



Asset Management

# Active Ownership Policy

For institutional and professional investor use only



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borders™*

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Responsible Investment (“RI”) is an integral part of Aegon Asset Management’s (“Aegon AM”) investment approach. We believe good stewardship is an essential part of our responsibility as a provider of capital to investee companies on behalf our clients. This Active Ownership Policy is aimed at enhancing long-term value creation by our investee companies and consequently improving the long-term risk-adjusted returns of our clients’ portfolios. We actively seek to work with relevant stakeholders and the companies in which we invest to address complex Environmental, Social and Governance (“ESG”) challenges that are in line with the interests of our clients.

This Policy describes how we implement engagement on behalf of our clients generally but may be varied upon instruction from the asset owners that grant us the mandate to invest on their behalf. It is part of a framework of relevant policies including our Conflicts Of Interest Policy which together guide and explain the implementation of our engagement with investee companies. Our active ownership consists of four key pillars: screening and monitoring, engagement, voting and shareholder litigation.

This policy is written and intended to be applied by each Aegon AM affiliate in compliance with the requirements of the EU Shareholder Rights Directives and Hungarian Law 2019. LXVII. §9, stipulating the adoption of an active ownership policy, as well as the US Investment Advisers Act of 1940 and the US Employee Retirement Income Security Act of 1974, each as may be applicable. To the extent this policy is inconsistent with an Aegon AM affiliate’s local legal requirements, that affiliate will adhere to its local requirements.

The scope of our stewardship activities extends to investments in all corporate entities, including equities and fixed income instruments, both listed and non-listed. Stewardship actions and outcomes under this Policy are in line with our commitments under the UK and Dutch Stewardship Codes<sup>1</sup>.

### Screening and Monitoring

As a prudent asset manager, Aegon AM monitors investments in the portfolios it manages. Aegon AM's overall objective is to ensure that the companies in which the portfolios invest in operate in accordance with its investment objectives.

Our investment, research and RI teams routinely monitor and engage with the companies in which the portfolios we manage invest. Working together, these teams enhance our understanding of the companies in which the portfolios are invested and help to protect the interests of our clients, enabling material non-financial information to be incorporated into our investment analysis and decision-making. Our approach to integrating ESG is outlined in our Responsible Investment Framework.

Aegon AM interacts with portfolio companies and external asset managers, where so appointed, in order to monitor portfolio companies on material issues, including strategy, business model, capital structure, risk, corporate governance and actions as well as on its social and environmental impacts. Material issues are those matters that are likely to significantly affect the company’s ability to create long-term value.

We recognize that companies operate under significantly different conditions, so we endeavor to be reasonable and pragmatic in our approach to monitoring and engagement, giving due consideration to each company’s specific circumstances and the market in which it operates. Our governance and disclosure guidelines are outlined in further detail in the Appendix.

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<sup>1</sup> Aegon Asset Management’s legal entities in the UK and the Netherlands are signatories to the respective Stewardship Codes. As such, compliance with the respective Code is assured only by the signatory entities. However, Aegon AM endeavors on a best-efforts basis to apply the Code respective to its holdings across its legal entities globally.

### Engagement

We believe that actively engaging with companies to improve ESG performance and corporate behavior is generally more effective than excluding companies from our investment universe. In terms of the standards that we follow when engaging with portfolio companies, we consider the UK and Dutch Stewardship Codes and the Principles for Responsible Investment.

If we have concerns about a specific issue, we may enter an active dialogue with the company, either directly or collectively with other shareholders. Wider engagement with other stakeholders, such as employee unions and non-governmental organizations, may also form part of our engagement activities.

Participating in collaborative engagement with other like-minded investors can sometimes be the best course of action. We seek to strengthen our investor voice in engagement by actively participating in collaborative engagement platforms such as the Principles for Responsible Investment, UK Investor Forum, Institutional Investors Group on Climate Change and Eumedion.

Our preference is for engagement with portfolio companies to be private and confidential. This enables an open discussion that hopefully leads to resolution of our concerns. Engagement dialogues are conducted by investment managers, research analysts and/or the RI team.

Progress on engagements is regularly monitored and discussed internally. If following engagement we still have concerns, we may escalate our activities to include additional meetings with executive management, meeting with non-executive board members, expressing concerns through the portfolio company's advisors and voting against the portfolio company's recommendations at its annual general meeting or extraordinary general meeting. We may adapt our approach by seeking collaboration with other like-minded investors. In some instances, we may even reduce or sell our holding, subject to appropriate client approvals in non-discretionary client mandates.

Engagements are typically initiated following one of three potential triggers. First, we engage when we identify long-term financial risks arising from ESG issues as part of our research process or through separate monitoring on topics such as climate change, health and diversity. Second, we engage with companies that do not comply to our clients' standards as outlined in specific mandates. We use our influence as an investor to encourage these companies to meet the ESG norms outlined in our clients' policies. Finally, engagement is also conducted in relation to specific RI strategies that actively seek to encourage certain corporate ESG behavior.

After engagement, we endeavor to closely follow the progress made by the company. We report on our engagement activities on a regular basis to our clients and on our website. Systematic screening, up-to-date recording of our activity, and reviews of our objectives allow us to measure progress. We formally review our engagement activities each year as part of our obligations under the Principles for Responsible Investment, EU Shareholder Rights Directives, Dutch and UK Stewardship Codes, and updates on our engagement activity are regularly provided on our website. Engagement progress is systematically shared among the RI team, research analysts and investment managers to ensure investment decisions are taken based on the most comprehensive information possible.

### Voting<sup>2</sup>

#### In mandates for which we have the discretion to take voting decisions on behalf of our clients

Aegon AM is generally supportive of portfolio companies' management. Aegon AM uses its voting rights in the interests of its clients. In most cases, this also means that companies must comply with the standards approved by the relevant stock exchange in which their shares are listed.

We aim to ensure that voting rights are exercised in an informed manner, to enhance long-term value creation and promote best practice ESG policies, disclosure and performance by portfolio companies.

We consider and vote all shareholder meetings of UK and Dutch companies in which we invest. In most cases, this means the company must follow the UK or Dutch Corporate Governance Code respectively, which set out best practices on corporate governance. However, we recognize that not all companies are the same and we strongly support the 'comply or explain' model of corporate governance. For this approach to work, companies must be willing to provide good quality and detailed explanations of the reasons for deviation from established best practice.

When companies seek to adopt a different approach from the respective Corporate Governance Code, we recommend consideration of the Investment Association guidelines which can be found at:

<https://www.ivas.co.uk/guidelines/>.

We also vote the shares of companies outside the UK and the Netherlands where our shareholding is greater than or equal to 0.1%<sup>3</sup> or where clients have specifically instructed us to do so. In these instances, we follow the appropriate regional best practice where this is defined. Where this is not defined, we look to international best practice codes such as the Organization for Economic Co-Operation and Development Principles of Corporate Governance.

Where we have a voting-related concern, within practical limits we contact the company ahead of the meeting to discuss. With respect to companies in our active internally managed equity portfolios, when we vote against or abstain on an issue, we also write to the company explaining why we have done so.

We use the voting advisory services of proxy advisors. In the UK, we review all governance issues on a case-by-case basis and in a pragmatic manner, with input from both the RI team and our investment managers.

We record all votes cast and other relevant responsible investment activity. These records allow us to monitor each company's progress towards compliance with the appropriate governance codes and to demonstrate to our clients the approach we have taken. We report our voting behavior with an explanation of the most significant votes. Our voting behavior related to our UK operations is externally audited on an annual basis.

Where appropriate, we may attend the general meetings of the companies in which we invest. Where we exercise our right to submit a request for convening an extraordinary general meeting or for tabling a shareholder resolution at a general meeting of a portfolio company, we consult the company's board prior to exercising this right. We are present or represented at such meetings in order to explain the respective resolution.

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<sup>2</sup> The voting activities of Aegon AM legal entities in the United States are not in scope of this Policy, and as such the contents of this section do not apply to them. These entities vote according to their own proxy voting policies.

<sup>3</sup> Except for portfolios managed by Aegon AM Central and Eastern Europe, where the threshold applied is 5%.

Our normal practice is to agree engagement and significant voting decisions between our RI team and the relevant investment manager. Where controversial issues are identified or there is disagreement, we escalate the issue to the appropriate Global Chief Investment Officer and their decision is final.

Where equities are lent, in accordance with mandates, we endeavor to have them returned to facilitate voting activities.

### In mandates for which we do not have the discretion to take voting decisions on behalf of our clients

Certain clients may choose to retain the discretion to exercise their voting rights according to their own policies. Where these clients have voting policies that are different from our standard approach, we have set up procedures to allow us to implement votes in line with the client's requirements and policies.

## Conflict of interests

Aegon AM's client-centered culture helps ensure that everyone in the business is committed to acting in the best interests of our investors.

We recognize that situations may arise that could lead to conflicts of interest. Such considerations are covered in our Conflicts of Interest Policy.

Our overriding principle when considering any such conflicts is Treating Customers Fairly ("TCF"). The obligations under TCF ensure that we identify our fiduciary responsibilities and act accordingly in the best interests of our clients.

Examples of conflicts of interest that may arise during our stewardship activities include: when a portfolio company is also a client or business partner; where we own both debt and equity in a given company; or where directors of a portfolio company also sit on the board of Aegon AM or our parent company Aegon NV.

In such instances, we always prioritize the interests of clients. Should conflicts arise, we escalate the final decision-making on stewardship issues to the appropriate Global Chief Investment Officer. Where decisions involve a deviation from our Active Ownership Policy, we record and document the rationale for the decision and report such matters on a quarterly basis to the relevant Investment Management Control Committee. Such actions shall be formally ratified by the Committee and recorded in the meeting minutes. Our legal and compliance teams may also be consulted as appropriate.

Aegon AM does not vote shares that it may hold in its parent company, Aegon NV.

## Record Retention

Aegon AM maintains the following records of its proxy voting and engagement activities, in accordance with the US Investment Advisers Act of 1940, Rule 204-2(c)(2):

- Its Active Ownership Policy and Corporate Governance Guidelines
- Proxy statements received, whether voted or not
- Records of votes cast and correspondence with companies
- Records of client requests on how proxies were voted; and
- Any documents prepared by Aegon AM that were material to making a decision on how to vote or that memorized the basis for the decision

These records allow us to monitor each company's progress towards compliance with the appropriate governance codes and to demonstrate to our clients the approach we have taken. Details of our voting activity and information on how we have voted proxies on behalf of clients are available upon client request and at no further cost. All documents will be kept for no less than five years.

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## Appendix: Corporate Governance Guidelines<sup>4</sup>

These guidelines are applicable to mandates for which we have the discretion to make voting decisions on behalf of our clients. Certain clients may choose to retain the discretion to exercise their voting rights and engage with companies according to their own policies. In those cases, we have set up procedures to allow us to implement engagement and voting in line with client requirements and policies.

These guidelines are not designed to be exhaustive or to address non-routine matters that may be raised.

### 1. Board

Companies should be headed by an effective board that is of sufficient size without becoming unwieldy. The directors (both executive and nonexecutive) are responsible for the long-term success of the company by exercising effective oversight. They are primarily accountable to the shareholders for ensuring that appropriate processes in place to:

- Set and monitor the strategy;
- Oversee management and implementation; and
- Set and review an appropriate risk appetite for the business.

Boards therefore need an appropriate balance of executive and nonexecutive directors, so that no individual or group can inappropriately dominate the discussions and decision-making of the board. Furthermore, there is a compelling business case for strong and diverse leadership teams in terms of skills, knowledge, experience and gender that will support the operations of the business and its strategy. We expect companies to have a range of diverse members on the board and to comply with local guidelines regarding board diversity.

We expect succession planning, sufficient induction and on-going training, updates and board evaluations (both internal and external) to be considered carefully. All directors should have the ability to commit sufficient time to the company to ensure they can fulfil their responsibilities. As such we consider the external responsibilities of directors when reviewing the composition of boards.

Board committees should be comprised of non-executive directors only and the majority of them should be independent. In the case of the audit committee, we expect all directors to be independent with an adequate knowledge of accounting and finance.

Independent directors should not be connected with the executive management and should not have any relationships that could appear to affect their judgment. We use the definition of independence set out by the UK Corporate Governance Code. This suggests that a non-executive director is not independent if he or she:

- Was an employee within the last five years;
- Had a material business relationship with the company (directly or indirectly) within the last three years;
- Has remuneration other than the director's fee (no involvement in share option or performance-linked schemes, not a member of the pension scheme);
- Has close family ties with directors, senior employees or company advisers;
- Has cross directorships or significant links with other directors;
- Is a representative of a significant shareholder; or

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<sup>4</sup> The voting activities of Aegon AM US legal entities are not in scope of this Policy, and as such the Voting Actions described in these Guidelines do not apply to those entities.

- Has served on the board for more than nine years.

We support annual re-election of directors on individual resolutions. Where this is not best practice we expect election to be at least every three years.

A senior independent director should be appointed and identified in the annual report. He or she should be available to meet shareholders to discuss issues that have not been settled through the normal channels of the chairman and the chief executive.

Companies should adequately report on the membership and attendance of board and committee meetings.

### **Voting Actions**

*Where we have concerns with the structure or effectiveness of the board or a particular committee, we will not support the election or re-election of relevant directors.*

*By supporting appropriate appointments we accept our role as institutional investors in monitoring the progress that companies are making to increase boardroom diversity.*

## **2. Role of chairman**

The chairman has an important role in providing leadership of the board. It is the responsibility of the chairman to manage the board agenda and ensure that information is provided in a timely manner to board members. He or she should ensure that board discussions are open and effective, with constructive challenge where necessary.

As such, we believe the roles of chairman and chief executive are distinct and separate. While we acknowledge that there may be exceptional circumstances as to why the roles may be combined for a limited period, we believe that the company is better served when the decision-making powers are not concentrated in a single individual.

In markets where the combination of roles is not uncommon, we expect there to be a lead independent director to assume some of the responsibilities we would normally expect to be carried out by the chairman. We also look for there to be sufficient independent representation on the board.

We expect the chairman, or the senior independent director, to ensure the board is aware of concerns raised by investors, especially if there has been a sizeable dissent at a general meeting.

### **Voting Actions**

*We generally vote against proposals to combine the roles of chairman and chief executive. If the roles are already combined, then companies must prove that the board is sufficiently balanced.*

*We also generally vote against any proposal for a chief executive to move directly to being chairman of the same company, unless there are exceptional circumstances.*

## **3. Remuneration**

Executive compensation remains a controversial subject. Concerns about the gap between executives and the general workforce; the complexity of remuneration packages; and links between pay and performance are common.

It is therefore crucial that remuneration committees should take a prudent approach when deciding on executive compensation. The remuneration committee should consist of a majority of independent directors and should review remuneration at least annually. Where the remuneration committee takes

advice from independent remuneration advisors, this should be explained in the remuneration report and the associated costs should be disclosed.

We encourage companies to limit the use of benchmarking data, which has contributed to the upward ratcheting of pay over the past few decades. This kind of data should only be used as a starting point and care should be taken in choosing comparators to ensure they truly reflect the company's circumstances.

We examine the remuneration policies of the companies in which we invest on behalf of clients. We therefore expect companies to make appropriate disclosures on executive pay and awards that allow us to assess the company's remuneration strategy. The best remuneration strategies are clear and understandable.

We expect pay and awards to be set in a manner that aligns the interests of executives with the interests of the company's shareholders and at levels that attract, retain and motivate, without being excessive.

Alignment is often best achieved by executives building up significant equity stakes in the companies that they manage.

Executive compensation should be a balance between fixed pay and variable pay. The variable pay should be in the form of an annual bonus and one long-term incentive plan.

There should be a shareholder vote on executive compensation.

### **Annual bonus**

The annual bonus should have targets set according to company strategy and these should be fully disclosed, not least, on a retrospective basis. Companies should not make bonus payments and option grants to reward one-off events. This is because it is often difficult to assess how successful events such as mergers or acquisitions will be until a considerable time after the event.

Where they are quantifiable, we recommend relevant environmental and social performance conditions being incorporated into the annual bonus.

### **Longer-term incentive plans**

Longer-term incentive plans (LTIPs) should have a clear link to the long term experience of shareholders in a company. LTIP performance conditions should be clearly disclosed and should be challenging so that full vesting only occurs for genuinely superior performance. Performance should be measured over a minimum of three years and preferably five years.

Where they are quantifiable, we recommend relevant environmental and social performance conditions being incorporated into the LTIP.

Companies should not change the performance conditions of share based incentive schemes without prior shareholder approval. Neither should they reset the price of share options after the options have been issued, or compensate for awards that failed to vest.

We do not generally support Value Creation Plans, where the vesting of the rewards is solely dependent on increasing the value of the company, as we believe these arrangements can reflect general market conditions rather than the skill of the management. Neither do we typically support long-term incentive plans that depend on pre-grant criteria or short-term performance measures. Nor do we believe retention plans are appropriate.

Clawback and Malus provisions should be appropriate so that individual or group failings can be addressed.

We also expect the remuneration committee to have necessary flexibility to exercise discretion where appropriate, however, we expect this to be fully explained in the subsequent annual report.

#### **Service contracts**

Service contracts should not exceed one year. With the exception of new directors who may need longer contracts, we will generally vote against the election of directors whose notice period is more than one year. For new executive directors, after the initial period, we encourage the contract to be reduced to one year or less without any compensation payments being paid.

Furthermore, we do not support directors' service contracts which provide for unmitigated or liquidated damages in the event of early termination or a change in control of the company and the amounts involved exceed one year's salary. Neither are we supportive of payments for termination where individuals continue to be employed.

#### **Recruitment arrangements**

Recruitment arrangements may include buy-out of existing awards at a previous employer. However, these should be valued on a like-for-like basis and should be subject to performance criteria. Careful consideration should be given to the likelihood of pay-out. Cash awards should only be used in exceptional circumstances.

#### **Pension contributions and shareholding guidelines**

Pension contributions should be on the same terms as the rest of the company's employees and shareholding guidelines should be meaningful versus annual compensation i.e. typically in line with the maximum annual grant from the long-term incentive plan.

#### **Voting Actions**

*We consider executive compensation at each company on an individual basis. However, where we feel the policy or the outcome has not been balanced and proportionate, or lacks linkage to shareholder experience or strategy we will oppose the resolutions on remuneration and the re-election of the remuneration committee members.*

#### **4. Shareholder rights**

We believe in the principle of one share, one vote. This ensures that a shareholder's economic interests are consistent with their ability to influence company management.

We will not support proposed changes to a company's memorandum and articles of association that erode shareholders' rights or are otherwise inconsistent with the interests of existing shareholders.

Share blocking is an issue in some markets, whereby holders are restricted from selling their shares between the time when the vote is cast and the close of the company meeting. As investors we are mindful of the risks that share blocking presents and will typically not vote in markets where it is a significant issue.

#### **Voting Actions**

*We will oppose any resolutions that erode shareholder rights and may be unwilling to support reelection of directors if appropriate.*

#### **5. Capital management**

Good capital management is essential for the long term success of a business. Shareholders benefit from understanding the approach to capital management in terms of the company strategy for M&A, buybacks and dividends.

We strongly support the principle of pre-emption rights for existing shareholders. We expect companies to comply with the standard institutional pre-emption guidelines as defined in their own markets.

We appreciate full disclosure of the company policy on use of the authorities sought at general meetings. If there is an exceptional circumstance that seeks a greater authority than is standard, we would expect full justification and engagement with shareholders.

We expect companies to disclose the impact of the capital management on the remuneration arrangements, so that we can understand the driving factors in the decision making process.

### **Voting Actions**

*We typically vote against proposals that exceed the limits set by regional best practice guidelines unless there are exceptional circumstances.*

## **6. Major transactions**

Major transactions in the form of mergers, acquisition, joint ventures and disposals are a necessary part of corporate life. We believe all such transactions should apply a disciplined approach and progress should be monitored closely to ensure the original objectives are being met.

Non-executive directors should ensure they have enough information to fully understand the implications of transactions. Where necessary they should seek independent external advice to aid them in ensuring the protection of shareholder and other stakeholders' best interests. We consider all such transactions on a case-by-case basis.

### **Voting Actions**

*We make any decisions on major transactions in conjunction with the relevant fund managers.*

## **7. Related-party transactions**

Boards should have an appropriately independent process for reviewing, approving and monitoring related-party transactions. As with major transactions, non-executive directors should be able to seek independent external advice to ensure any such transaction is in the best interests of the company and shareholders.

Related-party transactions should be reported to the board and approved and where relevant these should be disclosed in the annual report and accounts i.e. when they are material to the business, where there is a perceived conflict of interest or where key individuals are involved.

### **Voting Actions**

*We expect all related-party transactions to be undertaken on fully commercial terms and to be fully justified and beneficial to the company.*

*We consider all such transactions on a case-by-case basis and do not support if we believe there are material issues. We may also not support the reelection of directors related to the transaction.*

## **8. Auditors**

The audit committee, as a fully independent committee, is best placed to appoint and oversee the external auditors. We believe the statutory audit is an important shareholder protection and therefore shareholders

must be comfortable that the appointed auditor is acting in a suitably independent manner. The purpose of the audit is to identify errors or wrongdoing and to alert shareholders to these issues so that they can be addressed.

The audit committee should ensure that non-audit fees are kept to a minimum and that the company has a clear policy on re-tendering and rotation that is adhered to. We expect the re-tendering and rotation of auditors to be in line with best practice guidelines and to be adequately disclosed.

We also expect companies to have an effective Internal Audit function that identifies new and emerging risks to the business. We expect the strategic report to identify and mitigate key risks.

The company should have a clear whistle-blowing policy that is integrated into the code of conduct for all employees. Reporting channels should be identified and procedures should be clear. Additionally, the company should report on how bribery and other illegal activities are identified and resolved.

The viability statement should be the board's opinion on the long-term viability of the company. We would expect this to align with the strategic plans for the company and should cover a period longer than one year.

### **Voting Actions**

*We will vote against the appointment of auditors when we have concerns about the proposed auditor's independence; the level of non-audit fees; audit quality; or where a company changes its auditor without providing an adequate explanation. We may also not support the re-election of audit committee members.*

## **9. ESG integration**

Integration of environmental, social and governance issues into our overall analysis is an important principal. As such, we consider the level of disclosures made by companies in their annual reports and other relevant materials and presentations.

We consider each company individually according to the key ESG risks they face. Where we identify areas for improvement or unsustainable practices we endeavor to engage with the company. We may take voting action where the outcome is not satisfactory.

We consider shareholder resolutions on ESG matters on a case-by-case basis. We will generally support proposals that could increase or protect shareholder value.

### **Voting Actions**

*Where we have concerns over the level or quality of disclosures on ESG issues, we may not be able to support the approval of the report and accounts. Where significant concerns arise on ESG matters, we may not be able to support the reelection of relevant directors.*

### Disclosures

This material is provided by Aegon Asset Management (Aegon AM) as general information and is intended exclusively for institutional and wholesale investors, as well as professional clients (as defined by local laws and regulation) and other Aegon AM stakeholders.

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**Past performance is not a guide to future performance. All investments contain risk and may lose value.** Responsible investing is qualitative and subjective by nature, and there is no guarantee that the criteria utilized, or judgment exercised, by any company of Aegon Asset Management will reflect the beliefs or values of any particular investor. Information regarding responsible practices is obtained through voluntary or third-party reporting, which may not be accurate or complete, and Aegon Asset Management is dependent on such information to evaluate a company's commitment to, or implementation of, responsible practices. Responsible norms differ by region. There is no assurance that the responsible investing strategy and techniques employed will be successful.

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