

The climate is changing. This creates risks but also brings investment opportunities. Our Fixed Income team believes a climate informed approach is beneficial for our investment portfolios.

The UN Climate Change Paris Agreement set an ambitious target of keeping warming to well below 2°C – ideally 1.5 °C compared to pre-industrial levels and accelerate the transition to a lower-carbon economy. Investment is already moving into climate change solutions such as improving energy efficiency to renewables and storage amongst others.

Climate change in fixed income portfolios

By approaching climate change as a systemic issue, our approach aims to address climate change by investing in issuers that are at the forefront of a low-carbon economy and making a commitment to carbon neutrality thus addressing the needs of the Paris Agreement. Our climate investment activities span four key categories:

Aegon AM Climate Solutions Framework

Research



- Climate-related risks are evaluated in the firm's proprietary **ESG integration** process as part of the fundamental research framework. Emphasis is on material climate factors that may affect fundamentals.
- Our Responsible Investment and Fixed Income teams developed a proprietary **climate transition research** framework to evaluate an issuer's transition readiness including the company's ambitions, performance, and management of climate risks.

Investment solutions



- We partner with clients on their decarbonization strategies and implementing **carbon reduction targets**. This can include client-specific targets or EU Climate Transition or Paris Aligned Benchmark carbon reduction pathways.
- **Climate transition products:** We offer focused climate transition investment strategies which utilize our climate transition research to uncover compelling investment candidates to support the net zero transition.

Engagement



- As an active manager, we **engage with companies** to mitigate risk, advocate for positive change, and promote best practices. Climate change is a key focus.
- We carry out a significant number of **collaborative engagements** related to climate change to improve investment outcomes for our clients' and to have real world impact. We support Climate Action 100+^{*} in encouraging the world's largest corporate greenhouse gas emitters to take necessary action.
- **Research engagements:** We engage with companies to support the climate transition research process. These engagements help obtain additional information to inform our assessments whilst encouraging positive change.

Reporting & Risk Management



- Aegon AM has developed **carbon footprint reporting** that can be produced for certain strategies and for clients with climate-related investment goals.
- Our ESG risk roadmap covers **climate risk analysis, scenario analysis** and stress testing. We have chosen a third-party provider to help us with these tasks and integrated them into our portfolio risk oversight framework in 2024.

*Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

Climate solutions for the transition to a low-carbon world

Increasingly investors are looking for ways to accelerate their own journey to enabling a net-zero carbon world. One way of doing this is to increase exposure to companies that offer climate solutions and that are leading the transition. Our climate solutions aim to help achieve those goals.

We are developing a climate range that demonstrates our commitment to decarbonisation. Our current solutions concentrate on specific aspects of the journey to net-zero.

Fixed Income Strategies

Our climate transition strategies aim to deliver attractive financial returns while supporting investors' ESG goals and climate ambitions. These strategies rely on our internal climate transition research to invest in companies that have robust, credible transition plans. To align with clients' net zero goals, the strategies follow a climate transition pathway that increasingly allocates to companies who are actively and credibly taking steps towards a net-zero transition. In addition, the strategies adopt a best-in-class ESG approach as well as exclusionary criteria and carbon reduction targets.

Our current solutions include:



Global Short Dated Climate Transition:

Primarily invests in short-dated global investment grade bonds using an active management approach to build a diversified and liquid portfolio.



Global Short Dated High Yield Climate Transition:

Primarily invests in short-dated high yield corporate bonds using a high-conviction and flexible investment approach.

The solutions in our range are EU SFDR article 8** and therefore promote environmental and/or social characteristics. These funds benefit from the expertise and proven track record of the global fixed income team, as well as from our in-house responsible investing expertise.

Climate Transition Framework

To support a real economy climate transition, we believe it's critical to combine current emissions data with a forward-looking view of the company.

Our global Responsible Investment team developed a proprietary, forward-looking climate transition research framework. This goes beyond backward-looking emissions to form a forward-looking view of a company's transition readiness and alignment.



The research focuses on issuers' transition readiness by evaluating climate ambitions and targets, emissions and disclosures and management, governance and alignment of company strategy.

We can then categorise an issuer's readiness and net-zero alignment as follows:

1. Leader	Ready for a low carbon future and actively driving the net-zero transition
2. Prepared	Policies, targets and actions aligned towards progress on net-zero
3. Transitioning	Demonstrating awareness of transition but a mixed degree of alignment
4. Unprepared	Policies, targets and actions misaligned or unaware of required transition
5. Laggard	Unprepared for a low carbon future and actively working against climate goals

The research process consists of this base assessment common to all corporate issuers, followed by a sector-specific adjustment for those in pre-determined high influence sectors.

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**All products manufactured or sold in the EU need to be categorised as 6, 8 or 9. Article 8 is defined as promoting environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.

High vs low influence sectors



We determine a company and sector's ability to influence energy transition and categorize these into low and high influence sectors.

High influence sectors are those which have a stronger ability to influence the energy transition through achievement of global climate goals as identified by a mix of GHG emissions, ESG metrics and expert opinion. This influence can be direct because of their emissions or products, for example oil & gas or utilities; or indirectly because of their ability to influence the activities of others, for example banks.

The resulting climate categories can be used to design focused climate transition products. Based on our forward-looking climate research, we construct portfolios that follow a climate transition pathway and increasingly allocates to companies who are actively and credibly taking steps towards a net-zero transition.

Carbon Reduction Targets



At Aegon AM we collaborate with clients on their carbon reduction targets or decarbonization objectives. Whilst there are various ways to approach carbon reduction, two key approaches to target setting include:

- **Bespoke client-driven reduction targets:**

Investors may establish their own customized targets. Typically, these targets align with corporate-level carbon reduction objectives. This can include a specific reduction goal by a certain year in the future, interim targets, and/or annual targets.

- **EU Climate Transition or Paris-Aligned Benchmarks:**

Some investors may prefer to use EU Climate Transition or Paris Aligned Benchmark reduction pathways, which can provide an industry accepted reference point to align portfolios with decarbonization pathways. These standard benchmarks often include norms and even activity-based exclusions that may also affect the investment universe.

Climate change is having an impact on our planet which is why our approach to identify and select companies that are leaders in fighting climate change is an important step in the evolution of our fixed income investing approach. We believe incorporating climate change awareness in fixed income portfolios can help lead to a more sustainable future.

How we are tackling climate change

Tackling climate change requires mitigation by reducing emissions and adaptation to the physical impacts we are already seeing around us.

Aegon has taken a proactive role in industry-leading climate initiatives. We have signalled our commitment to the net-zero aim by joining the Net-Zero Asset Managers Initiative. More detail on Aegon's AM's net-zero commitments can be found in our [Climate Action Plan](#).

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Who we are

Aegon AM is an active global investor dedicated to helping investors around the world reach their desired investment goals and broaden their financial horizons. The investment needs of our clients are at the heart of what we do. We offer a comprehensive range of investment solutions, as well as a high level of service and support.

Disclosures

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