



## Item 1 – Cover Page

Aegon USA Investment Management, LLC

4333 Edgewood Road NE

Cedar Rapids, Iowa 52499

(877) 234-6862

[www.aegoninvestments.com](http://www.aegoninvestments.com)

March 31, 2015

This Brochure provides information about the qualifications and business practices of Aegon USA Investment Management, LLC (AUIM). If you have any questions about the contents of this Brochure, please contact us at (877) 234-6862 or at [aegoninvestments@aegonusa.com](mailto:aegoninvestments@aegonusa.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

AUIM is a registered investment adviser. Registration does not imply any level of skill or training. Additional information about AUIM is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

The discussion below summarizes the cumulative material changes made to this Brochure since the last annual update as of March 28, 2014.

### *Summary of Material Changes to AUIM's Brochure*

- Item 4: Advisory Business - This item has been reformatted to three sections: Overview; Advisory Services; and Assets Under Management.
- Item 5: Fees and Compensation - This item has been reformatted into two sections: Advisory Fees and Additional Fees and Expenses. The Advisory Fees section was amended to describe that client fees, as negotiated, may be payable in advance or arrears.
- Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss
  - Section A, Investment Strategies, includes an updated description of AUIM's marketed fixed income and asset allocation strategies.
  - Section B, Methods of Analysis, has been redrafted and reorganized. This section includes a summary of AUIM's multi-step fixed income process, including new descriptions of its top-down house view process.
  - Section C, Risk of Loss, contains updated and new risk descriptions regarding models and volatility guidelines that are applied in AUIM's mutual fund sub-advisory activities.
- Item 10B: Other Financial Industry Activities and Affiliations - Relationships with Related Persons.
  - Item 10B.1: Dual Employees and Shared Resources - These disclosures have been expanded to include Aegon Asset Management's role in AUIM's business and investment activities.
  - Item 10B.5: Conflicts of Interest - The conflicts associated with related persons has been expanded to address when AUIM manages affiliated insurance company risk and liability associated with guaranteed products.
- Item 11: Code of Ethics
  - Item 11A: Standards of Conduct - This section has been updated to reflect AUIM's Code of Ethics personal securities trading pre-clearance requirements.
  - Item 11B: Material Financial Interests - The description of portfolio manager and analyst compensation arrangements have been updated.
- Item 12: Brokerage Practices
  - Item 12: Selecting Broker-dealers - The description of AUIM's best execution practices have been expanded.
  - Item 12B: Soft Dollar Benefits - This section has been rewritten to describe how AUIM classifies and treats soft dollars.

- Item 12E: Trade Errors - This section has been rewritten to describe AUIM's trade error correction policies.
- Item 15: Custody - This section has been amended to describe additional custody policies and controls.
- Item 16: Investment Discretion - This section has been expanded to include descriptions of AUIM's policies and controls for monitoring client investment guidelines and instructions.
- Item 17: Voting Client Securities - This section has been rewritten to describe AUIM's proxy voting policies and procedures.

*We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.*

*If you would like a current copy of AUIM's Brochure, please contact us at (877) 234-6862 or [aegoninvestments@aegonusa.com](mailto:aegoninvestments@aegonusa.com). The Brochure is also available free of charge on our web site [www.aegoninvestments.com](http://www.aegoninvestments.com) and via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

### Item 3 -Table of Contents

Item 1 – Cover Page .....	i
Item 2 – Material Changes .....	ii
Item 3 – Table of Contents .....	iv
Item 4 – Advisory Business .....	1
A. Overview .....	1
B. Advisory Services .....	1
C. Assets Under Management .....	1
Item 5 – Fees and Compensation .....	1
A. Advisory Fees .....	1
B. Additional Fees and Expenses .....	3
Item 6 – Performance-Based Fees and Side-By-Side Management.....	3
Item 7 – Types of Clients .....	4
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	4
A. Investment Strategies .....	4
B. Methods of Analysis .....	4
C. Risk of Loss.....	6
Item 9 – Disciplinary Information .....	10
Item 10 – Other Financial Industry Activities and Affiliations.....	10
A. Registered Representatives.....	10
B. Relationships with Related Persons.....	10
C. Foreign Finance Regulatory Authority .....	11
Item 11 – Code of Ethics.....	12
A. Standards of Conduct.....	12
B. Material Financial Interests.....	12
C. Principal Trading and Cross Transactions .....	13
D. General Investment Advice .....	13
Item 12 – Brokerage Practices .....	14
A. Selecting Broker-dealers .....	14
B. Soft Dollar Benefits.....	14
C. Directed Brokerage .....	15
D. Trade Aggregation and Allocation .....	15
E. Trade Errors .....	15
Item 13 – Review of Accounts .....	16
Item 14 – Client Referrals and Other Compensation .....	16
A. Client Referrals.....	16
B. Other Compensation .....	17
Item 15 – Custody .....	17
Item 16 – Investment Discretion.....	17
Item 17 – Voting Client Securities .....	18
Item 18 – Financial Information .....	19

## Item 4 – Advisory Business

### A. Overview

Aegon USA Investment Management, LLC (“AUIM”) is a U.S.-based investment adviser registered with the Securities and Exchange Commission (“SEC”) and a member of Aegon’s asset management division, Aegon Asset Management (“AAM”). AAM is the brand for the asset management business of Aegon, N.V. and its affiliates worldwide. AUIM’s membership in AAM provides AUIM and its clients with access to global resources that augment and complement AUIM’s own expertise in investment product design; macroeconomic and securities research; and risk analysis.

A limited liability company formed in 2001 under the laws of the State of Iowa, AUIM is an indirect, wholly owned subsidiary of Aegon N.V. (“Aegon”), which is a public company listed on Euronext Amsterdam and the New York Stock Exchange. AUIM’s predecessor, Aegon USA Investment Management, Inc. (“AUIM, Inc.”), was incorporated on April 12, 1989, and was also a registered investment adviser with the SEC. AUIM assumed management of the assets previously managed by AUIM, Inc. on December 1, 2001.

AUIM has principal offices in Cedar Rapids, Iowa; Baltimore, Maryland; and Chicago, Illinois. As of December 31, 2014, the firm has approximately 370 em-

ployees, including approximately 65 investment professionals.

### B. Advisory Services

AUIM provides discretionary and nondiscretionary investment management products and services to affiliated and unaffiliated institutional clients. These services are offered through a variety of investment vehicles and structures, which vary by investment strategy and may include separately managed accounts, closed- and open-end mutual funds, collective investment trusts (“CITs”) or private funds. The firm also is a provider of asset liability management and asset allocation. AUIM also engages sub-advisers to manage certain investment strategies on behalf of affiliated clients.

AUIM began as a manager of fixed income portfolios and today provides active management of portfolios that invest in fixed income; equities; funds of funds that invest in mutual funds or annuity subaccounts; exchange-traded funds and exchange-traded notes (funds of exchange-traded products [ETPs]); and derivatives. Additional information about AUIM’s investment strategies and services can be found in Item 8, “Methods of Analysis, Investment Strategies and Risk of Loss.”

AUIM may also provide administrative services, including certain back-office and financial reporting-related services, in connection with assets owned or

managed by certain affiliated companies or clients.

AUIM tailors its advice to serve the needs of each particular client and, before beginning investment activities, generally requires mutually agreed upon, written investment guidelines or instructions for the client’s account(s). Client guidelines may impose reasonable restrictions on investments in certain securities or types of securities.

### C. Assets Under Management

As of December 31, 2014, AUIM had assets under management as follows:

Asset Under Management	U.S. Dollar Amount
Discretionary	\$141,014,105,658
Non-Discretionary	\$16,149,839
Total	\$141,030,255,497

## Item 5 – Fees and Compensation

### A. Advisory Fees

AUIM charges advisory fees consistent with applicable statutes and regulations and the client’s investment management agreement. Fees are typically based on the client’s assets under management and may be negotiated. In some cases, fees are based on the investment performance of the client’s account (see Item 6, “Performance-Based Fees and Side-by-Side Management”).

Various factors may affect a client’s fees, including but not

limited to the services required by the client, client type, asset class, pre-existing relationship, the size of the account (current or anticipated), or other related accounts and investments in other strategies. Clients who negotiate a flat fee schedule may or may not pay a higher total fee than those who pay under a tiered fee schedule.

Fees generally are based on an account's period-end market or book values, which are calculated independently by a third-party custodian or based on

AUIM's internal securities valuation policies. More information about AUIM's valuation methodologies is available upon request.

Clients typically are billed for and pay fees prorated for the portion of the billing period, typically monthly or quarterly, for which AUIM has provided investment services. Depending on specific client circumstances, AUIM's fees may be payable and billed in advance or arrears, though other, client-specific arrangements may be negotiated.

Where AUIM collects an advisory fee in advance and does not provide investment services for the entire period, AUIM will prorate the fee to reflect the portion of the period for which AUIM provided investment services and will return any excess to the client.

Standard annual fees for unaffiliated clients currently range from 0.12% to 1.5%. The standard fee schedule for AUIM's marketed separate account strategies is set forth below. This fee schedule is subject to change from time to time.

### Standard Annual Fee Schedule for Marketed Separate Account Investment Strategies

Investment Strategy	Fee Description	
Chinese Equities	All assets under management	1.00%
Chinese Fixed Income	All assets under management	.70%
Commercial Mortgage Backed Securities	First \$0 - \$25 million	.38%
	Next \$25 - \$50 million	.37%
	Next \$50 - \$100 million	.33%
	Next \$100 - \$250 million	.30%
	Assets > \$250 million	.29%
Core Aggregate	First \$0 - \$25 million	.30%
	Next \$25 - \$50 million	.24%
	Next \$50 - \$100 million	.22%
	Next \$100 - \$250 million	.18%
	Assets > \$250 million	.16%
Core Plus Fixed Income	First \$0 - \$25 million	.32%
	Next \$25 - \$50 million	.28%
	Next \$50 - \$100 million	.26%
	Next \$100 - \$250 million	.20%
	Assets > \$250 million	.19%
Credit Opportunities	All assets under management	1.50%
Emerging Markets Debt Constrained	First \$0 - \$50 million	0.50%
	Next \$50 - \$100 million	0.48%
	Next \$100 - \$250 million	0.42%
	Assets > \$250 million	0.38%

Investment Strategy	Fee Description	
Emerging Markets Global Diversified	First \$0 - \$50 million	0.50%
	Next \$50 - \$100 million	0.48%
	Next \$100 - \$250 million	0.42%
	Assets > \$250 million	0.38%
Emerging Markets Local Currency Debt	First \$0 - \$25 million	0.60%
	Next \$25 - \$50 million	0.56%
	Next \$50 - \$100 million	0.52%
	Next \$100 - \$250 million	0.47%
	Assets > \$250 million	0.43%
High Yield Fixed Income	First \$0 - \$50 million	0.50%
	Next \$50 - \$250 million	0.40%
	Assets > \$250 million	0.37%
Investment Grade Fixed Income	First \$0 - \$25 million	0.30%
	Next \$25 - \$50 million	0.26%
	Next \$50 - \$100 million	0.24%
	Next \$100 - \$250 million	0.20%
	Assets > \$250 million	0.18%
Leveraged Loans	First \$0 - \$50 million	0.50%
	Next \$50 - \$100 million	0.45%
	Next \$100 - \$250 million	0.42%
	Assets > \$250 million	0.40%

(continued next page)

Liability Driven Investing	First \$0 - \$200 million	0.25%
	Next \$200 million	0.20%
	Next \$600 million	0.17%
	Assets > \$1 billion	0.15%
Long Government Credit	First \$0 - \$100 million	0.25%
	Next \$100 - \$250 million	0.17%
	Assets > \$250 million	0.16%
Short Duration	First \$0 - \$25 million	0.25%
	Next \$25 - \$50 million	0.20%
	Next \$50 - \$100 million	0.17%
	Assets > \$100 million	0.14%

Stable Value	First \$0 - \$25 million	0.26%
	Next \$25-\$50 million	0.20%
	Next \$50 - \$100 million	0.17%
	Next \$100 - \$250 million	0.14%
	Assets > \$250 million	0.12%
Structured Finance	First \$0 - \$25 million	0.28%
	Next \$25 - \$50 million	0.28%
	Next \$50 - \$100 million	0.26%
	Next \$100 - \$250 million	0.23%
	Assets > \$250 million	0.21%

Fees charged to affiliates are generally less than fees charged to unaffiliated client accounts. Fees associated with mutual funds and variable annuity subaccounts sub-advised by AUIM are disclosed in their respective prospectuses.

## B. Additional Fees and Expenses

AUIM's advisory fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses that may be incurred by the client. Client assets are maintained by independent custodians. Clients pay all custody fees directly to their custodian. Clients typically incur certain other charges imposed by custodians, brokers and other third parties, such as deferred sales charges; odd-lot differentials; transfer taxes; wire transfer and electronic fund transfer fees; and other fees and taxes on brokerage accounts and securities transactions. Mutual funds, ETPs and other pooled investment vehicles also charge internal management fees, which are disclosed in their respective

offering documents. AUIM does not receive these fees, although the managers of those funds and ETPs do, and no portion of these fees offsets account-level fees AUIM charges for its services.

In addition to fees calculated based on assets under management, AUIM may charge a negotiated, agreed-upon annual fee for certain accounts to cover administrative overhead costs, performance fees as described in Item 6, or both.

Depending on the agreement with a client, AUIM will assess quarterly or agreed-upon fees for each derivatives contract in the client's account as of the last day of each calendar quarter. In addition, fees may be charged for research, analysis and measurement relating to equity derivatives. Item 12 describes the factors that AUIM considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation.

## Item 6 – Performance-Based Fees and Side-By-Side Management

In addition to fees described in Item 5, AUIM may negotiate a fee arrangement with certain qualified clients as defined by the Investment Advisers Act of 1940, as amended, ("the Act") that includes a performance-based fee. Performance-based fee structures generally stipulate a base fee, a participation rate, and a maximum fee. The participation rate specifies the percentage of an account's capital gains or capital appreciation that will be paid as a fee to AUIM. AUIM will structure a performance- or incentive-fee arrangement subject to Section 205(a)(1) of the Act in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3 under the Act. Charging performance-based fees may create an incentive for AUIM to recommend investments that may be riskier or more speculative than those that would be recommended under an asset-based fee arrangement.



AUIM manages accounts that carry performance-based fees alongside asset-based fee accounts. Such fee arrangements may create an incentive to more favorably allocate investment opportunities to performance-based fee-paying accounts. AUIM mitigates these potential conflicts through policies and procedures designed to ensure all clients are treated equitably over time, and through employee education. See Item 12.D. for additional information about AUIM's trade aggregation and allocation practices.

### Item 7 – Types of Clients

AUIM provides investment management services to insurance companies; corporate pension and profit-sharing plans; benefit plans; pooled investment vehicles such as mutual funds and collective investment trusts; banks; charitable organizations; government plans and municipalities; foreign funds such as Undertakings for Collective Investments in Transferable Securities (UCITS); other U.S. and foreign institutions; and other investment advisers.

Before agreeing to manage a client's assets, AUIM typically requires a minimum investment of \$10 million, though the minimum may differ depending upon the particular investment strategy, product type or client type. In certain circumstances, the minimum amount may be waived.

### Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

#### A. Investment Strategies

AUIM offers standard investment strategies as well as customized portfolios. Methods of analysis and investment risks are presented for the firm's standard, marketed investment strategies. Investment details for non-marketed strategies and customized portfolios are available upon request at (877) 234-6862 or at [aegoninvestments@aegonusa.com](http://aegoninvestments@aegonusa.com).

AUIM's marketed investment strategies can be broadly classified into three groups:

1. *Fundamental fixed income strategies* that include total-return strategies utilizing one or more fixed income asset classes; duration-sensitive management strategies and cash flow management; and constrained strategies based on client restrictions such as rating limitations, position limits, etc.
2. *Asset allocation strategies* designed to offer broad diversification in a single investment solution. These strategies are developed by AUIM and can be customized to client-specific parameters. Portfolios may have exposure to multiple asset classes, asset managers, or geographic regions, or some combination of these. Research and portfolio construction may utilize qualitative or quantitative methods.
3. *Derivatives strategies* designed for purposes of hedging,

risk management, and overall portfolio management. As of December 31, 2014, AUIM can provide derivatives strategies to a limited number of clients only and cannot accept new accounts that utilize derivatives. AUIM intends to register with the Commodities Trading Association (CTA) during 2015 and, thereafter, to offer derivatives strategies for purposes of hedging, risk management, and overall portfolio management to additional clients.

#### B. Methods of Analysis

AUIM believes the key success factors to strong investment performance over the long-term are recognition of the asymmetrical nature of risk in the securities market; strong risk management; a long-term perspective; and balancing top-down macroeconomic analysis with proprietary bottom-up research as appropriate to the individual strategy.

##### 1. Fundamental fixed income strategies

The investment process for most AUIM fundamental fixed income investment strategies combines top-down macroeconomic outlooks with bottom-up credit research in a procedure overlaid with risk monitoring and risk management. This disciplined process emphasizes consistent research and analysis of fundamentals, sentiment and positioning, technicals, and valuation at multiple stages:

- *Top-Down Analysis.* AUIM's strategies generally are guided



by AAM's global macroeconomic and markets outlook. Views of the macroeconomic environment and changes in such environment are formulated through standardized inputs among portfolio managers, asset class specialists, strategists and rates specialists of the AAM member companies located in the U.S., U.K. and Europe (global committee meetings). The global committees systematically gather and analyze fundamental, technical, sentiment and valuation data, as appropriate, to provide inputs regarding one of the following: the macroeconomic environment, global interest rates or the relative strength of various asset classes. The information of the global committees is aggregated by a committee of senior portfolio managers and, through a process of discussion and challenge, distilled into "global house view" outlooks for the macro environment, global interest rates and the relative attractiveness of asset classes over various time periods.

- *Sector and security-level idea generation.* Independent, bottom-up research of issuers, securities, and sectors is a core element of AUIM's investment processes. All AUIM portfolio management teams have access to research generated by AUIM's research platform. This platform organizes research analysts into teams that conduct credit, sovereign or structured securities research on issuers worldwide. AUIM

also has access to the credit and sovereign research generated by other AAM member companies. The research generated by AUIM and the AAM member companies is referred to, collectively, as the AAM Global Research Platform. In addition, AUIM has a U.S.-based research team dedicated to the examination of distressed debt opportunities. Finally, AUIM has access to the expertise of an affiliated real estate asset manager, Aegon USA Realty Advisors, LLC, which provides insights on trends in the real estate and mortgage industries.

**Credit research** analysts follow assigned lists of sectors/industries and are responsible for covering issuers within their assigned sector/industry, regardless of credit quality or domicile. This provides important context of all major participants in an industry/sector and gives AUIM an advantage in areas where an issuer's credit-quality rating is in transition.

Credit analysts utilize a proprietary financial framework that focuses on cash flow generation, debt levels, maturity schedules, liquidity, and projections of future credit profiles. Analysts form their own, independent opinions on creditworthiness and assign appropriate internal credit ratings, which may differ from ratings provided by third-party credit rating agencies. Credit analysts regularly monitor the factors that

influence their ratings to determine if revisions are warranted.

**Sovereign research** analysts have assigned lists of countries and are responsible for analysis of general economic, political and social conditions in the countries on their assigned lists. These macro assessments inform the analysts' internal ratings of securities issued by governments and agencies (sovereigns) and corporations owned in part or whole by governments (quasi-sovereigns) in their respective areas of responsibility.

**AUIM's structured securities research** utilizes proprietary and third-party modeling software to identify securities that offer attractive relative value versus designated benchmarks. Due to the nature of structured securities, particular emphasis is given to analysis of fundamentals such as collateral performance; strength and transparency of a security's structure; and credit enhancement. In addition, securities are stress tested using proprietary modeling.

**Distressed debt research** is conducted by a dedicated team with expertise in corporate bankruptcy workouts and restructuring. The team's research assesses the substantial risks inherent in reorganization or restructuring of an issuer as well as the likelihood that the issuer will be able to complete a reorganization or restructuring successfully.

AUIM has no specific policies regarding investment in socially responsible issuers. However, because AUIM and other member companies in AAM are affiliated with Aegon N.V., which is a signatory of the United Nations' Principles of Responsible Investing (UNPRI), research reports generally will note any potential concerns regarding environmental, social or governance (ESG) impacts of investing in the security.

- *Portfolio construction and management.* Higher-level decisions such as duration and sector, country or asset allocations generally are guided by the top-down "global house view" outlooks, combined with the portfolio management team's particular perspective on the economy and markets. To populate portfolios with individual securities, portfolio managers draw on the fundamental research available on the research platform. Active communication between research analysts and portfolio managers is an important aspect of portfolio construction; discussion with analysts helps portfolio managers contrast the researchers' views on industries and individual securities with the portfolio management team's own views of market technicals, investor sentiment and valuation trends.

AUIM's sell discipline tends to fall into two broad categories:

- *Credit-related trades.* Credits are constantly monitored by the research group for new

information. For credits experiencing significant price volatility or meaningful changes in the fundamental credit outlook, AUIM will re-evaluate the credit to ensure the investment thesis is still sound.

- *Relative value trades.* Relative value trades may result from movement in security values, general market conditions, or shifts in the overall portfolio strategy.

AUIM has incorporated a risk management process into its investment framework. Risk management typically occurs through three main avenues: research efforts; measurement of risk/return metrics; and monitoring of risk limits. The firm's systems provide AUIM with a variety of risk and compliance metrics to manage accounts according to each client's desired risk profile.

## 2. Asset Allocation Strategies

AUIM manages asset allocation investment strategies that may invest in individual securities; closed- or open-ended mutual funds; exchange-traded products; derivatives; or some combination of these. In addition, portfolio managers may use quantitative models as part of their markets or securities analysis or portfolio construction.

In all cases, portfolio managers of AUIM's asset allocation strategies, at their discretion, may integrate the global house view as appropriate to a particular strategy. Portfolio man-

agers also have discretion at all times to disregard research received and model outputs in favor of making asset-allocation and securities-selection decisions based on their own judgment but subject to oversight by AUIM's Chief Investment Officer.

## 3. Derivatives Strategies

AUIM designs and executes derivative strategies for purposes of hedging, risk management, and overall portfolio management. These derivative strategies are typically performed for affiliated insurance entities. In addition, unaffiliated clients may use derivatives to hedge or obtain certain types of investment exposures. Derivative transactions may include instruments that are cleared through regulated exchanges or executed "over the counter" between the client and a derivatives dealer. AUIM's policy is that all derivative transactions made on behalf of affiliated or unaffiliated clients must be traded under an approved derivatives program which describes the guidelines for execution and management of the derivative transactions.

## C. Risk of Loss

Investing in securities involves risk of loss that clients should be prepared to bear. *AUIM cannot give any guarantee it will achieve client investment objectives or that a client will receive a return on its investment.* All investments include the potential for loss of the principal amount invested and un-

realized profits. The firm does not guarantee any performance results or ensure clients will not incur a financial loss. Clients should be prepared to bear such losses. Past performance is not an indication or guarantee of future performance.

Clients should be aware of the primary investment risks, including:

**Active Trading:** The AUIM investment strategies are actively managed and may purchase and sell securities without regard to the length of time held. Active trading may have a negative impact on performance by increasing transaction costs and may generate greater amounts of net short-term capital gains, which, for investors holding shares in taxable accounts, would be subject to tax at ordinary income tax rates upon distribution.

**Commodities Risk:** The risks of investing in commodities include regulatory, economic and political developments; weather events and natural disasters; and market disruptions. Commodities and commodity-linked investments may be less liquid than other investments. Commodity-linked investments are subject to the credit risks associated with the issuer, and their values may decline substantially if the issuer's creditworthiness deteriorates.

**Convertible Securities Risk:** Convertible securities share investment characteristics of both fixed income and equity

securities. However, the value of these securities tends to vary more with fluctuations in the value of the underlying common stock than with fluctuations in interest rates. The value of convertible securities also tends to exhibit lower volatility than the underlying common stock. Convertible securities generally offer lower interest or dividend yields than non-convertible securities of similar quality. Investors could lose money if the issuer of a convertible security is unable to meet its financial obligations or goes bankrupt.

**Credit Risk:** An investor could lose money if the issuer or guarantor of a fixed income security or the counterparty to a derivatives contract, repurchase agreement, or a loan of portfolio securities is unable or unwilling to make timely principal and/or interest payments or to otherwise honor its obligations. A downgrade of the credit of a security may also decrease its value.

**Currency Risk:** The value of securities denominated in foreign currencies fluctuates as the rates of exchange between those currencies and the U.S. dollar change. Currency conversion costs and currency fluctuations could reduce or eliminate investment gains or add to investment losses. Currency exchange rates can be volatile and are affected by, among other factors, the general economics of a country; the actions of the U.S. and foreign governments or central banks;

the imposition of currency controls; and speculation.

**Derivatives Risk:** Derivatives are financial contracts whose value depend on, or are derived from, the value of an underlying asset, reference rate, or index. The use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Certain derivative instruments can lose more than the principal amount invested.

#### **Distressed or Defaulted**

**Securities Risk:** Investments in defaulted securities and obligations of distressed issuers, including securities that are, or may be, involved in reorganizations or other financial restructurings, either out of court or in bankruptcy, involve substantial risks and are considered speculative. An investor may suffer significant losses if the reorganization or restructuring is not completed as anticipated. Repayment of defaulted securities and obligations of distressed issuers is subject to significant uncertainties.

**Equity Market Risk:** Equity securities represent an ownership interest in an issuer, rank junior in a company's capital structure, and consequently may entail greater risk of loss than debt securities. Equity securities include common and preferred stocks. Stock markets are volatile. The prices of equity securities fluctuate based on changes in a company's finan-

cial condition and overall market and economic conditions.

**Extension Risk:** If interest rates rise, repayments of fixed income securities may occur more slowly than anticipated by the market. This may drive the prices of these securities down, because their interest rates are lower than the current interest rate and they remain outstanding longer.

**Foreign Markets Risk:** Investments in foreign securities may experience more rapid and extreme changes in value than investments in securities of U.S. companies. The securities markets of many foreign countries are relatively small and have less depth, with a limited number of companies representing a small number of industries. Issuers of foreign securities are often not subject to the same degree of regulation as are U.S. issuers. In the event of nationalization, expropriation, or other confiscation, investors could lose their entire investment in a foreign security.

**High Yield Risk:** Investments in high yield securities and unrated securities of similar credit quality (commonly known as “junk bonds”) may be subject to greater levels of credit and liquidity risk than investment-grade securities. High yield securities are considered predominately speculative with respect to the issuer’s continuing ability to make principal and interest payments.

**Inflation-Protected Securities Risk:** Inflation-protected debt

securities may react differently from other types of debt securities and tend to react to changes in “real” interest rates. Real interest rates represent nominal (stated) interest rates reduced by the expected impact of inflation. In general, the price of an inflation-protected debt security can fall when real interest rates rise, and can rise when real interest rates fall. Interest payments on inflation-protected debt securities can be unpredictable and will vary as the principal or interest is adjusted for inflation. Also, the inflation index utilized by a particular inflation-protected security may not accurately reflect the true rate of inflation, in which case the market value of the security could be adversely affected.

**Interest Rate Risk:** The value of fixed income securities and other instruments in a portfolio may decline because of an increase in interest rates. Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making their prices more volatile than securities with shorter durations.

**Issuer Risk:** The value of a security may decline for a number of reasons that directly relate to the issuer, such as management performance, financial leverage, and reduced demand for the issuer’s goods or services, as well as the historical and prospective earnings of the issuer and the value of its assets.

**Liquidity Risk:** Liquidity risk exists when particular investments are difficult to purchase or sell. Illiquid securities are securities that cannot be disposed of within a reasonable time in the ordinary course of business at approximately the value at which a manager has valued the securities. Investments in illiquid securities may adversely impact returns if a manager is unable to sell the illiquid securities at an advantageous time or price.

**Loan Risk:** Loans are subject to the credit risk of nonpayment of principal or interest. Economic downturns or increases in interest rates may cause an increase in defaults, interest rate risk and liquidity risk. Loans may or may not be collateralized at the time of acquisition, and any collateral may be relatively illiquid or lose all or substantially all of its value subsequent to investment. In the event of bankruptcy of a borrower, AUIM could experience delays or limitations in realizing the benefits of any collateral securing a loan. Junior loans, which have a lower place in the borrower’s capital structure than senior loans and may be unsecured, involve a higher degree of overall risk than senior loans of the same borrower. Loans are also subject to prepayment or call risk.

**Market Risk:** The market price of securities may go up or down, sometimes rapidly or unpredictably. The value of a security may decline due to

general market conditions that are not specifically related to a particular company or industry, such as adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates, or adverse investor sentiment.

**Model and Data Risk:** AUIM has developed and uses quantitative models (both proprietary models and those supplied by third parties) and information and data supplied by third parties (“Models and Data”) to inform portfolio managers as they construct sets of transactions and investments, and to provide risk management insights. When Models and Data prove to be incorrect or incomplete or are not properly implemented, any decisions made in reliance thereon expose an account to potential risks. Some models used by AUIM are predictive in nature. The use of predictive models has inherent risks. Because predictive models are usually constructed based on historical data supplied by third parties, the success of relying on such models may depend heavily on the accuracy and reliability of the supplied historical data. All models rely on correct market data inputs. If incorrect market data is entered into even a well-founded model, the resulting information will be incorrect. However, even if market data is input correctly, “model prices” may differ substantially from market prices, especially for securities with complex characteristics. Simi-

larly, the benefits of using models for their particular purpose are lessened to the extent that the models are improperly implemented, or those implementing the results do so without complying with applicable AUIM policies.

**Operational Risk:** Accounts are subject to operational risks arising from factors such as processing errors, human errors, inadequate or failed internal or external processes, fraud, and failure in systems and technology, changes in personnel, and errors caused by third-party service providers. These factors may result in losses to an account.

**Prepayment or Call Risk:** Many issuers have a right to prepay their debt securities. If interest rates fall, an issuer may exercise this right. In that event, the security holder will not benefit from the rise in market price that normally accompanies a decline in interest rates, and will be forced to reinvest prepayment proceeds at a time when yields on securities available in the market are lower than the yield on the prepaid security.

**Repurchase Agreements Risk:** If the other party to a repurchase agreement defaults on its obligation, AUIM may suffer delays and incur costs or lose money in exercising its rights under the agreement. If the seller fails to repurchase the security and the market value declines, an account could lose money. If the seller becomes insolvent and subject to liquid-

ation or reorganization under applicable bankruptcy or other laws, AUIM’s ability to dispose of the underlying securities may be restricted.

**Underlying Funds Risk:** For any AUIM investment strategy that invests assets in underlying mutual funds or exchange-traded funds, the strategy’s ability to achieve its investment objective depends largely on the performance of the underlying funds selected. Each of the underlying funds has its own investment risks, and those risks can affect the value of the underlying funds’ shares and therefore the value of the strategy’s investments. There can be no assurance that the investment objective of any underlying fund will be achieved.

In addition to these investment risks, many other risk factors may lead or contribute to performance volatility or losses. Clients may contact AUIM for more information regarding potential investment risks. Further, AUIM charges for its investment advisory services. When client accounts invest in these other funds, they are charged, as shareholders, management fees and other expenses, no portion of which reduces or offsets AUIM’s fees. As a result, a client establishing an advisory account at AUIM that is invested in these funds may pay, overall, higher fees and expenses than the client might have paid investing directly in such funds.

**Volatility Rules Risk:** AUIM has created volatility rules that are applied to certain multi-asset-class accounts. Under these rules, the maximum amount of exposure to the equity markets of a client's portfolio is based, in part, on the level of volatility of the equity markets. The rules are intended to improve risk-adjusted returns but may not work or be implemented as intended. The rules are based on algorithms. If the algorithms prove to be incorrect or incomplete or are not properly implemented, any decisions made in reliance thereon may expose a client's portfolio to additional risks. The use of algorithms has inherent risks, and the success of relying on or otherwise using an algorithm depends, among other things, on the validity, accuracy and completeness of the algorithm's development, implementation and maintenance; on the algorithm's assumptions and methodologies; on the accuracy and reliability of the supplied data and on the adequacy of controls over implementation, operation and maintenance of the algorithms. Because market conditions change, sometimes rapidly and unpredictably, the success of the rules also will be subject to AUIM's ability to implement them in a timely, accurate and efficient manner.

Application of the rules may result in periods of underperformance, may limit a client's ability to participate in rising markets and may increase

transaction costs at the client portfolio level.

AUIM is adviser or sub-adviser, and applies volatility rules, to funds that are investment options available under insurance products issued by AUIM affiliated insurance companies, such as variable insurance contracts. In addition to the risks described above, implementation of the rules as designed may also serve to reduce the risk to affiliated insurance companies that provide guaranteed benefits under these contracts of equity market volatility and facilitate their provision of those guaranteed benefits. The rules also may have the effect of limiting the amount of guaranteed benefits. A portfolio's performance may be lower or higher than similar portfolios that are not subject to volatility rules.

#### **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events. AUIM has no material legal or disciplinary information to disclose.

#### **Item 10 – Other Financial Industry Activities and Affiliations**

##### **A. Registered Representatives**

Certain management persons and employees of AUIM are registered representatives of affiliated broker-dealers. These arrangements are not signifi-

cant to AUIM's core institutional investment management activities.

##### **B. Relationships with Related Persons**

###### *1. Dual Employees and Shared Resources*

AUIM maintains relationships with certain of its affiliates or persons under common control, including:

- Certain senior managers of AAM exercise control over aspects of AUIM's business activities — such as setting strategy, policy, and annual budgeting — but do not exercise control over investment decision-making for AUIM's clients; authority and responsibility for investment decision-making rests with AUIM's portfolio management teams.
- Various AAM investment personnel collaborate on development of the house view (see Top-Down Analysis under Item 8, "Methods of Analysis, Investment Strategies and Risk of Loss"), generate global investment research, and support other related investment activities. All decision-making relating to securities selection and portfolio construction and maintenance of clients' accounts is performed by AUIM employees.
- AUIM Supervised Persons serve as dual employees for various affiliates. Some Supervised Persons also serve as senior managers, officers, or directors for one or more affiliates.

- AUIM shares facilities with affiliates and relies on the broader Aegon organization for centralized business functions such as operations, information technology, human resources, business continuity, legal, finance, compliance, enterprise risk management, and internal audit. Many of these activities are performed through global matrix reporting arrangements. Some of the centralized services may have a portion of the process outsourced to a third-party provider.

- Certain Supervised Persons may be involved in investment decision-making, trading processes, or administration for accounts managed on behalf of affiliates.

AUIM has implemented governance standards and internal controls to address these relationships with related persons, including the supervision of its Supervised Persons serving in dual capacities.

## *2. Insurance Companies and Other Affiliates*

AUIM serves as investment adviser to various insurance companies and affiliates that are part of the Aegon family of companies. These affiliates' combined assets represent the largest portion of AUIM's assets under management. AUIM may also perform administrative and back-office functions on behalf of affiliated insurance companies that are not generally performed for unaffiliated clients.

## *3. Pooled Investment Vehicles*

AUIM serves as sub-adviser for several open-end mutual funds that are sponsored by Transamerica Asset Management, Inc. (TAM), which is part of the Aegon family of companies, an affiliate of AUIM, and a registered investment adviser with the SEC. Transamerica Capital, Inc. (TCI), an Aegon affiliated broker-dealer, serves as the mutual funds' distributor. AUIM also provides sub-advisory services to a closed-end fund advised by TAM.

AUIM serves as sub-adviser to a number of pooled investment vehicles sponsored or managed by U.S. or foreign Aegon affiliates.

AUIM serves as the managing member and investment adviser to an affiliated limited liability company that invests in a diversified portfolio of private investment partnerships or similar vehicles that pursue a variety of investment strategies. Some of AUIM's affiliated insurance company clients are solicited to invest in this fund.

AUIM serves as the managing member of, and investment adviser to, an affiliated private fund that invests cash collateral received by AUIM's clients in relation to securities lending activities. Some of AUIM's affiliated insurance company clients are solicited to invest in this fund.

## *4. Other Investment Advisers*

AUIM serves as the sub-adviser for foreign affiliates; model

portfolio manager for a U.S. affiliate; and sub-adviser for Aegon USA Realty Advisors, LLC, an affiliated real estate asset manager.

## *5. Conflicts of Interest*

Affiliate relationships represent AUIM's largest clients. A conflict of interest, including but not limited to conflicts of interest when allocating investment opportunities, may arise when AUIM is acting on behalf of the accounts of affiliated and unaffiliated clients. In each case, AUIM recognizes the responsibility to treat all clients fairly and consistently, and portfolio decisions made for unaffiliated accounts will be consistent, where applicable, with the decisions made for affiliated accounts.

As discussed under the Volatility Rules Risk, above, implementation of volatility rules may generally have the effect of, among other things, reducing performance and, in turn, impacting certain types of guaranteed benefits associated with variable products. Application of volatility rules may limit upside potential as well as downside risk to underlying funds, and the performance of funds subject to volatility rules could be different than performance of similar funds that are not subject to volatility rules.

## **C. Foreign Financial Regulatory Authority**

AUIM is a Qualified Foreign Institutional Investor ("QFII") registered with the China Securities Regulatory Commission.



A QFII designation allows licensed foreign investors to participate in the Chinese A-shares and RMB bond markets.

AUIM also is registered with the Central Bank of Ireland. AUIM is a sub-adviser to an Irish UCITS offered by an Irish Investment Company.

## **Item 11 – Code of Ethics**

### **A. Standards of Conduct**

AUIM has adopted a Code of Ethics (“the Code”) for its officers, directors, employees and control persons (“Supervised Persons”) that sets forth AUIM’s standards of conduct and requires compliance with federal securities laws. The Code is based on the principle that Supervised Persons owe a fiduciary duty to AUIM’s clients, including the duties of honesty, good faith, and fair dealing. AUIM Supervised Persons who are in a position to exploit information about securities transactions or holdings in clients’ accounts must conduct their personal activities in a manner that does not violate federal securities laws, interfere with client accounts, or otherwise take unfair advantage of client relationships.

AUIM Supervised Persons have an ethical and legal obligation to avoid any conflict-of-interest situations, disclose potential conflicts, and seek clarification when warranted. Under certain circumstances and with prior approval, Supervised Persons may buy or sell the same securities for their personal accounts

as the firm purchases or sells on behalf of its clients. To mitigate potential conflicts of interest, the Code imposes restrictions on personal securities transactions in which Supervised Persons have a beneficial interest, including pre-clearance of reportable securities, minimum holding-period requirements, quarterly transaction reports, and annual holdings reports.

AUIM engages in a variety of investment activities that may result in its Supervised Persons obtaining possession of material, nonpublic information. Possible sources of inside information include trading activities performed by AUIM or its affiliates; meetings with company management; meetings with investment analysts; participation in issuer bankruptcy proceedings; access to information related to broker-dealers’ advisory services or investment banking activity; and relationships with company insiders. To monitor whether and how Supervised Persons may utilize this nonpublic information for their personal benefit, AUIM collects, retains, and monitors employee personal securities transactions.

The Code also prohibits Supervised Persons from accepting or offering excessive gifts and entertainment and monitors Supervised Persons’ outside business activities. These Code provisions are intended to avoid or mitigate material conflicts of interest that may arise between

employees’ personal conduct and their fiduciary duties.

Clients may obtain a copy of AUIM’s Code of Ethics by calling (877) 234-6862, sending an email request to [aegoinvestments@aegonusa.com](mailto:aegoinvestments@aegonusa.com), or sending a written request to:

AEGON USA Investment Management, LLC  
4333 Edgewood Road NE  
Cedar Rapids, IA 52499  
Attention: Chief Compliance Officer

### **B. Material Financial Interests**

The compensation program for portfolio managers consists of a fixed base salary and a variable performance incentive. The performance incentive is based on the following factors: the economic performance of the overall relevant portfolio manager’s asset class; leadership and communication with clients; assisting with AUIM’s strategic goals; and earnings results from either Aegon USA or Aegon N.V.

Senior level investment professionals may also participate in Aegon’s long-term compensation plan, which is a restricted stock program with payout based on a combination of AUIM and Aegon N.V. performance factors. Payment of the long-term incentive program is made after a three-year vesting period.

Certain senior investment personnel may participate in an alternative variable incentive compensation program. This

program includes a combination of a fixed-base salary, short-term performance-based incentives, and participation in Aegon's long-term incentive restricted stock program. For these individuals, payment of the long-term incentive program is made after a four-year vesting period.

In certain limited circumstances, AUIM has and will pay a retention bonus to key staff.

All incentive compensation participation percentage varies by the level of employee.

### **C. Principal Trading and Cross Transactions**

AUIM typically executes trades in client accounts through the open market. When deemed in clients' best interests, permissible by regulation and client agreement, and consistent with the firm's best execution obligations, AUIM may engage in transactions where it acts as principal for an affiliate's account, buying securities from or selling securities to an unrelated client's account. AUIM will disclose its principal capacity in writing and obtain client consent to each principal transaction before the settlement of such transaction. When a mutual fund is involved, the transactions will be executed in accordance with the requirements, including pricing methodology, of Rule 17a-7 under the Investment Company Act of 1940. When a private fund or other pooled account is involved, AUIM will follow client guidelines and internal policies

designed to reasonably ensure the transactions are appropriate and fair to all accounts involved.

AUIM does not generally engage in transactions where the firm or any person controlled by or under common control with the firm acts as a broker between advisory client accounts. If AUIM engages in these agency cross trades, it will obtain the client's prior written consent in compliance with Rule 206(3)-2 under the Act.

Although not a common practice, AUIM may engage in, when it is in the best interests of all clients involved and is consistent with the firm's best execution obligations, internal cross trades between two unrelated clients' accounts.

AUIM frequently engages in internal cross trades involving two or more affiliated client accounts. These cross transactions are typically conducted at an affiliated client's request. AUIM does not receive compensation for such cross transactions. These transactions are typically priced based on one of the following two standards established by the client:

- Assets transferred between accounts for the same affiliated client are considered book value transfers. These transfers can occur at any time using the book values as of the end of the prior month.
- Assets transferred between affiliated clients during the first ten business days of the

month take place at the most recent month-end prices. Transfers that occur at any other time during a month are re-priced, subject to AUIM's pricing policies and procedures, and transferred within two business days.

AUIM does not intend to engage in cross trades involving ERISA accounts.

AUIM may acquire securities to resolve trade errors. While these may technically constitute principal transactions, the purpose of these trades shall be to appropriately resolve any trade errors involving client securities.

### **D. General Investment Advice**

AUIM serves as investment manager for many clients. AUIM and its Supervised Persons may give advice or take action in performing duties for certain clients, or for their own accounts, that differs from advice given to or action taken for another client. AUIM is not obligated to buy, sell or recommend for another client any security or other investment that AUIM or its affiliates may buy, sell or recommend for any other client or for their own accounts. Further, AUIM may provide investment advice on certain asset classes (e.g., private placements) that is made available to affiliated clients only.

## Item 12 – Brokerage Practices

### A. Selecting Broker-dealers

AUIM has discretionary authority to select broker-dealers used to place client trades unless otherwise specified by the client. AUIM seeks to execute securities transactions for its clients such that the client's total costs or proceeds in each transaction are the most favorable under the circumstances. The best net price, giving consideration to brokerage commissions, spreads and other costs, is an important factor in this decision. A number of other factors also are considered, including but not limited to:

- AUIM's knowledge of negotiated commission rates and spreads;
- the nature of the security to be traded;
- the size and type of transaction;
- the nature and character of the markets;
- desired timing of the trade;
- need for confidentiality and anonymity;
- the broker-dealer's settlement capabilities, reputation, and financial strength; and
- the broker-dealer's execution services rendered on a continuing basis and in other transactions.

AUIM does not trade with affiliated broker-dealers.

Fixed income portfolio managers generally negotiate and execute trades with fixed income dealers. For certain secu-

rities and transactions, they also may utilize electronic trading platforms such as Bloomberg EMSX, MarketAxess, and TradeWeb.

Evaluation of best execution in the secondary market is generally based on a number of factors, including dollar price, yield, spreads, and dealer execution capabilities. Fixed income strategies often rely on broker-dealers that may offer expertise in specific securities or sectors of the market. Fixed income portfolio managers may base their broker-dealer selection on the broker-dealer's inventory and level of service received.

In addition, a Best Execution Committee comprising Portfolio Managers from the Investment Management Team and Compliance Team provides guidance on best practices and compliance-related topics. Responsibilities of the Best Execution Committee include evaluating broker-dealer execution quality for fixed income securities trading.

### B. Soft Dollar Benefits

Most of AUIM's trading on behalf of clients is with respect to fixed income securities. Such trading occurs on a principal basis and does not involve the payment of brokerage commissions but rather, markups or markdowns charged by market makers. As a result, such fixed income securities trades do not generate soft dollar credits. With respect to brokerage transactions involving equity

securities, AUIM does not pay higher brokerage commissions to pay for research or to generate soft dollar credits. However, certain full service broker-dealers with whom AUIM trades may provide unsolicited research to AUIM. Generally speaking, such research may include written reports on the economy, industries, sectors, and individual companies or issuers; appraisals and analysis relating to markets and economic factors; statistical information; political analyses; reports on legal developments affecting specific issuers; information on technical market actions; credit analyses; and analyses of corporate responsibility issues. These arrangements may be deemed to result in the receipt by AUIM of soft dollar benefits even though no client brokerage commissions are used to pay for them.

AUIM's receipt of research may present a conflict of interest because AUIM may receive a benefit that it does not have to pay for from its resources, and AUIM may be incented to select broker-dealers based on the receipt of research rather than receiving the most favorable execution. AUIM seeks to eliminate this conflict of interest by directing brokerage transactions to those broker-dealers whom it believes provide best execution.

Generally speaking, research obtained from broker-dealers does not relate to specific client trades. Research received under these arrangements may be

used in the management of all AUIM client accounts, including accounts of clients who may not have traded with broker-dealers that provide research. AUIM is not able to attribute any specific client costs or benefits associated with these arrangements. AUIM believes that, in the aggregate, research it receives supplements the firm's research, and to the extent used, assists with AUIM's investment decision-making responsibilities. AUIM also may share certain research with its affiliates.

### **C. Directed Brokerage**

While AUIM generally selects broker-dealers to place client trades, clients may select broker-dealers at their own discretion. If a client directs AUIM to place securities transactions through a broker-dealer, the client should consider the following factors:

- The client may compromise AUIM's ability to seek best execution.
- AUIM may not negotiate commissions on the client's behalf, which may result in higher commissions, or less favorable net prices than would be the case if the firm alone selected the broker-dealers.
- The client's trades may not be aggregated (blocked) with similar trades for other client accounts.
- As a result of not being blocked, directed transactions will be traded on a rotational basis, potentially resulting in less favorable executions.

- The client account may not generate returns equal to those of the firm's clients who do not direct brokerage.

As a result, such clients may pay higher commissions and/or receive less favorable net prices than might be attained if the firm were able to maintain discretion in the selection of broker-dealers.

### **D. Trade Aggregation and Allocation**

AUIM allocates investment opportunities among clients in a manner intended to result in fair and equitable treatment to clients over time. Factors that may influence a decision to allocate investment opportunities among client accounts include but are not limited to:

- Account investment objectives, guidelines, and constraints;
- Current account holdings, including asset class, sector, industry, and issuer concentrations, both on an absolute basis and relative to the account's benchmark;
- Desired risk profiles of the account, including credit quality, maturity, or duration distributions, and the impact the proposed investment would have on these measures;
- Cash availability and future cash flow expectations; and
- Allocation considerations based on criteria such as round-lot provisions or minimum transaction size.

Many of the accounts AUIM manages trade in the same

securities. Given this, AUIM combines transactions for different clients into aggregated (blocked) orders. This practice may enable the firm to seek more favorable executions and net prices. Portfolio Managers may use any method to allocate blocked transactions among participating accounts, provided the method is consistent with AUIM's policy and, over time, no client is unduly favored over another.

Some fixed income accounts have certain restrictions or requirements that prevent them from participating in aggregated trades. These accounts may be traded in a different order or at a different time than accounts participating in blocked trades. Trading and execution costs may be different (higher or lower) than cost for accounts participating in aggregated transactions.

### **E. Trade Errors**

Consistent with its fiduciary duties, AUIM's policy is to take the utmost care in making and implementing investment decisions for client accounts. To the extent that trade errors occur, AUIM seeks to ensure that the client's best interests are serviced when correcting such errors. AUIM makes its determinations regarding trade errors on a case-by-case basis, in its discretion, based on factors it considers reasonable, including regulatory requirements and business practices.

A trade error generally is compensable by AUIM to a client or

fund when it is a mistake (whether an action or inaction), in AUIM's reasonable view, that deviates from the applicable standard of care in managing an account. AUIM has adopted trade error policies and procedures to guide the resolution of, and to help prevent the reoccurrence of, such errors.

AUIM will determine the amount to be reimbursed, if any, based on what it considers reasonable in light of all of the facts and circumstances related to an error. AUIM may not reimburse trade errors involving certain affiliate client relationships where AUIM is compensated at cost for its services and not at market rates.

In the event AUIM identifies a trade error prior to the transaction settlement date, AUIM will generally book the correct transaction into the client's account and reverse and book the incorrect trades into an AUIM proprietary error account. The transaction will not likely be reflected on the client's account statement. An open-market transaction to offset any incorrect trade will be performed in AUIM's error account. The correcting transaction will be done in a manner where AUIM bears all the market risk (and will absorb any losses and retain any gains), while the client's account is not financially impacted. If the foregoing process cannot be followed due to the nature of the error or the level of gain or loss, then AUIM shall determine the proper course of action on a case-by-case basis.

AUIM will generally correct any trade errors identified after the original transaction settlement date by executing open-market transactions in the client's account. Both the error and correction will be reflected in the client's account. AUIM will reimburse the client's account for any losses, including any related transaction costs. The client's account will retain any gains. In general, AUIM will net gains and losses across a client's accounts related to the same trade error.

### **Item 13 – Review of Accounts**

AUIM periodically reviews client accounts. The frequency of review varies, depending on the level of activity, change, and volatility inherent with each account. As a result, the frequency of reviews will range from daily to monthly. Account fundamentals are reviewed regularly.

Reviews are typically performed by portfolio management or client service personnel and generally include monitoring performance, trading, and compliance with client investment guidelines and policies.

For affiliated insurance company clients, reports are provided monthly, quarterly, and annually. For affiliated clients, reports on account composition, purchase and sale activity, and yields are provided monthly, while investment income trends and gains and losses are provided at least quarterly.

For unaffiliated clients, reports typically are provided on a monthly basis, and a Portfolio Manager usually meets with a client's board or decision-making body every 12 to 18 months. The contents of any such reports may include market commentary; account summaries of monthly and year-to-date account changes; performance information; account statistics, quality distributions and any applicable credit-rating changes; a description of the account's holdings; and any purchases or sales. Such reports and meetings may vary, depending on the client's particular needs or requirements.

### **Item 14 – Client Referrals and Other Compensation**

#### **A. Client Referrals**

AUIM has entered into compensation arrangements with certain related and other persons who act as solicitors. Such arrangements will at all times be maintained in compliance with Rule 206(4)-3 under the Act. AUIM compensates solicitors based on a percentage of the management fee it earns from the account a solicitor has introduced; a one-time fee; or a combination of these. Similarly, AUIM pays referral compensation to its affiliates, joint venture partners, related persons, or their employees. These referral payments do not increase the fees charged by AUIM to any client.

Payment of solicitation compensation may cause a solicitor



to recommend AUIM over another adviser that does not pay solicitation compensation. In any case in which a solicitor receives payment from AUIM, such solicitor will have a conflict in advising clients with respect to hiring AUIM as an investment adviser. Further, solicitors may receive different amounts of compensation with respect to different AUIM products and therefore may have incentives to favor one or more products over others.

AUIM and its affiliates also receive client referrals from unaffiliated consultants retained by investors. AUIM and its affiliates may make payments to these consultants to participate in conferences sponsored by those consultants in order to, among other things, obtain information about industry trends and investor investment needs. In addition, AUIM and its affiliates may purchase products or services from these consultants or their affiliates. Payments for conferences, products, or services are not paid in connection with consultant referrals.

### **B. Other Compensation**

Other than compensation received directly from AUIM, employees may not accept any form of compensation for providing advisory services. AUIM maintains written policies and procedures with respect to the giving and receipt of gifts and entertainment and the giving of donations and contributions. These policies and procedures are reasonably de-

signed to comply with applicable law, including pay-to-play restrictions. The policies and procedures prohibit giving or receiving gifts, entertainment, donations, or contributions that AUIM determines are lavish or excessive under the circumstances.

### **Item 15 – Custody**

Unaffiliated clients are responsible for selecting their custodians. AUIM does not act as a qualified custodian for client accounts and, in the normal course of its duties, does not take physical custody or control of client assets.

AUIM performs various back-office functions for affiliated clients, some of which constitute custody under Rule 206(4)-2 of the Act. With respect to these arrangements, AUIM has implemented the following custody controls:

- reasonable due inquiry to verify that the custodians provide clients with at least quarterly account statements;
- internal policies and procedures and other controls designed to prevent and mitigate AUIM or its employees having unauthorized access to client assets; and
- annual surprise examinations by an independent public accountant to verify the existence of client assets.

For certain private funds, in lieu of a surprise exam, AUIM delivers clients audited financial

statements (presented in accordance with the requisite accounting principles) within the requisite timeframe specified in the Custody Rule.

The auditors chosen to perform the surprise examinations and private fund audits are independent public accountants registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board.

Clients should receive statements from their qualified custodian at least quarterly. The custodian's statements represent the client's official account records. To ensure all account transactions are proper, AUIM urges clients to compare statements received from AUIM to statements received directly from their custodian. AUIM statements may vary from custodial statements due to accounting practices, reporting dates, or valuation methodologies for certain securities.

### **Item 16 – Investment Discretion**

AUIM typically accepts discretionary authority to manage securities accounts on behalf of its clients. AUIM typically enters into an investment management agreement with its clients or a sub-advisory agreement with relevant third parties. In situations where AUIM has discretionary authority pursuant to the client agreement, an investment policy statement or investment guidelines may be agreed to by the client that

could limit AUIM's discretionary authority. When exercising discretionary authority, AUIM determines, without obtaining specific client consent, the types and quantities of securities to buy and sell.

AUIM also has discretion to select broker-dealers and other counterparties to execute client transactions. Accounts are defined as discretionary as long as AUIM is able to implement its investment strategy. All discretionary accounts are included in composites used to present performance results. AUIM may also enter into arrangements where it does not exercise investment discretion, such as when a client imposes conditional trading authority or material investment strategy restrictions.

Investment guidelines are monitored by AUIM's Portfolio Risk Management & Control Team (PRMC). This independent team electronically monitors client guidelines via the BlackRock Aladdin® System. In addition, AUIM utilizes the BlackRock Aladdin® pre-trade compliance system as well as the Compliance Dashboard function, a workflow tool, to monitor client guidelines post-trade and to prevent trades that might violate a client's guidelines.

### **Item 17 – Voting Client Securities**

AUIM votes proxies on behalf of all client accounts for which it has the requisite discretionary

authority except for situations in which a client notifies AUIM in writing that it has retained, and intends to exercise, the authority to vote its own securities. Clients also may ask AUIM to vote their securities in accordance with specific guidelines furnished by the client, in which case AUIM will vote such securities within the client's guidelines.

AUIM primarily manages client portfolios of debt securities. For most fixed income clients, the issues for which AUIM votes fixed income securities generally involve amendments to loan documentation, borrower compliance with financial covenants, registration rights, prepayments, insolvency, and other distressed creditor situations. AUIM does not maintain specific proxy voting policies or guidelines regarding categories of issues that come before fixed income security holders. AUIM votes fixed income matters on a case-by-case basis, taking into account the unique circumstances related to a particular borrower and other relevant factors.

AUIM also votes proxies related to equity securities that it advises. AUIM's fixed income clients may occasionally receive equity interests resulting from the restructure of debt security investments or in other special situations. AUIM also votes proxies on the exchange-traded funds (ETFs) to which it provides investment advice and mutual funds that it sub-advises. Routine proxy matters

associated with equity securities (including but not limited to electing boards of directors, selecting auditors, shareholder rights, proxy contests, corporate governance matters, and executive and director compensation) typically are voted in accordance with standard guidelines.

AUIM will vote proxies when doing so is in the best interest of its clients, taking into consideration all factors relevant to the matters presented. In some situations, acting in the client's best interest may include abstention from voting. For example, AUIM may abstain from voting where the cost of voting securities outweighs the benefits (e.g., voting on international securities where personal appearance is required, not having sufficient information to vote the proxy, etc.).

In fulfilling its proxy voting responsibilities, AUIM may face conflicts of interest. For those proxies involving a conflict of interest, AUIM will seek to avoid any impropriety or the appearance of any impropriety. It may retain an independent third party to research the proxy and recommend a vote.

Clients may obtain a copy of AUIM's complete proxy voting policies and procedures upon request. Clients also may obtain information from AUIM about how it voted any securities on behalf of the client's account(s) by contacting (877) 234-6862 or [aeoninvestments@aeonusa.com](mailto:aeoninvestments@aeonusa.com).



## **Item 18 – Financial Information**

A registered investment adviser is required to provide clients with certain financial information or disclosures about its financial condition. AUIM does not require or solicit prepayment of its investment advisory fees six months or more in advance, it does not have financial commitments that impair its ability to meet contractual and fiduciary commitments, and it has not been the subject of a bankruptcy proceeding.