Climate Risk Oversight at Transamerica

Subsequent to the 2020 Aegon Annual Report, Transamerica established a cross-functional Climate Risk Working Group (CRWG) to assist in climate change risk oversight and in determining activities necessary to comply with regulatory requirements related to climate risk and organizational goals related to climate risk. The CRWG is co-chaired by members of operational risk management and investments. Additional members are from other functional areas within Transamerica including financial risk management, capital strategy, compliance, legal and government/regulatory affairs. The CRWG is a part of Transamerica's risk governance structure.

Below is the TCFD for Aegon as published in the Aegon Annual Report.

Task Force on Climate-related Financial Disclosures (TCFD)

Introduction

Climate change represents one of the biggest risks for society, the economy and financial institutions. Mitigating climate change, including the reduction of greenhouse gas (GHG) emissions, is a major global challenge. Aegon believes that governments, companies, and investors have a responsibility to mitigate climate change and its impacts and facilitate a transition to a climate-resilient economy.

The present disclosure builds on earlier disclosures made since 2017. It is made on behalf of Aegon N.V., a global leader in investment, protection, and retirement solutions, as both an asset owner and an asset manager. Similar to previous years, it follows the Task Force on Climate-related Financial Disclosure's (TCFD) four-pillar framework to facilitate disclosure. Aegon strives to continuously enhance its reporting and business practices and welcomes feedback from stakeholders on the appropriateness and relevance of this disclosure.

Governance

Global governance for responsible business and investment topics is coordinated by the Responsible Business and Investment Committee (RBIC). The RBIC meets quarterly to review and discuss topics of importance to Aegon as a whole – including climate change. The RBIC advises the Executive Board and Management Board. It is chaired by the CEO of Aegon Americas (who is also a member of Aegon's Management Board) and consists of senior-level representatives from across the business.

The Climate Change Working Group (CCWG), a working group of the RBIC, continues to be the primary body responsible for assessing and monitoring climate-related issues within Aegon. The CCWG is tasked with evaluating new climate developments affecting investment, insurance, and our other business activities, and recommending further action when necessary. The CCWG meets at least quarterly. It is chaired by a member of Aegon Asset Management's Responsible Investment team and comprises representatives from different functional areas across the Company, including investment portfolio risk management, operational and underwriting risk management, investment analysis, corporate strategy and sustainability, public affairs, and responsible investment.

Climate-related issues assessed as relevant or material by the CCWG are presented to the RBIC through regular reporting. The CCWG also coordinates specific climate-related insight and analysis for the RBIC, including understanding the carbon footprint of investments and providing expert subject matter review of the Aegon N.V. Responsible Investment Policy.

Strategy

Aegon is committed to a responsible way of doing business and seeks to meet the increasing expectations of multiple stakeholders – investors, but also customers, employees, business partners and the wider community. Our Responsible Business vision is to provide financial security and well-being for individuals: a thoughtful approach to secure retirement and healthy aging in our society and make a lasting contribution to a healthy environment.

Risks

Aegon undertakes a biennial Business Environment Scan to identify macro-economic opportunities and challenges expected to be of high likelihood of occurring and high impact to our business. For 2020 the scan included consideration of climate change and the loss of biodiversity. While direct physical risks from environmental catastrophes and loss of biodiversity to Aegon are expected to be limited, we expect to be exposed to regulatory risks associated with new and emerging market requirements. As a result, we seek to further embed climate and environmental considerations into our business and investment decisions – both to avoid damaging the planet and to safeguard our reputation. See the Business Environment Scan itself for further discussion.

For our life insurance business, most of our liabilities are exposed to mortality and morbidity rates, both the current levels and the uncertainty around how they will develop over the coming decades. An important driver when assessing the value of our liabilities is how past increases in longevity are extrapolated into the future. Climate change will play a role in this, however there are many other factors that are expected to be more immediately influential, for example: the current COVID-19 pandemic, medical advancements, limits to human biology and changes in lifestyle. It should also be noted that the relationship between mortality and morbidity and climate change is complex, and the direction of the impact can also vary geographically. Furthermore, it is also expected that climate change will have a relatively lower impact on longevity and health of the insured population compared to the general population, as this group is more affluent and is more likely to be able to better adapt to changing conditions. Taking all this into consideration, Aegon follows widely adopted industry methods where the extrapolation of future longevity is performed solely based on past experiences of mortality and morbidity rates, without separately modelling each of the underlying drivers like climate change.

In contrast, our investments are exposed to both physical and transition risks. While we expect the transition risks associated with policy and market actions intended to mitigate climate change to be most salient in the near term, the value of our holdings can reasonably be expected to be influenced by both over time. However, previous scenario analysis has shown that our relatively high allocation to fixed income, including government bonds, should limit our overall exposure.

For our property and casualty (P&C) business, we expect a more direct impact from climate change through, for example, higher claim frequencies arising from an increase in extreme weather events. However, prices for P&C insurance are set in advance for much shorter periods than for life insurance. Prices are determined by closely monitoring past claim frequencies and adjusting the premiums over time while maintaining an adequate level of expected profitability. As a result, it can be reasonably expected that climate change impacts will be gradually considered and reflected in adjusted premiums as the physical consequences of an increase in global temperatures become apparent.

Case study: Climate risk in the Dutch General Account

Aegon Netherlands performed an assessment on the impact of climate change on the General Account asset values and the increase and timing of life and non-life insurance claims. The assessment distinguished between physical risks that arise from more frequent and severe climate events and transitional risks that stem from the process of societal and governmental adjustment towards a net zero carbon economy. In terms of physical risk, while the majority of Aegon Netherlands' investments are in Western Europe and the US – two regions less vulnerable to the impact from physical climate risk – significant mortgage and real estate holdings in the Netherlands does increase the overall exposure to flood risk. While exposure to transition risk is in part determined by the extent to which investments are made in energy intensive sectors such as energy or industry, it is also reasonable to expect some transition risk from non-sustainable real estate exposure – including mortgages. It is the Dutch government's ambition to improve the sustainability of the local housing stock by encouraging all buildings achieve an 'A' energy label by 2030. If the government decides to expedite implementation of supporting legislation, this could potentially result in lower rated real estate losing market value, thereby increasing the risk associated with a large mortgage portfolio.

Opportunities

As an investor, Aegon has an important role to play in supporting the climate transition. By making climate-smart investment choices, Aegon can contribute to a cleaner, healthier environment as well as provide our clients with opportunities to minimize their own climate impacts. Climate change continues to be a focus of Aegon's investment strategy and is guided by our Responsible Investment Policy.

Case study: Aegon UK Net Zero Commitment

In early 2021, Aegon UK publicly committed to achieving net zero carbon emissions in their default solutions by 2050 with the aim of exploring the feasibility of reducing them by half by 2030. As a workplace pension provider, Aegon UK is seeking to take a more active position in addressing climate change while supporting the UK Government's own 2050 net zero ambition. To get started on meeting the commitment, Aegon UK has begun working with HSBC Global Asset Management on the creation of solutions that invest in businesses with strong ESG characteristics. The investment philosophy core to these solutions are the "three t's" which are embedded into the stock selection process. The three t's focus on the targets the chosen ESG index (FTSE Developed ESG Low Carbon Emissions Select Index) has in regard to the parent index. The three targets are: a 20% improvement in ESG rating; a 50% reduction in carbon emissions intensity; and a 50% reduction in fossil fuel reserves intensity. The process also includes a number of exclusions, including specific thermal coal-based exclusions.

Case study: Aegon Asset Management Ethical Equity

Launched in 1989, the Aegon Ethical Equity fund is one of the oldest and largest ESG investment offerings in the UK market. The fund is a concentrated portfolio (currently 63 holdings) of UK stocks that excludes companies engaged in unethical activities and integrates ESG considerations in bottom-up analysis. In order to ensure that the ethical exclusions remain appropriate to meet client objectives, the management team formally reviews the ethical criteria every two years through feedback from investors and their advisers. As a result of the last client survey in 2019, the move was made to exclude all firms involved in activities commonly held to be environmentally unsound, in breach of internationally recognized conventions on biodiversity, or in energy intensive industries not tackling climate change – effectively excluding fossil fuel companies from the investible universe of the fund. Although the strategy does not employ an explicit thematic approach to investment selection outside of the pre-defined ethical exclusions, climate change is naturally an important factor for many of the companies considered. Current climate-related investments include companies involved in renewable energy, social and environmental infrastructure, and sustainable materials.

Case study: ABN AMRO Aegon Global Impact Equities

The ABN AMRO Aegon Global Impact Equities fund offers a focused portfolio of 40-80 high quality companies with the intent to contribute to measurable positive social and environmental impact alongside financial returns. The portfolio invests in listed companies globally, including in emerging markets and across sectors. The investment process combines top-down quantitative elements with bottom-up research, including impact assessments and ESG research. The fund deploys an investment approach combining exclusions, positive screening and impact investing. Detailed net impact analysis is undertaken as part of the stock picking process, which aims to identify and invest in companies providing products and services that capitalize on long-term sustainability trends. Climate change is naturally a crucial factor for many of the companies considered; global emissions must quickly decline for the world to stay below its Paris Agreement limits, which will create risks for some companies but opportunities for others. Current climate-related investments include companies involved in renewable energy production and its supply chain, sustainable manufacturing technologies, energy efficiency, building insulation, and the circular economy.

Risk Management

Identification and Management

Climate change is a long-term risk associated with high uncertainty regarding timing, scope and severity of potential impacts. 2020 saw no material changes to the overall climate risk identification, assessment and evaluation processes described in previous years' disclosures.

Case study: Climate Scenarios in ORSA

In anticipation of future regulation, representatives from the Climate Change Working Group worked with the Risk function to revise and improve a climate change chapter for the Aegon N.V. 2020 Own Risk and Solvency Assessment (ORSA). In addition to refreshing the content to reflect the latest developments in climate science and regulation, we also undertook an initial look at the potential financial impact of climate scenarios on our investment portfolios. While the specific numerical results quickly illustrated that further investigation and refinement of macroeconomic and portfolio scenario data is required, the overall outcome was encouraging and demonstrated that existing financial risk management processes and tools were fit to analyze climate risk.

Active Ownership

Engagement with Corporates

As an institutional investor, Aegon expects investee companies to work towards reducing their environmental impact. Aegon engages with the companies it invests in both individually and collectively through networks to encourage better climate-related risk practices, including emissions measurement, disclosure, target setting and reporting in line with TCFD recommendations.

Aegon and Aegon Group companies are active members or participants in several collaborative initiatives targeting climate action, including but not limited to: Principles for Responsible Investment (PRI), the Institutional Investors Group on Climate Change (IIGCC), Climate Action 100+ (CA100+), the ShareAction Investor Decarbonization Initiative, and CDP.

For further details on Aegon's active ownership activities, see the Aegon Asset Management Responsible Investment and Active Ownership reports.

Case study: Climate-aligned voting

In their report Voting Matters 2020, responsible investment NGO ShareAction analyzed a sample of proxy voting behavior of the world's largest asset managers in the period from September 2019 to August 2020. The report highlighted the commitment to climate-aligned voting by Aegon Asset Management in the Netherlands on behalf of its clients as one of only three asset managers to vote 100% in favor of climate action-oriented shareholder resolutions. This is illustrative of Aegon's overall commitment to climate action, recognizing both the need for strong concerted action to address the climate crisis as well as the multiple approaches available for investors to affect change.

Engagement with Policymakers

Aegon acknowledges the importance and necessity of government action in addressing climate change. Engagement with policymakers is critical to shaping Aegon's investment environment, and Aegon works independently and in collaboration with industry groups to engage on key climate issues. At the European level, Aegon supports the goals of the European Commission's Action Plan on Financing Sustainable Growth and recognizes the important role that financial actors play in the transition to a low-carbon economy. Both individually and through trade groups, Aegon's Government and Policy Affairs team and climate experts have engaged with officials and contributed to consultations on the corresponding sustainable taxonomy and ESG disclosure regulations, the incorporation of sustainability risks into the Solvency II regulatory regime, and the development of standards for the reporting of non-financial information. Aegon has also continued to advocate for action to complete the Capital Markets Union to unlock capital from institutional and cross-border investors to fund sustainable transition projects in Europe.

Metrics and Targets

Own Operations

Aegon measures and reports annually on its operational carbon footprint. Our main operations (US, Netherlands, UK and Asset Management) have been carbon neutral since 2016 by reducing their facility-level emissions and supporting offset projects in cooperation with the NGO ClimateCare. In 2019, we extended the scope of our offsetting to cover all of our wholly-owned operations.

Case study: Aegon Netherlands targets

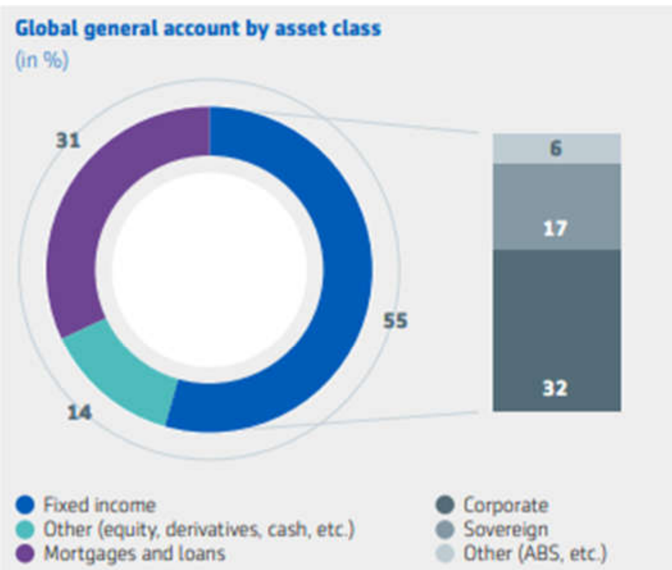
In line with obligations under the Dutch National Climate Agreement and the Spitsbergen Ambition, Aegon Netherlands is focusing efforts on measuring and reducing the greenhouse gas emissions associated with its business activities. Our operations in the Netherlands have set themselves a target of reducing the per-employee CO_2 emissions by at least 50% by 2030 against 2018 levels. We aim to achieve this via multiple measures including improving the energy efficiency of our buildings, making greater use of technology to reduce business travel, and providing employees with more sustainable commuting options.

Investments and Holdings

In 2018 we began to measure and report on the carbon footprint of our investments, with a focus on our proprietary investment portfolio in the Netherlands. New for 2020 is the first measurement of our global General Account holdings.

The figures are representative of the largest asset classes in our global General Account: corporate and sovereign bonds. As a globally diverse investor, the climate impact of our asset mix largely mirrors the regional economies where our business units operate. Business units may provide additional climate disclosure in line with local commitments, requirements and/or regulations.

Global General Account – Holdings by Asset Class



Source: Aegon calculation. Values as of 31 December 2020.

Corporate Fixed Income

Global General Account – Corporate Fixed Income

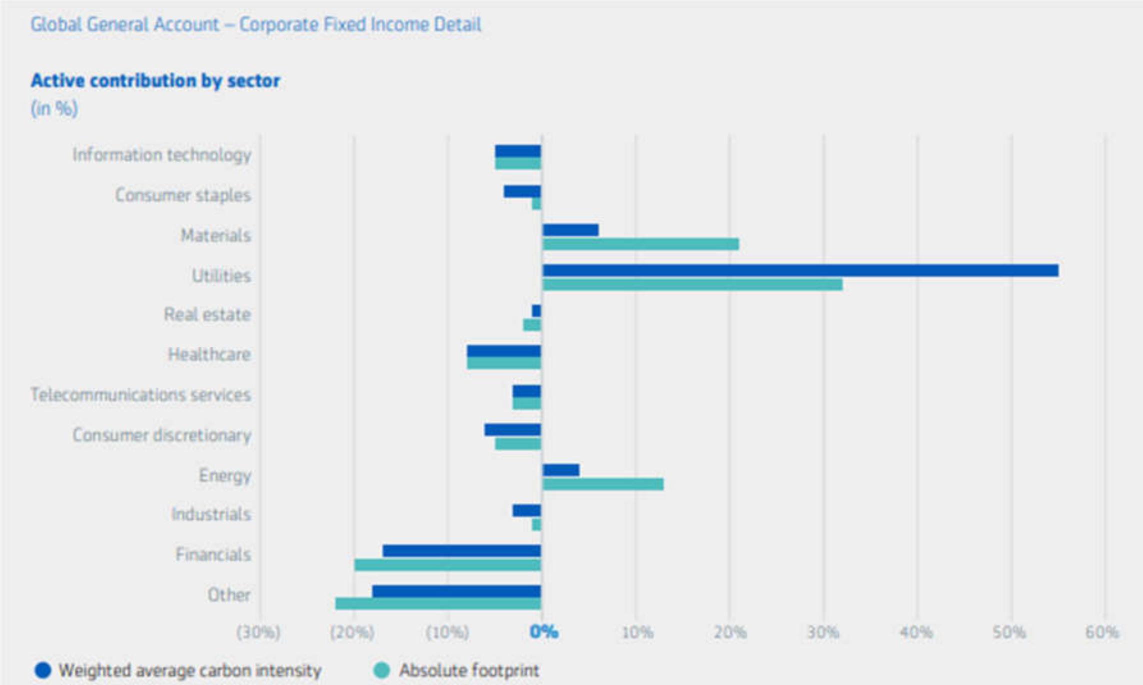
		Corporate FI	Coverage
Absolute footprint	tCO_2e	4,878,000	77%
Relative intensity	tCO_2e/EURm invested	110	77%
Weighted average carbon intensity	tCO_2e/EURm revenue	430	84%
Carbon Risk Rating	Sustainalytics rating	9.4	63%

Source: Aegon calculation. Values as of 31 December 2020. Climate metrics calculated per Methodology section below. Relative intensity, weighted average carbon intensity, and carbon risk values have been adjusted to account for variance in coverage. Climate change data availability may change over time and characteristics will vary. Certain information ©2021 Sustainalytics, MSCI ESG Research L.L.C. and Bloomberg Finance L.P. Reproduced with permission. Not for further distribution.

Corporate fixed income results are dominated by holdings in the utilities, energy, and materials sectors where their contribution to the footprint and intensity of the account greatly outweighs their financial position. The chart below provides an indication of active weight by sector against both the absolute footprint and weighted average carbon intensity (WACI).

Global General Account – Corporate Fixed Income Detail

Active contribution by sector (in %)



Sovereign Fixed Income

Global General Account – Sovereign Fixed Income

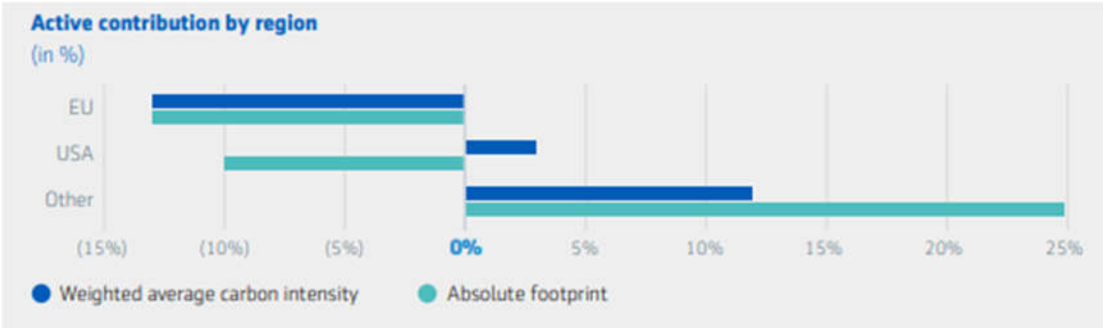
		Corporate FI	Coverage
Absolute footprint	tCO_2e	13,863,000	98%
Relative intensity	tCO_2e/EURm invested	500	98%
Weighted average carbon intensity	tCO_2e/EURm GDP	330	98%
Carbon vulnerability	ND GAIN rating	67	98%

Source: Aegon calculation. Values as of 31 December 2020. Climate metrics calculated per Methodology section below. Relative intensity, weighted average carbon intensity and carbon vulnerability values have been adjusted to account for variance in coverage. Climate change data availability may change over time and characteristics will vary.

While our largest sovereign holdings are in US and EU member state issued bonds, the results are dominated by holdings from other countries, including emerging markets, where their contribution to the footprint and intensity of the account greatly outweighs their financial position. The chart below provides an indication of active weight by sector against both the absolute footprint and weighted average carbon intensity (WACI).

Global General Account – Sovereign Fixed Income Detail

Active contribution by region (in %)



Methodology

Corporate fixed income metrics were calculated following the Partnership for Carbon Accounting Financials (PCAF) guidelines and include scope 1 and 2 emissions. For sovereign assets, Aegon follows a "whole economy" approach based on country-level emissions and GDP. Weighted Average Carbon Intensity (WACI) was calculated in line with TCFD recommendations. Carbon Risk for corporate issues is measured using Sustainalytics Carbon Risk Rating, while climate vulnerability for sovereign issues is measured using the Notre Dame Global Adaptation Initiative (ND-GAIN) Country Index.

Carbon footprint metrics are useful for better understanding existing exposure to direct carbon emissions; however, they are only snapshots of performance at a single (past) point in time, and the size of footprint is not necessarily representative of current or future investment risk. Unfortunately, they do not directly capture other climate considerations such as transition or physical risk nor how prepared an issuer may be for the transition to a net zero carbon economy. Reductions in carbon footprint or carbon intensity of an investment portfolio may be achieved simply by re-allocating capital to sectors with less direct climate impact – which would not result in any real overall carbon reduction. Furthermore, while exclusionary approaches may be appropriate for activities with no role in a net-zero carbon economy (e.g. thermal coal, oil sands) or as part of specific investment strategies, depriving certain carbon-intensive sectors of capital could limit their ability to reduce emissions – which could be especially harmful to those sectors expected to play a critical role into the future (e.g. steel, cement).

Next Steps

Aegon will seek to continue to improve its climate change strategy, governance, and approach to risk and opportunity measurement and implementation in the coming years. As the Company's experience with climate issues grows, Aegon will look to increase the breadth of disclosures and further incorporate climate considerations across our business as appropriate