GLOBAL IMPACT INVESTING NETWORK

GIIN INITIATIVE FOR INSTITUTIONAL IMPACT INVESTMENT
CASE STUDY: *Aegon N.V., 2017*

The GIIN Initiative for Institutional Impact Investment supports institutional asset owners seeking to enter or deepen their engagement with the impact investing market, by providing educational resources, performance research, and a community of practice. The Initiative is made possible by the generous support of JPMorgan Chase & Co., a founding member and longtime partner to the GIIN.

This series of case studies represents one type of educational resource offered to the growing institutional community. Each case study profiles one institutional asset owner that has started to make impact investments, providing a snapshot of what they did to make it work thus far. The case study series provides a useful tool for institutional investors seeking to understand how to make the case for, and then establish, an impact investment strategy, based on examples from peers. If you are interested in contributing to this resource, please contact Josh Scott.

Aegon N.V. is a multinational life insurance, pensions, and asset management company headquartered in the Netherlands. Aegon Asset Management (AAM), the company's investment arm, manages most of the company's assets. For this case study, we interviewed Harald Walkate and Adrienne Hill-Strathy, who are members of the advisory board for the GIIN Initiative for Institutional Impact Investment and a GIIN Network Member.

How do you define impact?

Aegon officially defines impact as direct or indirect investments in businesses, organizations, and projects that meet their existing risk and return requirements but also have the intent to create a measurable social or environmental impact. On a more personal level, Harald Walkate, Head of Responsible Investment, sees impact investing as an effort to emphasize the positive aspects of investments as compared to ESG (Environmental, Social, Governance) investing, which is primarily intended to address potential negative outcomes and manage investment risks. In practice, impact investments for Aegon are actual investments into sectors such as affordable housing, microfinance, and clean energy that generate these positive returns. ESG, on the other hand, is more of a tool that is used by the respective portfolio managers and research analysts to better understand investment risk, and possibly to screen for new investments.

For Walkate, impact investing sits in a specific part of the broader spectrum of what he refers to as 'responsible investing,' or approaches that aggregate policies, governance structures, stewardship, and ESG integration to demonstrate that the institution is aware of its responsibilities as investor. "To be honest, I'm not sure that [impact] can be captured in a specific definition," admits Walkate. Beyond the official definition adopted by the organization, which can leave some grey areas, Aegon finds it simpler to have discussions with investment staff as well as institutional peers to determine if a specific deal could be considered an impact investment.

What have you done to start making impact investments?

Aegon has a long history of investing in areas that they now designate as 'impact.' This started with investments in affordable housing and clean energy many years ago, but they only began to actively promote and encourage these types of investments about five years ago. That was when Aegon started to hear a significant amount about impact investments, and decided it should have an in-house view on the subject. The institution organized a small group of people that it called the 'sounding board,' consisting mostly of employees from the investment side, to discuss impact investing and how Aegon could be active in the space. The group decided to implement a formal strategy - which included joining the GIIN membership and setting up structures to encourage and facilitate discussions about impact - and the firm has since expanded to investing in a much more diverse set of sectors, projects, and investment products as a result.

Aegon's role as a fiduciary remained front and center as they moved into impact investing, and that commitment is clearly communicated in their 2016 Responsible Investment Report: "Our top responsibility is to ensure that our clients' assets are managed in such a way that we cover their liabilities. As such, investments should first be evaluated from a risk and return perspective." Starting with those first investments in affordable housing and clean energy, Aegon has gone on to deploy capital to renewable energy, microfinance, green bonds, international development banks, and student loans to low- and middle-income Americans as part of its impact investing strategy.

Today, Aegon still has a small team that looks at responsible investing – five people in the Netherlands and two in the United Kingdom. The responsible investing umbrella includes impact investing and ESG. The institution takes an integrated approach to impact investing because it believes that it can maximize impact by leveraging its total assets as opposed to carving out a section of them for impact. As Walkate puts it, "Some people say it starts with the CEO. If he or she says that we are in favor of impact investment, then people will start doing it. Our company tends to work more from bottom-up, so our approach has been to work with portfolio managers on the floor. Once they understand impact and are engaged, I think that leads to the best results." The Responsible Investment team works with these portfolio managers throughout the company to encourage them to look for impact investment opportunities in their respective areas of expertise and asset classes.

In practice, the engagement with portfolio managers can happen in different ways. In areas where Aegon has institutional knowledge, such as the affordable housing sector, portfolio managers are generally left to make their own decisions because they already have the expertise and know-how. In other areas, Walkate and his team approach the portfolio managers with an impact investing opportunity. Even with affordable housing, if it is a new geographic region, such as an emerging market, Walkate will play a role. "If I think it's close enough to what we are already doing, I might take that to the portfolio manager and say, 'Is this also something to consider?' There are also other types of investments where it usually comes in through us, and then typically we make the first assessment. I think I have a pretty good idea of what types of investments different teams in company would consider and occasionally I will forward something. Maybe one out of ten."

Why did your approach work?

Walkate believes Aegon's approach to impact investing has been successful because of the right engagement of colleagues across the company. The choice of integrating impact into the entire portfolio as opposed to a carving out a portion speaks to Aegon's organizational structure, practicalities, and a little bit of psychology. "Aegon as a group has USD 700bn of assets under management, and within that the asset management division has about USD 350bn. So, our thinking has been, if we want to maximize our impact, then we should try to get as much of those big numbers as possible. I think that it would be hard to get to the same type of numbers we've achieved if we would have had a separate allocation for impact." Walkate adds, "Most importantly, and for any responsible investment, if you're sending a signal to the organization that impact is something separate (by creating a carve out), I think you're achieving the exact opposite of what you want to. Other portfolio managers may say, 'This impact/ESG thing is just some marketing strategy. I am running the real money, they are working with 'play' money, and that means impact is not something I have to be concerned with as a real portfolio manager.'"

How was it received?

Within the organization, reception of impact investment has mainly been positive, with skeptics nevertheless appreciative of it. Some portfolio managers were open to the idea of impact investing from the start, and started talking about it with their clients to showcase how Aegon was investing responsibly. These portfolio managers recognized that impact investing had a potential commercial upside for Aegon - a part of its value proposition to clients. That does not mean that it was easy, Walkate points out. "Many of the portfolio managers had preexisting views on impact investing from reading about sustainability and ESG, and these views were often biased and not always positive. But nevertheless, quite a few people were open to at least having the initial discussion." For those where it took a little convincing, Aegon found it effective to launch an impact investing working group, with the heads of different desks, to make the discussion more of an intellectual exercise.

For other institutional investors, Walkate would urge, "Really think about what you want to achieve and make sure you are setting the right incentives to get the behavior internally that you would like to see." In addition, he sees institutional investors' interaction with this market as a way to contribute to the growth of impact investing. "There are many things that institutional investors like insurance companies and pension funds cannot invest in, because of our stringent requirements – for example, deals that are too small, too risky, not liquid enough, not rated, or where the management fees are too high. But we feel that we can help impact funds and organizations get closer to being 'institutional-ready' by spending time with them and explaining to them how we would like to see risk measured, how their reporting should look, and how we calculate capital charges on our investments. So maybe we cannot invest today, but hopefully we will in the future. And that's another way we feel we are achieving impact."

Organizational Snapshot

Further details about the organization and its impact investing strategy.

Fund type	Insurance
AUM	Entire Portfolio: EUR 331 billion Impact Investments: EUR 8 billion
Ultimate decision-making authority for asset allocation targets	We have a decentralized asset allocation process for different Aegon units and external clients. Typically, the local CIO holds the ultimate decision making.
Ultimate decision-making authority over manager selection and investment selection	We have a decentralized asset allocation process for different Aegon units and external clients. Typically, the local CIO holds the ultimate decision making.
Number of investment staff	Total Investment Staff: 170 (portfolio managers and analysts) Responsible / Impact Investing Staff: 7
Criteria and/or policy guidance to screen investments, including impact investments?	Investments, including impact investments, must meet a number of criteria: risk and return, solvency II, size, credit rating, etc.
Average time (in months) for manager selection and capital deployment	**Listed Assets:** Immediate for existing managers, 6 weeks - 2 months for new managers. **Illiquid assets:** First calls 2 -3 months; Entire Amount: More than a year
Organizational model for impact investing – total portfolio integration vs. carve-out	Total portfolio integration
Impact themes	Affordable housing, Clean Energy, Health and Well-being, Poverty Alleviation, Sustainable Cities and Communities.
Current asset classes for impact investing	Equity, Private and Public Debt, Mortgage Loans