

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 4997 / August 27, 2018

ADMINISTRATIVE PROCEEDING
File No. 3-18682

In the Matter of

BRADLEY J. BEMAN

Respondent.

**ORDER INSTITUTING CEASE-AND-DESIST
PROCEEDINGS PURSUANT TO SECTION
203(k) OF THE INVESTMENT ADVISERS
ACT OF 1940, MAKING FINDINGS, AND
IMPOSING A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) against Bradley J. Beman (“Beman” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, and except as provided herein in Section V, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 203(k) of the Investment Advisers Act of 1940, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds¹ that:

Summary

1. Between July 2011 and June 2015, AEGON USA Investment Management, LLC ("AUIM"), a registered investment adviser, violated certain provisions of the federal securities laws in connection with the offer, sale, and management of six variable life insurance investment portfolios and variable annuity investment portfolios ("Investment Portfolios") and three mutual funds (collectively, the "Products"), all nine of which employed quantitative models for allocation and trading decisions.² Among those violations, AUIM marketed the Products by highlighting their "emotionless," "model-driven," or "model-supported" investment management process and describing how the models were supposed to operate, but did not confirm that the models worked as intended and/or disclose any recognized risks associated with using the models. Additionally, AUIM failed to disclose to investors that an inexperienced quantitative research analyst (the "Analyst") was the day-to-day manager of certain of the Products.

2. AUIM also failed to adopt and implement certain compliance policies and procedures, including failing to take reasonable steps to ensure that: (1) its quantitative models worked as intended both before the Products launched and on a periodic basis after they launched; (2) it adopted and implemented reasonable controls regarding the testing, approval, and documentation of any changes to its quantitative models; and (3) the Products' portfolio managers' discretion to depart from model-directed trades was defined, monitored, and documented. Each of these risks was identified in a November 2011 internal audit report.

3. Beman, who served as AUIM's Global Chief Investment Officer at all relevant times, was a cause of these violations. Beman, despite being aware of the risks that the models would not work as intended, did not take sufficient steps to have AUIM confirm the accuracy of the models. He also did not identify the Analyst as the portfolio manager of certain of the Products despite being aware of his role in developing and managing the models. Beman agreed to be responsible for addressing the risks identified in the 2011 audit report, but failed to do so.

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

² See *In the Matter of AEGON USA Investment Management, LLC, et al.*, Admin. Proc. File No. 3-18681 (Aug. 27, 2018) (the "Aegon Proceeding").

Respondent

4. Bradley J. Beman, age 54, is a resident of Iowa. Beman joined AUIM in 1987 and served as AUIM's Global Chief Investment Officer from 2010 through January 2015. Beman also was a member of AUIM's U.S. Risk and Control Committee from September 2011 through January 2015. Beman is a Chartered Financial Analyst and was previously licensed as a certified public accountant.

Other Relevant Entities

5. **AEGON USA Investment Management, LLC ("AUIM")** (SEC File No. 801-60667) is registered with the Commission as an investment adviser and is headquartered in Cedar Rapids, Iowa. AUIM is a wholly owned indirect subsidiary of Aegon N.V., a multinational insurance and asset management company headquartered in the Netherlands, and is an affiliate of Transamerica Asset Management, Inc. ("TAM"). AUIM currently has more than \$106 billion in assets under management. AUIM acted as the sub-adviser to the Products, under the supervision of TAM, which was the adviser to the Products.

6. **Transamerica Asset Management, Inc. ("TAM")** (SEC File No. 801-53319) is registered with the Commission as an investment adviser and is headquartered in Denver, Colorado. TAM is an indirect subsidiary of Aegon N.V. and an affiliate of AUIM. TAM currently has more than \$79 billion in assets under management. TAM acted as the adviser to the Products and hired AUIM to act as sub-adviser to the Products.

Facts

A. Beman's Role in AUIM's Failures to Confirm That the Models Worked as Intended

7. Beman was responsible for guiding AUIM's investment strategy for its clients and overseeing investment performance across multiple asset classes in the U.S. and internationally. Beman's oversight responsibilities included each of the Products, and he approved on behalf of AUIM who was identified as the portfolio manager for the Products. As a member of AUIM's U.S. Risk and Control Committee (which, in addition to Beman, included employees from AUIM's compliance, human resources, legal, and risk departments), Beman received monthly reports that discussed investment risk, operational risk, compliance risk, and legal risk issues both generally and with specific regard to the Products. These monthly reports were sent to all members of AUIM's U.S. Risk and Control Committee and included status updates of efforts to address identified risks.

8. Starting in 2010, AUIM tasked the Analyst, who had recently earned his MBA, but had no experience in portfolio management or any formal training in financial modeling, with developing quantitative models for use in managing investment strategies (*i.e.*, models making investment allocation and models making trading decisions). AUIM ultimately used these models to manage each of the Products. The Analyst did not follow any formal process to confirm the accuracy of his work, and AUIM failed to provide him meaningful guidance, training, or oversight

as he developed the models or to confirm that the models worked as intended before using them to manage client assets.

9. By the fall of 2011, because of the significant growth of assets under management in the Investment Portfolios, Beman requested the help of an affiliated insurance company internal audit team to conduct an audit of the control environment supporting these six products.

10. On October 6, 2011, the audit team issued an interim status report to Beman and AUIM's Director of New Initiatives (the "AUIM Director"). The interim status report identified certain risks concerning AUIM's use of quantitative models, including that:

- (i) "AUIM does not have formal controls or policies and procedures to ensure quantitative model development is controlled and models function as expected";
- (ii) "AUIM does not periodically perform independent validation of modeling results to ensure the integrity of [the Investment Portfolios'] models remains intact," and therefore "transparency to modeling errors is potentially impaired and at worst may be concealed"; and
- (iii) "AUIM has not formally defined the discretion Portfolio Managers have in managing [the Investment Portfolios] regarding trade orders not aligned with modeling results."

11. The interim status report also observed that the Analyst developed and maintained the models and warned: "In the event [the Analyst] is unavailable and model enhancements are required or models are not functioning as designed, AUIM backup personnel do not have sufficient knowledge to enhance, validate, or troubleshoot the models. In the event [the Analyst] is unavailable, models may be inadequately administered, potentially exposing client's [sic] to excessive or unnecessary risk, negatively affecting fund performance, and potentially impairing AUIM's ability to meet its investment objectives." The interim report then assigned "key person risk" to the Analyst.

12. On or about October 10, 2011, Beman and the AUIM Director met with the internal auditors to discuss the interim status report. During this and subsequent meetings, Beman and the AUIM Director were designated as the AUIM management employees responsible for addressing each of the risks identified in the interim status report.

13. Shortly thereafter, a senior manager in AUIM's risk department learned that AUIM intended to launch one of the Products, the Transamerica Tactical Income Fund (the "TTI Fund"), which had been developed from the same quantitative models used to manage the Investment Portfolios studied in the audit. That senior risk manager understood that AUIM planned to launch the TTI Fund before its model had been finalized and validated, and emailed Beman and other senior AUIM management to inform them:

It doesn't seem like we've got the right chain of events to say we're going to launch a fund based on a new model . . . at the end of

October; get documentation in place a bit afterwards; and ask for it to be reviewed later in November. I do appreciate the importance of getting products out there to start gathering assets. But we've all heard that model validation is an area where we need to do some serious catch-up. It seems like we're continuing to put the cart before the horse, though.

14. Beman responded, "True-I think this has been a gap in our process historically and we are trying to address and will have a more rigorous process in the future. Unfortunately, I think the launch date for this product is already set and ready to go." The risk manager replied, "We definitely need to be involved in the independent review and validation of these models. Appreciate your support here." Though Beman was someone who could have stopped or delayed the launch of the TTI Fund, neither he nor anyone else took any steps to do so.

15. The TTI Fund was launched on October 31, 2011.

16. On November 4, 2011, the internal audit team issued a final report that included the three risks concerning AUIM's use of quantitative models identified in Paragraph 10, above, and the risk regarding the firm's reliance on the Analyst identified in Paragraph 11, above. This report identified Beman and the AUIM Director as the members of management responsible for: (i) the implementation of internal controls and other policies and procedures to address each of the identified risks; (ii) the execution of specific steps to address these risks; and (iii) the establishment of specific dates by which such steps would be completed. The report was distributed throughout the company.

17. Beman and the AUIM Director informed the auditors that AUIM estimated it could resolve these concerns by March 31, 2012, and AUIM began taking steps to adopt and implement a formal validation process, which would address some of the audit's findings. AUIM continued to offer the then existing Products while the models remained unvalidated.

18. Between October 2011 and the summer of 2013, Beman discussed internally the importance of validating the models on multiple occasions. For example, on May 19, 2012, Beman emailed the AUIM Director and others at AUIM:

[U]nfortunately the larger the funds get[,] the bigger the risk becomes . . . a major operational glitch at this point would be a big issue as this has already been flagged as an operational issue by audit . . . I need your priority and that of the team to make sure these models are buttoned down very tightly.

Beman, however, was aware that the models were not being "buttoned down." In particular, Beman attended monthly meetings of the U.S. Risk and Control Committee during which the status of model validation was discussed. The committee's meeting minutes reflect that, between the fall of 2011 and the spring of 2013, the deadlines for validation of the Products' models had been repeatedly pushed back. Thus, Beman was aware that the models were not being "buttoned

down” and did not take any additional, reasonable steps to address the risks that the models would not work as intended.

19. In November 2012, more than a year after Beman and AUIM’s Director had been designated with responsibility for the implementation of internal controls and other policies and procedures to address each of the identified risks, AUIM launched two of the Products: the Transamerica Tactical Allocation Fund (the “TTA Fund”) and the Transamerica Tactical Rotation Fund (the “TTR Fund”). These funds incorporated versions of the TTI Fund’s models, and, thus, also employed models developed from the same quantitative models used to manage the Investment Portfolios studied in the audit.

20. Despite Beman’s and the AUIM Director’s initial estimate of a March 31, 2012 validation completion, AUIM still had not validated any of the models it used to manage asset allocations in the Products — including the TTI Fund’s asset allocation model, which the Analyst had described as the “engine” of these two new funds — before it launched the TTA and TTR Funds. Thus, like the TTI Fund’s models, the TTA and TTR Funds’ models were not validated when these products were launched. Beman was aware of these facts when he approved the TTA and TTR Funds’ launches.

21. The marketing efforts for each of the Products highlighted their “emotionless,” “model-driven,” or “model-supported” investment management process and described how the models were supposed to operate. For instance, marketing materials stated that the TTA, TTI, and TTR Funds, among other things, employed a “disciplined quantitative process” that “removes emotion and manager bias through mathematical-based models.”

B. Beman’s Role in AUIM’s Failure to Disclose the Analyst’s Role in Managing Four of the Products

22. The prospectuses and marketing materials for four of the Products (the TTI Fund and three of the Investment Portfolios) also failed at all times through the Analyst’s termination in August 2013 to disclose that the Analyst, who had no portfolio management experience, was responsible for the day-to-day management of those products. Instead: (i) between May 2011 and March 2012, these Products’ prospectuses and marketing materials identified a senior, experienced asset manager (the “Senior Manager”) as the sole portfolio manager; (ii) between March 2012 and March 2013, the Senior Manager, as well as the Analyst and two other employees, were disclosed as the named portfolio managers for these products; and (iii) on March 31, 2013, the Senior Manager was removed as a named portfolio manager for the products, but the Analyst and the two other employees continued to be disclosed as the named portfolio managers. Beman was aware of the prospectus and marketing disclosures regarding the Products’ portfolio managers.

23. Beman approved on behalf of AUIM who would be identified as the portfolio manager for these four Products, which was repeated in these Products’ prospectuses and marketing materials. Beman was aware of the Analyst’s role — and the Senior Manager’s and other employees’ lack of involvement — in managing these products at the time he approved AUIM’s decision to name the portfolio manager of these products. For instance, Beman

understood that the auditors had assigned “key person risk” to the Analyst given his involvement in the management of these products. Indeed, when the Senior Manager learned that he had been disclosed as the sole portfolio manager of the TTI Fund, he objected to Beman and asked to be removed from all disclosures and marketing materials regarding the TTI Fund, but Beman declined to do so until March 31, 2013.

C. Beman’s Role in AUIM’s Failure to Adopt or Implement Certain Compliance Policies and Procedures

24. AUIM failed to adopt or implement policies and procedures to address the risks identified in the internal audit report before launching the mutual funds and for many months after launching all of the Products.

25. Beman failed to take reasonable steps to revise AUIM’s policies and procedures. For example, though Beman was one of those responsible for addressing the risks related to model validation and model functioning, he failed to take reasonable steps to accomplish this. AUIM failed to adopt a policy requiring model validation until July 2013 and began validating the quantitative models used to make allocation decisions in the Products only at that point — nearly two years after the launch of the TTI Fund and nearly a year after the launches of the TTA and TTR Funds.

Violations

26. As a result of the negligent conduct described above, Beman was a cause of AUIM’s violations of Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder, which make it unlawful for any investment adviser to a pooled investment vehicle to make any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, to any investor or prospective investor in the pooled investment vehicle, or otherwise engage in any act, practice, or course of business that is fraudulent, deceptive, or manipulative with respect to any investor or prospective investor in the pooled investment vehicle.

27. As a result of the negligent conduct described above, Beman was a cause of AUIM’s violations of Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder, which require a registered investment adviser to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and its rules, and to review, no less frequently than annually, the adequacy of the policies and procedures and the effectiveness of their implementation.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Section 203(k) of the Advisers Act, it is hereby ORDERED that:

A. Respondent Beman shall cease and desist from committing or causing any violations and any future violations of Section 206(4) of the Advisers Act and Rules 206(4)-7 and 206(4)-8 promulgated thereunder.

B. Respondent Beman shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of \$65,000.00 to the Fair Fund established in the Aegon Proceeding for distribution to affected investors. The \$65,000.00 shall be deposited into the same escrow account established in the Aegon Proceeding.

Payments by check or money order must be accompanied by a cover letter identifying Bradley J. Beman as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Paul A. Montoya, Division of Enforcement, Securities and Exchange Commission, 175 West Jackson Blvd., Suite 1450, Chicago, IL 60604.

C. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, he shall not argue that he is entitled to, nor shall he benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that he shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. § 523, the findings in this Order are true and admitted by Respondent, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondent under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by

Respondent of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. § 523(a)(19).

By the Commission.

Brent J. Fields
Secretary