our top three managers and analysing how they aligned, and using this information to deepen engagement and ownership and challenge them where necessary. See Principle 8.

* Measured using carbon footprint across our full range of default funds. Emissions targets don't apply to individual funds. 2030 target applies to scope 1 and 2 emissions from listed equities and corporate fixed income only.

Allocating dedicated resource to responsible investment

We introduced responsible investment-related competencies within our Board Skills Matrix. See Principle 2.

In 2023, we appointed a new RI analyst to support the wider integration of RI through proposition reviews and to help evolve our ESG integration framework. See Principle 2.

Our inaugural annual Stewardship Report achieved signatory status from the FRC, demonstrating our commitment and alignment with the Stewardship Code and challenging us to go further still in our stewardship strategy.

'Walking the talk' as a business, as an employer and as a member of the communities in which we operate

We accelerated our diversity, equity and inclusion (DEI) strategy. We became proud signatories to the Women in Finance Charter and the Race at Work Charter. We featured in the Business in the Community's (BITC) 2023 Race at Work Charter Survey report as a best practice example of a company building allyship support. See Principle 1.

We continued efforts to help ensure we have a positive impact on our urban biodiversity and ecosystems. We've introduced beehives and bird houses, wildflower areas and insect hotels. See Principle 1.

Amplifying our impact through industry and policy advocacy and collaboration

We became a founding signatory of the Mansion House Compact, a voluntary initiative between the largest nine DC pension firms in the UK to allocate at least **5%** of DC default funds to unlisted equities by 2030. We're confident this will deliver positive economic outcomes and greater returns for our long-term customers. See Principle 4.

We responded to a number of consultations focused on sustainable finance and the interests of pensions and savings customers. See Principle 4.

Upholding our commitment to managing climate as a fundamental systemic risk, we used our voice to push for greater climate policy certainty, for example by being a signatory of a UKSIF letter to the Prime Minister to signal our support for ambitious climate policy. See Principle 4.

Engaging with our customers, employers and advisers

Our customer feedback programme made clear to us that our customers care specifically about nature. Almost half (**49%**) of customers indicated nature impacts, including biodiversity, are important considerations when investing in a company.[1] This informed our thinking on this topic and was a contributing factor to the development of our nature and biodiversity action plan. See Principles 6 and 9.

After **44%** of customers indicated that having more information to help them understand sustainable investment would help them make more sustainable investment choices, we reviewed, simplified and tested our RI customer messaging.[1] We updated our fund factsheets to incorporate clearer language detailing the RI credentials for 25 key default funds. See Principle 6.

Aegon and Pension Geeks created Pension Geeks TV, a digital platform that supports financial wellbeing and education, with the pilot events reaching an audience of over **3,500 customers**. See Principle 6.

Our priorities for 2024

Our future priorities continue to put managing systemic risk and aligning our asset managers with our sustainability goals front and centre of our responsible investment and stewardship agenda. This is pivotal to our strategy and fundamental to our purpose. Our 2024 stewardship priorities include:

Client needs

- Improve our disclosures for members in relation to sustainability to support informed decision making.
- Continue to develop our customer-facing communications including website and literature to include clearer language on responsible investment, and our approach to climate and ESG metrics.

Governance

- Incorporate stewardship and sustainability in our board skills matrix to strengthen education and expertise on ESG related matters within our business. See Principle 2.
- Strengthen how we link ESG metrics to remuneration.

Engagement and voting

- Test our voting guidelines more widely through expression of wish and manager monitoring.
- Drive our new engagement theme of nature.
- Maintain and develop our policy advocacy and collaboration efforts.

ESG integration in investments

- Develop and promote solutions that integrate ESG factors and themes, including climate change, through initiatives such as the Mansion House Compact and our review of one of our largest workplace default funds.
- Improve how we embed climate and other systemic risks into our investment strategy.
- Continue to integrate responsible investment considerations into our investments.
- Explore how we can link climate risk and other responsible investment considerations more thoroughly into our strategic asset allocation.
- Integrate scenario analysis for sovereign debt.

Manager monitoring

- Continue to scrutinise managers' performance in line with our RI expectations and climate targets.
- Focus and report on progress on our Climate Roadmap to ensure we're on track in our net zero transition plan.

Walking the talk

- Communicate our corporate carbon emissions data.
- Revise our DEI strategy further to ensure it is data and evidence based with clear accountabilities and measurable objectives.
- Continue to expand our staff volunteering program to include activities that help support and encourage biodiversity.

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, and environment and society.

Our purpose

As the UK's largest investment platform, we provide a range of services and solutions with one purpose – to help people live their best lives.

Our story started over 190 years ago, when we were founded as Scottish Equitable. Today, as part of Aegon Group – a global provider of life insurance, pensions and asset management – we're focused on providing retirement, investment and workplace savings solutions to nearly four million customers and over 9,000 employers. As such, we have a huge responsibility to ensure we can deliver those solutions today and well into the future. Robust stewardship and a sustainable approach to our investments is how we will achieve this.

The diagram below explains how our purpose drives our business to add long-term value for all our stakeholders

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 and workplace savings 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: financial advisers who advise retail customers and workplace.

Competitive advantage

We are here to help customers live their best lives 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.

Changes to our retail and workplace business – 2023

We're proud of our heritage and focused on what we do best, which is to promote the financial wellbeing of our customers.

In 2023, we took an important step in support of our strategy to focus on our core retail and workplace platforms. We extended our strategic partnership with Nationwide Building Society which saw the building society transfer its financial planning service to Aegon UK in early 2024. We've been the trusted investment partner to Nationwide since 2016, offering investment solutions such as individual savings accounts (ISAs) and general investment accounts (GIAs) to Nationwide members through our investment platform. We're therefore well-positioned to meet the ongoing financial needs of these customers.

The extension of our partnership with Nationwide Building Society was the result of a strategic review between both organisations and supports our ambition to drive forward our pension and investment propositions for the benefit of customers, advisers and employers.

Also during 2023, we announced the sale of our UK individual protection business to Royal London with the transfer of customers set to complete in 2024, subject to court approval. Ensuring a responsible transition that's in the best interests of our individual protection customers has been our priority – we're continuing our service to those customers until the transaction is complete.

Our stewardship strategy is designed to support our purpose

We want to be a leading responsible business as outlined in our Introduction to Stewardship at Aegon UK.

As an asset owner and platform provider, we're universally exposed to systemic risks such as climate change, including through our investment portfolio. These risks threaten our ability to deliver on our purpose and therefore we must make sure our customers' assets are responsibly invested to weather such risks. Our stewardship approach focusses on managing and mitigating these risks through active monitoring of our managers and on using our voice, our scale, and our influence to make change. You can find more detail on our approach to stewardship and summary of highlights during 2023 on page 08.

> **'Aegon UK clearly recognises that investing responsibly in the face of climate change is a key part of fulfilling its fiduciary duty to its clients. While the most crucial aspect of achieving net zero is implementation, a credible plan is the vital first step. Aegon's climate roadmap clearly signposts the steps it must take to achieve net zero and lays down the groundwork to achieving them.'**

Stephanie Pfeifer
CEO, the Institutional Investors Group on Climate Change (IIGCC)

Case study 1: our climate roadmap – managing systemic risks in support of our purpose

Context

Systemic risks such as climate change pose a significant threat to the global economy and, because we're so widely invested across the economy, could threaten our ability to deliver on our purpose. For this reason, responding to and managing our exposure to market-wide and systemic risks is a fundamental priority and a key component of our toolkit for sustainable investment outcomes. We cannot protect and grow our customers' assets in an unsustainable world. Exposure to climate change risk has a potential impact on our customer assets and therefore future fee income. Our TCFD report outlines further detail on our climate scenario analysis as a way to understand the exposure to climate risk.

Approach

From a strategic perspective, our roadmap is an essential part of the forward management of our business and our investments. Our roadmap serves as an engagement and monitoring tool to support the action we take now to ensure our customers' assets are responsibly invested in the context of climate change.

Outcome and next steps

Building on the commitment we made in 2019 to net-zero GHG emissions across our workplace default funds by 2050, and a **50%** reduction in emissions by 2030,* in 2023 we introduced our first climate transition plan – our **Climate Roadmap**.

By 2050, we hope not only to have a greener portfolio, but more importantly, a greener portfolio that helps deliver investment returns in a greener world, for the long-term financial wellbeing of our customers. We provide greater detail on how we're implementing our climate roadmap on page 64.

* Measured using carbon footprint across our full range of default funds. Emissions targets don't apply to individual funds. 2030 target applies to scope 1 and 2 emissions from listed equities and corporate fixed income only.

Our responsible investment beliefs

Our responsible investment beliefs guide how we engage with customers and the wider financial services and inform how we select and monitor our responsible investment choices across our platform.

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.

Our business ambitions

As a business, we follow a set of five key ambitions, to which stewardship and sustainability are integral. Our ambition for a sustainable future helps to inform our overall stewardship strategy and our stewardship toolkit, as outlined in our Introduction to Stewardship at Aegon on page 08. In 2023 we completed work to map our risk tolerance statements against these five ambitions.

This table outlines our ambitions and explains what they mean in practice.

Our ambition	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 approach to responsible investment, our communications and educational material on responsible investment-related matters 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 compete in the market. Continuously reviewing, developing and 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 and secure good outcomes for customers.

Our people, our culture and our values

People are at the heart of our business and make Aegon UK a great place to work.

We have a set of shared values which are upheld by the 2,000 people who work with us across our offices in the UK.

These values foster a team ethos that is engaged with our purpose to create long-term value for customers and sustainable benefits for our wider stakeholders.

Our values

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.

Our culture

The culture we have built has a strong sustainability focus at its core. It's important to us that we're a responsible business and 'walk the talk' when it comes to our people, our environment and the communities in which we work.

Diversity, equity and inclusion (DEI)

A diverse, fair and inclusive team forms the basis of a stimulating and healthy working environment. It leads to more creative and well-informed discussions and drives a stronger business for the long term, which is in the interests of all our customers and stakeholders. On the next page, we outline the achievements in DEI we've made during 2023 to embed a diverse, fair and inclusive culture in our business.

We're working towards our long-term target for 50/50 gender diversity at all levels of the organisation to reflect the gender balance of the society we serve. We've met our **33%** gender diversity target and in 2023 have been working to increase this figure through a consolidated DEI strategy, as we explain in 'Achievements in DEI in 2023' below.

Achievements in DEI in 2023

Context

Our people are our greatest asset, and we want Aegon to be a place where they can bring their authentic self to work and do all they can to deliver on our strategic promises to our customers. Our company-wide statement on diversity and non-discrimination aims to create a productive and open working environment, in which all colleagues are valued for their contribution and can realise their potential.

Approach

We have an expansive DEI agenda with strong Executive sponsorship across our inclusion and diversity communities. As we continued to embed DEI within Aegon UK during 2023 some of our key achievements included:

- Improving our candidate attraction strategy to access a greater diversity of talent through an accessible and inclusive framework for assessing and selecting talent.
- A greater focus on employee personal development with clearer and more transparent career opportunities, using leading-edge technology to drive individual development opportunities.
- Becoming proud signatories to the Women in Finance Charter and the Race at Work Charter. We featured in the Business in the Community's (BITC) 2023 Race at Work Charter Survey report as a best practice example of a company building allyship support.
- Continuing our partnership with the AAI EmployAbility Diversity Works programme, which aims to improve employability of ethnically diverse female talent. In 2023 we focused on delivering a tailored inclusion action plan created by the Programme Reference Group to level up career progression prospects for minority ethnic employees.
- Initiated our journey to be accredited as a Menopause Friendly Employer. We're aware that it may take a cultural shift to change the way organisations think about menopause and the way they can provide support to embed change for the long term. Our goal is to educate ourselves and to raise awareness of menopause and the impact it can have on individuals in the workplace, to encourage open conversations between managers and their teams, and to signpost the relevant advice and support.

Next Steps

We're pleased with our progress and committed to continued improvement.

Headline results from our 2023 Global Employee Survey are encouraging and at the same time, challenge us to do more. In the Diversity and Equity section we achieved **82%** (an increase of **1%** from 2022) and in the Openness and Inclusion section **83%** (an increase of **2%** from 2022).[4]

Elsewhere, **84%** of our employees said that they can be their authentic self at work, **87%** think that Aegon UK values diversity and **92%** feel included by their direct manager.[4]

In 2024, we have plans to revise our DEI strategy further to ensure it is data and evidence based with clear accountabilities and measurable objectives. This will include providing better insight into the profile of our workforce to help us to tailor our activities and inform future strategy.

We're a living wage employer

We're a living wage employer, and accredited by the Living Wage Foundation. In 2023, Aegon UK's commitment to paying our people their worth was noted as part of Aegon Ltd achieving a silver rating by leading business sustainability assessment firm, EcoVadis. Aegon UK has commissioned its own EcoVadis assessment for 2023 and we look forward to reporting the outcome in 2024.

Walking the talk: making a positive impact on our environment and our communities

We're committed to playing our part in having a positive impact on our environment. We take a holistic approach to improving our footprint, whether it's eliminating waste, improving travel practices, reducing our overall climate impact, or supporting local biodiversity. As we continued to double down on biodiversity as a key systemic sustainability issue in our investments during 2023, it became a key focus internally, too. In 2023 we continued efforts to help ensure we have a positive impact on our urban biodiversity and ecosystems. We've introduced beehives and bird houses, wildflower areas and insect hotels. In 2024 we plan to expand our staff volunteering program to include activities that help support and encourage biodiversity.

There will always be more we can and should do – and we can't do everything on our own. We'll continue to drive our stewardship strategy forward, working with our customers, our stakeholders, our industry peers, policymakers and our people to add value and support a sustainable world. You can read more about our stewardship priorities for 2024 on page 14.

Awards

We're proud to have been named Financial Wellbeing Champion of the Year at the 2023 Money Marketing Awards.

Our workplace and personal pensions service and solutions have been consistently recognised. In 2023 Aegon UK was named Best Group Pension Provider for the fourth year running by Investment Life and Pensions Moneyfacts.

Assessing our effectiveness for continuous improvement

We recognise that helping people live their best lives is a long-term commitment. We've worked hard to align our purpose and the way we do business with our stewardship and sustainability goals for positive outcomes. We're proud to have served the needs of our customers well during 2023, and we discuss this in detail in Principle 6. Our 2023 highlights, illustrated on page 14 give an overall sense of our how our purpose, strategy and culture have come together to support stewardship during the year.

Principle 2. Governance, resources and incentives

Signatories governance, resources and incentives support stewardship.

We believe good stewardship begins with how we organise ourselves as a business. Strong governance, effective resourcing and considered incentives provide the foundations to build effective stewardship and sustainability outcomes so we can deliver on our purpose of helping people live their best lives.

Given its importance to our purpose, stewardship and all it entails is a key governance priority.

Our governance of stewardship and sustainability

Our governance structure is designed to ensure effective stewardship across our business that is aligned with our purpose. It sets clear lines of accountability, supports effective decision making, facilitates training and collaboration, and promotes sustainability-related performance incentives.

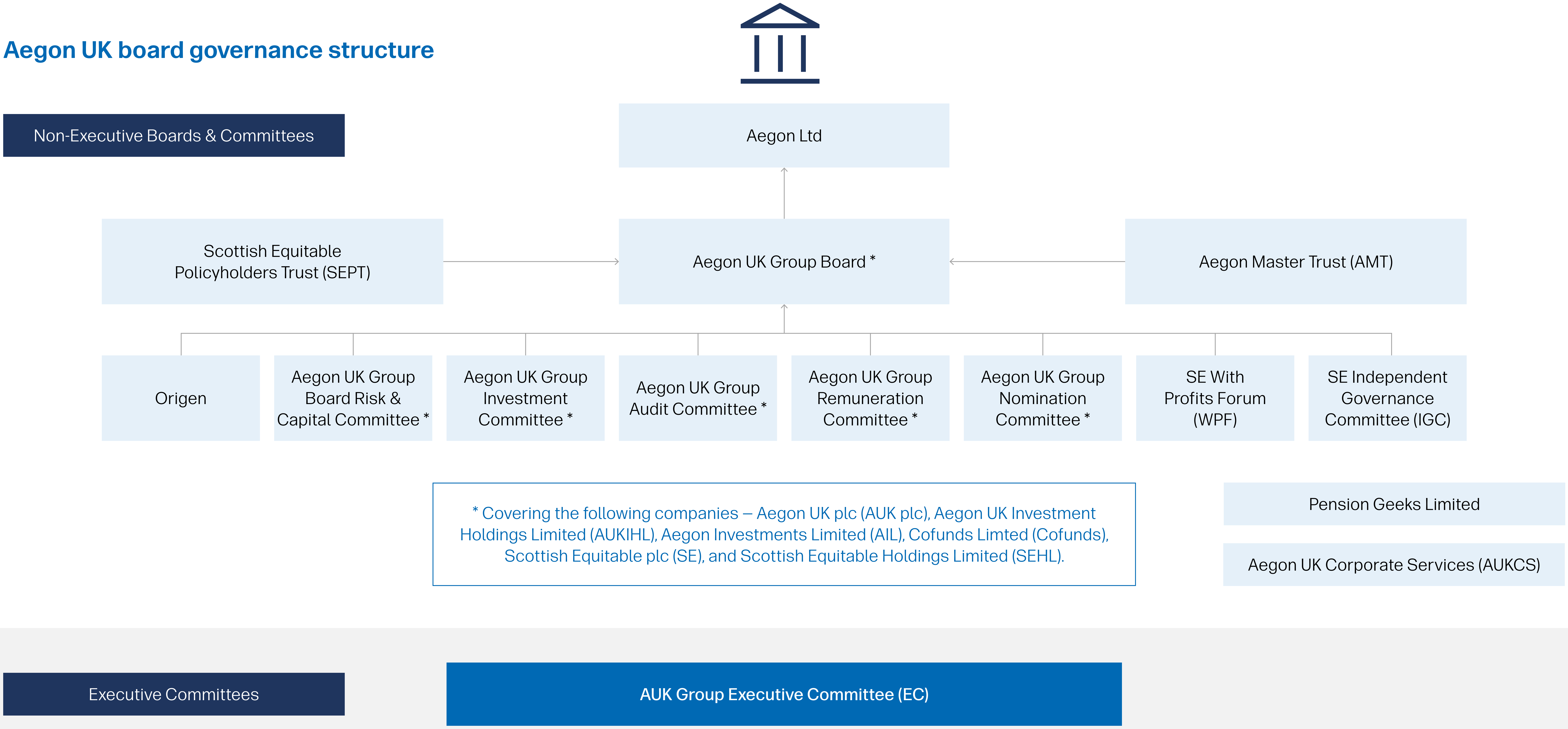
Our Board is responsible for providing oversight and assurance on matters relating to stewardship and sustainability. They do this by maintaining a focus on stewardship and sustainability priorities and initiatives, understanding the associated risks and opportunities and challenging our approach where appropriate.

Supporting the Board and the AUK Group Executive Committee (EC) on sustainability-related matters are several internal groups and committees, such as the Management Investment Committee (MIC) and Aegon Fund Governance Group (AFGG). The EC and its subcommittees update the Board on sustainability-related issues and are typically responsible for designing initiatives that contribute to good stewardship. A key sub-committee of the EC with responsible investment oversight is the MIC.

Its responsibilities include approval of RI-related policies and reports, including in respect of voting and engagement, as well as climate and Task Force on Climate-related Financial Disclosures (TCFD)

In 2023 we considered the effectiveness of our governance structures and made some changes to prevent duplicated effort and increase the quality of oversight from our senior leadership. These changes have led to the discontinuation of our RI Steering Committee which supported decision-making by the MIC and a sharpened focus on RI by the AFGG.

Aegon UK board governance structure



The table below summarises the roles and responsibilities related to stewardship of various key relevant committees as depicted in our diagram structure, including in respect of Board, Executive Committee and senior management levels.

Role and responsibilities within our stewardship structure

Committee		Roles and responsibilities (key changes in 2023 denoted with *)
Board	**AUK Group Board**	Oversees Aegon UK's overall approach to sustainability and stewardship.
	AUK Group Board Risk and Capital Committee	Oversees alignment of RI/ESG execution with Aegon UK's risk-management framework.
	AUK Group Audit Committee	Reviews and approves company's sustainability-related financial disclosures report(s), ensuring they are aligned to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Reviews the presentation of climate considerations in the financial statements of statutory accounts and considers the approach to identifying and responding to climate-related financial statement risks.
	AUK Group Investment Committee	Oversight of the approach to RI, including RI and climate-strategy implementation and stewardship activities. Reviews and recommends to the Aegon UK and Aegon Ltd Boards strategies related to RI, climate and stewardship, and reviews and recommends the stewardship report for approval. Recommends to the AUK Group Risk & Capital Committee to approve policies related to RI, including RI framework and stewardship framework.
	AUK Group Nomination Committee	When reviewing board composition, DEI considerations take into account Aegon UK's Group's approach to sustainability and stewardship. In particular, we have published targets for DEI among senior management.
	SE With-Profits Forum	When approving investment policies and strategy, responsible for considering Aegon UK's approach to sustainability and stewardship, and particularly the RI framework.
Executive	**AUK Group Executive Committee**	Management of Aegon UK's approach to sustainability and stewardship, and in particular its RI and stewardship commitments.
Senior management	**AUK Sustainability Board**	Ensures sustainability agenda and priorities of our parent company Aegon Limited are translated into action in the UK (further relevant detail can be found under section below on Sustainability Governance from Aegon Ltd).
	AFGG*	AFGG's terms of reference have been expanded in 2023 to include oversight of implementation of our RI and Stewardship policies, as well as monitor Aegon UK's RI targets including progress against Climate Roadmap.

Several internal groups also support senior management on sustainability-related matters:

- **Sustainable Future Working Group**: supports coordination and alignment across Aegon UK's business areas on all sustainability topics.
- **Working Delivery Groups (WDGs)**: we use WDGs for various purposes and we convene RI-related WDGs, as necessary, to support key projects or deliverables. In 2023, we evolved our ESG WDG set up to support the delivery of RI-related project work and redirected the WDG resource to better support our RI member engagement activity.

Our board skills matrix

Our board members come from diverse backgrounds, each bringing a broad set of skills, qualifications and expertise. In 2023, we enhanced our board skills matrix to capture competencies related to sustainability to ensure that the board's composition and diversity support effective decision-making and oversight regarding stewardship. It will inform training needs and enable more proactive planning by allowing competency gaps related to sustainability to be identified quickly and transparently.

Ensuring the effectiveness of our board

Our governance structure is designed to ensure effective stewardship across our business that is aligned with our purpose. It intends to set clear lines of accountability, support effective decision making, facilitate training and collaboration, and promote sustainability-related performance incentives.

Evaluating our effectiveness is an important part of making sure we keep pace with the evolving stewardship and sustainability landscape. The role of our board is critical to ensuring we are positioned to meet our customers' long-term investment needs and to do our part in moving the financial system towards a more sustainable future. We're therefore committed to continuing to improve its effectiveness.

In 2023 we commissioned an interview-based board effectiveness review which was conducted by Independent Audit in which governance of sustainability and ESG issues was a new and important feature. We were encouraged by the review's findings which were reported to the board in June 2023, which concluded that there is 'good coverage of ESG and sustainability matters' within our governance framework.

This feedback recognises and reflects our efforts in 2022 and 2023 to amplify and increase how we integrate responsible investment factors and sustainability issues at a board governance level. The review also highlighted the opportunity for us to put a more explicit focus on how we communicate our stewardship approach to Aegon UK stakeholders, recommending we include detail on our governance of social and environmental factors within our section 172 statement. Doing so will enable us to engage our stakeholders and explain our approach and outcomes in more detail. We're working towards deeper engagement and disclosure in our 2023/24 report and accounts, and more broadly across our stakeholder and customer communications, as detailed in Principle 6 of this report.

Sustainability governance from Aegon Ltd

From time to time, we also benefit from guidance and input provided by our parent company, Aegon Ltd, through their Global Sustainability Board (GSB). The GSB's mandate is to enhance overall governance and oversight of Aegon's group-wide approach to sustainability and steer the group's sustainability agenda towards the regions where it operates, including the UK and US. This allows Aegon UK to tap into GSB's expertise for advice on specific topics such as responsible investment and initiatives related to sustainability. This insight is invaluable and can help strengthen our stewardship approach.

The GSB also fulfils its mandate with the support of 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 Ltd 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 Aegon UK Sustainability Board is chaired by our General Counsel who reports directly into the GSB.

Our Responsible Investment Team

Robust stewardship and responsible investment foster resilient markets and are key tenets of our role as a responsible business. Our RI team provides dedicated expertise to our stewardship strategy, which includes our climate strategy and reporting, voting and engagement, ESG integration, and external manager monitoring on responsible investment.

Our RI team is part of our Investment Solutions team because its work is integral to our ability to provide sustainable investment solutions for the long term.

For most of 2023, our Head of Responsible Investment, Hilkka Komulainen, reported to the Director of Investment Proposition, who in turn reported to our Chief Investment Officer. In December 2023, our Director of Investment Proposition became Managing Director of Investment Proposition, who in turn reports to our Chief Financial Officer.

Following Hilkka's appointment in 2021 we've been actively building the team, adding specific expertise on stewardship and climate, supported by a team of reporting and responsible investment analysts. In 2023, we welcomed a new analyst to the team to support its work on the wider integration of responsible investment into our investment strategy, taking the number of dedicated RI team members to seven, as shown in the organisational chart diagram below.

Aegon UK RI team structure (as at Q4 2023)

Jim Ewing
CFO

Lorna Blyth
Managing Director – Investment Proposition

Hilkka Komulainen
Head of Responsible Investment

Pauline Vaskou
Climate Lead

Samantha Chew
Stewardship Lead

Rory Cornelius
Reporting Analyst

David Flint
Reporting Analyst

Gildas Ehrmann
Reporting Analyst

Helen Blanking
RI Analyst

The broad range of activities it undertakes – from informing investment approach to addressing market-wide and systemic risks through industry collaboration – means our RI team members come from a range of professional backgrounds and draw upon a diverse range of skills and knowledge including:

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

Third-party service provider resources

We benefit from our investment in a range of systems, processes, research and analysis to inform and evolve our stewardship. We've 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. 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.

Continuous learning and development

Continued learning and progress for all individuals, regardless of seniority, role or tenure is a central tenet of our culture.

The pace of developments and the urgency of action on ESG-related issues calls for deeper understanding and integration to enable well-informed decision making and to ensure that we act in the best interest of our customers.

In line with the commitments outlined in our 2022 Stewardship Report, this year we engaged in a range of educational initiatives aimed at developing and deepening stewardship knowledge across our organisation, including our board and senior managers.

Knowledge-sharing initiatives provided to the Board in 2023 included:

- Presentation and training session on our new Climate Roadmap and 2022 Stewardship Report, recognising their increased role, as of 2022, in formally overseeing Aegon's responsible investment strategy.
- Training session held for AUK Group Audit Committee on climate disclosures for TCFD data and data provider oversight.
- Presentation and training session for the full Board on market and regulatory trends in RI, progress against our climate targets and emerging areas like Taskforce on Nature-related Financial Disclosures (TNFD).

Wider knowledge-sharing initiatives across Aegon UK in 2023 included:

- **Carbon literacy accreditation** attained by employees from Procurement, Supplier and Vendor management and Risk and Legal. The external workshops equipped employees with a better understanding of climate change and action that can be taken on an individual and organisational level.
- **Climate risk and portfolio impact workshop** for all risk department employees. Climate risk poses a threat to long term value creation for our customers. We believe it's therefore important that our risk team are aware of the scope of climate-related risks and understand how to effectively mitigate them. This workshop covered key themes focusing on the types of climate-related risks, and how to identify, assess and manage them in order to continuously challenge and improve understanding and implementation.
- **Training session** attended by Investment Distribution colleagues on our new Climate Roadmap and key elements of our 2022 Stewardship Report.
- **Training session** on **Stewardship Code** and relevant considerations for risk professionals to our Risk team.
- A **company-wide session** on Aegon UK's approach to RI.

Our RI team maintains an active presence at industry related knowledge-based events to keep on top of industry developments and thinking on responsible investment themes and initiatives. In 2023 these included attendance at the Principles for Responsible Investment conference in Tokyo. Additionally, they took part in a workshop for managers on how to effectively implement our engagement themes, co-hosted a session on climate scenario planning and presented at the Pensions and Lifetime Savings Association (PLSA) ESG conference, on consultation guidance from the DWP's Taskforce on Social Factors (see Case Study: Aegon | 2023 Social factors-related Collaborative Activities in Principle 10 for more detail).

How we reward and incentivise stewardship and responsible investment

Our reward and incentivisation structures are designed with sustainability in mind. Currently, our bonus-plan funding has a **40%** weighting on non-financial business performance indicators. This includes a **10%** weighting on our employee engagement target, aligned to our strategic ambition of developing a purpose-led culture based around a diverse, high performing workforce where employees are passionate and proud about helping our customers succeed. There is also a **10%** weighting on our sustainable future, which is made up of **5%** on reduction in operational carbon emissions and **5%** on assets invested in ESG funds. In addition, each Executive Committee member's performance objectives must have at least **50%** weighting on non-financial matters. This includes personal objectives relating to DEI and employee engagement.

For 2024, plans are underway to continue the linking of ESG metrics with both company and individual performance measures, which directly affect variable pay outcomes.

Assessing our effectiveness for continuous improvement

We believe our stewardship governance structures are fit for purpose – we have the right structures and teams in place and are confident in the effectiveness of our board. However, we also recognise that evolving our approach is essential to fulfil our sustainability goals and meet the changing needs of our business. We're satisfied that the changes we've made during 2023 are robust and have been effective in further embedding ESG in our governance structure, and we will do more. We'll continue to focus on building on stewardship skills and expertise across our governance framework and develop how we incentivise ESG and sustainability performance in 2024.

Good governance which includes dedicated RI expertise and resource is the bedrock of our stewardship approach, and fundamental to our purpose and our strategy.

Principle 3. Managing conflicts of interest

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

Proving our integrity through our words and actions is central to our culture and our values. It's also essential to our approach to managing conflicts of interests. In practice, this means all our employees are responsible for promoting and protecting our customers' interests and have an obligation to report and avoid any potential or perceived conflict of interest. We have stringent measures in place to ensure we fulfil these obligations.

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.

Our conflicts of interest policy

Our **Conflicts of Interest Policy** is reviewed annually and approved by the Aegon UK plc Board Risk & Capital Committee. It 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 are 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.

We recognise that in today's corporate and investment landscape, the potential for stewardship-related conflicts is significant and it's therefore an important factor in our overall stewardship framework. In turn, our conflicts of interest policy makes specific reference to stewardship-related conflicts, examples of where these may occur and mitigating actions. We explain our approach to stewardship-related conflicts in **potential or actual stewardship conflicts in our business** below. Our Stewardship Framework also includes a section on stewardship-related conflicts (see following page and Principle 5) demonstrating our continued commitment to effective conflict management for the best interests of our customers.

Examples of conflicts of interest

- Acting for a customer in a way that may have a 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

How we identify and manage conflicts

Employees must do everything possible to ensure any conflicts are avoided and, where a conflict exists or may exist, 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, and 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.

How we approach stewardship-related conflicts of interest

In the context of stewardship at Aegon UK, there is a 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. Our multifaceted role as asset owner, pension provider and legal entity operating within a group working with fund managers as well as other service providers, can give rise to situations that call for a careful assessment of competing interests.

As detailed in both our conflicts policy and stewardship framework, we see potential or actual stewardship conflicts arising in three key areas in our business, namely voting and engagement, within Aegon internally when engaging with Aegon Asset Management and through our external service providers. We've described these areas in the table on the following page with details of how they might arise, and the mitigating actions we take to ensure our stewardship decisions are not compromised in favour of other interests, thereby ensuring we can consistently serve the long-term interests of our customers.

We log potential stewardship conflicts in our **Stewardship Conflicts Identification and Management Register** along with details of who identified the conflict and the controls that have been applied to mitigate the conflict. To ensure proper oversight, our Head of Responsible Investment reviews the log on a quarterly basis and can then advise on any additional required measures.

Potential or actual stewardship conflicts in our business

Type of conflict / source of conflict		Potential scenario	Mitigating actions	Example
Engagement or voting preferences of asset managers with portfolio companies	Prospective or corporate clients	Engagement or voting preferences 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.	See case study 1
	Company with whom we hold shares	One of our asset managers engaging with a contrary position to our expression of wish (EOfW) 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'll escalate to the Investment Oversight team and seek to engage with the sset manager.	See Principle 12. Case study 1 on page 118
	Employees	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 RI team must identify and declare their conflicts related to stewardship, where appropriate, to the Head of Responsible Investment.	No such conflicts of interest this year
Aegon internal	Members of the Aegon Group	Engagement with Aegon Asset Management, one of AUK's key strategic asset managers.	Our RI team assesses Aegon Asset Management at arm's length, as would be the case with all other asset managers, as part of our RI annual manager monitoring exercise.	See case study 3
External service providers		Our asset managers and/or service providers have a stewardship conflict that prevents them from undertaking effective stewardship activities on our behalf.	Where we believe that an external service provider's activities or policy on conflicts presents a risk to the effectiveness of its stewardship activities undertaken on our behalf, we'll escalate to the Investment Oversight team and seek to engage with the asset manager.	See case study 2

How we managed stewardship conflicts in 2023

The following case studies provide examples of actual conflicts during 2023, how we approached them and what the outcome was.

Case Study 1: voting preferences for a company that is also a corporate client

Context

In April 2023, ahead of the AGM of a multinational oil and gas company, we issued an Expression of Wish (EofW) to our asset managers, asking them to align with our voting preferences. We asked them to support a vote for an independent shareholder resolution on climate. As this oil and gas company is also one of our corporate workplace pension clients, this scenario posed a potential conflict of interest.

Approach

Using our voice in voting and engagement is a key component of our toolkit for sustainable investment outcomes. Our EofW is a clear and straightforward way for Aegon as asset owners to communicate our view and amplify our voice in material resolutions. Here, our view was that:

- The company's existing aims covering Scope 3 did not equate to Paris-aligned targets, and that absolute emission targets are vital.
- The company had pared back its climate ambition while its profits had hit record highs only months after its climate plan was approved by shareholders in 2022.
- All of our asset managers should engage with companies on the transparency of their plans to reduce GHG emissions, aligned with a well below 2-degree (preferably 1.5 degree) future, in line with our Stewardship Framework.

We believe it's possible to balance our commitment to using our voice to drive systemic change through robust stewardship with the need to preserve relationships with clients. Our EofW process enables transparency and clarity as it makes our position clear.

Outcome and next steps

We were satisfied that our voting preferences were driven by our focus on mitigating systemic risk and fostering positive environmental and climate outcomes for the long term. Our corporate relationship did not influence our EofW, nor compromise the integrity of our stewardship framework. Further detail on our EofW approach can be found in Principle 12.

Case Study 2: asset manager fails to meet our minimum expectations and is also a prospective client

Context

Focusing on manager expectations and monitoring is a key component of our toolkit for sustainable investment outcomes. We set minimum requirements for all asset managers and conduct annual manager monitoring to evaluate how they're being met and take action if they are not. As a result, we discovered a lack of alignment in one of our asset managers and its underlying fund groups.

At a group level, the asset manager had failed to meet our minimum requirements including having a firm-level net zero target and being a signatory to PRI and the UK Stewardship Code. This was coupled with a wide variation in RI performance and, at times, different approaches towards RI between its subsidiaries. We recognised the need for escalation, but at the same time our workplace business development team was in a tendering process with the asset manager as a prospective corporate pension client. This presented a potential conflict of interest.

Approach

Our manager monitoring and client tendering processes are deliberately discrete, therefore neither should inform the other. We discussed the potential conflict internally and held a meeting with the manager to encourage their progress against our minimum requirements. We invited them to demonstrate and provide evidence of governance and oversight of their subsidiaries and establish a clear time-bound plan to address our minimum expectations.

Outcome and next steps

The status of our prospective client relationship with the asset manager did not impact our decision to pursue action with them regarding their failure to meet our minimum requirements for asset managers. The asset manager responded to our requests regarding their alignment with our minimum requirements and confirmed their intention to become signatories of the UN PRI and UK Stewardship Code by mid 2024. They also committed to improving their sustainability governance and to analysing the impact of net zero across their entire business with the aim of setting a group-level net zero target by mid 2024. We'll continue to track their progress against their stated goals throughout 2024.

Case Study 3: Our approach to manager due diligence includes Aegon Asset Management

Context

Our manager monitoring and expectations apply equally to all our key asset managers. Aegon Asset Management (AAM) is one of our key asset managers and also part of Aegon Ltd.

Approach

We ask AAM to complete the same annual monitoring questionnaire as other key managers, within the same timescales. Their responses are scrutinised to the same level and with identical scoring criteria as all other managers. Aegon Asset Management is also subject to the same EofW voting preferences on material resolutions as our other key managers.

Outcome and next steps

In line with our process for other key managers, following our manager monitoring exercise in 2023 we engaged with AAM on their RI score and discussed our feedback, including opportunities for enhancement.

Assessing our effectiveness for continuous improvement

We're satisfied that our conflicts of interest policy and processes are robust and effective. As we continue to develop our manager monitoring and engagement, particularly in respect of our Climate Roadmap and net zero expectations, there's an opportunity to strengthen our approach to identifying and managing conflicts relating to RI considerations and corporate clients. This will be a focus in 2024.

Principle 4. Promoting well-functioning markets

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

With global uncertainty and turbulence comes an increasing number of market and systemic risks. As a universal owner with £88 billion in assets under management, we're exposed to many of these risks such as climate change. While accepting some of these are beyond our control, there's also much we can do to manage these risks, such as implementing frameworks to reduce and manage our exposure as well as harness our position in the investment landscape to engage with companies and shape public policy. Collectively, through these actions, we strive to fulfil our overarching purpose of helping people live their best lives and foster positive outcomes for our environment and planet.

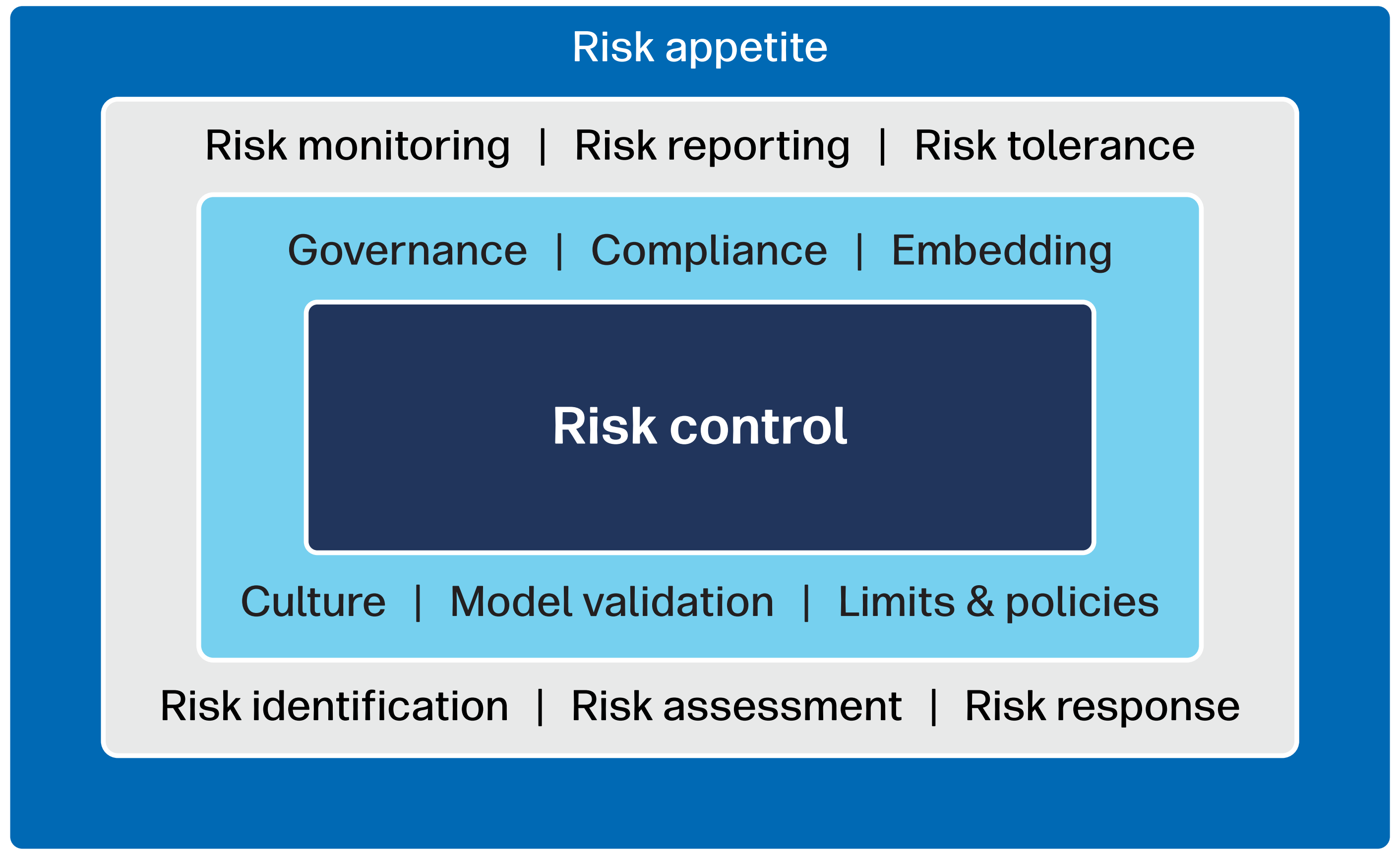
How we manage market-wide and systemic risks

Risk management

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



Aegon ERM framework

Our ERM Framework

The **Aegon ERM framework** (illustrated in the diagram) 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

It is underpinned by our **Risk Appetite Framework**, which articulates our risk objectives and attached limits for key market-wide and systemic risks, covering threats to health, society, critical infrastructure, economy, accidents, malicious threats from malign actors, and natural disasters, including climate risks. This is articulated in the form of risk appetite – which sets the directional and core strategic view of risk, and risk tolerance as well as clear limits to monitor against for solvency, liquidity, continuity, balanced exposures, business performance, sustainability, with-profits and protection reinsurance counterparty exposure.

Our sustainability risk philosophy

Our sustainability risk philosophy underpins our approach to risk tolerance which aims to make clear management's commitment to a sustainable business for all stakeholders:

Sustainability matters to Aegon UK – we want to be a responsible business – 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 investing responsibly matters, financial security matters, the environment matters, our people matter, giving back matters and governance matters.

How we identify and assess market-wide and systemic risks

Risk universe

The Aegon risk universe is grouped into four main risk categories, with subcategories of specific risk types, as shown in the table below. This provides a common language for how we identify, assess, monitor and report the market-wide and systemic risks that we're exposed to.

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

We monitor the horizon for developments which could impact Aegon, our customers, advisers or the markets within which we operate. We identify emerging risks – providing early warning of events that could have a significant negative impact on AUK's risk profile. We evaluate the likelihood of such risks increasing and assess when the risks merit closer attention.

The risk landscape has been challenging in recent years, including risks arising from Brexit, COVID-19, the UK liability-driven investment shock and subsequent sharp fall in gilt prices, wars in Ukraine and the Middle East, and the ongoing cost of living crisis which includes high inflation, interest rates and energy prices, falling house prices and subdued economic growth across the UK.

The **Key risks and mitigants matrix** below provides an overview of the key risks to Aegon UK, explains how we may be exposed and the corresponding measures we use to mitigate them. Once we identify risks, we employ a wide variety of tools and processes to support the analysis, measurement, management, monitoring and reporting of risks, including stress and scenario testing across the universe with differing levels of severity, designed to provide insight into the risks and uncertainties to the business.

Stress and scenario tests

We employ a range of stresses that fall within our annual programme of stress and scenario tests to provide insight into the business plan, including:

- New business volume and margin significantly lower due to external or internal factors
- Poorer persistency experience
- Expense inflation due to the cost of living/inflation increases (see Example 1: cost-of-living risks in our risk-management framework)
- Delivery of projects may not be successful, may take longer or be more costly than predicted, cost savings may not be achieved, or issues may be harder to resolve, impacting new business and retention.

Integration of climate consideration into qualitative extreme reverse stress tests

We're running qualitative extreme reverse stress tests covering financial crime, cyber-attack, group failure and two climate scenarios. We've separately defined a climate 'tipping point' scenario to consider potential impacts from severe weather events and a 'backlash' scenario to consider litigation risks. We're currently working through the risks identified in these extreme scenarios with a view to reporting to the AUK Board Risk and Capital Committee in Spring 2024 and, where appropriate, strengthening controls to ensure our business remains resilient.

Key risks and mitigants matrix – Aegon UK (AUK)

Key Risk	Description	Our approach
Financial markets risk (covering equity, interest rate, alternative investments and currency risks)	Financial markets affect the value of the investments held. For AUK, this is largely indirectly through fees on policyholder funds. We have a smaller exposure to directly held assets backing our annuity business and shareholder funds. Solvency Capital Requirements increase when interest rates fall.	We continue to regularly monitor and manage these risks, particularly given interest and inflation rates are only expected to fall slowly and the impact of high energy prices/supply chain shocks/cost of credit is likely to flow through to subdued economic growth. We continue to run an active unit-matching programme as a means of hedging the equity market risk exposure that arises through the value of future fee income, as well as holding a portfolio of centrally cleared swaps to hedge interest rates and inflation.
Underwriting risk	Persistency risk and expense risk arise from risks that could adversely affect the value of future charge income in excess of operating expenses. We have a small exposure to longevity risk through a closed book of annuity business, the closed staff Defined Benefit Pension Scheme, and some guarantees within our with-profits funds.	Persistency and new business volumes are actively monitored and consideration is given to development of propositions to meet evolving customer needs. Stress and scenario testing considers the impact of adverse customer behaviour when markets are stressed. We continue close management of expenses relative to budgets, considering ongoing high interest and inflation rates.
Operational risk	Business disruption risk has generally increased over 2023 due to an increased exposure to the risk of failure of third-party suppliers, compounded by increased risks arising from political and wider systemic instability.	Operational recovery plans are in place. We have an ongoing focus on risk events, issues, incidents and emerging risks. We continue to invest in relationships with our third parties and maintain oversight of the services being provided.

Key risks and mitigants matrix – Aegon UK (AUK)

Key Risk	Description	Our approach
Credit risk	Arising from: 1. Investments managed on behalf of policyholders (which determine the level of future fee income), and direct investments held to cover liabilities, such as annuities. 2. Reinsurance arrangements, used principally to transfer mortality/morbidity risk, but also to access externally managed investment funds on behalf of our customers.	Direct credit assets are liability cashflow matched and held as long-term investments. Unit matching provides a hedge against adverse movement of unit funds. Reinsurance counterparty exposure is managed using concentration limits. The risk is expected to decrease over time given the sale of our Protection business, and the run-off of our closed book of annuity business. The remaining risk arises from policyholder funds, which the unit matching is expected to continue to mitigate.
Liquidity risk	Liquidity risk arises if Aegon UK has insufficient liquid assets to meet cashflow requirements as they become due (including claims, operating expenses, and collateral requirements). Due to interest rate increases seen this year, we've required additional collateral for the interest rate swaps, which has impacted our liquidity position, but we've continued to manage liquidity levels within the existing liquidity management framework.	Regular monitoring of our liquidity position and reassessment of our liquidity buffer, plus bespoke stress and scenario tests to provide insight into the risks. Unit buy-backs operate over time within our unit-matching programme and act to improve available liquidity. Our existing liquidity framework and stress and scenario testing will continue to inform the evolving nature of liquidity risks as the business develops.

Key risks and mitigants matrix – Aegon UK (AUK)

Key Risk	Description	Our approach
Regulatory risk	These include Brexit risk, and the Solvency II reforms that have been introduced and are expected to be implemented into UK Law in the next 12 months.	We monitor emerging new regulations and regulatory changes and consider the implications for the business prior to implementation.
Climate change risk	Transition risks arise from the changes required to support the transition to a sustainable, low carbon economy, including those driven by policy and technology changes. Physical risks could also result in changes in asset values, where the underlying companies or countries are impacted by events driven by climate change, for example extreme weather events. Liability risks arise from individuals or businesses seeking compensation for losses suffered from the effects of physical or transition risks for which they hold organisations responsible.	We recognise the growing expectations of our stakeholders to mitigate the threats presented by climate change and climate inequality, and to capture the opportunities offered by moving to a more sustainable and equal world. We currently view the outlook of these risks as uncertain, driven by global actions and impacted by geopolitical changes. In 2023 we continued to integrate ESG criteria into our products and activities in relation to managing climate-related risks and opportunities.

Risk management in practice

The following are examples of how we've managed a variety of risks during 2023 in line with our risk management framework. We outline the context, how we approached the risk and what the outcome and next steps were.

Example 1: cost-of-living risks in our risk-management framework

Context

Our emerging-risk process identified cost of living as an issue as inflation and interest rates rose over 2022 and into 2023. The spike in gilt yields following the mini-Budget in September 2022 led to defined benefit pension schemes and institutional investors selling bonds to meet collateral calls on their leveraged swap positions which pushed yields higher. Following a change of government, market trading returned to normal but ongoing supply chain issues continue to affect inflation and the outlook for economic growth, and hence interest rates continued to rise through most of 2023. The Bank of England base rate rose from 1.75% in August 2022 to 5.25% in August 2023. The risks impacted included economic, demographic and operational risks, which were managed in line with our existing risk management framework.

Approach

Our immediate response included taking action to protect the With-Profits estate from further yield rises. We noted the potential impact on customers' fund values and developed a range of actions to protect their savings and future retirement outcomes.

We made additional cost-of-living payments to colleagues earning less than £40,000 and provided support to those most vulnerable. We then managed the continuing cost-of-living crisis through:

- **Governance:** additional Board-level reporting of risk exposures, including oversight of capital, liquidity and credit positions; monitoring our suppliers' and reinsurers' positions and their resilience; oversight of investment fund performance and more frequent monitoring of risk exposures relative to risk appetites. The designated senior management functions remained accountable for managing their risks and providing updates to the AUK Board Risk and Capital Committees.
- **Risk process:** the risks were already included in the existing risk universe and were managed through existing processes. This included management of the heightened liquidity, expense and persistency risks; the risks to investments due to the economic disruption; the risk of operational losses due to operational stretch arising from increased demands from customers; losses due to higher inflation than predicted; and the impact of more policies than expected becoming paid-up or lapsing. Our risk policies, risk philosophy and risk-tolerance statements provided appropriate coverage of all the risks arising.
- **Scenario analysis:** we ran additional quantitative scenario analysis to assess the potential impacts of the high inflation/interest rates on our business and strategy. Scenario analysis included an assessment of the potential impact on our asset portfolios, investment propositions and operations under a range of potential outcomes allowing for adverse changes in customer behaviour. We reported this analysis as part of our own annual risk and solvency assessment.

Outcome and next steps

The higher prices for energy, commodities, manufactured goods and logistics services have resulted in continued high rates of inflation (albeit beginning to reduce in Q4 2023) with consequent challenges to our cost base and downside impacts on real asset valuations. The risk management framework has continued to operate as intended with Board-level risk reporting on a quarterly cycle.

Example 2: encouraging action through communication of biodiversity and nature risks for pension funds

Context

Responding to and managing our exposure to market-wide and systemic risks is a fundamental component in our toolkit for sustainable investment outcomes. Biodiversity loss will directly affect all global financial markets, which has huge ramifications for pension fund investment strategies. However, we believe this risk is still poorly understood and possibly one of the most overlooked risks facing society, investors and thereby major workplace schemes and their members.

Approach

In 2023, we published 'Why biodiversity matters for DC scheme members', a white paper which explores biodiversity and nature-related risks and their material implications for pension funds. We aimed to explain the context and associated risks in order to help pension providers understand the scale of the issue for DC members. Importantly, the paper sets out five recommended focus areas to help pension schemes know where to start, and five recommended actions pension providers can take to broaden awareness and mitigate nature-related risks in their investment portfolios.

Five focus areas:

1. Deforestation
2. Agriculture
3. Water usage
4. Marine
5. Plastics and packaging

Five actions for pension providers:

1. Commit time and resources to building their knowledge and awareness about the risks and opportunities presented by biodiversity and nature-related risks.
2. Identify and assess biodiversity risks and opportunities in their portfolio, considering available data and qualitative assessments.
3. Agree appropriate management approach based on risks and opportunities identified, such as formalising their strategy in a policy.
4. Implement and revise strategy in line with science, regulations, industry best practice and market developments.
5. Consider new investments in natural capital or nature-based solutions providing value for money for members.

Outcomes and next steps

Publishing this white paper provides us with a practical communications tool to engage with our customers and advisers on this critical sustainable investment issue to enable change and help promote well-functioning markets. We will continue to evaluate understanding and use our voice in 2024 to keep biodiversity risk on the pension's agenda. For information on how we manage these risks across our own portfolios, please see our case study 'Developing our focus on nature' in Principle 9.

How we promote well-functioning markets

We actively work with others to address market-wide and systemic risks (as described in the following examples and in Principle 10) and contribute to research to improve the way the market operates, so that we can deliver on our purpose to our customers and contribute to a more sustainable world.

Using our voice to support public policy for sustainable finance

We believe in the power of investors to help catalyse systemic change to create sustainable benefits for the economy, environment and society. Our size and scale as a business, as well as our exposure as a universal owner to systemic risks, means we have both a responsibility and opportunity to influence positive change. A key action that investors can take as financiers and shareholders is engaging with companies on their business practices to encourage positive change. Nevertheless, we agree with the conclusions reached by Net Zero Asset Owner Alliance that there are limits to corporate engagement alone and as an asset owner our opportunities for direct company engagement are limited.

Therefore, using our voice to add weight to industry initiatives that can influence regulation and policy and support our stewardship and sustainability goals is a key component of our stewardship toolkit. These are important levers of influence as regulation and policy ultimately set the 'rules of the game', yet they don't always incentivise and in some cases even inhibit the needed change in behaviour. The examples below highlight our policy engagement in 2023.

Example 3: founding signatory to Mansion House Compact Agreement

Context

We're committed to ensuring our customers can access and share in the growth of innovative companies we invest in so that we can deliver the superior long-term outcomes that will help our customers to live their best lives. Currently, just **0.5%** of UK pension assets are invested in unlisted UK equities.[2] This could not only compromise the capital available to innovative companies but deprive UK savers of potential higher returns associated with these companies. Securing a retirement income that ensures a comfortable standard of living throughout retirement is a concern for UK savers, as highlighted in a 2022 industry survey of defined contribution (DC) pension scheme members where only **14%** expressed feeling confident that they were on track for an adequate retirement income.[5]

Approach

Against this backdrop, in 2023 we became a founding signatory of the Mansion House Compact Agreement, a voluntary initiative between the largest nine DC pension firms in the UK to allocate at least **5%** of DC default funds to global unlisted equities by 2030. Over time, this could effectively translate into £50 billion investment in UK growth companies which we believe will play a pivotal role in fostering economic growth, job creation and prosperity throughout the UK.

Outcome and next steps

We will use our scale and expertise to develop responsible investment solutions – an essential part of our toolkit for sustainable investment outcomes – including in the unlisted equities space. In doing so, we will seek to improve the retirement outcomes of the millions of members in the DC pensions schemes we support. We also expect the Compact to create opportunities that help deliver the £500 million assets under management target we have set for investments in climate solutions within our default funds by 2026 as we make progress on our Climate Roadmap towards net zero.

Example 4: UKSIF – calling for climate policy certainty

Context

We believe that climate policy certainty is crucial to enable well-functioning markets and resilient returns for our customers. Amplifying our impact through industry and policy advocacy and collaboration is a key part of our toolkit for sustainable investment outcomes, and critical to our response to systemic risks. For the finance sector, stability in climate policy is necessary to incentivise the type of investment needed to reach net zero and stimulate economic growth.

Approach

We joined a coalition of 36 investment managers, banks, asset owners and other financial institutions representing £1.5 trillion in AUM to sign a letter from the UK Sustainable Investment Forum (UKSIF) to the UK government. It underlined the importance to the UK economy of the government's leadership in sustainable finance, of driving capital towards innovative British companies and creating new green enterprise, jobs and skills. It warned that without long-term climate policy certainty the £50-£60 billion investment needed to reach net zero won't happen.

Outcome and next steps

We continue to monitor progress in the UK's climate policy and will seek further opportunities to signal our support for ambitious climate policy. We'll continue our policy advocacy and collaboration efforts in 2024.

Example 5: responding to public policy consultations to support sustainable finance

Context

Sustainable finance and investment policies and regulations have dramatically increased in recent years, showing no signs of slowing. This reflects the recognition that to transition to a lower-carbon economy, our financial system must undergo a significant transformation. Recognising the pivotal role that a sustainable finance system has on ensuring our customers' financial wellbeing, we actively share our views in specific consultations where we believe we can have influence, and where we have the responsibility to do so.

Approach

In 2023, we responded to a number of sustainable finance-related consultations including:

- **CP22/20**: Sustainability Disclosure Requirements (SDR) and investment labels: This proposal by the FCA seeks to address misleading sustainability-related claims made by firms regarding their investment products. We believe that consumer trust in the sustainability credentials of funds is integral so that more meaningful comparisons can be made. As such, we communicated our support for the proposal. However, we also shared our concern that the high bar to qualify for a label may dissuade firms from adopting labels which may undermine the overall drive to promote sustainability. We're following developments of the policy statement closely including the proposed effective dates for its SDR and investment labels.
- **FCA Vote Reporting Group:** this consultation sought to build industry consensus for the proposal to introduce a voluntary, standardised vote reporting template for all asset managers in the UK. We believe this sort of template would improve transparency and consistency in vote reporting and enable effective asset owner oversight in support of member outcomes. As such, we welcomed the opportunity to communicate our support for the proposal.
- **FCA DP23/1 Finance for Positive Sustainable Change consultation:** as part of their commitment to facilitating the finance sector's net-zero transition, the FCA sought industry views on governance, incentives and competence within regulated firms. This input will help showcase best practice as well as highlight regulatory gaps. By contributing to the Investment Association's response, we emphasised our support for a flexible and proportionate approach to heightened regulatory focus on sustainability governance.
- **HM Treasury future regulatory regime for ESG rating providers:** the Government consulted on whether the regulatory perimeter should be extended to include ESG rating service providers. In our response, we voiced our support for such regulation, emphasising its role in enabling investors to access more reliable data and thereby facilitate more informed decision-making.
- **MSCI ITR Consultation:** the consultation sought client views on proposed enhancements to their Implied Temperature Rise (ITR) model. While we mostly embraced the proposed changes, we raised some key concerns. Specifically, we requested clarity on the data quality criteria and the checks and testing around scope 3 emissions.
- **The Prudential Regulatory Authority (PRA) Supervisory Statement SS3/19**: as part of their ongoing assessment, we supported the PRA in gathering further information on their climate questionnaire which is aimed at assessing how firms incorporate and manage climate risk. The outcome of this assessment may lead to the publication of an updated SS3/19 or refinements to the current version.

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 ESG-related issues such as climate and nature. In 2024, we'll continue to engage with our peers, standard setters and other important market-players to promote well-functioning markets and drive the journey to net-zero and a more sustainable future for our customers.

Example 6: responding to broader government and regulatory consultations

Context

Our industry experience, our position in the financial system and the size of our business has equipped us with relevant expertise to offer useful, meaningful insight to help inform public policy and regulation. We aim to have our say and feed into as many relevant regulatory consultations as possible because doing so enables us to represent our customers' best interests and stay at the forefront of fast-evolving industry developments and contribute to a well-functioning financial system.

Approach

In 2023, we responded to a number government and regulatory consultations. Here we describe the consultation, how we responded and notable outcomes:

- **FCA CP22/24: broadening access to financial advice for mainstream investments.** This FCA consultation explored introducing a new form of 'core investment advice' to support individuals switching from cash into a stocks and shares ISA, often as a first investment. We're keen for the FCA to allow a wider range of advice and guidance models to support consumers, and we continue to press for a more personalised form of guidance.

  We welcome innovative thinking, but felt the proposals were too narrow in scope, and as still 'regulated advice', would not present many cost savings to distributors. Also, with interest rates on cash savings at a historic high, we felt the timing was not ideal. We responded constructively and are pleased that the FCA has not advanced core investment advice in this way.

  The FCA has since published a **discussion paper DP23/5: Advice Guidance Boundary Review – proposals for closing the advice gap** asking for views on further clarifying the advice guidance boundary, which we'll respond to in early 2024.

- **The Department for Work and Pensions (DWP), Pensions Regulator and FCA's 'Value for Money: A Framework on metrics, standards and disclosures' (VfM).** The proposed framework aims to ensure that pension schemes deliver the best possible value and improved long-term outcomes for savers. Our response was generally supportive. We believe it has the potential to transform the pensions market and provide better member outcomes. However, execution is key. Our views were quoted three times in the feedback statement that was published in July 2023 as part of the Mansion House pension reforms.

  As it stands now, a common VfM framework will be introduced for all defined contribution pensions in accumulation and decumulation on a phased basis, initially for workplace pension default funds including legacy schemes. Much of the finer detail is still being worked out, and Aegon is involved in workshops and ongoing discussions with the government and regulators. We expect further consultations, and regulatory changes. Implementation of the framework is not expected until after the next UK General Election.

- **The DWP's 'Addressing the challenge of deferred small pots' consultation.** This consultation explored possible solutions to dealing with small, deferred pension pots worth less than £1,000 and is important for workplace pensions. The growth of numerous small, deferred pension pots as well as the proliferation of multiple pots has become a growing issue for both the industry and individuals. Nearly every job comes with a pension and the frequency of job changes means deferred pots may be very small in pensions terms.

  In July 2023, as part of the Mansion House pension reforms the government confirmed that it will be progressing with an authorised multiple default consolidator model to 'hoover' these up. DWP is now progressing with this model. We are part of the small pots' delivery group pension provider expert panel.

- **The DWP's call for evidence exploring a lifetime provider model (or pot for life).** As part of the Autumn Statement, the DWP published its call for evidence on a 'pot for life' model. Initially it aimed to give engaged employees the right to ask their employers to pay their pension contributions into a scheme of their choice, then later, to introduce a default model using the principles of both inertia and choice. This has the potential to disrupt the current employer-centered pension system, and while it may appeal to those who prefer to manage their own retirement savings, it risks diminishing employer engagement and support in workplace pension schemes, risking poorer member outcomes. This potential impact warrants careful consideration alongside other pension policy priorities. We've responded to the call for evidence.

- **UK government's Long-term Investment for Technology Science (LIFTS) initiative.** We responded to calls for feedback on this initiative which seeks to establish new investment vehicles to attract investment from institutional investors to innovative science and technology companies within the UK. We participated in a discussion with the Office for Investment (OFI) around the development of the initiative and shared our insights on the part played by investment advisers as well as some of the barriers to investing in such areas.

  Our feedback was incorporated into OFI's consultation paper published in late 2023.

Outcome and next steps

Our public affairs-related work remains high on our stewardship agenda because we're achieving a level of influence, as described above, which will contribute to improvements in the functioning of financial markets. We'll continue our work in this area and look forward to sharing our progress in 2024.

Assessing our effectiveness for continuous improvement

To help measure our progress on sustainability risk, in 2023 we introduced two new key risk indicators. Firstly, by measuring the reductions in our Scope 1 and 2 carbon emissions quarterly in 2023, and secondly the percentage of the AUM of our default funds that are ESG optimised, on quarter-end positions. We're currently considering how best to implement these indicators for 2024.

As demonstrated through our examples, we're pleased with the outcomes and progress we've achieved which we believe have improved our effectiveness in identifying and responding to market-wide and systemic risks. These improvements include:

- External board evaluation, including oversight of sustainability (as explained in Principle 1)
- An increase in the ESG integration of default funds as a first step towards our net zero commitment (As explained in Principle 7)
- Our increased focus on biodiversity and nature risks as a significant and distinct systemic threat to sustainable financial markets (See Example 2: Encouraging action through communication of biodiversity and nature risks for pension funds on page 43)

In 2024 and beyond we'll continue to develop our approach to improve:

- How we embed climate and other systemic risks into our investment strategy
- Our industry and policy engagement on sustainability
- Our disclosures and engagement tools for members in relation to sustainability to support informed decision-making

Principle 5. Review and assurance

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

The importance of ensuring everything works as it should

The pace of change across the stewardship and sustainability landscape and the advances we're making within Aegon UK, means regular review and assurance of our policies and reporting is crucial. It ensures their continued relevance and effectiveness in supporting our business objectives and enables us to meet our customers' future needs.

Our position as universal owner, coupled with our fiduciary duty means that we need to be confident in our actions today, while keeping a firm eye on their future impact. We do not have all the answers. That is why our assurance process encompasses internal, external, and additional independent oversight. Collectively, these three elements enable evaluation of our policies from different perspectives and inputs that facilitate continuous improvement and give us the confidence that we'll continue to deliver on our purpose.

How we review our policies to enable effective stewardship

Our key policies that enable effective stewardship are our **RI Framework** and our **Stewardship Framework**, which we typically review annually to ensure they reflect our customers' needs, industry best practice, regulatory developments and our governance commitments.

Our **RI Framework** sets our minimum expectations of managers in the following areas:

- Responsible investment governance
- Voting and engagement
- Climate change
- Industry advocacy
- Diversity and inclusion

Our **Stewardship Framework** covers our expectations and monitoring process of managers in respect of their engagement and voting activities. It also outlines our manager escalation process and conflicts of interest related to stewardship.

Our 2023 review of our **Stewardship Framework** was primarily informed by feedback from the FRC regarding our Code application. Specifically, it aimed to address some key areas for development. Following consultation with key stakeholders within our business, we took the proposed revisions forward for review and approval by our Group Investment Committee (a Board-level subcommittee). The approved changes are detailed below.

Our **RI Framework** will be reviewed in the first quarter of 2024.

Assessing the effectiveness of our stewardship framework

Context

Our **Stewardship Framework** primarily addresses our expectations and monitoring process of managers in respect of their engagement and voting activities. It's crucial that we regularly review this framework given that manager monitoring is one of the key areas where we can exert influence and ensure their actions align with the best interests of our customers.

Approach

Following the feedback from the FRC on our code application, we took steps to examine and enhance our **Stewardship Framework** to ensure that it adequately addresses the areas identified for improvement and that monitoring processes support our purpose of helping people live their best lives.

The proposals included more detailed expectations for managers in respect of:

- Our engagement themes, including climate and biodiversity
- Exercising rights and responsibilities within fixed income
- Collaborative engagement
- Engagement transparency

They were approved by the Group Investment Committee in 2023 and are detailed in the table below:

Area	New addition or enhancement to the framework	Improvements made in 2023
Fixed Income	New	New expectations for managers on exercising rights and responsibilities within fixed income, covering corporate debt and sovereign debt. You can read more about how we're developing our approach to stewardship in fixed income in Principle 12 of the report.
Engagement themes	Enhancement	**Climate** More detailed expectations on manager climate transition plans, including in relation to investment beliefs, interim targets and sectoral pathways, and support for climate solutions. **Nature** Lifted out of 'climate' engagement theme to become a standalone theme, with more detailed expectations provided on managers' nature-related disclosures. **DEI** Expansion from diversity and inclusion to include 'equity'. **Human rights** Expectation for managers to reflect consideration of this theme within their engagement policies.
Collaboration	Enhancement	Expanding expectations on managers' collaborative and policy engagements.
Engagement transparency	Enhancement	Enhanced expectations for managers on transparency to facilitate monitoring/engagement.

Outcome and next steps

We look forward to implementing the changes to our framework in our next cycle of annual manager monitoring in 2024. We anticipate the Stewardship Framework will change in line with regulatory requirements, industry best practice, member views and best interest, our climate roadmap and broader stakeholder expectations.

Internal assurance of stewardship

We have two principal mechanisms to assure our stewardship processes: internal audit and policy attestation.

Our Internal-Audit function

Our Internal Audit (IA) function serves as our third line of defence of risk management, with the first being our business functions and those who work in them, and the second being our full risk team who develop, implement and monitor the risk framework.

The IA function assists management, the board and executive committees in protecting our assets, reputation and sustainability. It does this by helping the business maintain effective controls, and by independently and objectively evaluating the design, implementation and effectiveness of internal controls, risk management and governance processes. IA may identify opportunities to strengthen the management-control environment, its effectiveness and Aegon's reputation during internal-audit activities.

The IA annual plan is developed on a '6+6' basis – the first half of the year has firm details with the second half of the year planned on an outlook basis based on the current understanding of risks. This is then firmed up during Q2, which allows for flexibility to respond to any changes in the business and/or risks.

The IA Plan is built using a bottom-up and top-down basis and is aligned to the business strategy to provide appropriate coverage of the key business risks. The bottom-up process starts with defining an audit universe which includes processes or projects within the business that may be audited. These are scored based on a number of factors (for example, financial, regulatory and customer impact) and depending on the scoring, are added to the list of possible audits for the year. Investments, incorporating RI and Stewardship, is captured within the universe and audits in this area are therefore considered as part of the annual process.

The bottom-up approach is complemented by a top-down view by assessing various internal and external sources such as reviewing external horizon scanning publications, input from our Global Audit function, discussions with key stakeholders across the business and attendance at industry conferences. In addition, before the audit plan is submitted for approval to the AUK Group Audit Committee, the proposed plan will go through a robust challenge process with the Global Chief Audit Executive and the Chair of the Group Audit Committee. These top-down lenses also lead to audits being added to the IA Plan.

Through this approach, Internal Audit have recognised the following risks associated with ESG.

Climate Roadmap and Stewardship Report

- **Climate Roadmap development audit** – Internal Audit undertook an audit to assess the design and effectiveness of the key controls in place around the development and measuring progress against our Climate Roadmap targets. The audit assessed whether controls are fit for purpose, operating effectively and sustainable and whether the data available and governance adequately supports management monitoring or progress against our responsible investment goals. The audit confirmed that the majority of our Climate Roadmap targets have been well defined, and steps are being taken to set up reporting on progress against the targets. The audit also found opportunities for further development in documenting roles and responsibilities, as well as data requirements for reporting in relation to the Climate Roadmap. Management is considering the necessary steps to address these comments and looks forward to strengthening our approach for 2024 and beyond.
- **Stewardship code signatory application review** – Internal Audit carried out a 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 a review of 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 the case studies sampled generally reflect activities performed throughout the year and that statements made within these are fair, balanced and address highlighted FRC principles. The review also highlighted actions where the case studies would benefit from further formality, notably controls around effective and timely review, and consistent evidence retention and support statements, particularly where input is obtained from the wider business. Management will be addressing these actions during 2024.

In 2024 we'll conduct an internal audit of ESG Sustainability Reporting to assess the design and effectiveness of our manager monitoring programme.

Policy attestation

A key aspect of embedding a policy or framework is testing to ensure it is being deployed appropriately. We have two levels of policy:

- **Tier 1** – a risk-based framework with an element of judgement and/or a policy which, due to its materiality, warrants wider communication across the business
- **Tier 2** – a framework that's required for legislative purposes and/or to provide direction on general business requirements

Our **RI Framework** was subject to its first annual policy attestation exercise in 2023 following our decision to elevate it to Tier 1 status in 2022. Overseen by our risk team, and reviewed by Aegon Ltd, this attestation involved providing evidence on various questions that consider key risk components of the framework. As part of the 2023 attestation, the RI team was required to provide evidence on how our minimum expectations have been used to award new business during the year, how manager monitoring results have informed subsequent engagement with managers, and how the escalation approach has been applied to managers who failed our minimum expectations. No issues were identified from this attestation.

External assurance of sustainability and stewardship

External assurance is one of the most valuable tools available to us to continuously improve our stewardship and RI practices. Whilst we're still considering our approach to our AUK ESG reporting, wider business has taken steps on using external assurance on other sustainability aspects (for example, Streamlined Energy and Carbon Reporting (SECR) and sustainability roadmap). Under the SECR regulations, we report certain climate related information including our total company energy and carbon emissions within our 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. Given the importance of reliable data and our commitment to ensuring its accuracy, we've set up a project to enhance the documentation and operation of our internal controls in relation to carbon reporting. In the future, we expect this data to be in scope of an external audit.

External assurance within ESG remains a developing area and we have not opted for external review of our ESG and RI activities at this current time. Our position is informed by the following key factors – the complexity and evolving nature of ESG frameworks, the challenge of finding a universally accepted standard for assurance of ESG and RI activities, combined with our increased internal efforts to improve ESG-related reporting and processes (for example, our climate roadmap audit completed in 2023 and relevant internal audit plans for 2024 – see Our Internal-Audit function above). We'll continue to monitor this space as part of ongoing developments of our internal review approach.

Our Group sustainability roadmap is a 28-point plan outlining how we'll further integrate sustainable practices across our business leading up to 2025. ESG external assurance is a component of this plan. Specifically, it includes a target to provide limited independent assurance for ESG reporting. We have planned actions to meet this target, which include the UN Principles for Responsible Investment (PRI) annual external assurance and further internal auditing of our ESG and RI activities, as outlined earlier in this section.

Additional independent oversight

The role of our Independent Governance Committee (IGC) is to act independently of us and as a customer advocate. It reviews whether our workplace pensions provide value for money, by challenging them 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 Aegon Master Trust (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.

How we ensure stewardship reporting is fair, balanced and understandable

Reporting on our stewardship activities and outcomes gives us the opportunity to assess, reflect and improve, and to keep pace with industry developments. The rising demand for stewardship reporting, coupled with increasing regulatory scrutiny, means that fair, balanced and understandable reporting has never been more important. That's why our reporting is a team effort, with focused responsibilities.

Our stewardship team has ownership of reporting commitments under the FRC Stewardship Code. Teams from across the business, including Risk and Compliance, Investment Solutions, HR, Marketing and Distribution provide significant contribution and have ensured accuracy and clarity of message, as necessary.

We've also found third-party feedback to be beneficial. In 2023, we've been working with a sustainability consultancy to review and assess our reporting and as part of commissioning them, we asked them to challenge our approach to help us drive continuous improvement.

Overview of the review and approval process for the AUK Stewardship Report 2023

Report drafting & review

Input and review from relevant functions, e.g. risk, investment solutions, legal.

Internal Audit review

Reviewing a sample of case studies in the stewardship report.

Management Investment Committee review & approval

A sub-committee of our Executive Committee and includes review by our Managing Director of Investment Proposition.

Aegon UK Board review & approval

Assessing our effectiveness for continuous improvement

The nature of our assurance and oversight approach means that we're continually assessing the effectiveness of our policies and frameworks through internal, external, and additional independent channels. There is no doubt that ESG is a key risk and we believe we're acting accordingly.

In 2023, we have aimed to be progressive, pragmatic and responsive in order to build in further rigour as we adapt to the fast-changing stewardship landscape and challenge ourselves to go further. As demonstrated in this chapter, we've reviewed and tested our approach during 2023, identified gaps such as external assurance for ESG reporting, and reported on outcomes, priorities and next steps.

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.

As our Introduction to Stewardship at Aegon explains, who we are defines how we act as stewards and is the key to enabling our four million customers to live their best lives.

In this section, we outline who our customers and beneficiaries are and provide an overview of our investment proposition and the assets we manage, including where and how they're invested. We also describe how we engage with our customers, their advisers and the employers who are at the heart of the assets entrusted to us.

Our customers and our investment proposition

Aegon UK is the largest investment platform in the United Kingdom, providing a broad range of savings, investment and retirement solutions products to individuals, advisers, and employers. We offer products to customers primarily through workplace and retail channels.

Our workplace channel provides UK-based employers with workplace pensions and savings schemes. It allows Aegon UK to participate in the strongly growing auto-enrolment market by delivering a market leading financial wellbeing proposition. A key driver of growth is in the Master Trust market, the fastest-growing sector of the UK Defined Contribution (DC) market, where Aegon UK has an established and comprehensive offering. Aegon UK works with leading employee benefits consultants and corporate advisers to provide a workplace savings platform to employers. Through our workplace channel, we support over 9,000 employer schemes and manage the savings of approximately 980,000 workplace customers. The average age of our workplace customer is 43. We offer a range of workplace solutions for employers, including contract-based schemes, trust-based defined contribution 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). Our retail channel provides financial advisers and other institutions with access to long-term savings and retirement products, through an open architecture investment platform. We have approximately 2.3 million retail customers whose average age is 50.

What connects these two channels is their need for sustainable, long-term value creation. Our stewardship strategy, as explained in Principle 1, is intentionally designed to meet this need today, and in the future.

Who we work with

As one of the UK's leading savings and investment service providers we serve more than four million customers and over 9,000 employers. We work with employers, advisers (including employee benefit consultants and corporate and retail advisers) and individuals to offer long-term savings, investments and pension solutions through our workplace and retail business channels. As such, we have a huge responsibility to ensure we can deliver those solutions today and well into the future. Robust stewardship and a sustainable approach to our investments is how we will achieve this.

Changes to our retail and workplace business

During 2023 we made some strategic changes to our retail and workplace proposition, notably with the extension of our partnership with Nationwide Building Society and the sale of our UK protection business. These changes focus our strengths to deliver our purpose. You can find out more about these changes on page 17 of Principle 1 - Changes to our retail and workplace business - 2023.

Our investment time horizon

There are nuances in how we consider our investment time horizon across our business depending on our customers' investment objectives, age, risk appetite and the type of financial asset. Generally, however, we work with a long-term investment time horizon in mind for a number of reasons, including but not limited to the increasing life expectancy of customers. The age of our average workplace customer is 43, and they will typically continue investing for decades to come. We therefore have a responsibility to ensure we deliver sustainable financial outcomes for the duration of our customers' investments. Our approach to how we steward our customers' assets reflects this responsibility and we have developed our toolkit for sustainable investment outcomes (see page 11) to achieve this goal.

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 end points.

We design our long-term investment solutions for retail customers considering expected outcomes of a broad set of asset classes over a 10-year period, and generally with 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, are 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, provides detailed information on the management of the with-profits fund and its investment strategy.

How we manage our customers' assets

We're predominantly 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's therefore vital for us to maintain a strong degree of alignment with, and influence over, our asset managers and their stewardship activities, to safeguard our customers' best interests. This is why active manager monitoring is an important feature of our toolkit for sustainable investment outcomes. You can find more details on how we monitor our managers in Principle 8 of this report.

Our assets under administration (AUA) and assets under management (AUM)

As of 31 December 2023, our total assets under administration – all assets for which we provide administrative services, including investment assets – were approximately £203 billion.

An approximate breakdown of our AUA is provided below:

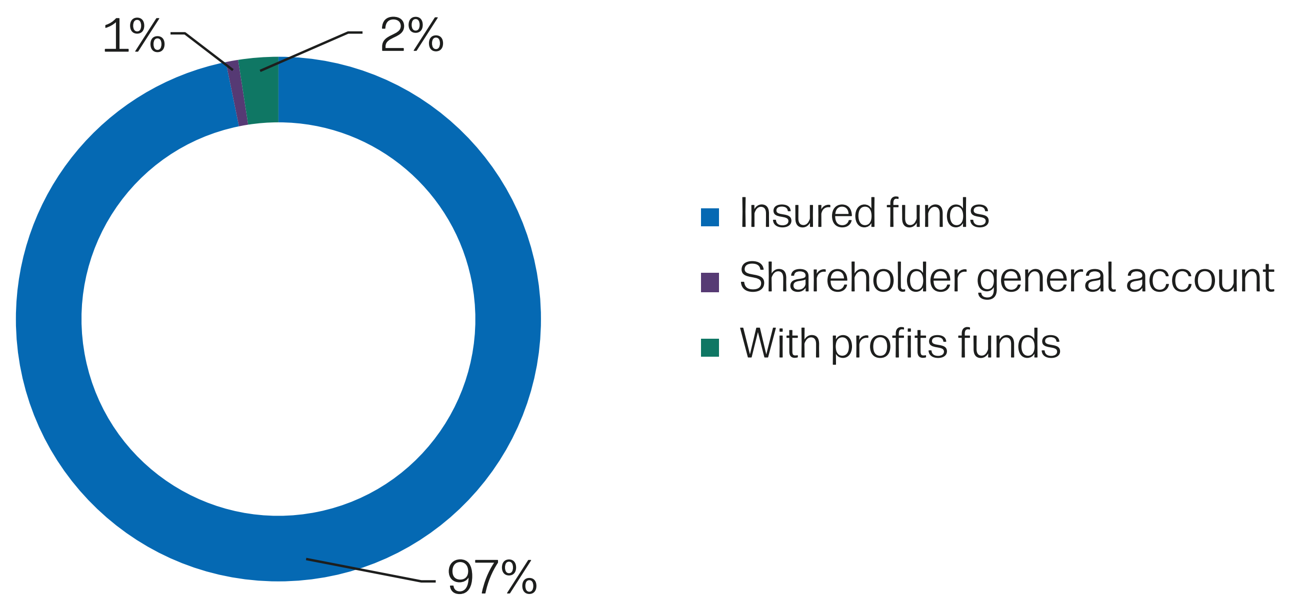
Type of AUA	Approximate AUA £ (bn)
Retail – as described below and further in Principle 7	50.5
Workplace – as described below and further in Principle 7	53.3
Institutional – as described in our business model in Principle 1	68.9
Traditional products – as described in our business model in Principle 1	30.3

Our assets under management (AUM)

The following provides the approximate split of our investment AUM – the total market value of investments managed on behalf of customers as of 31 December 2023 – covering funds in scope of our RI Framework and Stewardship Framework. These funds make up, in total, approximately £88 billion (just under half of our total AUM described above).

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

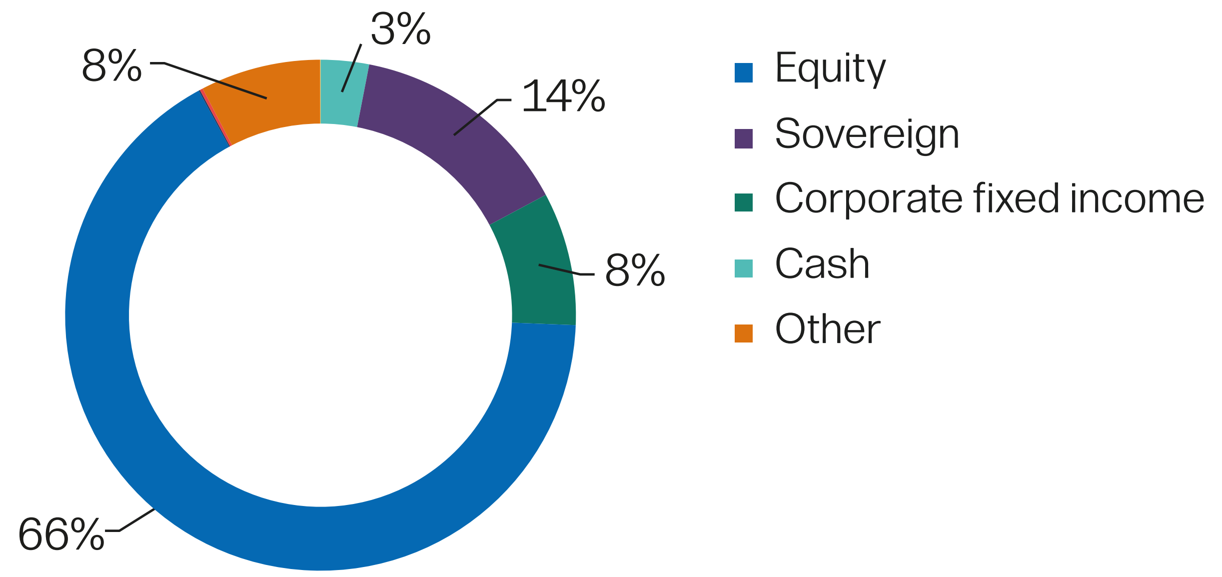
- Customer assets in our insured funds, which include our workplace default funds, self-select funds and other customer solutions.
- Customer assets in our with-profits funds, which are segregated mandates whereby certain profits and losses of the pool are shared fairly amongst the participating customers.
- 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.



Our AUM by asset type

We invest our assets across different asset types including cash, equities, fixed income and property strategies. The majority is in equities for our insured funds (approximately **66%**) of our AUM.

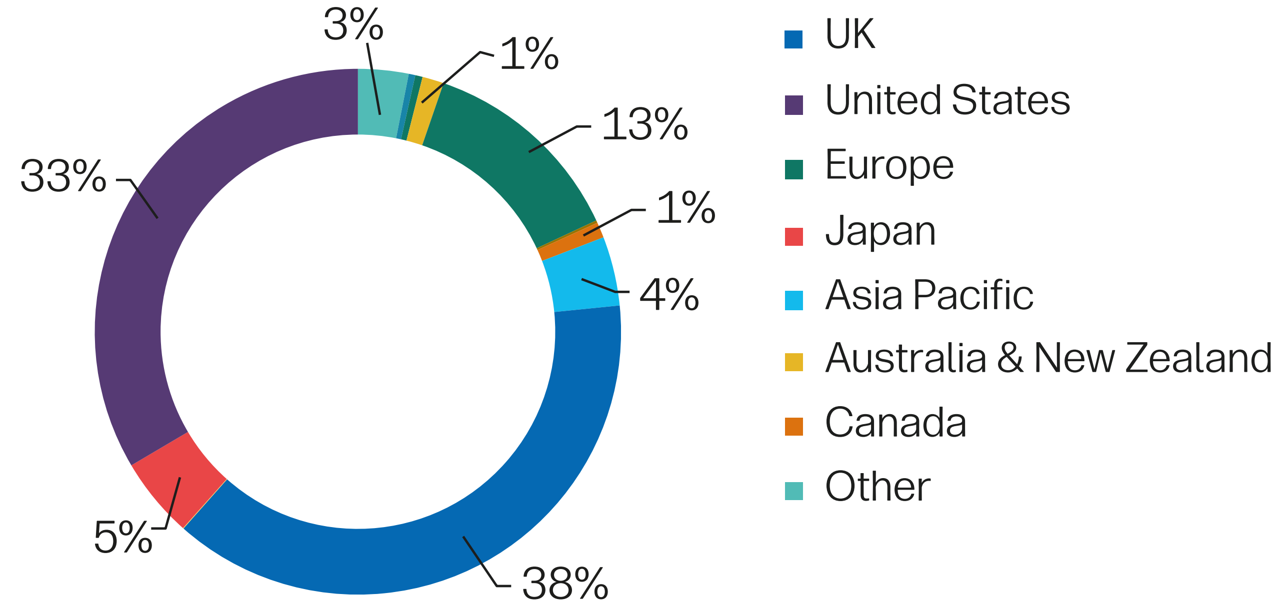
Approximate split of insured funds by asset type (as of 31 December 2023)



Our AUM by geography

The diagram demonstrates the split by geography for our insured funds which make up the majority (approximately **97%**) of our AUM.

Approximate split of insured funds by geography (as of 31 December 2023)



Our approach to listening to and engaging with our customers

We believe that by making our customers part of our stewardship journey, we can better ensure we deliver the best financial outcomes for them.

We therefore engage with our customers and advisers on our stewardship, RI and sustainability activities and outcomes in a number of ways to understand their preferences, explain our approach, and evaluate if we're aligned with their stewardship and sustainability priorities. We're focused on finding new ways to engage with our customers to build closer connections. We analyse feedback and work hard to act on it. We provide examples of where we have acted on customer insights further in the section.

To ensure we have an objective and well-rounded view of how we're meeting our customers' needs, we supplement our understanding with key external indicators including:

- **Employee Benefit Consultant (EBC) ratings and consultant surveys** – We track EBC ratings of our overall investment proposition including our RI and stewardship approach, on a quarterly basis. In 2023 we saw some improvements in our EBC ratings across key categories, including stewardship, however this remains a key area for development.
- **Net Promoter Score (NPS®)** – We measure our overall customer satisfaction through quarterly customer-satisfaction surveys and benchmark through NPS. We were pleased to see improvements in 2023 in our overall NPS score following some developments to our customer care experience, but this remains a key area for further development across our business. You can read more about our NPS in the box on page 59 in this section.

The role of our asset managers in supporting our customers' needs

Consideration of our customers' best interests and preferences is integral to our stewardship frameworks and practices. As indirect investors, our expectations of asset managers are firmly focused on their responsibilities as the front-line investors to align their approaches with those frameworks and practices. This is why manager monitoring is a cornerstone of our stewardship approach. Where there's evidence that our managers are not aligned with us, 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 2023, the reasons for this and the actions we subsequently took.

How we capture customer insights on RI

The RI landscape is fast moving and evolving and there are different ways to navigate it. We endeavour to align our stewardship approach with our clients, but we can't guess their views on ESG matters. Customer research, particularly when repeated with frequency and consistency provides an invaluable, dynamic and insightful gauge of our customers' evolving attitudes and priorities. By tracking sentiment we can identify trends over time and ensure our strategy remains both relevant and effective in addressing ESG issues as they evolve in the public consciousness.

We seek customers' views and feedback by carrying out customer research at least once a year, through dedicated customer insight surveys comprised of our customers and a small number of our colleagues.

In 2023, we conducted a range of customer insight surveys with a focus on responsible investment, sustainability and financial wellbeing, as illustrated in the table below. Our customer-panel RI survey asked 1,200 customers about their views related to sustainability considerations on their investments. Our financial wellbeing survey surveyed 10,000 people in the UK to gain a big picture view on how people feel about the control they have over their financial future and their relationship with money. Given the inextricable link between long-term financial wellbeing and a sustainable approach to investment, this year's survey included seven questions to capture insights on beliefs, concerns and preferences regarding sustainability issues and the way their money is invested. For the first time, our 2023 Net Promoter Score (NPS) surveys included a set of RI-related questions (see Measuring customer satisfaction on RI through benchmarked Net promoter scores (NPS®) on page 59 for more detail on approach and next steps).

Customer surveys in 2023 where RI-related questions were included

Survey name	Date	Number surveyed (Approx)
Customer panel RI survey	July 2023	1,200 customers
Financial Wellbeing Survey	July 2023	10,000 UK residents
NPS Survey 2023	Quarterly throughout 2023	4,500 customers

How we act on customer insights on RI

The insights from our customer surveys are invaluable because they encourage us to take a step back, recalibrate and see how we can sharpen our focus on areas of RI and sustainability that matter most to our clients, at both an issues and an investments level.

It's clear that environmental issues are important to our customers and play a key role in how they think about responsible investment. The table/diagram below includes some of the main examples of how we've acted on RI-related customer insights in 2023.

Customer insight-driven action plan

Customer Insight	Action taken	Detail
Almost half (**49%**) of customers indicated nature impacts, including biodiversity to be important considerations when investing in a company.[1] **36%** of respondents said impacts on nature, including biodiversity was an important factor in their everyday decisions.[6]	Development of our nature and biodiversity action plan.	You can find more detail on our nature action plan in Case study: developing our focus on nature on page 89.
As above	Ongoing ESG integration into our investment proposition and expanding customer choice of ESG funds.	Key examples of how we enhanced ESG integration into investments in 2023: ▪ As part of a key default fund review, we explicitly asked potential managers to demonstrate their approach to ESG integration, including net-zero alignment (see Case study: default strategy review – ESG integration on page 68) ▪ Enhanced the scope of ESG screens (see Case study 2: Aegon Asset Management (AAM) fund review – default funds to apply ESG on page 69) ▪ Increased the portion of ESG screened assets across our default funds (from £15.6 billion last year to £23.4 billion this year) ▪ Expanded the choice of ESG funds available for our master trust members to choose – see Case study 4: Aegon Master Trust self-select fund range – making sustainability a priority in re-design on page 70

Customer insight-driven action plan

Customer Insight	Action taken	Detail
66% of customers indicated they are aware their investment returns may be affected by financial risks due to climate change, with **43%** thinking the financial sector is not doing enough to stop global warming.[1] We also asked our customers what fund managers should do about companies involved in fossil fuels. Over half (**54%**) would prefer managers to engage with such companies and push them to change,[1] with **48%** supporting the idea of reducing investments in oil and gas companies over time if they do not reduce their carbon emissions.[6]	Continuing our focus on climate change.	Key examples in 2023 demonstrating our increased integration of climate-related considerations in our stewardship approach: ▪ Inaugural implementation of our 'expression of wish' approach (see table on page 116) in 2023 voting season where we articulated to key asset managers our voting preferences that covered key climate-related resolutions. ▪ Our contributions to industry best practices on climate stewardship via our participation in industry working groups including IIGCC and NZAOA (see case study: Aegon 2023 climate-related collaborative activities on page 102). ▪ Our enhanced expectations for asset managers on their climate practices including their articulation of investment beliefs, and setting of interim targets as well as sectoral decarbonisation pathways, as reflected in our updated Stewardship Framework (see case study: assessing the effectiveness of our stewardship framework on page 48).
44% indicated that having more information to help them understand sustainable investment, would help them to make more sustainable investment choices.[1]	In 2023, we relaunched our customer RI hub, which includes a mixture of educational video, web and brochure-style communications as well as communications explaining our approach to responsible investing and stewardship. We also changed the fund factsheets for 25 key default funds, using clearer language for customers.	In 2023 we reviewed the way we communicate responsible investment to our customers. Our messaging went through customer testing, including testing customer views on how we act as a responsible investor on behalf of our customers, and simplified wording on our progress towards net zero and our stewardship approach. The results of this will feed into a refresh of our customer-facing RI web content including videos and documents in 2024. We're planning to build on this by providing standalone fund brochures for our key default funds, leveraging in-depth discussions we had this year on the most appropriate messaging around climate and ESG metrics, balancing accuracy with clarity for customers. In 2023 we updated our fund factsheets to incorporate clearer language detailing the RI credentials for 25 key default funds. This work will continue in 2024.

Communicating with customers

Good communication is critical to align our priorities and actions with our customers' needs and beliefs and to empower our customers to have a voice.

By listening and responding to our customers we hope to foster a relationship built on transparency and a mutual interest in sustainability issues.

Measuring customer satisfaction on RI through benchmarked Net Promoter Scores (NPS®)

In 2023, we introduced several RI-related questions within our quarterly Net Promoter Score (NPS) survey for the first time. NPS surveys measure customer perceptions of our service and the newly created RI questions aim to assess current levels of awareness of responsible investing at Aegon UK and measure the effectiveness of our RI-related communications and collateral.

While the results of this first benchmarking exercise on RI-related sentiment are encouraging, they show that we can still do more to raise awareness of Aegon's approach to sustainable investment and the availability of RI solutions. Delivering RI products and solutions for our customers' needs is a key component of our toolkit for sustainable investment outcomes and we're committed to strengthening our customer communications around this in 2024.

New RI-related question	Result[7]
Do you know it's possible you can consider sustainability in your savings, including responsible investing?	**59%** were aware or fully aware
Are you aware that Aegon is taking into account the sustainability of the companies in your investments, depending upon your saving products?	**64%** said yes
How do you feel about Aegon considering sustainability in your investments, for example exclusions, across the fund options available to you?	**46%** said they felt good or very good

Connecting our colleagues with our customers

Whether it's through formal communications activities or simply in the course of their day-to-day work, our colleagues are often at the front line of customer engagement. Therefore, it's important they're empowered and equipped to understand and respond to customers. 'Connecting with Customers' is an internal initiative focused on improving understanding of our different customer groups, as well as their needs and requirements. The programme covers all Aegon UK colleagues to ensure everyone truly understands that regardless of the amount of direct customer contact they have in their role, everyone plays a part in our customers' experiences so we can deliver on our purpose.

In 2023, 221 colleagues took part in a range of initiatives designed to engage directly with our customers and workplace schemes. Three live customer panels were carried out addressing topics including operations, macroeconomics and online experience of our website and digital applications. Separate live workplace and adviser panels represented by employee schemes and paraplanners were also carried out, discussing how best to support the needs of end-customers.

Wider customer engagement on sustainability and RI

Frequent, clear and transparent communication is key to building and maintaining positive long-term relationships with our customers. It's something we take seriously and is an area we've been developing to ensure we deliver a range of targeted communications to engage with our customers, from digital content and visual aids to guidance and research papers.

Sustainability and RI topics are a regular feature of our overall communications programme. This includes taking our collaboration with Pension Geeks to TV as well as providing dedicated online RI investing hubs for customers and employers, giving them access to our RI and Stewardship Frameworks, as well as educational videos, guides and regular articles to help build their understanding of established and emerging RI and sustainability-related topics.

Connecting with customers

In 2023, we continued to expand and strengthen how we connect with our customers on sustainability and RI related topics. We developed key responsible investment messages which will be used to upgrade our responsible investment hubs in 2024.

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

Case Study: Pension Geeks TV

Pension Geeks are specialists in pensions and financial wellbeing dedicated to improving people's lives by simplifying financial matters and improving financial capability across the UK. When we acquired **Pension Geeks** in 2021, our vision was to provide a personalised, educational member experience based on creative communications that genuinely help people engage with their savings.

Over the past two years we've continued our work to build a leading financial education proposition. 2023 marked a major milestone with the launch of Pension Geeks TV (PGTV), a digital platform that supports financial wellbeing and education.

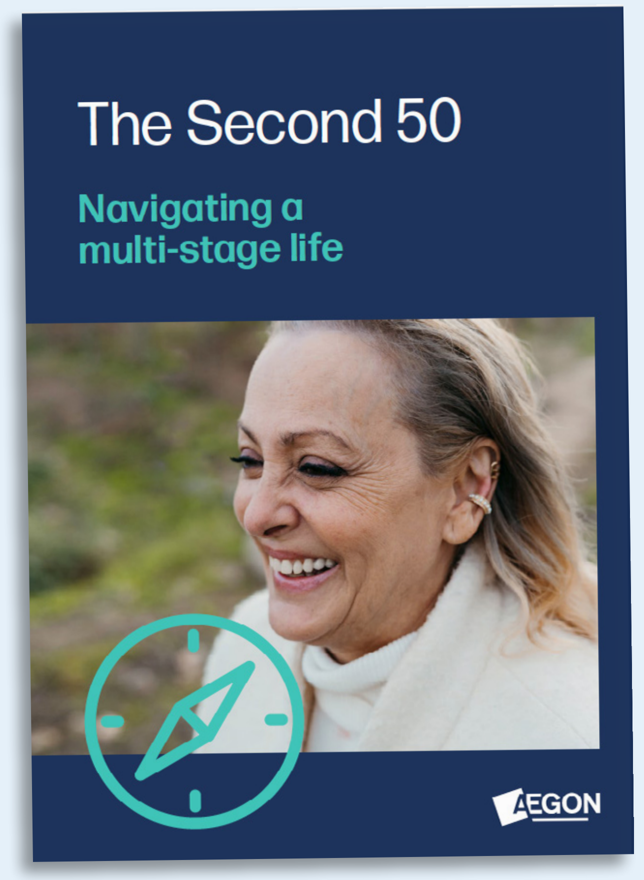
Responsible investment is a key subject, and PGTV topics have so far included **Where is my money invested?** – which looked at how pensions are invested and why fund choice is important and **What is responsible investing?** – a show hosted in partnership with Make My Money Matter, a people-powered campaign that believes pension investments should have a positive impact on the planet.

Our aim is for PGTV to transform our customers' understanding of their pensions and provide employers with a unique way to engage colleagues with their benefits. The **What is responsible investing?** sessions alone were attended by over 2000 customers on the day (an increase of 200% from the pilot session), with over 900 messages and questions asked in the chat function (an increase of 600% from the pilot session).

Pension Geeks are also the founders of Pension Awareness Week, which celebrated its 10th anniversary in September 2023. In keeping with our purpose, this yearly initiative aims to raise awareness of saving enough for the future. It 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'll continue in 2024 and beyond to work with Pension Geeks to help employers encourage their people to engage with workplace benefits programmes.

Case Study: Improving financial wellbeing for 50-somethings



We're aware that our size and scale comes with a responsibility to use our voice to positive effect. We use our platform to bring important topics, including ESG-related issues to the fore through research and advocacy.

Workers in their fifties may be perceived as more financially secure than their younger counterparts and 'looking forward' to retirement in the not-too-distant future. But individuals in this group are increasingly facing multiple challenges as they transition to retirement. Aegon research of 900 workers and 100 retirees in the UK finds that those approaching retirement age are feeling the financial strain of the cost-of-living crisis the most. Against the backdrop of high borrowing costs and inflationary pressures, one in five (**21%**) of those in their fifties have dipped into long-term savings, and one in eight (**13%**) have reduced their contributions to retirement savings.[8] But doing so can seriously compromise future income with limited time to replace funds.

In September 2023, we published The Second 50 report intended to be a starting point and help shape the conversation on how we can prepare, adjust to and embrace opportunities in a fast-changing landscape for life after 50, or what we're calling the 'Second 50'. We're inviting members and the wider public to tell us about their second 50 so Aegon UK and workplace pensions can better help build the financial support needed by employees in later life.

How we engage with Independent Financial Advisers (IFAs) and Employee Benefits Consultants (EBCs) on stewardship

Many of our customers access our pensions and savings products through advisory channels including IFAs and EBCs. We believe getting more people to access advice will improve their financial wellbeing and move them towards their financial goals. 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.

Assessing our effectiveness for continuous improvement

We continuously strive to build on our approach to customer engagement in relation to RI, and periodically evaluate this approach to ensure we fully understand and can act on customer needs. This has led to enhancements within our approach in 2023, including increased transparency on RI-related information in key fund factsheets (see table Customer insight-driven action plan on page 57), as well as producing a short video and summary for members to explain our Climate Roadmap.

In 2024 and beyond, we look forward to continuing to update our RI hub and other communications for customers to ensure that we understand their needs and that customers understand our approach and ambitions.

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.

As long-term investors with long-term objectives, our fundamental focus must be on delivering sustainable long-term value for our customers. This means managing investment risks and returns effectively, which includes considered and active integration of ESG factors across our investment estate, making use of our toolkit for sustainable investment outcomes (as outlined in the Introduction). In line with our responsible beliefs (as set out under Principle 1), we believe ESG integration into investments is important to protect and grow our customer assets; and fulfil our responsibility to support a fairer, more sustainable world.

How we invest across our funds and managers is also an increasing focus for our customers. In our 2023 RI Customer Panel Survey, more than half of our customers (**53%**) said they were interested in investing sustainably because of its broader impact on the environment and society and a third (**33%**) because of their personal values.[1] In addition to supporting risk and opportunity management, we believe ESG integration in investments is also about providing more choice for customers who want to invest in line with their values.

In our view, two key stewardship levers we can use to support ESG integration into investments are asset allocation and oversight of managers in relation to our minimum RI requirements and how they engage and escalate with companies. This is vital to ensure they're acting in the best interests of our customers and long-term goals. This year we made further progress to integrate ESG factors across our investment estate with a focus on our workplace default funds.

RI considerations are also part of our selection, appointment and monitoring of asset managers. Please see Principle 8 for more detail on our monitoring of asset managers.

In this section we describe how we integrate stewardship insights into our investment decision making, including improvements we've made in 2023. These included further strengthening the integration of the RI team into the Investment Proposition team, implementing our climate roadmap targets across our investments, and integrating ESG considerations into our capital allocation and oversight processes. We also describe how we consider ESG factors within our core investment processes and in expanding investment choices for customers.

Integrating stewardship and ESG-related factors in our investment proposition is a team effort

Our Investment Proposition team builds investment solutions mostly using funds from third-party asset managers. We take a range of factors into account, such as customer needs, objectives, risk tolerance, behaviours, beliefs and time horizon. Sustainability risks and opportunities form a key part of this, where we work with asset managers who support our RI beliefs and expectations (see Case study: default strategy review – ESG integration on page 68 for more detail) and provide a diversified range of sustainable investment choices to our customers, as seen in Case study 4: Aegon Master Trust self-select fund range – making sustainability a priority in re-design on page 70.

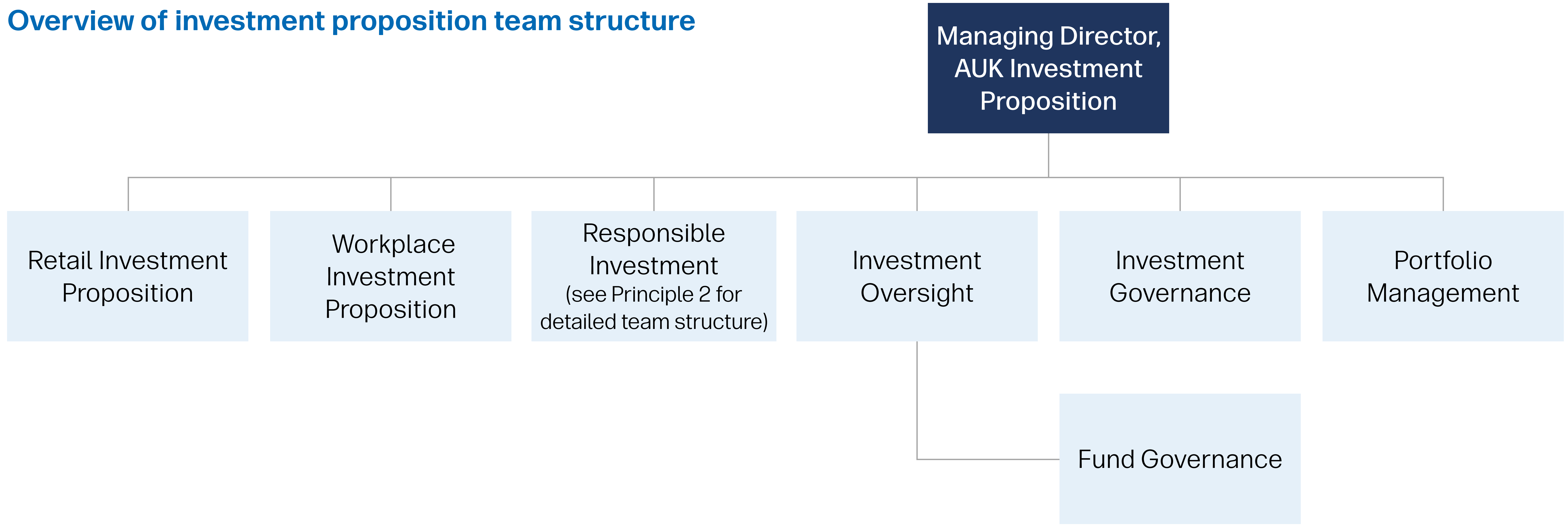
Delivering responsible investment products and solutions is a key component in our toolkit for sustainable investment outcomes and our overall investment solutions and development process now formally reflects this. Our **Proposition Development Policy (PDP)** provides a framework to help ensure we fully assess the target market for our products or services and ensure the design meets their needs, characteristics and objectives. In 2023, we expanded the PDP to explicitly include compliance with ESG regulation and disclosure requirements. Additionally, our Investment Solutions team are required to account for material sustainability considerations, peer best practices on sustainability and align with our business climate targets and goal to be a top quartile sustainable business.

There is no one-size fits all solution when it comes to RI governance. The inclusion of the RI team within our Investment Proposition team will ensure full, holistic integration of RI-related considerations into all investment processes and decision-making. Our dedicated Responsible Investment team provides insight and challenge on ESG integration matters. The team also offers expert and practical support to our business and our asset managers to drive our ambitions, and commitments on stewardship and sustainable investment. For example, in 2023 the RI team developed asset class-specific RI considerations that were incorporated into the review of one of our key workplace default funds (see Case study: default strategy review – ESG integration on page 68 for further detail).

Our Investment Oversight team is responsible for carrying out due diligence on new and existing asset managers, as well as funds. The RI team works closely with our Investment Oversight team to assess performance by managers against our expectations on RI (explained in Principle 8). The results of this assessment inform 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're working on including ESG criteria as an additional component to our fund governance framework for 2024.

Our Workplace Investment Proposition and Retail Investment Proposition teams are responsible for developing and implementing fund solutions to drive growth in our workplace and retail channels respectively. The RI team works collaboratively with both of these teams to ensure focus on both investment fundamentals and responsible investment to help achieve customer long-term objectives.

Overview of investment proposition team structure



Implementing our climate roadmap

As outlined in Principle 1, in 2023 we published our first net-zero transition plan, our **Climate Roadmap**, following Board approval of our plan and its targets. We later presented our three-pillar climate strategy and associated actions to the IIGCC membership in a Net Zero Surgery in June and at the Annual General Meeting in November. We believe that by sharing how we leveraged industry guidance to develop our own transition plans we can inspire market-wide decarbonisation. Below, Hilkka Komulainen, our Head of Responsible Investment, explains how we're tracking our progress against our climate targets.

Progress against our climate targets

Hilkka Komulainen
Head of Responsible Investment
Aegon UK

In 2023 we started reporting against our climate targets, taking progress to our Management Investment Committee, Group Board Investment Committee, and quarterly updates to our Aegon Fund Governance Group. Overall, while many of our targets and associated actions were deemed to be 'on track', we recognize the complexity of the climate transition and have noted a number of our actions and targets as 'in progress, requiring further development'. Between 2020 and 2023, we reduced **28.6%** of our scope 1 and 2 carbon footprint for listed equity and corporate fixed income across our defaults, putting us on our way towards our medium-term target of halving emissions by 2030.* In addition, we reported significant progress towards our short-term target of reducing our footprint by **14%** between 2023 and 2026 by reducing our scope 1 and 2 footprint by **9.5%** since last year.

We also increased our engagement with companies representing **58%** of our financed emissions (carbon footprint for scope 1, 2 and 3) in 2022 to **79%** in 2023. This increase reflects our growing stewardship activities, for example expressing our wishes on key climate resolutions for a select number of high-emitting companies in our default funds and engaging with our asset managers on these. We shared our climate considerations with our default fund asset managers and asked them to engage with the companies they invest in on our customers' behalf. We'll continue to challenge them where we think their climate engagement is not ambitious enough or outcome focused.

This is only the beginning, and we expect our approach to evolve as both Aegon and the market further their understanding of portfolio climate risks and impacts, and the role investors can play in managing them. We've worked across our Investment teams to map out a climate roadmap implementation path, focusing on strategic projects expected to contribute to key roadmap targets in the near-term, such as our asset manager oversight and fund reviews (see further detail in Principle 8. Monitoring managers and service providers, page 73). In addition, we developed a biodiversity and nature action plan (see Case study: developing our focus on nature on page 89) to reflect our understanding that climate change exacerbates pressures humans are putting on the natural world and that net-zero targets can't be met without considering nature.

Finally, our internal audit team carried out an audit of the climate roadmap development process, as outlined in Principle 5 Climate roadmap and Stewardship Report on page 50 of this report; a critical step to help embed our climate action into Aegon's control environment.

We've already seen how fast market practices are evolving as climate science develops, governmental climate policies and ambitions change, and the emissions profile of our portfolio fluctuates. This year we've sought out the latest thinking regarding climate trajectories and ESG integration for index funds, climate solutions investing, proxy voting and engagement on corporate transition plans – all with the aim of ensuring we take considered action to support investment outcomes for our members. We will continue to hold a high bar for investment and stewardship decisions we take, learn from science, better data and embrace new climate investment approaches as they emerge in order to put customer outcomes first.

* Climate data is supplied by MSCI and based on available funds and available scope 1 and scope 2 emissions reported, verified or estimated. It is likely to change notably in the coming years. Measured using carbon footprint across our full range of default funds. Emissions targets don't apply to individual funds. 2030 target applies to scope 1 and 2 emissions from listed equities and corporate fixed income only.

Integrating ESG into our workplace and retail solutions

As explained under Principle 6, the investment solutions that we provide can be broadly divided into two categories: workplace investments and retail investments.

In this section, we provide more details on how we integrate ESG considerations into each of these two areas. Principle 8 explains how stewardship features in our manager monitoring and engagement approach. Voting and engagement are also key components of how we integrate ESG, and we discuss these in more detail in Principles 9 and 12.

Our 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 a workplace pension provider, our job is to deliver long-term sustainable value. We aim to do that by exposing our default customers to the right risks at the right time, and working with fund manager partners who can help us support our customers' long-term objectives. This includes working with funds and asset managers that support our RI beliefs and expectations. For those customers who feel more comfortable making their own investment decisions, our job is to ensure we provide them with an appropriate choice of investment solutions to align with their own objectives and beliefs.

From an investment fundamental perspective, we believe that passive management should be utilised primarily, but that active management has potential to add value in certain situations. As a result, our workplace default assets are primarily invested in passive solutions, as are many of the pension default strategies across the UK's DC pensions. While historically funds which track market-cap indices are most common, we're part of an ongoing trend to move into more sophisticated passive strategies that screen particular exposures and/or tilt towards or away from particular exposures based on ESG credentials. As of 31 December 2023, we have £23.4 billion of assets in strategies that are screened and tilted for ESG across our workplace defaults. For most of our funds – those that invest in pooled investments – our appointed managers integrate ESG and engage with portfolio companies, which we oversee, influence and enhance with our targeted activity. We work to monitor and engage with managers on the extent and effectiveness of this through our annual fund manager monitoring exercise.

How we've increased integration of ESG strategies into our key default funds through 2023

Below, we provide examples of actions taken in 2023 on ESG integration into our default funds in line with good investment fundamentals.

In the case of our key default fund for ARC – Aegon Workplace Default (AWD) – we continue to benefit from our ongoing strategy to use business as usual (BAU) cashflows to reallocate our UK equity exposure towards UK equities with ESG screens. Taking this approach allows us to increase our ESG integration levels, whilst managing transaction costs for our customers.

2023 also saw the implementation of changes to asset allocation within fixed income for LifePath, our flagship default strategy in the Aegon Master Trust. These changes were a response to changing inflation and interest rate environments but have had an added benefit of incremental increase to the ESG integration levels within the LifePath solution. Our plans in 2024 also include a review of a key default fund's asset allocation in which we expect to have better integration of ESG (please see Case study: default strategy review – ESG Integration on page 68).

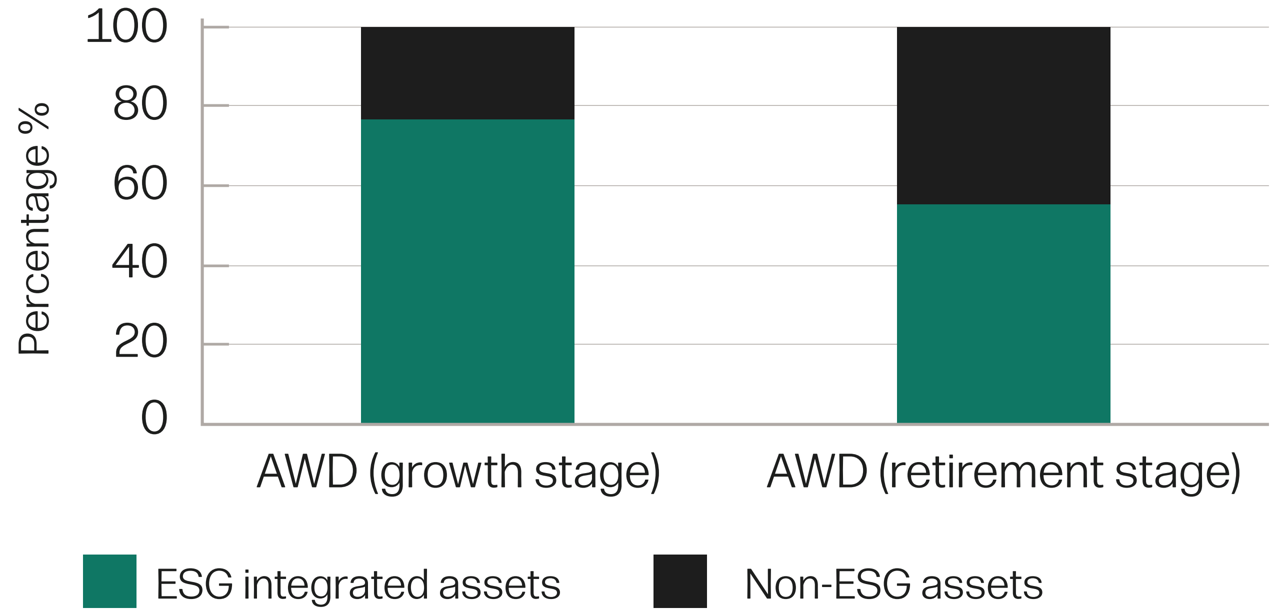
In the table on the next page, we've outlined our progress to date on integrating RI into our three largest default fund solutions.

As we progress through 2024, as a baseline, we'll continue to track our progress against our climate roadmap, considering whether any additional action is necessary to ensure we achieve our targets and commitments. We also intend to work with our partners across our estate to explore how we can integrate responsible investment considerations more thoroughly into our overall strategic asset allocation processes.

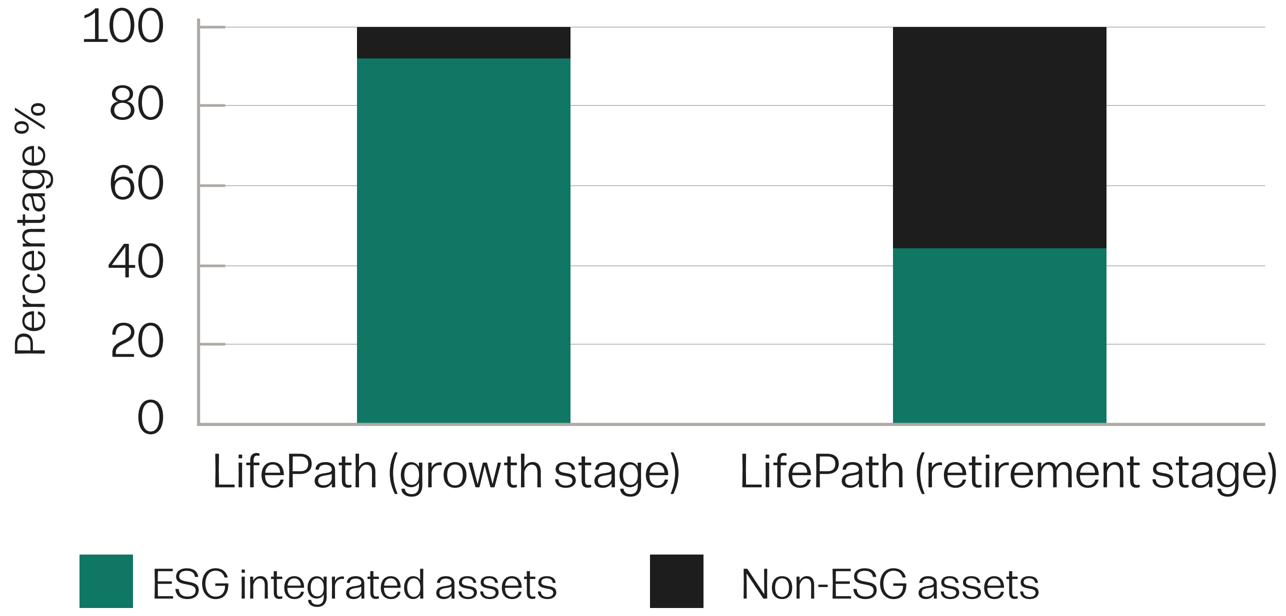
Our progress to date on integrating RI into our three largest default fund solutions

Approx. % ESG as at Q4 2023

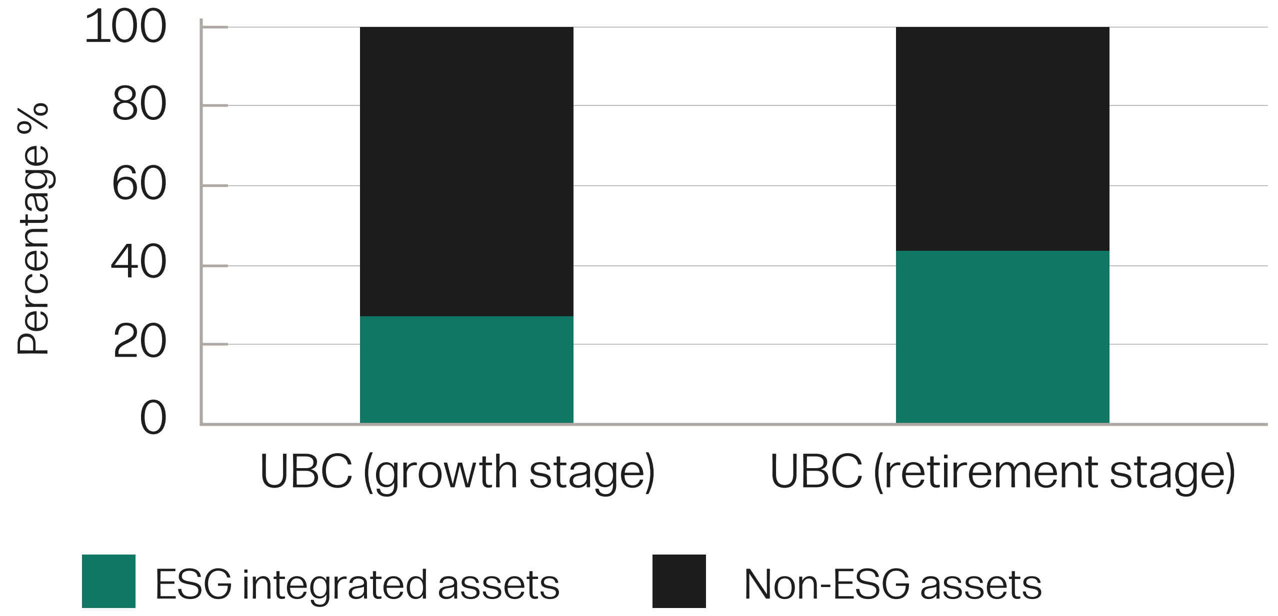
Aegon Workplace Default



LifePath



Universal Balanced Collection



ESG exposure achieved through:*

Aegon Workplace Default

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 exclusions on the next page, 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

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.

World ESG Equity Screened fund

MSCI – aims to reflect the performance characteristics of a subset of equity securities within the MSCI World Index ("Parent Index") and seeks to maximize exposure to positive ESG factors while minimising carbon exposure.

Regional index funds

FTSE – applies the exclusions on the next page, as well as excluding companies with ties to oil sands.

ESG Sterling Corporate Index Fund

iBoxx – applies the exclusions on the next page, 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

Regional index funds (FTSE)

FTSE – applies the exclusions on the next page, 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**.

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

Aegon Workplace Default	LifePath	Universal Balanced Collection
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)**		
▪ 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

* 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.

** 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.

Case Study 1: default strategy review – ESG integration

Issue

In 2023, we embarked on a review of one of our biggest default funds to enhance outcomes for workplace customers. The purpose of the review is to strengthen the default fund's investment proposition in line with the evolution of our thinking, market practices and feedback by our key stakeholders (for example, firms who advise employers on workplace pensions). Specific drivers as part of this work include the shift of focus away from cost minimisation to value for money, the introduction of a broader range of asset classes such as illiquid investments (see our position as Mansion House Compact founding signatory as outlined in Example 3: founding signatory to Mansion House Compact Agreement on page 44), and further opportunities for RI integration such as exploring climate solutions.

Consequently, we reached out to various asset managers and other key stakeholders throughout 2023 to understand the range of solutions available, the role they may play in the future of DC pensions, including from a responsible investment perspective, and the implications for our default estate.

Approach

We sought proposals for an investment solution, providing access to a broad range of asset classes, including but not limited to illiquid asset classes that have not been easily available to DC pensions, whilst embedding responsible investment considerations. Throughout this review process, we focused on three RI areas to provide the best outcome for members whilst following our RI beliefs – ESG integration, alignment with our **Climate Roadmap** targets and additional stewardship considerations such as voting and engagement.

We screened potential solutions and asset managers on our minimum RI requirements and assessed their solutions against defined criteria specific to the relevant asset classes, where the responsible investment credentials of the solution fed into the overall scoring for the proposed solution. In-depth due diligence meetings with our shortlist asset managers included a focus on responsible investment, covering alignment with our Climate Roadmap as well as climate solutions investing and any other key RI questions that emerged in the process. Our RI team had dedicated due diligence meetings when it was felt there were areas to discuss further, for example how engagement outcomes would link to capital allocation or how nature considerations would feature in ESG integration.

Outcome and next steps

Even though we're only beginning our journey in restructuring the default fund, to increase our investments in illiquid assets amongst other objectives, we believe we have sufficient scale within our existing default estate to enable improved outcomes for customers, including from a responsible investment perspective. We look forward to reporting further detail on our default strategy review within our 2024 Stewardship reporting.

Case Study 2: Aegon Asset Management (AAM) fund review – default funds to apply ESG screens

Issue

In 2019, Aegon UK committed to net-zero GHG emissions across our workplace default funds by 2050 and a 50% reduction on 2019 levels by 2030 (see our Climate Roadmap Case Study, Principle 1).* Three of our workplace default funds (Balanced, Dynamic and Cautious Lifestyle) currently invest on a one-to-one basis into AAM managed products for which we own the mandate, and in 2023 we implemented changes to these mandates to help progress the funds towards the net-zero goal.

Approach

We proposed to implement several exclusions into the mandates of each of the funds, which represent the baseline of exclusions that already apply across several other of our workplace default funds:

- Thermal Coal (>5% revenue from extraction or >5% from power generation)
- Oil sands (>5% revenue from extraction)
- UNGC Violators
- Controversial weapons

By implementing these changes, we're excluding companies we expect to underperform over the long term as the global economy transitions to net zero. Eliminating UNGC violators helps improve downside performance risks by reducing exposure to companies with reputational concerns.

We also anticipate the funds' eligible investment universe is more likely to outperform markets, given social and geopolitical trends. As a result, we seek to help bolster investment returns for our customers, in the run up to and during retirement.

Outcome and next steps

Incorporating ESG considerations into these funds for the first time is a significant step in our journey towards making our workplace default funds net-zero, with these funds representing a further £3.7 billion of default assets.

We'll continue pursuing our commitment to achieving net zero across our default fund range by 2050, looking to add similar exclusions to other default funds as well as reviewing our baseline exclusions and enhancing them where we believe it's in the interests of customers.

Not all ESG-related factors or identified issues are equal. Our focus on ESG integration is focused on high priority matters, informed by a range of factors including financial materiality and size of impact on member outcomes. The example below showing how an identified ESG issue was analysed but didn't lead to any change serves to demonstrate how we adopt a nuanced approach to ESG integration, as opposed to treating it as a tick-box exercise.

Case study 3: Chinese portfolio companies linked to pangolin and leopard parts trafficking

Issue

In October 2023, there was public press coverage on a report showing that certain companies that produce traditional Chinese medicines contain leopard and pangolin parts. This poses a biodiversity risk given leopards and pangolins are threatened, which means they're likely to become endangered in the foreseeable future. The alleged practices of the relevant companies contravened recommendations by the CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora) treaty to prohibit the use of the body parts of leopards, pangolins, tigers and rhinos from all sources for all commercial purposes in its domestic markets.

Approach

We consider a wide range of factors in prioritising our engagement of ESG factors, as explained under Principle 9. Our engagement themes on page 84. These factors include materiality of the thematic issue in our investment portfolio, the materiality of the issue on financial and/or operational performance, and the level of company exposure.

We recognise the issue covers exploitation of wild species, which increases the risk of nature loss. However, our financial exposure to these companies at the time was extremely limited (approximately less than 0.0005% of our insured estate). In addition, the impact of the issue on the financial performance of the relevant companies is uncertain and we found no evidence of this impact to be significant.

Outcome and next steps

Following our process to assess the potential and actual impact of the issue on member outcomes, we decided that the issue did not constitute a financially material ESG risk at the time to our portfolios. Therefore, no further action was taken and this issue did not lead to any change in our investment decision-making. We'll revise and further consider this matter in determining our appropriate response should key circumstances change, and as further information comes to light.

* Measured using carbon footprint across our full range of default funds. Emissions targets don't apply to individual funds. 2030 target applies to scope 1 and 2 emissions from listed equities and corporate fixed income only.

How we're providing greater RI fund choice for our workplace customers

We offer a range of RI options across our platforms ranging from screened or exclusions-based passive funds to active social or environmental thematic strategies. In 2023, we made further progress in improving accessibility to sustainable products for our customers (see our website for more details).

Case Study 4: Aegon Master Trust self-select fund range – making sustainability a priority in re-design

Background

The Trustees of the Aegon Master Trust (AMT) periodically review the self-select range against the member and client demand and other offerings in the market. In 2023, we launched a new self-select fund range to our customers following our work with the Trustees in 2022 to redesign it to better integrate sustainability.

Approach

The new self-select fund range was designed with reference to the Investment Association's RI framework to create a wider selection of funds available to members that consider ESG factors in their investment process to varying levels across a low, medium and high-risk spectrum.

23 of the 25 funds in the range integrate ESG to some extent through having a sustainable focus, exclusions or having ESG integrated within the investment process. Members are therefore able to select investments based on their risk and sustainability preferences – see our website for details of the new range.

The new fund range was made available for new business in quarter one 2023 and opened for all participating employers through a phased implementation, which was finalised in quarter three 2023. Every customer within the Aegon Master Trust was informed of the changes and the choices they now have available to them.

Outcome

The enhanced fund range means there's improved choice and ease of selection for members looking to integrate sustainability-related considerations into their investments. All members who have the standard AMT offering now have access to these new funds. **80%** of employers who had an alternative fund range to the standard AMT offering also opted to change their arrangements to offer the new self-select fund range, rather than a bespoke fund range.

Our retail investment solutions

We provide investments designed to meet the needs of advised customers. These range from risk-managed, multi-asset solutions to investment funds available via our retail platforms and partner distribution channels.

Development in our retail solutions is primarily driven by demands from financial advisers (IFAs), who in turn provide advice to individual retail customers. However, interest and knowledge on ESG integration into investments by advisers is relatively nascent compared to firms who advise employers on workplace pensions. Where adviser demand for ESG integration occurs, it tends to be for specific individual client needs. As referenced in our Stewardship Report last year, we believe that there's a customer need for a range of good-value risk-targeted multi-asset funds that support customers looking to access funds with a sustainable objective aligned to their risk profile. To this end, we're exploring solutions in this area that would meet our customers' requirements while seeking further clarity from the regulators and the industry on the implications of Sustainability Disclosure Requirements (SDR) for our retail offering. We believe SDR has the potential to enhance ESG integration into retail funds, including the way these funds are selected, and we're working through the expected impacts of the new regulations.

Shareholder general account assets

As referenced in Principle 6, shareholder general account assets are investments where we have investment control and that sit on Aegon's balance sheet. In 2021, Aegon 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 at the end of 2023 (around £669m).

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 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.

How integration of stewardship and ESG differs 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.

We also monitor how our asset managers integrate ESG considerations across different geographies and asset classes. For example, in our 2023 RI-manager monitoring questionnaire, we asked how stewardship practices, not limited to voting, engagement and collaboration on climate-change issues, are integrated into the manager's investment approach across asset classes (equities, fixed-income and real assets) and investment strategies (active and passive).

As part of our review of one of our largest default funds in 2023 (see Principle 7, Case study: default strategy review – ESG integration on page 68), we developed RI expectations across different asset classes, on which we assessed and scored prospective asset managers' investment solutions – see below.

Examples of our RI expectations for different asset classes

- **Active equity** – fund uses a forward-looking dynamic approach to stock-picking based on material ESG risks and opportunities.
- **Active fixed income** – strategy considers green and sustainable bonds credentials. Fund managers select positions based on climate solution credentials and/or opportunity to direct transition within a company.
- **Passive scoring** – fund uses a forward-looking and dynamic benchmark construction (or similar methodology) across material ESG risks and opportunities.
- **Private markets** – manager conducts ESG due diligence based on material ESG risks and opportunities.

Our analysis on climate risks is more advanced for listed equity and corporate fixed income than other asset classes. For example, our climate scenario analysis conducted in 2023 focused on listed equity and corporate fixed income but excluded sovereign debt, given the data was not available from our data provider at the time. This is why we've been working on engaging with our data provider to improve data coverage on sovereign debt (see Principle 8 MSCI case study) and collaborating with the industry (see Principle 10. Collaborative engagements – IIGCC Sovereigns Working Group) to address the lack of consensus on a standardised reporting framework on sovereign debt emissions.

In 2024, we seek to develop our ESG integration framework to provide updated and more granular detail on our expectations on ESG integration by asset class to help better support our investment and monitoring processes. We look forward to providing more detail on this area in our next stewardship report.

Awarding investment mandates to asset managers

Beyond manager monitoring, our minimum RI expectations extend to the design and award of new mandates. To ensure that we can deliver on our purpose of helping people live their best lives, ESG criteria are now a key factor in how we award new business and manager appointment. By appointing managers who take into consideration ESG factors in their funds, we can foster positive social outcomes and minimise the environmental impact of our products and services, ultimately contributing to the sustained wellbeing of our customers and the planet.

Implications of minimum RI expectations for tendering new business

To be appointed, all new asset managers must adhere to all our RI minimum expectations. 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 details on our minimum RI expectations.

Please see Case study: default strategy review – ESG integration on page 68 for details on how we assessed potential and existing asset managers on their ability to meet our minimum requirements and broader criteria on responsible investment.

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: integration of stewardship-related considerations in Investment Management Agreement (IMA) with new appointed manager

Background

In March 2023, we finalised the IMA for a newly appointed manager for a segregated property investment mandate. We believed it important to clarify our expectations in line with our RI Framework and Stewardship Framework, in what is ultimately the most important legal document governing the asset owner-manager relationship. We believe this to be important to hold the manager to account to our expectations on stewardship.

Approach

To this end, we integrated stewardship-related considerations in the IMA, supported by our external legal advisers, with the manager and their legal team. The IMA was drafted and signed to cover a range of RI-related clauses, including:

- 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 shall participate in collective and collaborative engagement with stakeholders to manage and mitigate systemic risk. We receive reporting of any stewardship conflicts that arise within the portfolio.

Outcome and next steps

As part of our 2023 manager monitoring exercise, we were pleased to see evidence that demonstrates the manager's fulfilment of their obligations under the IMA. For example, we received examples of the manager's recent collaborative and policy engagement activities, as well as detailed information on their net zero engagement approach. We'll continue progress to further integrate our stewardship approach into the process of awarding new business or mandates as they arise.

Principle 8. Monitoring managers and service providers

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

We do most of our investing through third party asset managers (also referred to as indirect investing) who provide our workplace and retail investment solutions. This means our asset managers act as the primary safeguard in the management of all investment-portfolio related risks and opportunities, including those related to sustainability. As such and as outlined in our Introduction to Stewardship at Aegon on page 8, manager selection and monitoring are an integral part of our stewardship toolkit. Without direct access to companies, our greatest influence is through our asset managers. Therefore, we need to make our expectations and focus areas clear and be prepared to hold our asset managers to account when our expectations are not met. By doing so, we can minimise our exposure to risk, maximise alignment between our managers and our fiduciary duty to our customers and deliver our purpose of helping people live their best lives.

We also closely monitor other third-party service providers such as data providers, proxy voting and investment consultants. We work with them to identify areas where processes and alignment can be improved, increasingly with regards to responsible investment (please see below for further information on our approach).

As the UK's largest investment platform, it's important that we also extend our focus beyond monitoring our own managers and take an active role in improving industry standards regarding RI, to facilitate enhanced alignment with our investments for a healthier financial system and in the long-term interests of our customers. You can read more about our approach to collaborative engagement in Principle 10 of this report.

In this section we set out our approach to managing and monitoring our asset managers and other third-party service providers. We explain our frameworks, processes and our expectations and provide case study examples of our approach, our actions and outcomes.

Our approach to asset manager monitoring

The diagram on the next page outlines the six phases of our annual process for assessing the RI credentials and practices of both new and existing asset managers, from issuance of our questionnaire and scoring and monitoring of responses to engagement with managers. We score our asset managers using our proprietary criteria, with scores assigned between zero and three. For each category, a score of zero indicates failure to meet minimum expectations, restricting the awarding of new business. A score of three illustrates best practice.

RI asset manager monitoring lifecycle

Our RI expectations for managers

Clearly defining manager expectations allows us to systematically review and assess manager practices. We're specific about our RI expectations which we set out in our **RI** and **Stewardship Frameworks** and which are outlined in the table below. In terms of their scope, these expectations cover six areas of responsible investment which we deem as material to the time horizons over which our customers are invested and critical for managing key sustainability risks and investing responsibly to ensure we can deliver our purpose. We regularly review them to align with evolving market conditions and increasing regulation and market expectations, to ensure they accurately reflect the wider landscape. In 2023, we expanded our expectations to include Human Rights.

Whilst performance and scoring may differ depending on managers' circumstances, we believe these expectations are achievable by all managers regardless of their size and investment-strategy type. This approach to setting expectations is also well-suited for our annual benchmarking which occurs in the analysis phase and provides us with insights into the most material practices and policies and areas where managers are scoring the lowest. These findings, in turn, inform our manager engagement and escalation practices. The table below summarises our updated manager expectations.

Responsible investment category	Summary of our manager expectations
Responsible investment governance	Ensuring robust and adequately resourced governance is in place.
Voting and engagement	Driving active engagement and voting, informed by material sustainability issues.
Climate change	Supporting our climate ambition and net-zero commitment.
Industry advocacy	Using their voice to drive systemic sustainable changes in the economy.
Diversity, equity and inclusion	Improving representation for better decision making.
Human rights	Able to clearly articulate their investment and engagement practices in relation to human rights.

How we prioritise asset managers for monitoring and engagement

We prioritise our manager monitoring and engagement in tiers, focusing on where we feel we can have the most impact, and placing the most emphasis on managers of assets where we are the investment decision-maker, such as our workplace default funds or our general account, and less where we administer assets. The table opposite and on the following page outlines this tiering system and provides a summary of the monitoring and engagement activities that occur within each tier.

Aegon UK's manager prioritisation framework

Tier	Managers & Justification	Engagement
Tier 1 – managers complete full questionnaire including fund-level climate questions for Climate Roadmap		
Tier 1	**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'll 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 ▪ Face to face meetings/Hybrid meetings on manager monitoring, including stewardship and climate topics ▪ Deep dive sessions on key topics/priorities as needed

Tier	Managers & Justification	Engagement
	Tier 2 monitoring method – managers complete full questionnaire	
Tier 2	**Other key Aegon solution asset managers:** This covers managers of assets invested via pooled vehicles, where we are one of two or more investors and where significant AUM is managed on our behalf. **Aegon Master Trust asset managers:** These asset managers manage Aegon funds that are available as part of the self-select 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:** Face to face meetings where: ▪ Minimum RI expectations have failed, and/or ▪ Other specific factors which may mean additional scrutiny of managers would be beneficial (for example, poor performance by a manager who manages a significant AUM on our behalf).
	Tier 3 monitoring method – managers complete a minimal questionnaire focused on compliance against AUK RI and Stewardship Frameworks	
Tier 3	**AMT advised managers and 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**: ▪ Face to face meetings for advised AMT managers where significant AUM managed and where minimum RI expectations failed. ▪ Email communication of RI manager monitoring results/scores for all managers that passed RI minimum expectations.
	Tier 4 Monitoring method – not applicable	
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 Framework 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.

How we monitor other asset managers

When monitoring asset managers, we ask a number of questions through our due diligence questionnaire (DDQ) that enable us to actively assess how their practices align with our minimum expectations across our six responsible investment categories. As identified in the table above, the extent of questions asked to managers varies depending on the tier they sit within. In 2023, we expanded our questions to reflect the addition of human rights as a separate responsible investment category in our manager expectations.

Example questions from our Due Diligence Questionnaire (DDQ)

Responsible-investment governance

- Describe your RI-related governance structures, including oversight and accountability at Board level and C-suite.
- How do you ensure board members and senior executives have the knowledge and skills to oversee progress on RI?
- Explain your conflicts of interest policy related to stewardship, including examples of any potential/actual conflict impacting the effectiveness of stewardship activities undertaken on AUK's behalf.

Climate

- What is your approach to managed phaseouts and/or divestment for high-emitting assets incompatible with a 1.5°C pathway, in particular thermal coal and oil sands?
- Provide your net zero engagement and voting policies, including expectations for companies.
- Describe the proportion of assets within the fund as aligning/aligned/net zero.

Industry advocacy

- Describe your involvement in collective/collaborative engagement initiatives on responsible investing matters with wider stakeholders, including sectors, value chain participants, and company advisers such as auditors.
- How do you ensure your climate policy engagement and lobbying, including via trade associations, aligns with your climate commitments?

DEI

- What DEI KPIs/targets do you have and describe progress in the last financial year?
- What equality data do you collect (gender, ethnicity, disability, etc) and what is the disclosure rate?

Voting and engagement

- How do you develop engagement objectives for companies and track progress and outcomes against those objectives?
- How many shareholder climate, diversity and inclusion and human rights resolutions have you supported in the last financial year period, out of those eligible to vote on?
- To what extent do you use proxy voting advisers? Provide details on outcomes of voting audits from the last financial year, and details of any key votes where proxy advisor and portfolio management's assessment of vote cast conflicted.

Human rights

- Describe your firm's approach to human rights in relation to responsible investment activities.
- What data sources do you use to assess human rights issues in your portfolio companies and their supply chains?

Performance of our asset managers against our monitoring framework

Our Responsible Investment team analyses the DDQ responses in collaboration with the wider investment team. We ask multiple team members to assign a score of between zero and three to 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 and AMT Investment Sub-Committee, for consideration.

During our 2023 monitoring review, we assessed 38 managers and the scores were assigned based on manager responses to our DDQ and expression of wish alignment (the latter for top three managers only). The table on the next page provides a snapshot of findings, where the top number represents the average of scores assigned to each question in that section.

Snapshot of findings from our manager monitoring review 2023

	RI governance	Climate	Voting & engagement	Industry advocacy	Human rights (NEW)	Diversity, Equity & Inclusion (DEI)
Avg. score (& movement from previous year)	2 ↑	1.5 →	2 ↑	2.5 ↑	2	2 ↑
Key findings	▪ **24%** of asset managers have a specific Board-level or external advisory committee with RI focus. ▪ **14%** of firms have a specific sustainability role at C-suite or with direct reporting lines to executive committee. ▪ **89%** link ESG to executive remuneration.	▪ **95%** of managers have a firm-level net zero target. ▪ **26%** do not have any or only have limited references to climate related considerations in their voting and engagement policies. ▪ **40%** of surveyed managers were able to detail the net zero alignment of portfolio companies at fund-level.	▪ **64%** are able to provide a breakdown of engagement methods. ▪ **55%** are able to provide some form of reporting on engagement outcomes.	▪ **97%** of managers are signatories to the UK Stewardship Code. ▪ **36%** can provide clear evidence of climate policy engagement and lobbying.	▪ **11%** of managers are excluding investments in human rights-abusing companies in their firm-wide ESG policies.	▪ **61%** of managers who report on Board gender diversity have over **30%** female representation. ▪ **29%** of managers have racial or ethnicity targets.
Continuous engagement points by AUK with managers	▪ Clarity on RI governance, including how the organisation ensures sufficient Board and C-suite oversight, and integration of RI into wider business functions. ▪ Linking of meaningful RI targets to incentivisation.	▪ Taking firm-wide net zero commitment to fund level – only then will the overall commitment be achieved. ▪ Clarity of how net zero is integrated into voting and engagement activities and outcomes.	▪ Systems by managers to capture and report on basic data and statistics reflecting engagement progress, including outcomes. ▪ More timely and meaningful voting and engagement reporting.	▪ Active participation, not just membership of RI industry initiatives. ▪ Engagement seeking to influence RI policy, not just to influence market practice.	▪ Human rights integration included as part of investment processes, engagement and voting and wider collaboration with industry stakeholders and policy makers.	▪ Greater consideration and progress on DEI within asset managers, beyond gender.

When asset managers fail to meet our minimum expectations

Monitoring our asset managers closely not only provides an opportunity to draw comparisons and encourage best practice among our partners but can also help us understand the steps managers are taking to address any expectations that aren't met.

Where managers continue to fail to meet our expectations after an 18-month implementation window, we follow a clear escalation process, set out in our Stewardship Framework. This could ultimately result in downgrading the business relationship or removal of the business from Aegon funds. We don't take this lightly and make every effort to engage with our managers effectively to remedy the issue. The following case study is just one example of when we have engaged with our managers following manager monitoring. For further information on our escalation processes and more examples of manager engagement and escalation, see Principle 11.

Monitoring our 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. In 2023, we appointed a proxy advisor for our voting guidelines to ensure that our voting decisions accurately reflect our Stewardship Framework and therefore are aligned with our needs and aims as a business. We also appointed a consultant to review and assess our stewardship reporting to ensure continuous improvement.

Case Study 1: engaging with one of our asset managers on further transparency to engagement outcome reporting

Issue

Within our 2023 RI monitoring exercise, we asked managers to quantitatively report on their engagement outcomes. One of our asset managers was unable to provide this information at an aggregated firm level, only reporting on approximate figures at fund level. This limits transparency, making it hard to determine whether they're consistently engaging with firms and to what extent such engagement is effective.

Approach

We engaged with them to discuss the topic in July and October 2023, where we shared best practice reporting frameworks such as the IIGCC Asset Owner Stewardship Questionnaire. The asset manager discussed their ongoing work in the area and a large project they've been working on to develop better systems in tracking engagement outcomes and reporting progress.

Outcome

We were really pleased that, as of November 2023, this asset manager is now able to report comprehensive outcomes and progress via the industry recognised Investment Consultants Sustainability Working Group (ICSWG) reporting template, at both firm and fund level.

Aegon UK's key service providers

Our key service providers from an investment perspective in 2023 include:

External asset managers: Most of our funds are managed by third-party asset managers.

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. Aon additionally provides us with capital-market assumptions, including expected return, volatility and yield across a range of asset classes.

Proxy advisor: In 2023, we appointed Minerva to develop our voting guidelines, given their track record in supporting asset owners as well as the positive feedback they've received regarding their work in this area.

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.

MSCI

Our Managing Director of Investment Proposition is accountable for ensuring appropriate governance is applied in our supplier relationship management with MSCI. 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. To ensure a comprehensive record of our communications and facilitate accountability, we log all our meetings, issues and queries with MSCI in our 'MSCI Supplier Monitoring Log'.

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's acting as a significant Aegon UK partner to understand and respond to our needs, such as delivering bespoke training, supporting automated solutions or connecting us to experts).

Case study: MSCI – enhancements to data quality and service

Context

In 2023, we continued to engage with our ESG data provider, MSCI, to improve the decision-usefulness of the data we have access to in partnership with our clients and asset managers. Beyond our own portfolio analysis, we see engagement with data providers as a key part of our role to support market-wide de-carbonisation, as an asset owner.

Approach

Our climate team and Director of Investment Proposition regularly challenge MSCI on their offering through bi-weekly issue calls and bi-monthly relationship calls. We fed into MSCI's consultation on its implied temperature rise metric and asked MSCI to present their model to our Group Audit Committee who also gave comments. In July 2023, MSCI announced the timeline for the roll-out and update of the implied temperature risk model.

We also held a dedicated biodiversity session with MSCI to better understand the availability of data and how we can integrate it within our investment portfolio and will continue to work on this during 2024. We highlighted and discussed data gaps with MSCI on new data sets released in late 2022, including, during 2023, the non-alignment with the Taskforce on Nature-related Financial Disclosures (TNFD). MSCI are continuing to enhance their data coverage.

Following various criticisms raised over 2023 on the shortcomings of climate scenarios, we took time to consider these with MSCI. We're clear that there needs to be better communication and understanding of the assumptions that are included in climate change models and that climate value at risk should not be considered in isolation. Following our engagement, MSCI indicated that next generation models will likely include macro-economic factors and supply chain/second order risks. We'll continue to work with MSCI and help provide comments and feedback on the development of such models. We expect sovereign debt emissions data to be available in early 2024 and are currently in the process of integrating scenario analysis for sovereign debt.

Outcome and next steps

We've received positive feedback from MSCI themselves who now come to us proactively for product development input. We'll continue to monitor the data quality and services of our data provider and seek opportunities to influence availability of critical data across the pension sector. In addition, we'll continue to leverage MSCI's products to gain greater insight into our portfolio and its exposure to responsible investment risk factors and to aid investment decisions.

FE fundinfo

FE fundinfo supports us by providing the data and tools for our funds. 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, with the Chief Investment Officer and more recently the Chief Financial Officer as 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 2023 these took place in March, June, October and December. 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 2023 these took place in May and November. 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 2023, we found that FE fundinfo had provided satisfactory services and no issues were identified.

Our investment consultant, Aon

Aon provides asset-allocation recommendations as well as providing 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. We believe our relationship with Aon to date has worked well and overall, our needs have been met.

Our proxy advisor

In 2023, we appointed Minerva as our proxy advisor to develop our voting guidelines. As an indirect investor with relatively limited ability to engage directly with companies, voting is one of the key areas where we can exert influence and drive systemic change. As such, it's important that our voting guidelines reflect our Stewardship Framework and specifically our key engagement themes to ensure that votes are cast in a manner that serves the long-term interests of our customers.

Our appointment of Minerva considered key selection criteria, namely:

- Ability to provide services aligned with our needs and issues of focus
- The firm's credentials, experience and track record in serving similar clients, particularly asset owners
- Complementarity and additionality in comparison with similar offerings by other industry peers
- Transparency, quality and clarity of methodology for providing support requested
- Number, qualifications and expertise of resourcing

The development of our voting guidelines involved ongoing engagement between Aegon and the Minerva team. Regular interactions ensured the scope was covered and our expectations were being met, providing a continuous feedback loop. Whilst our relationship with Minerva is still relatively new, we're happy with their work and excited to trial our voting guidelines in 2024.

Monitoring other service providers

Beyond asset managers, investment consultants and RI data providers, we use a variety of suppliers for 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 and enables us to manage the most material business conduct risks, within the context of social and environmental impacts. 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.

In the 2023 reporting cycle, we made significant progress in several areas

- **Policy updates:** we updated both the Sourcing Policy and the Outsourcing and Supplier Management Policy to make reference to sustainability. Both policies contain a risk that we're trying to mitigate which is 'Reputational Risk' – for example, doing business with companies who use unethical trading practices, child/slave labour or practices which are harmful to our environment. The Sourcing Policy also mandates that new suppliers (minimum 12-month term and a minimum £500,000 spend) must sign up for an Eco Vadis assessment or similar alternative. The Outsourcing and Supplier Management Policy references the fact that we've incorporated a sustainability questionnaire into our annual health check process.
- **Scope 3 emissions data:** we began the process of calculating our scope 3 (supplier related) emissions for 2022 and our aim is to start producing action plans next year. During 2023, we sent out sustainability questionnaires that have specific questions on emissions which should give us more accurate data than we've previously had. Our aim is to evaluate each supplier and produce action plans for the relationship managers to discuss with their suppliers in 2024. The questionnaire covers climate, environment, DEI, responsible sourcing, modern slavery, society and the real living wage. We continue to ensure that our suppliers are meeting the requirements of the real living wage foundation. We've also increased the number of existing suppliers that we aim to collaborate with on matters related to ESG from 46 to 50. This population includes all Aegon's critical suppliers, suppliers with high spend and also higher risk facilities suppliers.
- **Carbon literacy training:** we organised carbon literacy training to help the procurement and supplier management teams understand more about climate change and the actions we can take to address it. The training resulted in 29 individuals being accredited as carbon literate through the Carbon Literacy Project. In all, 40 staff attended at least one of the two sessions, which were followed up with further departmental level in-house workshops, for example for our Risk team. We felt that the training was a pre-requisite to help our relationship managers and procurement staff discuss sustainability topics with suppliers. In 2023, a key performance indicator for our procurement team was to allocate at least £100,000 of spending to social enterprises. At the end of 2023, the figure allocated was £110,434.

Assessing our effectiveness for continuous improvement

Monitoring our managers' RI practices is a fundamental part of our stewardship approach. We're confident that the expectations we have set enable responsible investment which aligns with our customers' needs. Our monitoring framework is robust, informative and actionable, including our escalation process for when managers don't meet our expectations – explained in detail in Principle 11 of this report. We'll continue to review our expectations as appropriate and to prioritise manager monitoring in 2024.

In terms of third-party suppliers, we recognise there's an opportunity to strengthen our approach through a sustainability lens. In 2024 we plan to drive forward positive improvements from our supply chain and to provide visibility of supplier performance in this area to our Executive and Board. During early 2024, we will complete our evaluation of suppliers and will begin dialogue with those rated as amber or red and agree actions to improve. Our standard reporting will be enhanced to capture this.

Principle 9. Engagement

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

Engagement is a cornerstone of our stewardship approach. It's one of the most important tools we have to ensure our customers' assets are managed responsibly and in line with our sustainability goals. It's through this engagement that our expectations as an asset owner and investment platform can be set, that key issues can be brought to the table and that positive outcomes can be delivered to ensure we have the best chance of moving the dial on systemic economic threats, of adding value to our customers and shareholders, and of delivering our purpose. You can find further detail on our purpose in Principle 1, on our approach to systemic risk in Principle 4 and on our customers in Principle 6.

Our definition of engagement

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).' We consider that our engagement with our investment managers (who engage with companies on our behalf) as falling within the scope of this definition. While regular communication to gain information as part of ongoing research and dialogue is an important part of the investment research process, we don't consider this as engagement in this context.

Definition for climate engagement

For climate engagement (both the engagement conducted by investment managers on our behalf and the engagement conducted or coordinated by the collaborative engagement initiatives that we support), Aegon applies the Net-Zero Asset Owner Alliance (NZAOA) definition, which is defined as meeting the following two criteria:

1. Climate risk and/or opportunity is raised with an issuer. Climate engagement consists both of raising climate risks and/or opportunities that an investor has identified through a process driven approach (such as scoring, thematic research, or consideration of portfolio and economy-wide impact) and of providing the investor's description of why it is important that the issuer addresses the specified topic.
2. Investor sets expectations for issuer action. All climate engagements – including with individual issuers, policymakers, or industry bodies – should have clear and well-defined objectives linked to public accountability frameworks, standards, or equivalent to ensure rigor and transparency.

We're committed to ensuring that our customers live their best lives, and this commitment drives our overarching ambition to prioritise higher quality engagements with managers rather than pursuing a larger quantity of engagements. This definition is also a foundation for our manager monitoring activities in relation to climate expectations.

Our approach to engagement

At Aegon UK, we make most of our investments through external managers. Therefore, our two main approaches to engagement with portfolio companies are indirect engagement through our investment managers and collaborative engagement.
We expect all of our investment managers to engage with portfolio companies irrespective of the specific investment goals or timeframes of the relevant investment strategy, and irrespective of whether the strategy is 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, overall investment returns. Common topics in the engagement between our investment managers and companies include requests to improve ESG performance and disclosure.
We also encourage our investment managers to escalate their engagement if companies have not improved disclosures of their performance following engagement. We have a clear set of escalation processes in place should managers fail to adequately meet our engagement expectations. Further information can be found in Principle 11.

Overview of our approach to manager engagement

We use our due diligence questionnaire (DDQ) – see Principle 8 for more detail – to monitor manager voting actions and to understand and challenge their company engagement activities, and to ensure their engagement is achieving positive outcomes.

We utilise our Expression of Wish (EofW) – see Principle 12 – to express our voting preferences on priority resolutions throughout the calendar year, in alignment with our key engagement themes and new voting guidelines.

We also seek to provide relevant input in our top three managers' annual review of voting and engagement policies and strategies, as well as their collaborative activities in order to ensure that our managers meet our voting and engagement expectations and guidelines.

Collaborative engagement with other stakeholders (discussed in detail in Principle 10) is a key component of our sustainability investment outcomes. In this kind of engagement, our size and scale add weight to initiatives which seek to address systemic risks such as climate change, in turn enabling us to further the interests of our customers and support market-wide transformation. As the case studies in Principle 10 demonstrate, we've been involved in a variety of collaborative initiatives in 2023. We've supported consolidated action on some of the biggest systemic ESG issues our industry is facing. We've also used our voice collaboratively to generate ideas and improve guidance on asset owner expectations of managers in relation to climate, net zero and human rights engagement. You can also find some examples of collaborative engagement in Principle 4.

As we invest predominantly in listed equities, to date we've focused more extensively on this area in our engagement guidelines and associated monitoring. However, we recognise the need to cover all other asset classes in our investments in order to address systemic risks and to meet our customers' needs. We've started with fixed income and have now included fixed income criteria in our stewardship and engagement guidelines. We provide more detail below, and we include a description of our approach to voting in fixed income in Principle 12.

Engagement versus divestment

We prefer engagement over blanket exclusions or divestment because, by engaging we have an opportunity to improve performance and influence positive change. Exclusions and divestment limit the long-term influence we can have on a company or manager. It also risks passing specific investments to potentially less responsible investors who are less likely to hold management to account on sustainability strategy and practices.

Direct engagement

While our main forms of engagement are indirect and collaborative, we may also carry out ad hoc direct engagement if there's a specific concern that we'd like to address, or if the opportunity arises to do so. See Case study 3: an American multinational investment bank | Limiting high carbon financing on page 95 in this section for an example of direct engagement during 2023.

Our engagement themes

Prioritising engagement themes that are material to our investment objectives, and that are of relevance to key stakeholders, helps ensure our engagement drives meaningful outcomes. To achieve our core goal of creating long-term positive outcomes for customers, for the economy, the environment and society through our products and services, we believe we can have most impact by focusing our resources on specific themes.

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

In 2023, we included nature as a standalone engagement theme, with more detailed expectations for managers' nature-related considerations. This decision was informed by the findings from our annual customer survey which highlighted customer interest in addressing nature/biodiversity-related risk in investments. We've also expanded our expectations in relation to the other engagement themes (climate, DEI and human rights). These updates reflect our commitment to ensure that our clients' needs are met, and investments are looked after in the long term.

This table sets out our core engagement themes in 2023 and explains our rationale for prioritising in this way.

Engagement theme	Rationale for prioritisation with reference to our purpose (Principle 1) and our customer needs (Principle 6)
Climate change, including net zero	▪ A successful net-zero transition is crucial to support better outcomes for our customers and broader society – our customers can't live their best lives in a world with unmitigated climate change. ▪ Climate change poses a long-term risk to the investment returns of our customers, so it's Aegon's responsibility to take the appropriate measures to monitor and address this risk.
Nature/biodiversity	▪ Biodiversity risks may impact value for shareholders. As a universal asset owner, we're exposed to biodiversity risks and have identified nearly half of our assets are linked to biodiversity-sensitive areas. ▪ **49%** of our customers view nature impacts, including biodiversity to be important considerations when investing in companies.[1] Beyond pure financial returns, protecting biodiversity is ultimately a matter of helping our customers live their best life.
DEI, 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. **24%** of our customers consider company diversity and inclusion policies when thinking of companies they interact with.[6]
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 and we're 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 2023, **39%** of our customers noted they consider human rights and labour standards as a key factor when thinking about companies they interact with.[6]

Our expectations of managers who engage on our behalf

Our RI Framework sets out our minimum expectations for asset managers that include engagement, to 'drive active engagement and voting, informed by material sustainability issues.' Our Stewardship Framework includes engagement guidelines outlining our view on good practice, which we use to hold managers to account. We've also approved a new set of voting guidelines in 2023, which are fundamental to our voting expectations of managers, as well as in guiding our expression of wish. Further details on our voting guidelines and expression of wish can be found in Principle 12.

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

Our engagement guidelines

This year, we've made several key updates to our engagement guidelines to reflect changing market demands and to ensure that we're adequately equipped to meet our customers' needs and address systemic risks. The engagement themes in the section above were translated into our specific 2023 engagement guidelines set out in the table on the next two pages. This includes the addition of nature (including biodiversity and deforestation) as a standalone engagement theme, resulting in more detailed expectations of asset managers going forward. Every year, we aim to align our stewardship activities with the interests and views of customers, gathered through customer surveys at least once a year.

During 2024, we plan to further our engagement with managers on their outcomes, reporting and activities on our enhanced engagement themes, including human rights and nature/biodiversity.

Specific engagement guidelines

Engagement theme	We expect asset managers to:
Climate change, including net zero and just transition	**Overall approach/implementation plan** • Clearly articulate investment beliefs with regards to climate change, including which climate scenarios the manager considers most likely. • Provide a clear net-zero transition plan, including interim targets, sectoral decarbonisation pathways as relevant and key drivers of progress. • Quantify climate risks for assets managed for Aegon UK (for example, physical and transitional risks under different climate scenarios) and assess progress against decarbonisation pathways, using these to inform its engagement strategy. • Provide their approach to managed phaseouts and/or divestment for high-emitting assets incompatible with a 1.5°C pathway, in particular thermal coal and oil sands. • Demonstrate mobilisation of capital towards climate solutions and/or opportunities to incentivise the transition by companies to net zero, where possible. • Demonstrate practices in line with IIGCC Net Zero Stewardship Toolkit in respect of listed equity and corporate fixed income. **Corporate engagement** • Engage with companies on the transparency of their climate disclosures, their net zero commitment(s), targets(s) and associated transition plans to reduce greenhouse gas emissions aligned with a well below 2°C future, preferably 1.5°C. • Demonstrate consideration of social issues by companies in moving to a low carbon economy to support a just transition.

Specific engagement themes

Engagement theme	We expect asset managers to:
Nature, including biodiversity and deforestation	▪ Demonstrate their approach to identifying and assessing nature risks and opportunities in their portfolios, considering available data and qualitative assessments and with a focus on key risk sectors. ▪ Engage with companies on how they manage and report on nature-related impacts and dependencies (for example, in relation to TNFD reporting framework).
Diversity, equity and inclusion (DEI)	▪ Be supportive of greater transparency by companies on DEI policies and practices at board and management levels, and throughout the workforce. ▪ Engage on DEI with companies in respect of their business processes including talent lifecycle (from recruitment, to retention and advancement), product and/or service development and supply chain, taking into account diversity beyond gender, intersectionality and corporate culture.
Human rights	▪ Clearly articulate their engagement and voting policies in relation to human rights. ▪ Have an engagement program 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.

Engagement outcomes

We expect fund managers to:

- Provide pre-defined SMART (specific, measurable, achievable, realistic and time-bound) engagement objectives where appropriate.
- Provide clear and transparent expectations of companies, particularly in relation to our engagement themes.
- Provide timely and transparent engagement reporting, including information to support our 'expression of wish', as well as data and statistics reflecting engagement progress and outcomes (beyond simply engagement activities).
- Where time-bound engagement objectives are not met, demonstrate a robust approach in relation to escalation strategy, which employs a range of escalation tools (for example, the issue of public statements, refusing to purchase additional bonds, vote against boards, filing a shareholder proposal where permissible under regulatory requirements).
- Actively welcome and provide mechanisms that enable effective client oversight of, and input into, the manager's engagement strategy (for example, client roundtables focusing on a particular topic such as the development of the manager's voting and engagement policy, supporting clients with gap analysis on voting and engagement policies to understand any material gaps by the manager in aligning with client expectations).
- Demonstrate how its engagement approach is systematically integrated into investment decisions.

For examples of engagement-related questions we asked managers in 2023, please see Principle 8.

Case study: developing our focus on nature

Objective

Biodiversity loss and environmental degradation has significant impacts on natural capital and ecosystem services, which supports our societies and economies. Biodiversity risk is still difficult to quantify and could have unprecedented effects on the economy as a whole and thereby our customers' investment outcomes. For example, it could increase physical risk from interconnected systems such as natural disasters, amplifying the risk climate change poses to financial investments. Therefore, the potential impact of biodiversity on our customers' investments can't be understated. We want to ensure that we're adequately equipped to address biodiversity risk as it becomes increasingly material to our customers' investments. Our annual customer survey found that nearly half of our customers view impacts on nature, including biodiversity, to be important considerations when investing in a company.[1]

Approach

This year, we carried out sectoral and issue-level analysis across our entire investment estate and default funds' portfolio. For example, leveraging high-risk subsectors defined by Nature Action 100, we found that over **18%** of our insured fund estate is made up of sectors at risk of adversely impacting nature and biodiversity. We were also able to identify companies in our portfolio relevant to the four major commodities behind deforestation: palm oil, soybeans, beef and timber. We used these findings to develop areas of focus for managers this year for further engagement. Specific areas of focus are required for effective engagement as biodiversity and nature as themes are too broad.

In order to monitor these areas of focus, our 2023 manager monitoring exercise included a question on biodiversity which allowed us to identify asset manager best practice and engage managers that seemed to be lagging behind, as part of our annual engagement plans.

Finally, following our analysis of the biodiversity and nature risks that our investments stand to face, we've developed a nature action plan, showing how we're embedding nature across our responsible investment activities, from the products and solutions we offer, to our engagement activities. The plan was reviewed by our Management and Group Investment Committees.

Outcome and next steps

We expect to make further progress on our nature action plan in 2024, exploring investments in nature-based solutions, collaborating with industry groups and data providers, and further engaging with our asset managers to drive change.

Timeline of nature / biodiversity-related progress

2022

February

Launched the 'How to achieve deforestation-free pensions' guide with Make My Money Matter and others.

October

Joined the TNFD Forum to support the development of nature disclosures, responding to surveys and consultations over 2023.

December

MSCI released biodiversity metrics following engagement from Aegon UK and others.

2023

May

Publicly recognised the significance of biodiversity and links with climate change in our Climate Roadmap.

July

Joined Nature Action 100+ – signing engagement letters going to high-risk corporates.

September

Joined new NZAOA deforestation working group to start defining asset owners' position on deforestation issues.

October

Released biodiversity white paper 'Why biodiversity matters for DC scheme members'.

November

Signed the Finance for Biodiversity Pledge to demonstrate our commitment to protecting and restoring nature, committing to setting targets and reporting on these.

2024

2024 Plans

Develop a nature action plan and explore investments in nature-based solutions.

How we monitor manager engagement

A key part of any strong engagement strategy is monitoring the engagement process and the results generated. We conduct a manager-wide monitoring exercise annually, allowing for the annual re-evaluation of our engagement strategy with managers, which can reveal opportunities to further improve our engagement practices. It's crucial for managers to engage with investee companies to ensure the long-term value of investments. In 2023, we expanded our manager monitoring in relation to their engagement and voting approach to cover human rights and biodiversity. This is in line with the updates to our 2023 Stewardship Framework. We've found that the progress by managers in relation to biodiversity and human rights is relatively nascent, with most managers showing limited progress. This is to be expected as this is the first year that we've incorporated these questions into our manager questionnaire, and we'll continue to monitor progress over the next year.

How we're evolving our approach

In 2023, we explored developing more asset-class-specific manager expectations and monitoring beyond listed equity, for example, fixed income. As a result, we've included new expectations in relation to fixed income in our 2023 Stewardship Framework. Our managers are now expected to demonstrate practices in line with IIGCC Net Zero Stewardship Toolkit with respect to corporate fixed income as well, instead of just listed equity.

Managers are also expected to:

- Engage with companies on material sustainability issues particularly at debt origination and reissuance
- Leverage both equity and bond holdings, where applicable, to influence company management
- Assess covenants when reviewing prospectus and transaction documents, and request, as applicable, the amendment and/ or inclusion of contractual obligations to support stated sustainability objectives.

In our 2024 manager monitoring exercise, we'll monitor managers' alignment with these updated expectations more closely, as well as incorporate these updates to our Stewardship Framework into our review of a major default fund that is currently ongoing.

Manager engagement outcomes

We expect our managers to provide metrics on engagement outcomes, instead of just engagement activities. This process is in place to ensure that we can be confident that our managers are meeting the standards of our engagement guidelines, which we updated this year.

Our 2023 RI manager monitoring results revealed that **55%** of asset managers surveyed were able to provide some form of reporting on engagement outcomes. One of these asset managers is Aegon Asset Management (AAM), who use a clear milestone approach to demonstrate progress they're making with companies they engage with, as shown opposite.

Engagement intensity in 2023

AAM tracks engagements with a milestone-based approach:

Engagement intensity

Milestone one	Flagged concerns and contacted the company	**177**	**35%**
Milestone two	Contact acknowledged and dialogue begun	**124**	**24%**
Milestone three	Company begins to make progress and resolve concerns	**143**	**28%**
Milestone four	Engagement goal achieved	**64**	**13%**
No further action	Result of information gathering *	**11**	**2%**

Source: Aegon Asset Management and Institutional Shareholder Services (ISS). The table demonstrates the total number and % of engagements by AAM from January to December 2023 against each of their four engagement milestones.

*There will be a different engagement approach for matters such as capital allocation and strategy, depending on the requirements and efficacy of stakeholders in the debt or equity instruments.

As highlighted in Case Study 1: engaging with one of our asset managers on further transparency to engagement outcome reporting on page 79 in Principle 8, one of our managers also significantly improved their provision of engagement outcomes reporting using the ICSWG Engagement Reporting template, following our focused engagement with them during the year.

Overall, we're pleased to see managers beginning to adopt more robust and industry recognised approaches to reporting on engagement metrics. However, we'd like to see more harmonisation of reporting from managers and encourage the adoption of the IIGCC Asset Owner Stewardship questionnaire. In 2024, we'll seek to further encourage managers to enhance their engagement outcome tracking and reporting.

Spotlight on climate engagement

We also 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 2023 RI manager monitoring results revealed that there are still opportunities for managers to be more focused and transparent in relation to their integration of climate risk into their engagement practices. Currently, **74%** of our managers sufficiently reference climate-related considerations in their voting and engagement policies. **46%** of asset managers are able to explain how they follow or leverage the IIGCC Net Zero Stewardship Toolkit, which we view to be industry best practice.

We believe that asset managers should encourage investee companies to not only measure but reduce their emissions. About three quarters of the asset managers surveyed state that they currently engage with companies on 1.5°C / under 2°C aligned transition plans. This was a large improvement from last year, which only had one quarter of asset managers engaging with companies on 1.5°C / under 2°C aligned transition plans.

We'll continue to constructively engage with our managers to further enhance their practices, ensuring alignment with our manager expectations and climate roadmap ambition.

Voting and engagement

As we mainly invest in pooled funds and some segregated funds managed by external managers, we don't vote or engage directly with the companies our funds invest in. Instead, we provide voting expectations to our asset managers, and 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.

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. When it comes to specific significant votes, we've been developing our expression of wish (EofW) approach to align our managers' positions with our own. This approach supports our overall engagement strategy and is explained more in Principle 12.

Engagement case studies from our core investment managers

A significant proportion of our total assets are managed by three core 'Tier 1' asset managers: BlackRock (BIS), HSBC Asset Management (HSBC), and Aegon Asset Management (AAM).

The following are a selection of case studies carried out by our Tier 1 asset managers on our behalf. They're reflective of our engagement themes, the asset classes we invest in, and the different types of outcomes achieved, including successes and setbacks.

Case study 1: Glencore | Improving climate outcomes

Issue

Glencore is a Swiss multinational commodity trading and mining company. Aegon has the overall goal of improving climate progress and transparency in the companies we invest in, to ensure long-term value creation for our customers. In the case of Glencore, we wanted to encourage further transparency on the company's approach to managed phase-outs and/or divestment for high emitting assets incompatible with a 1.5°C pathway (in particular, thermal coal and oil sands), in line with our Stewardship Framework as there was a lack of clarity in the company's plans on how its thermal coal production aligns with emissions reduction commitments.

Aegon's position and actions

Our Stewardship Framework outlines our engagement expectations for asset managers. Under our guidelines for climate engagement, we state our expected approach to managed phase-outs and/or divestment for high emitting assets incompatible with a 1.5°C pathway. After carrying out monitoring of our managers' voting decisions on phase-out approaches for high emitting assets through our annual DDQ, we engaged with managers on this matter through our EofW by requesting they support a shareholder resolution at Glencore to disclose how thermal coal production aligns with emissions reductions commitments. Further detail can be found in our public EofW declaration.

Manager Response/approach

One of our managers has a long history of extensive engagement with Glencore's board of directors and senior executives on managing climate-related risks. As part of their focused discussions in 2023 the manager asked for greater clarity onthe strategic direction for Glencore's coal portfolio, how they are positioned in a transitioning world and how the business as a whole is future-proofed in the different pathways to net zero.

Outcome and next steps

While our key managers support climate engagement with Glencore, there were various levels of support for this resolution due to concerns it was prescriptive. As a result, we engaged with one of our key asset managers to provide evidence of climate engagement working in practice with Glencore, as we noted that they voted against the company's Climate Transition Plan. We were pleased to see our manager using their voice to encourage further progress by the company and we'll continue engaging to ensure measurable and timely positive outcomes from companies on climate engagement.

Case study 2: Shell | Scope 3 emissions reduction targets

Issue

Shell is a British multinational oil and gas company. Aegon noted that the company's current intensity target covering Scope 3 for 2030 is not yet Paris-aligned. We see this as an issue as scope 3 emissions in the oil and gas sector usually account for more than **80%** of a company's emissions. In this case, Shell's scope 3 emissions account for over **90%** of their total emissions (including scope 1, 2 and 3 emissions).

Aegon's position and actions

Our stewardship framework outlines our engagement expectations for asset managers. Under our guidelines for climate engagement, we state our company engagement expectations on transparency of their climate disclosures, their 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. After carrying out monitoring of our managers' approaches to voting on Scope 3 emissions reduction targets through our annual DDQ, we requested our managers to support a shareholder resolution at Shell regarding reporting of emission reduction targets in line with the Paris Climate agreement through our EofW. We supported the overall aim of this proposal as we believe Shell's climate progress is inadequate. More detail can be found in our public EofW declaration.

Manager Response/approach

One of our managers took part in multiple group and individual meetings with the Chair and Board of Shell, to challenge them on their climate plans. They have previously used their voting rights to indicate their concern at a lack of progress by Shell, by voting against the company's Energy Transition Progress Report and supporting similar shareholder proposals on Scope 3 emissions at the 2022 company AGM. At the 2023 AGM, the manager voted in support of the shareholder resolution on Scope 3 emissions reductions and voted against the Energy Transition Progress Report.

Outcome and next steps

We were pleased to see the way in which one of our managers held Shell to account and that they aligned with our EofW to vote in favour of the resolution. We were also pleased to see the manager voting against the 'Say on Climate' proposal to additionally indicate their concerns on Shell's climate progress. We'll continue to push Shell and other companies to make the necessary Paris-aligned emissions reduction targets.

Case study 3: an American multinational investment bank | Limiting high carbon financing

Issue

Company A is an American multinational investment bank and financial services corporation and we observed that their existing net zero commitments are not actually net-zero aligned. Specifically, their 2030 absolute emissions target for energy allows them to continue to finance new fossil fuel exploration and development, locking in future emissions and increasing stranded asset risk. This is a priority issue for us as there is scientific consensus that limiting warming to 1.5°C means the world cannot develop new oil and gas fields or coal mines beyond those already approved (new fossil fuel exploration and development). In order for our customers to live their best lives, we need to adequately account for systemic climate risks. Banks have a huge role to play in climate change and reducing risk of stranded assets.

Aegon's position and actions

Our Stewardship Framework outlines our engagement expectations for asset managers. Under our guidelines for climate engagement, we state our expected approach to managed phase-outs and/or divestment for high emitting assets incompatible with a 1.5°C pathway. After carrying out monitoring of our managers' voting on phase-out approaches for high emitting assets through our annual DDQ, we engaged with managers on this matter through our EofW by requesting that they support a shareholder resolution at the company to limit high carbon financing.

Manager Response/approach

One of our managers noted the company doesn't have a policy to phase out the financing of new fossil fuel projects, and they believed that without such a policy, the company would not be on track to meet its stated climate commitments. The manager also noted the resolution asked for a time-bound policy but did not specify the timing, allowing for flexibility by the company board. The manager voted in support of the shareholder resolution.

Outcome and next steps

We were pleased to see the way in which one of our managers held company A to account and that they aligned with our EofW to vote in favour of the resolution. We also undertook direct engagement with the company, utilising our role as a dual client and investor, with their CIO and Head of Corporate Banking to better understand and challenge aspects of their climate strategy. We'll continue to engage with our managers to ensure that company A has plans to limit their high carbon financing.

Case study 4: CVS Health | Improving rights to health

Issue

CVS Health is an American healthcare company that has various health-related subsidiaries. Although CVS provides paid sick leave (PSL) for full-time employees, almost one third of employees are part-time and therefore ineligible for PSL even though research finds PSL both increases productivity and reduces turnover,* which in turn reduces costs associated with hiring. This is particularly important for lower-wage industries where turnover is the highest.

Aegon's position and actions

Our Stewardship Policy outlines our engagement expectations for asset managers. We expect fund managers to have an engagement programme on human rights as well as engage on DEI with companies in respect of their business processes, taking into account diversity beyond gender, intersectionality and corporate culture. After carrying out monitoring of our managers' voting decisions in relation to human rights and DEI through our annual DDQ, we requested through our EofW that our managers support a shareholder resolution at CVS Health to adopt a paid sick leave (PSL) policy.

As evidenced through research, the lack of a comprehensive paid sick leave benefit for all employees disproportionately affects low-income communities and communities of colour.* While companies may prioritise other benefits such as raising wages – which we welcome – we challenge whether there needs to be a trade-off with other benefits. As such, we support resolutions which call for meaningful progress and disclosure on human capital management, including those related to health and sick pay.

Manager Response/approach

One of our managers outlined in their voting policy that they support shareholder resolutions that promote public health. In their assessment, the shareholder proposal to adopt a PSL policy would have a positive impact on the CVS' human capital and customers, and therefore they supported the resolution. While it didn't pass at the company AGM in 2023, the broad support that it did receive indicates growing investor support for employee and staff wellbeing at the company.

Outcome and next steps

We were pleased to see the way in which one of our key managers held CVS to account and that they aligned with our EofW to vote in favour of the resolution. We will continue to engage with the relevant managers in relation to CVS Health and monitor human rights and DEI-related voting decisions.

*Trillium Asset Management case study: CVS Health Corp – Paid Sick Leave (2023).

Assessing our effectiveness for continuous improvement

Engagement continues to be a key tool for Aegon to ensure that our expectations as an asset owner and investment platform are met, and that we have the best chance of moving the dial on systemic economic threats, of adding value to our customers and shareholders and of delivering our purpose. We're confident that our updated engagement themes will hold up to the rigorous standards we hold ourselves to, and that we continue to be in a good position moving forward.

During 2024, we plan to further our engagement with managers on their outcomes, reporting and activities on our enhanced engagement themes, including human rights and nature and biodiversity. We'll continue to evolve our engagement approach, as well as monitor managers' engagements in accordance with these engagement themes.

Principle 10. Collaboration

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

Collaboration is key

One of our key values, as a business, as an asset owner and as an investment platform is to be a force for a good. We recognise that there are limits to what we can achieve on our own. Collaboration enables us to exert a stronger influence in engagements with asset managers and companies compared to individual efforts, and allows us to further industry-level goals that align with our own engagement themes of climate, DEI and human rights.

Intentional and meaningful collaboration is a vital part of our sustainability investment outcomes. We collaborate with others to drive our responsible investment agenda and deliver our purpose.

In this section we explain our approach to collaboration, and the expectations we have of our managers to participate in collaborative engagement. We set out examples of some of our key collaborative engagements during 2023 below and provide a table of our main collaborative partnerships and affiliations on page 98.

Our approach to collaboration

We collaborate to address systemic risks, to further the interests of our customers and to support market-wide transformation.

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.

To maintain our focus on systemic risks and drive positive, sustainable outcomes, we choose to participate in collaborative engagement activities, where:

- The issue aligns with our core engagement themes (climate, nature, DEI 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

There is a vast range of collaborative engagement initiatives at an industry and issues level. In line with our overall stewardship approach, we aim to be intentional and align our collaborative engagement activities with who we are as a business, our sustainability goals and our clients' needs.

Day to day, our RI team and wider business are involved in formal and informal collaborative engagement activities which range from sharing knowledge and insights to collaborating with likeminded asset owners, playing a role in industry initiatives. We also expect our managers to take part in collaborative engagements on our behalf, and questioning how our managers collaborate is a key part of our monitoring and due diligence processes (Principle 8). Our expectations on collaborate engagement for our managers are set out in our RI and Stewardship frameworks. See Principle 9.

An overview of our contribution to industry-wide collaborative engagement in 2023

The following table shows the initiatives we were involved in during 2023. It highlights the extent of our involvement, how it fits with our engagement themes, what our contribution has been and where we may develop this in the future.

2023 collaborative engagements

Initiative	Level of involvement (basic/moderate / advanced)	Alignment with engagement priorities	Remit of committee / initiative	Our 2023 contributions	Next steps / future plans
NZAOA – Manager engagement track	Advanced	Climate	Sharing best practice, developing guidance and position papers, and collaboration on asset-manager engagement on net zero.	▪ Co-led the development of an NZAOA discussion paper on asset owner expectations of asset managers' climate engagement (see Case Study: Aegon | 2023 climate-related collaborative activities on page 102 for further detail).	We'll continue to support the 2024 NZAOA engagement workplan, including but not limited to, inputting into letters to asset manager CEOs to support climate action across the asset management industry.
IIGCC – Asset Owner Stewardship Working Group	Advanced	Climate	Provide practical resources to strengthen and promote asset-owner and asset-manager alignment on net-zero stewardship.	▪ Contributed to Asset Owner Stewardship Questionnaire published in 2023. ▪ Contributed to publication of Net Zero Voting paper to support asset manager voting practices and development of voting policy in line with net zero objectives and targets. As part of this paper, we also shared a case study on our Expression of wish approach (see Case Study: Aegon | 2023 climate-related collaborative activities on page 102 for further detail).	We'll continue to support the working group. Potential outputs in 2024 are under consideration and may include the development of an asset owner engagement questionnaire for asset managers on fixed income.
IIGCC – Sovereigns Working Group	Advanced	Climate	Consider data and methodologies to better integrate sovereign bonds in net-zero strategies.	▪ Co-chair of working group and its sub working groups. ▪ Actively contributed views on the quality of metrics provided from the group and to discussion paper content.	We expect the group to publish industry guidance in Q1 2024 after which the group is likely to wind down.

2023 collaborative engagements

Initiative	Level of involvement (basic/moderate / advanced)	Alignment with engagement priorities	Remit of committee / initiative	Our 2023 contributions	Next steps / future plans
DWP Taskforce on Social Factors	Advanced	DEI and human rights	Promote integration of social-related considerations in pensions stewardship.	▪ Co-chair of the Taskforce and Lead of the Modern Slavery sub working group. ▪ Co-lead of the TSF guide development and industry consultation (see Case Study: Aegon | 2023 Social factors-related Collaborative Activities on page 104 for further detail).	The taskforce will close in 2024 following a review of responses to the consultation.
Pensions Equality Group (PEG)	Advanced	DEI	Taking action to reduce pension outcome inequalities currently being faced by women and individuals from minority groups.	▪ Co-chair and inaugural member. ▪ Expanding group membership and increasing awareness, following the launch of the government's first report setting out the gender pension gap.	In 2024, the PEG will be setting out its three objectives to help close the gap.
NZAOA Deforestation Working Group	Moderate	Nature	To define the NZAOA position on deforestation	▪ Provided input into the development of a NZAOA working paper on deforestation.	We look forward to continuing to support this work and working paper is expected to be published in Q4 2024.
UKSIF	Moderate	General	Brings together the UK's sustainable finance and investment community, with focus on influencing government and regulators and sharing collective knowledge of issues and solutions.	▪ Signatory of UKSIF letter to Prime Minister on UK's implementation of net zero targets and long-term policy certainty on climate change.	We'll continue to support and feed into UKSIF's activities where possible, including in respect of industry consultation responses and policy engagement on key sustainability issues.

2023 collaborative engagements

Initiative	Level of involvement (basic/moderate / advanced)	Alignment with engagement priorities	Remit of committee / initiative	Our 2023 contributions	Next steps / future plans
Nature Action 100	Basic	Nature	Driving greater corporate ambition and action on tackling nature loss and biodiversity decline.	▪ Founding signatory. We were signatories on the first engagement letters sent to 100 companies, calling on companies to address: ambition, assessment, targets, implementation, governance and engagement.	We intend to continue our support for Nature Action, including through monitoring our managers on their NA100 engagement activities.
Climate Action 100+	Basic	Climate	Ensuring the world's largest corporate greenhouse gas emitters take necessary action on climate change.	▪ Supporter to the initiative.	Throughout 2024, we'll continue to monitor our managers on their support for CA100+.
TNFD Forum	Basic	Nature	Develop a disclosure framework for nature-related risk reporting.	▪ Supported the development and testing of the framework.	Throughout 2024, we'll monitor how TNFD is evolving and use the learnings to inform our work on biodiversity.

How we're driving progress through collaboration

Case study: Climate Action 100+

Context

Climate Action 100+ (CA100+) is a global investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Over 700 investors, responsible for $68 trillion in assets under management, are engaging companies on improving climate change governance, cutting emissions and strengthening climate-related financial disclosures, to create long term shareholder value (as at April 2024).

Approach

Aegon UK is currently a supporter, as our goals of creating long-term value for our customers are aligned with the initiative's goals. Engaging on climate and net-zero is a priority theme in our updated 2023 engagement guidelines as we believe that a successful net-zero transition is crucial to support better outcomes for our customers and broader society. Our customers can't live their best lives in a world with unmitigated climate change affecting their day-to-day life and their investments. We also expect our asset managers to be supportive of such initiatives and we monitor their involvement as part of our manager oversight process. For example, in our 2023 DDQ we asked managers to detail the extent of their collaborative engagement involvement, the majority of which indicated they were part of CA100+.

Outcome and next steps

Collaborative initiatives such as CA100+ give investors and asset owners a stronger voice through unified action. The publication of investor letters, for example, carry more weight with multiple signatories and have more chance of driving significant, systemic change in the larger companies our managers invest in.

We've followed CA100+'s work closely during 2023 and have monitored our managers' engagement and voting activity of companies in scope of the CA100+ initiative (see Principle 12 case study: proxy advisor insights and engagement by Aegon with key asset managers on page 118). Through our manager monitoring in 2023 we found **63%** of managers are signed up to CA100+.

Through 2024, we'll encourage our managers to become signatories to CA100+. We'll also explore how we might contribute more proactively to CA100+.

How we're driving collective industry knowledge on engagement forward through collaboration

Case Study: Aegon | 2023 climate-related collaborative activities

Context

We believe that asset owners have a responsibility to address systemic risks such as climate risk by carrying out effective climate engagement with their managers. Asset owners need to work together and share perspectives on both issues and solutions to support transformative, real-world change. Aegon has been involved in several collaborative projects which aim to generate ideas and improve guidance on asset owner collaboration with their external asset managers in relation to climate and net-zero engagement.

Approach and outcomes

As part of the NZAOA engagement track, Aegon co-led an initiative with Allianz, Wespath and Aviva to create a discussion paper, 'Elevating Asset Manager Net-Zero Engagement Strategies' that focused on what asset owners seek from asset managers in relation to their net-zero engagement activity. This paper builds on the work that has already been done by the NZAOA on the Future of Engagement, Proxy Voting and Climate Lobbying Approach, setting out to provide NZAOA members with a tool to inform their asset manager selection, appointment, and monitoring (SAM) processes.

The paper was published in November 2023, and prompts asset managers to further review and improve their climate engagement strategies. It provides expectations in relation to four key principles:

1. Governance and integration
2. Setting and publishing a climate engagement strategy
3. Climate engagement practices
4. Transparency and accountability on climate engagement

We'll actively share this paper with all our current managers as part of our ongoing manager engagements. We believe that this can have a positive impact on our managers' climate engagement strategies and bring us a step closer towards our goal of prioritising climate as part of our engagement themes.

Aegon was also involved in the **Questionnaire for Asset Managers on Net Zero Stewardship**, published by IIGCC in 2023, which aims to support asset owners on the selection, appointment and monitoring of external managers. We collaborated with our managers, requesting feedback and then provided the relevant inputs to shape the questionnaire. The questions from the questionnaire were then integrated into our 2023 RI manager monitoring to improve our due diligence in relation to manager performance.

Besides that, we're a part of the IIGCC Sovereign Bonds and Country Pathways Working Group which plans to publish a discussion paper on sovereign collective engagement in 2024. As **14%** of our investment estate is sovereign bonds, this is an important collaborative initiative to be involved in. To ensure our customers live their best lives, our sovereign bond investments need to be effectively managed and engaged with, and we're always looking at ways to improve our engagement processes.

With our integral involvement in the drafting of these deliverables and industry working groups, we're confident in the positive impact of our collaboration activities in contributing to the production of knowledge in the asset owner space. We've integrated the outcomes of these papers into our own manager monitoring, as it continues to evolve. We also actively encourage other asset owners to do the same.

Case Study: AAM | Climate Action 100+ collaborative engagement

Context

SSE, a multinational energy company headquartered in Scotland, is a focus company within the CA100+ initiative. SSE is held by AAM due to its focus on supporting the transition to low-carbon electricity systems in the UK and Ireland. Despite its ambitious decarbonisation goals, it remains a high emitter. AAM engages with the company continuously and has joined the Climate Action 100+ group to collaborate with peers in asset management on the company's climate ambitions. SSE has made significant progress in recent years, including seeking shareholder approval for its first Net Zero Transition Report in 2022. In 2022 AAM identified areas for improvement which included short-term targets, as opposed to following a planned trajectory. There are clear expectations from trade associations regarding climate policy involvement and enhanced disclosures on low-carbon investments aligned with benchmark demands.

Approach

The collaborative engagement among the investor group involved discussions about SSE's journey and how the company could strengthen its ambitions. AAM focused on encouraging the company to address the issues above. The broad discussions touched on other points that are key to the company's transition, such as climate board expertise, lobbying alignment, and committing to net zero in a challenging geopolitical environment. The company was responsive to the group's engagements and appears keen to meet the expectations of investors.

Outcome

SSE improved its score on the Net Zero Company Benchmark in 2023, mostly through committing to a target of net zero GHG emissions by 2050, introducing long-term GHG reduction targets, and medium-term GHG reductions. AAM notes the end goal of the CA100+ engagement, which will likely span a number of years, is to meet all the criteria as laid out in the Climate Action 100+ Net Zero Company Benchmark.

We're pleased to see AAM working successfully with other asset managers to improve company climate ambitions, and its commitment to further collaborative engagement through CA100+.

Case Study: Aegon | 2023 social factors-related collaborative activities

Context

Another of our priorities at Aegon is for asset owners and trustees to have a better collective understanding of the social risks and opportunities involved in their investments, as well as some of the key challenges around managing social factors, including the identification of reliable data and metrics. This ties heavily to our belief in bringing positive, real-world change through our actions, aligned with our core engagement themes (climate, DEI and human rights) and business model.

Approach

Aegon currently co-chairs the Taskforce on Social Factors (TSF), and leads the sub-group focused on modern slavery. Our focus is on helping trustees understand how to manage risks posed by social factors, including modern slavery and supply chain issues. As co-chair, we're working with the TSF and sub-group members to develop guidance (given that no new pensions regulation on social issues is planned at this stage) for Trustees illustrating the materiality of social factors in investments, and have discussed principles and definitions of modern slavery, and built out a framework on social factors and modern slavery.

The Department for Work and Pensions (DWP) established the Taskforce on Social Factors (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.

The working group focuses 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

We've 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. In 2023 Aegon contributed to a consultation paper published in December 2023, with the official guide due to be published in 2024.

Outcome and next steps

We've implemented some of the recommendations under the trustee practice framework in the draft guidance that was published in December 2023. This includes becoming a Stewardship Code signatory, integrating human rights considerations into our stewardship and voting policies and monitoring our managers through our DDQ on social issues. We recognise that there may be opportunities for further development such as materiality analysis in our portfolio and monitoring managers' industry initiative participation.

As the official Taskforce guidance is finalised in 2024, we'll consider addressing these opportunities as well as integrate any additional guidance. This will positively influence our current and future engagement work with our managers in relation to human rights and modern slavery as it improves the collective knowledge of our team, which translates into clearer human rights engagement asks and objectives in our EofW and engagement guidelines moving forward.

The TSF recommendations will also improve collective knowledge in the asset owner space in relation to social issues and human rights and provide a stronger basis for other asset owners to be more confident in engaging on social issues. This work may also help to build a consensus in relation to social factors-related engagement expectations by asset owners, improving the overall effectiveness of our engagements with managers.

Our expectations of our managers' collaborative engagement in 2023

As discussed throughout this report, a key area of focus in 2023 has been in strengthening our approach to manager alignment on priority engagement themes such as climate change. As set out in our expectations for managers in our RI and Stewardship frameworks (see Principle 9), collaborative engagement is a key part of our stewardship expectations.

Aegon's updated Stewardship Framework expects managers, where resources allow, to be signatories/members of key industry groups, for example:

- The Principles for Responsible Investment (PRI)
- Nature Action 100, IIGCC, Climate Action 100+
- Net Zero Asset Managers and UK Stewardship Code

We expect our managers to participate actively in the spirit of the principles of those initiatives. We also ask managers to ensure that their own and investee company policy engagement aligns with key principles under the UN-convened Net Zero Asset Owner Alliance's guidance 'Aligning Climate Policy Engagement with Net-Zero Commitments'.

Our 2023 RI manager monitoring results revealed that **97%** of asset managers are signatories to the UK Stewardship Code. This is an encouraging finding, and we'll continue until all our asset managers are signatories. However, there's a way to go. While over half of our asset managers are supportive of collaborative engagement, we've found that examples of active participation, beyond just membership, are often limited. For example, just over one third **(36%)** of managers could provide clear evidence of climate policy engagement and lobbying. We'll continue to work with our managers to prioritise engagement activity that aligns with our key engagement themes and priorities and monitor their collaborative engagement activities through our oversight programme to encourage positive, measurable improvements.

Below, we provide examples of some of our managers' collaborative engagement activities.

Case Study: HSBC | Lack of clarity from governments often means that Asian companies are not clear on regulation around human rights

Context

We see human rights as a key social issue in both emerging and developed markets. This is reflected in our 2023 engagement guidelines which identifies human rights as a key priority theme that we expect our asset managers to engage on, including through collaborative engagement.

Against this backdrop, in 2023 one of our asset managers, HSBC, participated in an Asia investor consultation roundtable organised by the UN Working Group on Business and Human Rights to discuss 'Investors, ESG and Human Rights'. The roundtable aimed to share existing investor practices to identify and assess human rights risks in investment portfolios, highlight key issues and challenges, and share resources and good practice examples. The roundtable was attended by around a dozen asset owners and asset managers of different sizes and investment strategies.

Approach

The investor group shared challenges and provided suggestions, including:

- Reliance on high-quality and broad-coverage human rights data. The data should not be limited to controversies, but also assessment of companies' management of human rights issues.
- More policy and regulatory support from governments on human rights commitments and targets, to improve quality and consistency of disclosure standards.
- Lack of clarity from their governments often means that Asian companies are not clear on regulation around human rights, why it's important or why investors ask about it – therefore more clarification on terminology is needed.
- Sometimes there's a conflict between global norms (for example, UNGC, UNGP) and local laws and regulations.
- Use Just Transition to bring human rights into focus.

Outcome and next steps

We were pleased to see HSBC working with others to progress better management of social risks and opportunities. Following the working group, they shared industry resources with the UN that they use for their own human rights research and engagement including WBA's Corporate Human Rights Benchmark, Ranking Digital Rights, KnowTheChain as well as the Human Rights section of their Stewardship strategy. HSBC will assess outcomes when a final report on this topic is published by the UN in Q2/Q3 2024.

Case Study: fostering alignment in asset managers' climate engagement

Context

Climate change poses systemic risks to asset owner portfolio returns. As the UK's largest investment platform, it's important that we extend our focus beyond monitoring our own managers to improve alignment between asset owners and asset managers and foster collective action on climate. We believe that collaborating in this way will promote a healthier financial system, protect the long-term interests of our customers, and improve industry standards on RI manager engagement overall.

Approach

We continued to take an active position on climate engagement alignment in 2023, not only through our own monitoring programme but also through collaborative knowledge sharing and thought leadership. In November 2023 we co-wrote and published Elevating Asset Manager Net-Zero Engagement Strategies in collaboration with other members of the Net-Zero Asset Owner Alliance to encourage asset managers to adopt consistent, transparent and outcomes-oriented climate engagement strategies. The paper provides guidance for asset managers on adopting corporate engagement to mitigate systemic risk and work towards net zero emissions in the real economy.

The guidance is divided into four chapters:

1. Governance and integration
2. Setting and publishing a climate engagement strategy
3. Climate engagement practices
4. Transparency and accountability on climate engagement

These chapters don't impose standards or rules. Instead, they present a framework that we believe could lead to better transparency and strengthen asset managers climate engagement. This, in turn, would enable asset owners to assess alignment, have a clearer understanding of engagement effectiveness, and ensure that the long-term interests of their customers are being met.

In 2023, our collaborative efforts to enhance alignment also extend to our participation in the Asset Owner-Asset Manager Roundtable on 'Aligning Expectations' and the IIGCC Asset Owner Stewardship Working Group with Managers.

Outcome and next steps

The published guidance for asset managers was widely reported and supported across investment press. As discussed in Principle 8, our managers have generally been responsive to our own alignment efforts, and we're committed to continuing to take part in collaborative thought leadership and guidance-based initiatives with the goal of further improving alignment on climate between asset owners and managers across our investment estate and our industry as a whole.

Assessing our effectiveness for continuous improvement

Our position as an asset owner gives us agency to create a lasting impact through our engagement activities with managers, and indirectly through our managers' collaborative engagements to continue to improve our climate, nature and human rights practices. Much of the RI industry collaboration has emphasized collaborative company engagement. We believe asset owner collaboration, including to engage managers, allows asset owners to work together, share perspectives on both issues and solutions, and maximise their impact to support transformative and lasting change in the face of systemic risks such as climate change.

Our annual manager monitoring exercise will continue to be updated and improved as we learn more from collaboration with peers and managers, improving the quality of our engagements with respect to our priority engagement themes (climate, nature, and human rights), and allowing our customers to live their best lives.

In 2024, we'll continue our involvement in existing collaborative initiative activities such as the NZAOA engagement track, IIGCC Asset Owner Alignment Working Group, DWP Taskforce on Social Factors and the IIGCC Sovereign Bonds and Country Pathways Working Group to ensure that we're fulfilling our goal to create positive long-term outcomes for customers and address any systemic risks that endanger this. We're also looking out for further opportunities to engage collaboratively with other key stakeholders to ensure we continue the momentum that we've built up in relation to our priority engagement themes.

Principle 11. Escalation

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

As explained in Principle 9, as indirect investors, we expect our asset managers to engage with companies on our behalf to ensure positive outcomes for our customers' assets and our long-term sustainable investment objectives. From time to time however, when this routine engagement hasn't been effective, we've a responsibility to escalate and we expect our managers to do this on our behalf. Part of our Expression of Wish (explained in detail in Principle 12) relates to this escalation process as it specifies our voting expectations for managers when companies' positions have potentially negative implications for our customers and long-term goals. Yet, escalation may also occur with our asset managers directly when they don't meet our minimum expectations.

In this section, we set out our approach to escalation which consists of two parts: collaborative escalation activities and the escalation of managers themselves when they fail to meet our minimum expectations.

How we expect our managers to escalate

We expect our asset managers to escalate on our behalf when the company fails to respond constructively in engagement. Before escalating our engagement, we expect asset managers to think about the relevant factors to ensure a clear rationale for their chosen decision, recognising that escalation may not always be the optimal choice. These factors include:

- 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. As outlined in our Stewardship Framework, 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'. This is because opting to immediately divest limits the extent of influence we can have on facilitating positive change in the long term. Some of the escalation tools we expect our asset managers to consider 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 mentioned above, voting is a key escalation strategy that Aegon expects managers to carry out in the event that companies fail to respond to engagement strategies. In 2023, we explored the link between the lack of progress on engagement objectives and the subsequent use of voting as an escalation strategy on the companies included in our EofW. We found that managers need to improve how they track progress of engagement objectives by reporting and being more transparent on the point at which they escalate when they find engagement progress is insufficient. Our updated stewardship policy and voting guidelines will help us monitor how managers link lack of engagement progress with their voting behaviour. For more information relating to our voting guidelines and EofW, please see Principle 12.

How we influence manager escalation activities

Through our annual RI manager-monitoring questionnaire, we ask our managers about their escalation strategies and their subsequent effectiveness. Amongst other things, this may include the circumstances for filing shareholder proposals and the extent to which managers do so, how they prioritise engagement with companies following analysis of ESG risks and opportunities and whether they're supportive of collaborative engagement with other investors to generate positive ESG outcomes in a company (please see Principle 8 for more details). The insights obtained through these responses are important as they reveal where and why company engagement might have failed and highlight other issues that subsequently inform escalation activities.

For example, when engaging with our managers in relation to their scores on our RI monitoring, we focused on how they escalate ESG issues, especially through voting, and how their engagement outcome reporting feeds into their engagement strategy, including voting decisions. This remains an ongoing engagement point for us into 2024.

The following case studies illustrate how we've influenced the activities conducted by our core asset managers.

Case study 1: Exxon | Challenging our asset managers to ensure a just transition

Issue

As the world transitions to a low-carbon economy, it's important that no groups are left behind. We believe corporate climate transitions should play a key role in this by considering the social impact of their decarbonisation plan and demonstrating how they're ensuring a just transition.

In May 2023, a shareholder proposal was filed requesting that Exxon's board issue a report describing the social impacts on workers and communities resulting from closures of company facilities, as well as the mitigating actions Exxon can take to minimise the potential impacts. However, in light of the disclosures and company engagements, one of our asset managers decided that there was adequate information for investors to make informed decisions and as such did not support the shareholder resolution.

Aegon's position and action

As outlined in our updated Stewardship Policy, we expect managers to be able to demonstrate consideration of social issues by companies moving to a low carbon economy to support a just transition. We leverage our influence on their activities by monitoring their approach to voting on social issues through our DDQ and by actively engaging with them to provide examples of how they engaged companies on this topic. In this case, following our standard escalation processes, we challenged the asset manager to understand their reasoning for not supporting the shareholder resolution.

Manager's response

The asset manager in question disclosed that it does indeed continue to engage with Exxon, one of the largest oil and gas companies, on various social issues. They've found that Exxon's board and management team are highly engaged on the subjects of human capital management and employee retention and committed to disclosure on workforce continuity and training and development particularly in light of the low-carbon economy transition. In May 2023, Exxon also released a statement – **Supporting a Just Transition** – which outlined the company's focus on providing professional growth opportunities to employees, engaging with communities and their role as chair of the **Just Transition Task Force** with International Petroleum Industry Environmental Conservation Association (IPIECA), a global oil and natural gas association to advance environmental and social performance across an energy transition.

Outcome and next steps

Through our dialogue with the manager, we learnt more about their engagement with companies on just transition and that their publicly stated company expectations on this topic were in line with our voting guidelines. Based on this, we were satisfied with the rationale for their voting decision.

In 2024 and through our DDQ, we'll continue to engage and influence their activities to better understand how they seek to improve corporate practices and ensure appropriate escalation activities are pursued when needed.

Case Study 2: AAL | Ongoing engagement to improve transparency on the management of material palm oil production-related risks

Issue

In 2023, an analysis conducted by one of our asset managers found that AAL's (second largest palm oil company in Indonesia) current and historic disclosures did not provide shareholders with sufficient insight into the material risks and liabilities related to the potential adverse impacts associated with the palm oil industry. For example, there were allegations that AAL had seized land from local farmers, operated with poor environmental standards, and was involved in human rights abuses in 2020.

Aegon's position and action

As set out in our voting guidelines, we support the core conventions set out by the International Labour Organisation (ILO), which include individual and collective rights to life, health, decent work, freedom of association and collective bargaining, living wage, freedom from forced and child labour, and equality and non-discrimination. As outlined in our Stewardship Policy, we expect managers to have an engagement program on human rights and as part of our DDQ monitor their approach to human rights issues.

Manager's response

In response to the company allegations, the asset manager in question signalled its concern by not supporting the 2022 election of the directors and commissioners at AAL's parent company, Astra International, as during the year in question no directors or commissioners were standing for election at the company's AGM.

Following the AGM, AAL took steps to increase transparency about the allegations of improper business conduct in their operations, including a commitment to hire an independent consultant to conduct a field verification of these allegations and address any findings. However, the asset manager found this to be insufficient so in 2023, signalled its ongoing concern by not supporting the election of the board of directors and commissioners.

Outcome and next steps

Through our monitoring and dialogue, we learnt more about the asset manager's engagement on human rights including under what circumstances (related to social issues) they vote against director re-election. We were satisfied with their decision to escalate the AAL issue to the board of directors and commissioners which was in line with our voting guidelines. In 2024, we'll continue to engage with the asset manager to encourage further transparency on their considerations on human rights in relation to their engagement policies and practices.

Case Study 3: PACCAR | Ongoing engagement to improve climate policy lobbying

Issue

In April 2023, PACCAR, the US-based commercial truck manufacturer, put to a vote a shareholder proposal that requested a report that detailed how the company's lobbying and policy engagements align with the goal of the Paris Agreement and how PACCAR plans to mitigate risks presented by any misalignment. The AGM came at a time amid reports that suggested the company was not aligned with alternative engine initiatives and trucking industry regulations.

Aegon's position and action

As outlined in our stewardship policy, we expect our asset managers to engage with investee companies on their climate policies. Our voting guidelines state that companies should disclose their membership of trade associations and the need to address instances where there are significant inconsistencies between a company's public stated policy positions and commitments, and potentially conflicting views of trade associations of which the company may be a member. We encourage companies to publicly commit to aligning lobbying with the goals of the Paris Agreement in line with the Global Standard on Responsible Corporate Climate Lobbying.

As such, it's our view that shareholders would benefit from clearer disclosure of how companies are engaged in lobbying activities, including the board's oversight of the issue. In addition to monitoring managers' own climate policy engagement through our annual DDQ, we also engaged with one of our managers to provide examples of how they engaged with portfolio companies in this area.

Outcome and next steps

By monitoring and engaging the asset manager, we learnt more about their company engagement on climate policy lobbying. Even though PACCAR had already provided high level disclosures on lobbying and policy engagements, we were pleased to see that the asset manager supported the 2023 shareholder proposal which was in line with our voting guidelines.

Looking ahead, we believe the asset management industry can make better use of voting and engagement to support continuous improvements in corporate climate policy lobbying. In 2024, we'll continue to engage and monitor this asset manager to ensure alignment with our own policies.

Case Study 4: Amazon | Plastic reduction

Context

In May 2022, the agenda for Amazon's Annual General Meeting (AGM) included two shareholder proposals:

1. Seeking a report on how the company could reduce plastics use
2. An audit on working conditions at company warehouses

One of our asset managers supported the first shareholder proposal but did not support the second one that related to an audit on working conditions.

In May 2023, Amazon had substantially similar shareholder proposals on both plastics use and working conditions on the agenda. At this AGM, the asset manager did not support either proposal – they received **32%** and **35%** support respectively.

Aegon's position and action

In accordance with our Stewardship Policy, we expect our asset managers to engage with companies on how they manage nature-related and human rights risks and opportunities in their portfolios. As specified in our voting guidelines, we're generally supportive of proposals requesting improvements to climate change risk management (including in relation to the use of plastics and packaging), as well as workplace conditions. After monitoring the asset manager's approach to these issues through our annual DDQ, we pursued engagement to gain deeper insights into the reasons behind both supporting and not supporting shareholder resolutions.

Manager response

The asset manager has a long history of engagement with Amazon. In their engagements, the team has focused on Amazon's approach to human capital management, natural capital and executive compensation, among other topics. While they acknowledge that Amazon's goals in relation to plastic recycling were clear at the time of the May 2022 AGM, Amazon did not explicitly disclose the total amount of plastic used which makes it difficult for investors to determine how effectively the company is reducing its use of plastic and what progress it's making year by year. As such, the asset manager supported the shareholder proposal requesting a report on plastics use. In December 2022, Amazon published an update to their packaging reduction strategy, detailing efforts to reduce and replace plastic packaging, among other initiatives.

Regarding the second shareholder proposal, the asset manager communicated that they were satisfied with the information provided in Amazon's 'Delivered with Care' report. However, they did signal concerns about the responsiveness of the board to a number of broader human capital management risks and as such did not support the election of the Chair of the Leadership Development and Compensation Committee. In their assessment, they determined that the company's approach at the time may have created adverse impacts that could expose Amazon to legal, regulatory, and operational risks and potentially jeopardize the company's long-term financial performance.

By the time of the May 2023 AGM, the asset manager concluded that the company's disclosures on both subjects were sufficiently robust and hence didn't support either proposal. However, they communicated that they will continue to engage Amazon on these issues and monitor improvements against their stated plans.

Outcome and next steps

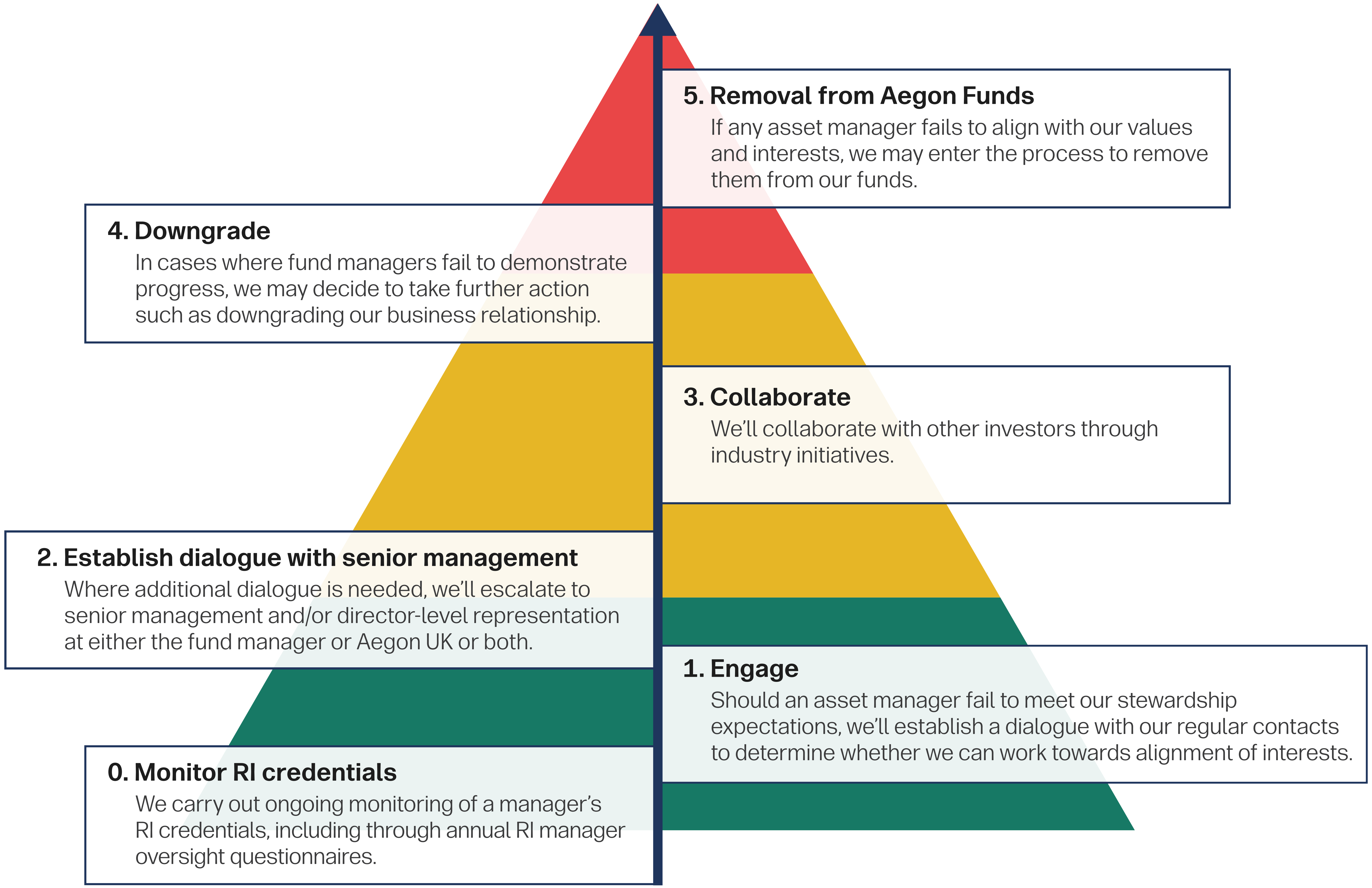
Through our dialogue and engagement, we learnt more about the asset manager's approach and public company expectations on this topic which are in line with our voting guidelines. In 2024 and through our DDQ, we'll continue to engage with this asset manager to understand more about how they seek to improve corporate practices in this area. For example, we'd like to see further transparency, including external data sources that are used to assess company disclosures and practices in this area. This monitoring is essential as it informs and shapes escalation activities.

How we escalate when asset managers fail to meet our minimum expectations

Our Stewardship Framework outlines the escalation process where managers continue to fail to meet our minimum expectations (described in Principle 8) after an 18-month implementation window. This could ultimately result in downgrading the business relationship or removal of the business from Aegon funds.

The diagram on this page illustrates our escalation process in relation to our managers.

AUK RI escalation process



Examples of asset manager engagement and escalation following failure to meet our minimum expectations

Case Study 1: engaging with an asset manager on their continued failure to meet our minimum expectations

Issue

As discussed in case study 2 in Principle 3, in 2022, one of our asset managers ranked poorly at their group level following our RI manager monitoring work, including failure to have a group-level net zero target as well as being PRI and Stewardship Code signatories. We issued our questionnaire to the respective investment subsidiaries in 2023 and found that whilst none of them fell short on the minimum RI criteria, there was wide variation in RI performance between the subsidiaries. Given the materiality of climate risk to the longer time horizons over which our customers are invested, we engaged with this asset manager to understand their approach and encourage and improve RI alignment at the group-level, which would influence its subsidiaries as well.

Approach

Our Head of Responsible Investment, Stewardship Lead and Head of Investment Oversight met with the asset manager to better understand their approach and ensure future alignment on RI practices and commitments. Our meeting covered key points such as group-level governance mechanisms that would drive RI alignment as well as areas where subsidiaries could more easily align such as data, regulation, cross-firm knowledge sharing and commercial strategy. Whilst we understand that RI governance is a work in progress, as per our RI and Stewardship Frameworks if managers don't meet our minimum expectations within 18 months, we're obliged to escalate the issue in accordance with our escalation process.

Outcome and next steps

We're pleased that the asset manager has since provided us their clear commitment to become a UN PRI and Stewardship Code signatory in 2024 and is currently conducting detailed net zero analysis across its entire business, with the intention of setting a firm-level net zero target in 2024. They also provided us further comfort that they're working on designing a group level RI oversight plan which they plan to implement in 2024. We'll continue to monitor their progress closely and deploy further engagement and escalation tools if necessary.

Case Study 2: progressing our Climate Roadmap with one of our managers with fund-level net zero commitments

Issue

As part of our climate roadmap work, we engaged with one of our default fund managers to outline our climate transition plan and likely targets, to further understand how they expected to align and support the roadmap. Whilst we acknowledge this is an evolving area, setting net-zero commitments at the fund level is important given asset managers' direct exposure to systemic risk and failure to do so impacts our ability to deliver on our Climate Roadmap and fiduciary duty to our customers.

Approach and outcome

At the start of 2023 and following our engagement meeting with them in 2022 on our climate targets, the asset manager shared a draft proposal with us on their net-zero commitments with regard to the default fund. Later in the year, they then confirmed that the fund will change its investment policy to include a commitment to achieve net zero by 2050.

This case study highlights the ability of our engagement practices to deliver positive outcomes for both our customers and the planet.

Assessing our effectiveness for continuous improvement

We're confident that our escalation toolkit provides a way for our asset managers to escalate on our behalf in the event that engagement with companies fails. Equally, we trust that our escalation process for dealing with asset managers who fail to meet our minimum expectations is robust and capable of fostering alignment between our goals and their actions.

During 2024, we'll continue to draw on our monitoring questionnaire as well as look at other ways of monitoring our managers' escalation activities. We also plan to expand the use of our Expression of Wish (EofW) to more asset managers regarding our voting preferences (please see Principle 12 for more details).

Principle 12. Exercising rights and responsibilities

Signatories actively exercise their rights and responsibilities.

Voting and engagement (as discussed in Principle 9) are fundamental features of our stewardship approach. Together, they're powerful levers in our toolkit which we use to drive positive outcomes in the economy and in our investments, for the benefit of our customers. We believe it's essential that we exert our views and expectations clearly and robustly to align our managers' actions and activities with our preferences. When it comes to having our say in important company votes, we've carefully considered and developed our approach to this important aspect of engagement, in particular through our Expression of Wish (EofW), which aims to align our managers with our preferences on key resolutions.

Our approach to exercising rights and responsibilities

We strongly believe that good governance includes ensuring the views and approaches by asset managers – including on sustainability issues – align with our sustainability strategy and our customers' best interests. For both segregated and pooled funds, voting and EofW are integral to our approach. We expect managers to exercise their rights and responsibilities in line with:

- Our voting guidelines (see section below for further information)
- Our core engagement themes
- Our minimum expectations of managers related to engagement (see Principle 9) and voting
- Our engagement guidelines – see Principle 9

In relation to our most significant voting decisions, we expect our key asset managers to consider our expression of wishes, which are a representation of our voting preferences (see the table on page 116 showing Expression of wish for 2023 shareholder resolutions).

As a mostly pooled fund investor, we view EofW as the best option to express our voting preferences, as we believe that we can make greater positive progress on our responsible investing priorities, to support our beneficiaries' best interests, through a combination of both our preferences and our asset managers' voting expertise.

We have a list of priority resolutions that we use to guide our EofW (see Aegon's priority resolutions and voting preferences 2023 on page 116), based on our top holdings and topics aligned to our engagement themes. We also take into consideration public sources such as ShareAction and their list of resolutions to watch. We then prepare our voting preferences and underlying rationale, informed by the resolutions as well as our own Stewardship Framework and member findings. We also engage with our key asset managers prior to voting to better understand engagement progress with relevant companies and to encourage their support for our voting preferences.

The extent to which our managers align with our EoW is monitored and scored as part of our manager monitoring process. If we see ongoing misalignment, we'll take action through our engagement and escalation processes as described in Principles 9 to 11. Below we provide further information on the actions we take when there's divergence between managers' voting and our EofW.

Developing our new voting guidelines

In 2023, we developed a set of new voting guidelines to articulate our high-level expectations of companies and voting considerations, with a focus on our updated engagement themes. The guidelines are a logical next step for evolving our responsible investment (RI) approach, supporting our purpose to help people live their best lives. The guidelines build on our existing manager monitoring processes with proposed voting preferences set to be implemented on two levels: across the portfolio and for significant votes. Introducing these guidelines will positively influence the development of our EofW for voting across our key stewardship themes – climate change, nature, DEI, and human rights (including modern slavery) – as well as for factors that should be considered on governance topics or when making voting decisions on shareholder proposals. We'll also continue to actively monitor our managers' voting practices on the companies and issues within our 2023 EoW resolution list, against our new voting guidelines and using support from our proxy advisor.

The voting guidelines were informed by and benchmarked against the policies of the most progressive asset owners and asset managers, as well as relevant industry guidance such as the IIGCC Stewardship Toolkit. The Group Investment Committee, which is a Board-level committee, approved these guidelines in Q1 2024.

Use of proxy advisors

As outlined in Principle 8, we have appointed Minerva as our proxy advisor. In 2023 we leveraged their insights of voting best practice to develop our voting guidelines. We commissioned them to perform research on some of our key managers' voting behaviour on routine votes and to perform an assessment of the alignment of our key manager's voting policies against our voting expectations, as set out in our new guidelines (see page 81 for further detail). In 2024, we'll continue to use the support of Minerva to manage the complexity and volume of voting decisions as part of our vote monitoring activities.

We also monitor the degree to which our managers rely on recommendations from proxy advisors to inform their voting decisions. Within our manager monitoring exercise in 2023, we asked managers to disclose further information on their use of proxy advisors. We want our managers to be making voting decisions that are grounded in their own research first, with the use of proxy advisors as a supplementary tool. We were pleased to see the majority of managers outlined that while proxy advisor recommendations are useful, they're used in conjunction with their own research to form voting decisions.

Voting in segregated and pooled accounts

Aegon shares the same voting processes for our pooled and segregated accounts. We delegate voting to our managers and choose to influence specific votes with our EofW. We will, however, explore direct voting for segregated mandates in due course.

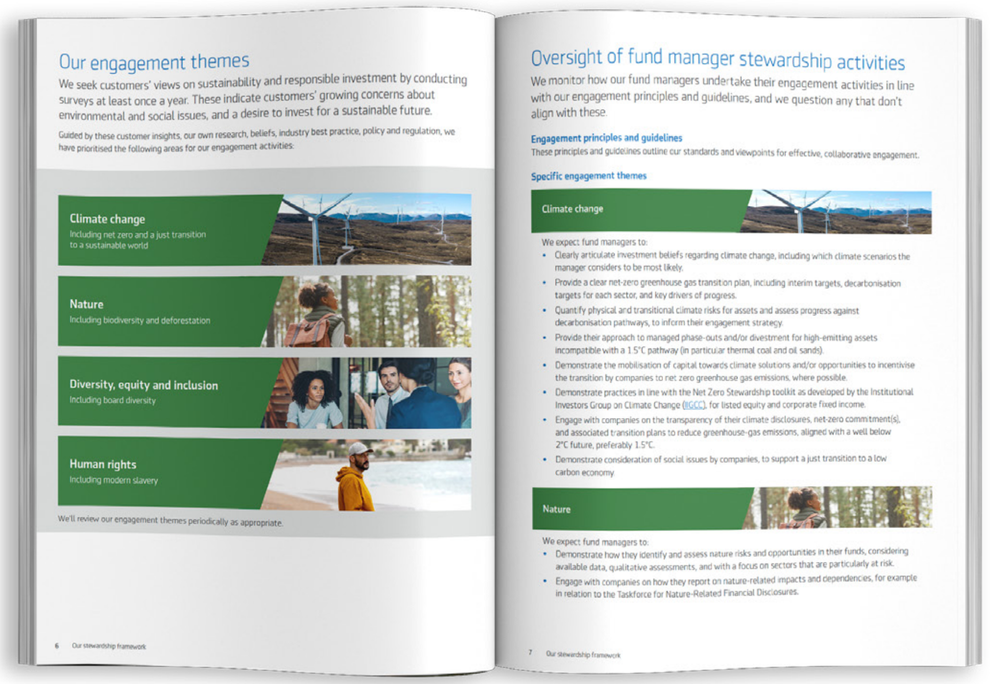
In order to achieve our goal of helping our customers live their best lives, and that we create long-term value for clients and beneficiaries, we have processes in place to monitor and review our managers' voting policies to ensure that their voting aligns with our expectations and EofW. This is carried out through our annual manager monitoring questions, and with our recent appointment of a proxy advisor we'll be monitoring voting behaviour more closely against our own voting guidelines.

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. While Aegon still needs to explore this area further, we share the FCA's view as expressed in previous SDR consultations that a firm should clarify its securities-lending policy and the steps it takes to ensure this is coherent with its sustainable-investment strategy. We asked our managers to clarify this as part of our 2023 manager monitoring and found that only **40%** of managers that undertake stock lending activities were able to articulate their approach. We'll continue to focus on this in 2024 as part of our manager monitoring activities.

We set the tone for our managers on their portfolio company engagement

The diagram below shows how we work with asset managers to ensure their engagement and voting activities align with our own.



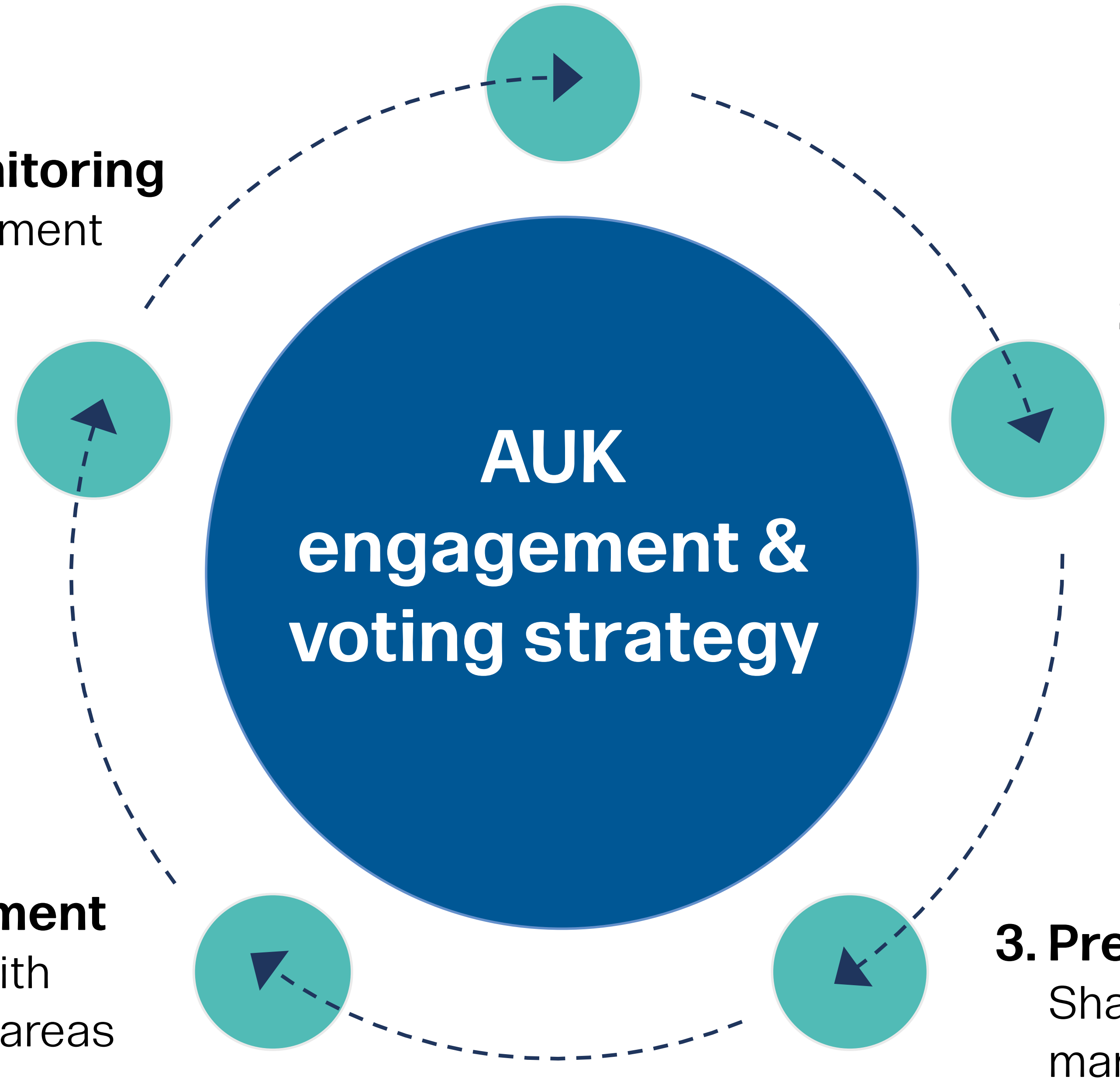
1. Engagement themes
Identify 3-5 key issues to prioritise engagement

2. Engagement guidelines
Extension of our minimum expectations for managers, focused on engagement & voting

3. Pre-AGM engagement
Share AUK views with key managers on preselected resolutions / most significant votes

4. Post-AGM engagement
Review and engage with key managers on any areas of divergence

5. Annual manager monitoring
Shift focus from engagement activities to outcomes

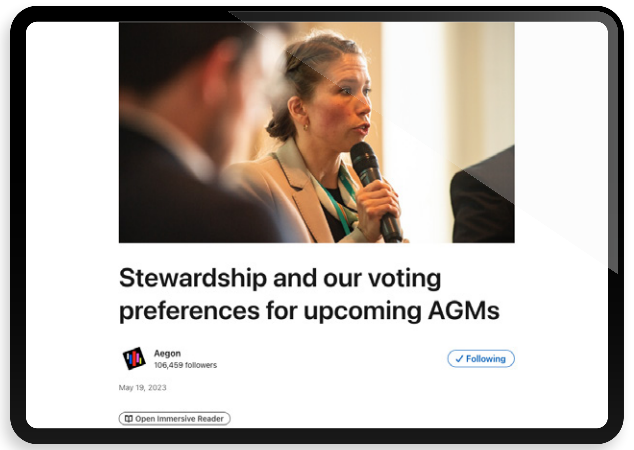



AEGON Daily News

27th May 2023

IMPOSSIBLE FOR GLENCORE TO IGNORE

Coal-mining giant hit with large shareholder vote on thermal coal risk at AGM



AUK's priority resolutions and voting preferences for 2023

The table opposite illustrates our most significant voting resolutions, based upon our top holdings and topics aligned to our engagement themes. We engaged with our key asset managers prior to the company AGM to share our voting preference and encourage their support.

Following the AGM season, we measured the alignment of our manager's final voting actions against our own voting preferences on our eight priority resolutions.

Manager alignment

We found that while two of our managers aligned with us **100%**, a third had **0%** alignment. We provide further information on how we engaged with our managers on this divergence within the respective case studies outlined in Principles 9 and 12.

Expression of wish for 2023 shareholder resolutions

Company	Resolution detail	Total shareholder support (%)	AUK voting preference	Further detail on AUK view & outcomes
1. Glencore	Thermal coal production alignment with emissions reductions commitments	**29.22%**	For	Case study 1: Glencore | Improving climate outcomes/page 93. See Principle 9.
2. Shell	Report on GHG emissions targets	**20.2%**	For	Case study 2: Shell | Scope 3 emissions reduction targets/page 94. See Principle 9.
3. An oil and gas company	Adopt GHG reduction targets	**16.75%**	For	Case study 4: an oil and gas company | Holding companies accountable on their climate commitments/page 123. See Principle 12.
4. United Parcel Service	Set science-based targets	**20.4%**	For	Case study 3: an American multinational shipping and logistics company | Encouraging companies to set SBTi targets/page 122. See Principle 12.
5. CVS Health	Adopt paid sick leave policy	**26.21%**	For	Case study 4: CVS Health | Improving rights to health/page 96. See Principle 9
6. Amazon	Report on ethnicity and gender pay gaps	**29.2%**	For	Case study 1: Amazon | Engaging with one of our asset managers on DEI issues/page 121. See Principle 12.
7. An American multinational investment bank	Limit high carbon financing	**10%**	For	Case study 3: American multinational investment bank | Limiting high carbon financing/page 95. See Principle 9.
8. An American Insurance company	Adopt underwriting policy in line with IEA Net Zero Scenario	**28.93%**	For	Case study 2: an American insurance company | Encouraging net zero commitments/page 122. See Principle 12.

Technical comparison of client-direct voting versus expression of wish (EofW)

As we're mostly invested in pooled funds, our asset managers usually have the more direct and financially significant and influential relationship with underlying companies. To account for this and the challenge of not being able to vote directly, we've developed EofW as an effective way of influencing and monitoring voter alignment. It enables us to articulate our voting preferences clearly while continuing to benefit from asset managers' engagement and voting processes. An EofW can also allow asset owners to add long-term value to their asset managers' processes by providing complementary oversight, accountability and beneficiary views on top of their existing voting processes.

The other common voting strategy carried out by asset owners generally is client-directed voting. The choice between client-directed voting and EofW depends on the objectives, values and unique circumstances of asset owners. As Aegon invests in mostly pooled funds, we choose to use EofW over client-directed voting. While it has its advantages, we feel client-directed voting introduces risks of fragmented and/or inconsistent voting decisions, diluting progress on responsible investing goals at the company level and leading to potential undue reliance on proxy advisors and a higher administrative burden. There are also implications of divorcing the asset managers' engagement activities from voting, instead of supporting objectives set during the engagement process. For further information relating to Aegon's business case for EofW, please see our EofW article.

What does Aegon do in the case of divergence between managers' voting and our EofW?

We monitor our managers' voting decisions through our manager monitoring exercise. Where there's divergence between managers' voting and our EofW, we engage with these managers to understand the reasoning and ask managers to demonstrate alternative escalation methods to support the EofW asks. Should managers still fail to meet our expectations, this will impact the managers' scoring on voting and engagement, and we'll escalate through our regular escalation process and channels. For more information on our escalation processes, please see Principle 11.

Engagement and voting activities undertaken on our behalf by asset managers in 2023

Case study: proxy advisor insights and engagement by Aegon with key asset managers

Context

We commissioned research by our proxy advisor to undertake a detailed analysis of:

- The voting policies of three key managers (Managers A, B and C) against our voting guidelines.
- The voting activities of these three managers in the context of climate, including voting on management resolutions at high carbon-emitting companies (i.e. companies included within the CA100+ focus list), voting rationales where climate concerns are cited and voting on specific climate-related resolutions flagged by CA100+ themselves.

The objective was to help supplement findings from our 2023 EofW exercise to better understand voting alignment of each key manager against our voting expectations.

Approach

The proxy advisor analysed our key managers' voting policies against our new voting guidelines. They also analysed more than 350,000 proposals voted by the managers on our behalf for the twelve-month period up to June 2023.

The analysis showed that:

- The managers could be more transparent in their voting policies, for instance in explaining their assessment framework for voting on climate. However, the level of detail in voting policies by a manager was not necessarily a predictor of how it will vote (for example, a manager may be progressive in its voting on climate but doesn't provide a lot of detail on its approach in its voting policy).
- In terms of using votes to challenge management recommendations, we saw this more regularly used by one of the three managers assessed. We also found one manager voted against company management slightly less often at companies on the CA100+ list. This suggests they're less likely to use proxy voting rights to raise concerns on routine votes at CA100+ focus list companies, compared to companies not considered to be high impact in the context of climate change.
- In terms of citing climate within their voting rationales, overall there were relatively few instances where managers cited climate when voting against or abstaining on routine management resolutions. In cases where managers did so, these were predominately on votes against directors, with only one instance of voting against remuneration topics to voice climate concerns.
- There were relatively few instances of managers challenging management on resolutions flagged by CA100+. These are resolutions flagged by them that are aligned to the three goals of CA100+ for investors to consider, and provides another insight into how our managers are incorporating climate into routine and other high-profile votes.
- While our managers provide voting rationales when they vote against resolutions or abstain, they don't usually provide rationales for votes cast supporting management. Lack of rationales for 'For' votes hinders our understanding of why specific votes were cast at companies identified with climate-related issues or concerns, and we'll seek to engage with our managers to better understand the reasoning for some of the votes cast.

Outcome and next steps

This analysis is essential to support our engagement with asset managers and demonstrates opportunities for continued improvements. We'll continue to focus on how our managers voted, following our finding that voting policies are not necessarily a predictor of how the manager will vote. We also see the opportunity for managers to better integrate climate considerations into routine votes particularly voting against directors.

We're already engaging with key managers on these points and will use these results further in 2024 to prompt more focused discussions with managers on our desired approach to voting in the future.

The table below gives examples of the variation in how each manager voted on director elections:

Company	CA100+	AGM date	Resolution No.	Resolution narrative	Manager A voting action	Manager B voting action	Manager C voting action
Anglo American Plc	Yes	26/04/23	4	Re-elect Stuart Chambers as Director	For	Against (climate)	For
Schroders Plc	No	27/04/23	6	Re-elect Dame Elizabeth Corley as Director	For	Against (climate)	For
Glencore Plc	Yes	26/05/23	3	Re-elect Kalidas Madhavpeddi as Director	For	Against (climate)	Abstain (climate)
Santos Ltd	Yes	06/04/23	2a	Elect Yasmin Allen as Director	For	Against (climate)	For
Rio Tinto Ltd	Yes	04/05/23	6	Elect Dominic Barton as Director	For	Against (climate)	Not voted
Rio Tinto Plc	Yes	06/04/23	6	Re-elect Dominic Barton as Director	For	Against (climate)	For
Mondi Plc	No	04/05/23	13	Re-elect Philip Yea as Director	For	For (against policy)	For
Eaton Corporation Plc	No	26/04/23	1d	Elect Director Gregory R. Page	For	Against (climate)	Abstain (governance)
Smurfit Kappa Group Plc	No	28/04/23	5a	Re-elect Irial Finan as Director	For	For (against policy)	For

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 opposite illustrates a summary of voting activity undertaken for the 2023 period by our key asset managers – BlackRock, HSBC Asset Management and Aegon Asset Management. As explained under Principle 9, the cumulative assets managed by these three managers cover a significant proportion of Aegon UK's AUM.

Overall, we're pleased that managers are exercising their votes more than ever, however we recognize there's 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 engage with these managers to understand the reasoning and ask managers to demonstrate alternative escalation methods to support our voting expectations. We'll continue to engage on these points and will report on our progress in next year's report.

Summary of voting activity by key asset managers in 2023

	BlackRock	HSBC Asset Management	Aegon Asset Management
Number of voteable proposals	175,794 voteable proposals, and voted upon **97.2%** where eligible*	14,534 voteable proposals and voted upon **90.28%** where eligible**	AAM considers, evaluates and votes in all shareholder meetings of UK and Dutch companies in which they invest, and votes in all other meetings in circumstances in which they own over **0.1%** of the issued share capital. This approach resulted in **52%** of all meetings being voted upon. In 2023, AAM votes included **58.3%** voting for, **13.5%** abstain votes and **28.2%** voting against. They voted **3.2%** against management on environmental topics.
Management proposals	**12.17%** voted against management*	**23.38%** voted against management**	
Shareholder proposals	**7.95%** voted against management*	Supported **74%** of ESG shareholder proposals**	
Link to public voting records	Voting records on BlackRock here	Voting records on HSBC Asset Management here	Voting records on Aegon Asset Management here

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

** Based on data from the HSBC Developed World Sustainable Equity Index fund, a fund used within AUK default funds.

Wider overview of voting activities beyond key managers

Beyond our key asset managers – BlackRock, HSBC and AAM – we also monitor the voting performance among our other managers. Below are some insights relating to voting performance.

We believe that a transparent way for our managers to outline their approach to routine voting is through their voting policies. Routine voting is a key mechanism for managers to voice concerns to companies when not enough progress is being made on key environmental and social issues such as climate change and human rights.

Within our 2023 manager monitoring, we found that **26%** of our managers don't have any or have limited references to climate-related considerations in their voting engagement policies. Furthermore, we found that very few asset managers integrate human rights into their voting and engagement policies. We note the need for more clarity from our asset managers on how net zero and wider ESG matters are integrated into voting and engagement, including the relevant policies on routine voting and shareholder resolutions. This conclusion was also supported by the research performed by our proxy advisor.

As a result, we've engaged with some of our managers, requesting further transparency and nuance on their voting decisions on routine votes on climate, in line with best practice frameworks such as the IIGCC Net Zero Stewardship Toolkit. We've also engaged with managers to request involvement in the development of their voting policies (see Principle 12, Case study: proxy advisor insights and engagement by Aegon with key asset managers on page 118).

Looking ahead, with the implementation of our new voting guidelines, we'll continue to monitor our managers' voting behaviour to encourage continuous improvements in the areas outlined above.

Voting and engagement case studies

Case study 1: Amazon | Engaging with one of our asset managers on DEI issues

Issue

Amazon is an American multinational technology company that has a recent history of alleged human rights and pay issues. While Amazon reports diversity data including statistically adjusted gaps, it doesn't provide unadjusted median pay gaps, which enables an assessment of equal opportunity to high paying roles. We're also not fully confident in Amazon's approach to human capital management especially given public scrutiny on its alleged working conditions and unfair pay. Aegon would like to see enhanced transparency by the company on its human capital approach, including in respect to DEI.

Aegon's position

As outlined in our Stewardship Framework, Aegon expects managers to be supportive of greater transparency by companies on DEI policies and practices at board and management levels, and throughout the workforce, as DEI is a key thematic focus. Therefore, following monitoring of our managers' approach to DEI activities through our annual monitoring exercise, we expressed our voting wishes through our EofW by requesting that our managers support a shareholder resolution at Amazon to report on ethnicity and gender pay gaps.

Manager response/approach

One of our managers informed us that their research into Amazon's DEI activities indicates the company already provides public disclosure of information on compensation, by gender and by race/ethnicity. The manager did not support the shareholder proposal since they determined this disclosure largely addresses the request within the shareholder proposal to report on pay gaps.

Outcome and next steps

From our dialogue with our managers, we found mixed insights on how Amazon has responded to engagement on these DEI issues. There were varying levels of support for the resolution from managers on concerns that its requirements are already being fulfilled through existing gender and ethnic reporting. We followed up with one of our key managers to understand more about their voting and engagement approach on human capital management at Amazon and obtained further detail. For example, at the same AGM they'd signaled concerns about the responsiveness of the board to a number of broader human capital management risks by not supporting the election of the Chair of the Leadership Development and Compensation Committee.

We'll continue to engage with this manager regarding their company engagement on DEI issues and voting practices to ensure alignment with our new voting guidelines.

Case study 2: an American insurance company | Encouraging net-zero commitments

Issue

Company B is an American insurance company that operates globally. While the company has set Scope 1 and 2 emissions reduction targets for its energy use and operational emissions and has certain coal-related policies, the company has not adopted targets for its underwriting, insuring and investment activities that align with the Paris Agreement's 1.5°C goal. This is worrying for us as climate is a key engagement and stewardship theme. We believe company B should demonstrate more meaningful progress on implementing and measuring its plan in respect to its insurance and underwriting activities.

Aegon's position

As outlined in our stewardship policy under our climate engagement guidelines, we expect companies to be transparent on their climate disclosures, their net zero commitment(s) and associated transition plans. In addition to monitoring our managers' approach to engagement relating to net zero and their net-zero voting and engagement policies, we also engaged with managers on this matter through our EofW by requesting support for a shareholder resolution at company B regarding Paris-aligned targets on their underwriting activities. We support the overall aim of this resolution as sustainable underwriting is key to achieving a net-zero balance sheet.

Manager response/approach

The manager noted the company has not disclosed its footprint related to financed emissions and hasn't joined any of the collaborative working groups that are developing standards for measuring financed emissions. This is in addition to the fact the company hasn't adopted Scope 1 and 2 emissions reductions targets for its underwriting business. The manager voted in support of the proposal as they believed it would help investors assess the company's management of climate risks from its underwriting business.

Outcome and next steps

We were pleased to see the way in which one of our key managers held company B accountable as they voted in line with our EofW in support of the resolution. The resolution did not pass but received support by nearly 30% of shareholders, marking an increase from the 19% the same resolution received in 2022.

Case study 3: an American multinational shipping and logistics company | Encouraging companies to set SBTi targets

Issue

Company C is an American multinational shipping and logistics company that operates in the second-largest fossil-fuel consuming sector in the US – the transportation sector. We believe it is integral that companies within this sector commit to science-based emissions reduction targets against a reputable framework, in line with good practice. However, a review of its public disclosures reveals that Company C has still not set a target that covers its scope 3 emissions (over **54%** of its total footprint) and a lack of clarity on how they intend to achieve net zero. This contrasts with their peers such as DHL and 46 other air freight transportation companies that have all committed to setting targets via the Science Based Targets Initiative (SBTi).

Aegon's position

As outlined in our stewardship policy under our climate engagement guidelines, we expect companies to be transparent on their climate disclosures, their net-zero commitment(s) and associated transition plans. In addition to monitoring our managers' approach to prioritising net-zero engagement and their net-zero voting and engagement policies, we also engaged with managers on this matter through our EofW by requesting that they support a shareholder resolution at Company C regarding adopting science-based targets.

Manager response/approach

One of our managers noted the company has already set interim goals for tracking emissions reduction progress and has evaluated the adoption of science-based targets. The key challenge to adopting company-wide science-based targets, relates to Company C's fleet of aircraft. Specifically, the company has determined that there are currently no scalable solutions for aircraft or heavy-duty vehicles to enable it to achieve a science-based target. Given these challenges, our manager determined that the company was setting appropriate interim goals, while attempting to address the commercial availability of Sustainable Aviation Fuel (SAF) solutions for their aircraft fleet, and therefore did not support the shareholder resolution.

Outcome and next steps

While our key managers supported engagement with Company C on this matter, there were various levels of support for this resolution due to concern around the lack of credible net-zero solutions within some of the sectors the company operates in, impacting their ability to credibly measure and report on science-based targets.

We followed up with one of our key managers to understand more about their use of voting to support climate instead of shareholder resolutions and received other examples of where they have voted against director re-elections to signal climate concerns.

We'll continue to engage with this manager and encourage further transparency on their approach to voicing climate concerns through other means of routine voting.

Case study 4: an oil and gas company | Holding companies accountable on their climate commitments

Issue

As one of the world's largest oil and gas companies, Company D's activities are responsible for significant levels of carbon emissions. Yet, we noted that according to a public independent report on the company's climate transition strategy, their forecasted GHG emissions are not Paris-aligned and their short and medium-term GHG reduction targets only partially meet CA100+ net-zero benchmark criteria. We also noted that Company D scaled back its climate ambition, at a time when its profits hit record highs and only months after shareholders approved the company's climate plan in 2022.

Aegon's position

As outlined in our stewardship policy under our climate engagement guidelines, we expect companies to be transparent on their climate disclosures, their net-zero commitment(s) and associated transition plans. In addition to monitoring our managers' approach to prioritising net-zero engagement and their net-zero voting and engagement policies, we also engaged with managers on this matter through our EofW by requesting that they support a shareholder resolution at Company D regarding reporting of emissions reduction targets in line with the Paris Agreement's 1.5°C goal.

Manager response/approach

One of our managers informed us that, while they acknowledge Company D has taken steps to continue to develop its climate strategy in line with the goals of the Paris agreement, together with the disclosure of metrics and targets, there remains scope for improvement in the reporting of Scope 3 emissions and the rigor of such reduction targets. They also acknowledged the Company's weakening of 2030 targets was a disappointment. In previous years, this manager has voted in support of similar shareholder resolutions on Scope 3 emissions at the company AGM.

Outcome and next steps

We were pleased to see the way in which one of our key managers held company D to account as they voted in line with our EofW in support of the resolution. The resolution didn't pass, but did win support of **16.75%** of votes, which was an increase in support from the same proposal at the company in 2022. The primary reason our manager supported the resolution was to signal their belief that insufficient progress is being made by the Company on their climate transition plans.

Our developing approach to exercising rights and responsibilities within fixed income

Context

We have a strong focus on exercising rights and responsibilities through voting within listed equities, however we recognise the need to focus on all other asset classes in our investments in order to adequately address the systemic risks and meet our customers' needs. We expect our managers to make full use of investor rights and responsibilities within fixed income, including leveraging both equity and bond holdings to make full use of voting rights, as well as seeking amendments to terms and conditions within contractual obligations to support stated sustainability objectives.

Our approach

Setting expectations: in 2023, we updated our Stewardship Framework to include more explicit expectations on corporate debt and sovereign debt investments. This includes expectations for managers to assess covenants when reviewing prospectus and transaction documents, and request where applicable, the amendment and/or inclusion of contractual obligations to support stated sustainability objectives. In respect of sovereign debt, our updated expectations include engaging with sovereign issuers on material sustainability risks as well as with other stakeholders, for example, trade unions and supranationals, such as the World Bank and the International Monetary Fund (IMF), to raise stewardship and sustainability issues.

Manager oversight: as part of our annual monitoring exercise in 2023, we asked managers to disclose how their voting and engagement activities are integrated into their investment approaches within fixed income. We were pleased to see that some managers described their use of voting rights where an equity and corporate debt position is held on the same company. However, we found that the responses lacked specificity on how they make use of other investor rights, such as requesting ESG factors to be included within contractual terms and conditions.

ESG integration: as discussed in Principle 7 (Case Study: default strategy review - ESG integration on page 68) as part of our review of one of our largest default funds, we developed fixed income considerations within our screening and engagement of prospective managers. These included but weren't limited to, alignment to our Climate Roadmap targets, consideration towards green and sustainable bonds, how managers engage with fixed income issuers and their escalation strategy in case of a covenant breach, and the level of control over active fixed income investments.

Outcome and next steps

In 2024 we'll seek to evolve our stewardship approach on fixed income by developing our ESG integration framework, which will provide more granular detail on our fixed income expectations of managers and incorporate these into our annual monitoring. We'll also look to integrate specific ESG clauses into the agreements with the appointed managers of fixed income assets within our key default fund review.

Manager engagement case studies on fixed income

Case study 1: central european sovereign green bond downgraded

Issue

A central european sovereign green bond was downgraded in the manager's proprietary green bond assessment, following reporting which indicated that a significant share of the bond's proceeds were allocated to low-impact projects in the Clean Transport category, including considerable allocation of operational expenditure that benefited non-electrified transport infrastructure.

Aegon's position

As outlined in our stewardship policy under our exercising rights and responsibilities guidelines, in respect of sovereign debt we expect managers to engage with sovereign issuers on material sustainability risks.

Manager response/approach

The manager established a dialogue with representatives of the country's debt management office, where they advocated for a greater proportion of the green bond proceeds to support capital expenditures (i.e. spend for the longer term). Furthermore, they emphasised that to the extent green bonds are allocated to day-to day-operating spend, it's important it supports the electrification of railway lines rather than conventional transport. These changes would result in the green bond programme having greater environmental impact.

Outcome and next steps

Following the manager's engagement, the sovereign released an updated framework explicitly excluding operating spend on railway infrastructure, therefore aligning the framework more closely with the country's decarbonisation objectives and achieving net-zero emissions by 2050. Subsequently the manager also upgraded their internal assessment for the sovereign's green bond and thus continue to hold the securities in their portfolios.

Case study 2: Swiss multinational flagged for UNGC violation

Issue

A Swiss multinational mining company was flagged by a third-party data vendor to the manager for a UN Global Compact (UNGC) violation in relation to worker safety in their mines. The company was also flagged for generating revenue from thermal coal mining, which made the company bonds ineligible for the manager's ESG active fixed income portfolios.

Aegon's position

As outlined in our stewardship policy under our exercising rights and responsibilities guidelines, in respect of corporate debt we expect our managers to engage with issuers on material sustainability issues particularly at debt origination and reissuance. In addition, we expect managers to assess covenants when reviewing prospectus and transaction documents, and request where applicable the amendment and/or inclusion of contractual obligations to support stated sustainability objectives.

Manager response/approach

The manager engaged with the issuer to better understand labour conditions in their mines, with specific focus on safeguard checks the company was putting in place. Understanding how the company is addressing flagged issues is an important part of the manager's fixed income investment process. Additionally, the manager sought information on the company's transition plan, specifically for their coal business, given the importance of mining companies to the transition to a low-carbon economy.

Outcome and next steps

The issuer remains screened by the manager's baseline screening process and is still considered ineligible for their ESG fixed income portfolios. The manager's Fixed Income and Stewardship teams continue to hold discussions with the company on their upcoming 2024 climate transition action plan.

Assessing our effectiveness for continuous improvement

Our EofW approach is still in its early stages, but positive feedback from AMT Trustees and asset managers provides us an opportunity for enhanced asset owner oversight and more meaningful dialogue with asset managers on voting. We'll continue to build on our approach in 2024, through the implementation of our new Voting Guidelines and with the support of a proxy advisor to help support our vote monitoring activities.

Aegon UK Responsible Investment team

Hilkka Komulainen
Head of Responsible Investment

- Responsible for overall RI 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

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

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)

Rory Cornelius
Responsible Investment Analyst, Climate

- Supports RI integration into investment proposition
- Leads development of framework to assess RI integration at fund level
- MSc Economics & Finance, CFA UK Level 4 Certificate in Investment Management

References

1. **53%** of customers have told us they're interested in investing sustainably because of a broader positive impact on the environment and society, while **54%** stated they would favour impact investments over traditional investments, where they both have the same risk and return profile.

   Almost half (**49%**) of customers indicated nature impacts, including biodiversity, are important considerations when investing in a company.

   44% of customers indicated that having more information to help them understand sustainable investment would help them make more sustainable investment choices.

   66% of customers indicated they are aware their investment returns may be affected by financial risks due to climate change, with **43%** thinking the financial sector is not doing enough to stop global warming

   Over half (**54%**) would prefer managers to engage with such companies and push them to change

   Source: Aegon. Customer Panel Responsible Investment (RI) Survey. Conducted with approximately 1200 Aegon UK customers in July 2023.

2. Currently, just **0.5%** of UK DC pension assets are invested in unlisted UK equities.

   Source: The Global City. cityoflondon.gov.uk: Mansion House Compact. Published July 2023.

3. Biodiversity loss is increasingly recognised as a key systemic risk for investors and according to the World Bank could result in a decline of $2.7 trillion GDP annually by 2030.

   Source: World Bank Group. Report The Economic Case for Nature: A Global Earth-Economy Model to Assess Development Policy Pathways.

4. In the Diversity and Equity section we achieved **82%** (an increase of **1%** from 2022) and in the Openness and Inclusion section **83%** (an increase of **2%** from 2022).[2]

   Elsewhere, **84%** of our employees said that they can be their authentic self at work, **87%** think that Aegon UK values diversity and **92%** feel included by their direct manager.

   Source: Aegon Global Employee Survey 2023. The survey was carried out in October 2023 using CultureAmp's methodology. Overall, 2243 Aegon employees were surveyed, with a response rate of **86%**.

5. Securing a retirement income that ensures a comfortable standard of living throughout retirement is a concern for UK savers, as highlighted in a 2022 industry survey of defined contribution (DC) pension scheme members where only **14%** expressed feeling confident that they were on track for an adequate retirement income.

   Source: Phoenix Insights (2022). Great Expectations: Are people's retirement income expectations adequate and achievable? London: The Phoenix Group. Published September 2022. Using Phoenix Insights Longer Lives Index data from around 16,500 people across the UK See page 4 – The 'Happily on Track'.

References

6. **36%** of respondents said impacts on nature, including biodiversity was an important factor in their everyday decisions.

   44% of customers support the idea of reducing investments in oil and gas companies over time if they do not reduce their carbon emissions.

   24% of our customers consider company diversity and inclusion policies when thinking of companies they interact with.

   39% of our customers (financial wellbeing) noted they consider human rights and labour standards as a key factor when thinking about companies they interact with.

   Source: Aegon. Financial Wellbeing Index. The index was conducted with over 10,000 people across the UK to build a picture of the nation's view on their future self and finances.

7. **59%** were aware or fully aware that you can consider sustainability in your savings, including responsible investing.

   64% said yes when asked if they were aware that Aegon is taking the sustainability of companies they invest in into account, depending on their savings products.

   46% said they felt good or very good about Aegon considering sustainability in their investments.

   Source: Aegon. NPS Survey 2023. Surveys carried out quarterly throughout 2023 with around 4500 customers.

8. Against the backdrop of high borrowing costs and inflationary pressures, one in five (**21%**) of those in their fifties have dipped into long-term savings, and one in eight (**13%**) have reduced their contributions to retirement savings.

   Source: Research was conducted by H/Advisers Cicero in July 2023. Total sample size was 900 adult workers and 100 retirees in the UK, all aged over 18. This sample was matched to the sample design of the previous 11 years of Aegon research (Aegon Retirement Readiness Survey).

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