



# Aegon USA Investment Management, LLC


## Part 2A Brochure

September 22, 2017

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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

This brochure dated September 22, 2017 includes two material changes to Item 4 and Item 9, respectively:

- **Item 4 Advisory Business**
  - Item 4.C. Assets Under Management - This item has been updated to reflect the current value of discretionary assets under management of approximately \$105 billion and non-discretionary assets under management of approximately \$845 million as of June 30, 2017.
- **Item 9 Disciplinary Information**
  - This item has been updated to disclose information about an ongoing formal investigation by the Securities and Exchange Commission's Division of Enforcement that may lead to legal proceedings against AUIM. The investigation relates to errors in AUIM's past operation and/or implementation of models and volatility guidelines used by AUIM in sub-advising certain tactical funds and strategies for certain Transamerica mutual funds, variable products and separately managed accounts. The investigation also concerns whether appropriate disclosures were made regarding these matters.

The following material changes were made in the March 28, 2017 annual update:

- **Item 8.C. Methods of Analysis, Investment Strategies and Risk of Loss**
  - Item 8.C.Risk of Loss - This item was broadened to include the following risks: Concentration Risk, Counterparty Risk, Emerging Markets Risk, Fixed-Income Securities Risk, Legal and Regulatory Risk, Mortgage-Related and Asset Backed Securities Risks, Valuation Risk, Yield Risk. In addition Operating Risks was renamed Management Risks.
- **Item 12 Brokerage Practices**
  - Item 12.A. Selecting Broker-Dealers - This item was updated to disclose secondary factors considered while seeking best execution.
  - Item 12.E. Cross Transactions - This item was added to describe AUIM's internal cross trade practices. This information was previously described in Item 11.B. Code of Ethics – Principal Trading

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).



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## 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”).

AUIM is a limited liability company formed in 2001 under the laws of the State of Iowa. 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 is a wholly owned subsidiary of Aegon USA Asset Management Holding, LLC (“AUAM Holding”) and an indirect wholly owned subsidiary of Aegon N.V. For additional information regarding AUIM’s legal and governance structures, refer to Item 10, Other Financial Industry Activities and Affiliations.

AUIM is part of Aegon Asset Management, a group of asset managers affiliated with Aegon N.V. that regularly collaborate in various business and operational activities. Through its affiliation with Aegon Asset Management group companies, AUIM has access to global resources that augment and complement its own investment expertise.

AUIM and other companies in the group utilize “Aegon Asset Management” as a brand name to market their asset management products and services.

AUIM uses the brand names “Aegon Asset Management US” or “Aegon AM” to market its asset management products and services.

AUIM and other asset managers within Aegon Asset Management share global macroeconomic and securities research platforms (see Item 4.B, Advisory Services and Item 8.B.1, Methods of Analysis, Investment Strategies and Risk of Loss - Methods of Analysis: Top-Down Analysis and Sector and Security-Level Idea Generation). All Aegon Asset Management companies are subject to a common high-level governance structure, which is discussed further in Item 10, Other Financial Industry Activities and Affiliations.

In the United States, Aegon Asset Management group companies include AUIM and Aegon USA Realty Advisors, LLC. (“AURA”), a registered investment adviser (SEC File No. 801-110854) that is primarily a real estate asset manager.

AUIM has principal offices in Cedar Rapids, Iowa; Chicago, Illinois; and Baltimore, Maryland. As of December 31, 2016, the firm has approximately 380 employees, including approximately 90 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, structures, and arrangements which vary by investment strategy and include separately managed accounts, foreign or domestic closed- or open-end mutual funds, collective investment trusts (“CITs”), and private funds. AUIM also provides nondiscretionary research services.

AUIM began as a manager of fixed income portfolios and today provides active management of portfolios that invest primarily in fixed income assets classes, but also may utilize equities, private placements, and derivatives. Additionally, AUIM provides customized investment solutions for insurance companies and pension plans.

AUIM engages sub-advisers to manage certain investment strategies on behalf of affiliated clients. Finally, through a shared-personnel arrangement with AURA, AUIM provides real estate-related investment advice to another affiliate, as discussed in Item 10.C.2, Other Financial Industry Activities and Affiliations – Relationships with Related Persons: AURA Personnel-Sharing Arrangement.

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 can impose reasonable restrictions on investments in certain securities or types of securities.

Additional information about AUIM’s investment strategies and services can be found in Item 8, Methods of Analysis, Investment Strategies, and Risk of Loss.

### C. Assets Under Management

As of June 30, 2017, AUIM had assets under management as follows:

Asset Under Management	U.S. Dollar Amount
Discretionary	\$105,257,071,395
Non-discretionary	\$895,404,353
Total	\$106,152,475,748



## Item 5 – Fees and Compensation

### A. Advisory Fees

AUIM charges advisory fees consistent with applicable statutes and regulations and a client's investment management agreement. For discretionary investment advisory services, fees are typically based on the client's assets under management and are negotiable. 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).

For nondiscretionary services, AUIM will negotiate fees based on the specific services provided.

Various factors 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), related accounts or investments in other strategies. Clients who negotiate a flat fee schedule could pay a higher total fee than those who pay under a tiered fee schedule.

AUIM typically requires a minimum fee amount for each product or services it engages in. The minimum can differ depending upon the particular investment strategy and product. In certain circumstances, the minimum amount will be waived.

Discretionary investment advisory fees are generally based on an account's period-end market or other negotiated 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. Clients typically receive an invoice and pay their fees directly. Fees can be payable and billed in advance or arrears. Other client-specific arrangements are negotiable, depending on specific client circumstances.

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.

Fees charged to affiliates are generally less than fees charged to unaffiliated client accounts.

### B. Additional Fees and Expenses

AUIM's advisory fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses that are typically incurred by clients. Client assets are maintained by an independent custodian; 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.

In addition to fees calculated based on assets under management, AUIM will charge a negotiated, agreed-upon annual fee to certain accounts to cover administrative overhead costs, performance fees or both, as described in Item 6, Performance-Based Fees and Side-By-Side Management.

Derivatives transactions for clients' accounts may entail brokerage, clearing or other finance charges. For certain accounts AUIM assesses quarterly or agreed-upon fees for each derivatives contract in the client's account as of the last day of each calendar quarter.

Item 12.A, Brokerage Practices - Selecting Broker Dealers, describes the factors that AUIM considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation.

Clients may also incur additional fees when account assets are invested in mutual funds, ETFs and other pooled investment vehicles. These vehicles charge internal management fees, which are disclosed in their respective offering documents. No portion of these fees offset the account-level fees that AUIM charges for its services.



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

In addition to fees described in Item 5, Fees and Compensation, fee arrangements with certain qualified clients as defined by the Investment Advisers Act of 1940, as amended, (“the Act”) can include 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-fee or incentive-fee arrangement subject to Section 205(a)(1) of the Act and in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3 under the Act.

There are inherent conflicts of interest in the side-by-side management of performance-fee and non-performance-fee accounts. Performance-fee arrangements create an incentive for an adviser to take risks in managing assets that would not otherwise be taken in the absence of such arrangements. Similarly, larger accounts could be favored because they generate more revenue for an adviser. AUIM strives to mitigate 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, Brokerage Practices - Trade Aggregation and Allocation, for additional information about AUIM’s trade aggregation and allocation practices.

## Item 7 – Types of Clients

AUIM provides discretionary and nondiscretionary investment advisory services to insurance companies; corporate pension and profit-sharing plans; benefit plans; pooled investment vehicles such as mutual funds, collective investment trusts and privately offered alternative vehicles; banks; charitable organizations; endowments; 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 \$50 million, though the minimum can differ depending upon the particular investment strategy, product or client type.

In certain circumstances, the minimum amount will 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 for the firm’s standard, marketed investment strategies are presented here. Investment details for non-marketed strategies and customized portfolios are available upon request at (877) 234-6862 or at [aegoninvestments@aegonusa.com](mailto:aegoninvestments@aegonusa.com).

AUIM’s marketed investment strategies can be broadly classified into four groups:

1. *Fundamental fixed income strategies* that include total-return strategies utilizing one or more fixed income asset classes; duration-sensitive or cash flow management strategies; and constrained strategies based on client restrictions such as rating limitations, position limits, etc.
2. *Multi-Asset 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 can have exposure to multiple asset classes, asset managers, geographic regions, or some combination thereof.
3. *Investment solutions* which are customized portfolios designed around the client’s liability profile. These client-specific solutions include a form of asset-liability management for insurance companies and liability-driven investing for pension plans. AUIM’s liability-driven portfolio management framework consists of an assessment of the particular client account, asset/liability analysis in collaboration with company or plan actuaries, investment strategy development, portfolio construction, and ongoing client service and risk management. AUIM and individuals within Aegon Asset Management who have experience in constructing and managing balance-sheet solutions share best practices and thought leadership.
4. *Derivatives strategies* designed for purposes of portfolio risk management, duration management or asset allocation for portfolio management.

## B. Methods of Analysis

AUIM believes the key success factors to strong investment performance over the long-term are the 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 Aegon Asset Management's global macroeconomic and markets outlook. Views of the macroeconomic environment and changes in such environments are formulated through standardized inputs among portfolio managers, asset class specialists, strategists and rates specialists of the Aegon Asset Management group 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. Global committee input is aggregated by 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, emerging market, distressed securities or structured securities research on issuers worldwide.

AUIM also utilizes credit and sovereign research generated by an affiliate, Aegon Investment Management B.V. ("AIM"), an investment adviser licensed and domiciled in the Netherlands. AUIM receives investment research, advice and recommendations on corporate and sovereign debt issuers and securities from AIM through a participating affiliate arrangement. The participating affiliate arrangement is described further in Item 10.C.1, Other Financial Industry Activities and Affiliations – Relationships with Related Persons: Participating Affiliate.

The research generated by AUIM and AIM is referred to, collectively, as the Global Research Platform.

In addition, AUIM has a U.S.-based research team that focuses on analyzing and monitoring distressed securities.


Finally, AUIM and AURA have entered into a formal arrangement whereby a limited number of AURA personnel are treated as AUIM employees who provide: (i) insights on trends in the real estate and mortgages industries to AUIM and (ii) distribution of non-discretionary real estate-related advice. See Item 10.C.2, Other Financial Industry Activities and Affiliations - Relationships with Related Persons: AURA Personnel-Sharing Arrangement for more information.

**Credit research** analysts follow assigned lists of sectors/industries and are responsible for covering issuers within their assigned sector/industry, regardless of credit quality. This structure 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 analysis framework that focuses on cash flow generation, debt levels, maturity schedules, liquidity, and consideration of future credit profiles. Based on this analysis, research analysts form their own independent view on an issuer's fundamentals and other factors and periodically monitor the factors that influence these views to determine if revisions are warranted. Separately, analysts also assign internal credit ratings to issuers, which are based on, and more often than not are consistent with, third party credit ratings.

Analysis of Emerging Market corporate credits follows a similar process but coverage is assigned to the Emerging Markets team, rather than being assigned based on industry, to reflect the unique nature of issues that arise as a result of operation in these countries.





**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' own independent view 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. Separately, analysts also assign internal credit ratings to issuers, which are based on, and more often than not are consistent with, third party credit ratings.

**Structured research** uses a team approach to share common resources, themes, and techniques specific to structured credit analysis. Structured research analysts follow specific asset classes (i.e., asset-backed securities, commercial mortgage-backed securities and residential mortgage-backed securities, with several sub-sectors within each asset class). Analysts specialize in research based on each asset class' unique characteristics associated with collateral, issuer, structure, and research resources.

Structured analysts use proprietary financial analysis that focuses on fundamentals such as collateral performance, issuer strength and the transparency of a security's structure. Analysts utilize this proprietary analysis along with third-party software to identify securities that offer attractive relative value versus designated benchmarks. In addition, securities are stress-tested using proprietary methodologies. Analysts form their own, independent view of the security's fundamentals and other factors, and periodically monitor the factors that influence these views to determine if revisions are warranted.

**Distressed research** is conducted by a team with expertise in corporate bankruptcy workouts and restructurings. 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.

Distressed research analysts develop an investment opinion for companies they evaluate, focusing on key factors such as: business conditions; strategic and competitive positioning; key customers and suppliers; operation efficiency, cash flow generation; debt and liquidity; and capital and legal structure. This process seeks to project potential financial results, value the company's business and assets, and estimate creditor recoveries in various scenarios.

## Environmental, Social and Governance Considerations in Research

Aegon Asset Management B.V., the governing entity for AUIM and other companies in the Aegon Asset Management group, is a signatory of the United Nations' Principles of Responsible Investing (UNPRI).

In keeping with this and to support its responsible investment practices, AUIM research analysts analyze environmental, social and governance concerns. AUIM also utilizes the MSCI Environmental, Social and Governance (MSCI ESG) research platform—an online database of research, ratings and analysis of key environmental, social and governance (ESG) business practices of companies worldwide—to assist in information gathering and decision making. When information regarding a specific company is available through MSCI, AUIM research reports include an ESG rating and note any material concerns regarding ESG impacts of investing in the security.

Further, at the client's request, AUIM will employ ethical screens in the management of portfolios and has the capability to help the client develop ethical screening criteria.

- *Portfolio construction and management.* "Global house view" outlooks (see Item 8.B.1, Methods of Analysis, Investment Strategies and Risk of Loss - Methods of Analysis: Fundamental Fixed Income Strategies and Top-Down Analysis) are combined with the portfolio management team's particular perspective on the economy and markets to make decisions regarding such factors as duration; yield-curve or credit-quality positioning; and sector, country or asset class allocations. To populate portfolios with individual securities, portfolio managers draw on the fundamental research available on the Global 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 regularly monitored by the research groups for new information. For credits experiencing meaningful changes in the fundamental credit outlook, AUIM will reevaluate the credit to ensure the investment thesis is still sound.
- Relative-value trades. Relative-value trades 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 that are used to manage accounts according to each client's desired risk profile.

## *2. Multi-Asset strategies*

AUIM manages multi-asset investment strategies that invest in individual securities; open-end mutual funds; exchange-traded products; derivatives; or some combination thereof. In all cases, portfolio managers of AUIM's multi-asset strategies, at their discretion, will integrate the global house view as appropriate to a particular strategy.

## *3. Investment solutions*

AUIM's Investment solutions team analyzes information about a client's future liabilities. This analysis is used to build a customized benchmark that matches the duration and key rate duration profile of the client's anticipated liabilities. The team then works with AUIM's research and portfolio management groups (discussed in Item 8.B.1, Methods of Analysis, Investment Strategies and Risk of Loss - Methods of Analysis: Fundamental Fixed Income Strategies) to construct a portfolio that may comprise of one, several or many asset classes, depending upon the nature and timing of the client's liabilities.

## *4. Derivatives Strategies*

AUIM designs and executes derivatives strategies for purposes of hedging, risk management, and overall portfolio management. AUIM has a dedicated team of investment professionals focused on design, management and execution of derivatives strategies. This team works directly with clients, portfolio managers and AUIM risk management personnel to implement and maintain each strategy.

AUIM's policy is that all derivatives transactions made on behalf of affiliated or unaffiliated clients must be traded under an approved derivatives program that describes the guidelines for execution and management of the derivatives transactions.

## **C. Risk of Loss**


Investing in securities or derivatives involves a 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 unrealized 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 will purchase and sell securities without regard to the length of time held. Active trading will impact performance by increasing transaction costs and potentially generating greater amounts of net short-term capital gains, which, for investors holding shares in taxable accounts, would be subject to income tax at ordinary income tax rates upon distribution.

**Concentration Risk:** A strategy that concentrates investments in particular issuers, countries, industries, sectors, or asset classes has greater exposure than other strategies to market, economic and other factors affecting those components.

**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.



**Counterparty Risk:** Certain accounts are subject to credit risk (meaning the risk of adverse changes in an issuer's real or perceived financial strength) with respect to counterparties to derivatives, repurchase agreements and other financial contracts entered into by the account or held by special purpose or structured vehicles. Adverse changes to counterparties may cause the value of financial contracts to go down. If a counterparty becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, the value of investment in the account may decline.

**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 will typically 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 values depend on, or are derived from, the value of an underlying asset, reference rate, or index. Derivatives typically require the posting of margin (initial and variation), and subsequent calls for higher margin may adversely impact the liquidity of clients' funds. The use of derivatives instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Certain derivatives 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 could 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.

**Emerging Markets Risk:** Investments in the securities of issuers located in or principally doing business in emerging markets are subject to foreign investments risks. These risks are greater for investments in issuers in emerging market countries. Emerging market countries tend to have economic, political and legal systems that are less fully developed and are less stable than those of more developed countries. Emerging market securities are often particularly sensitive to market movements because their market prices tend to reflect speculative expectations. Low trading volumes may result in a lack of liquidity and in extreme price volatility.

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

**Fixed-Income Securities Risk:** The market prices of fixed income securities may go up or down, sometimes rapidly and unpredictably, due to general market conditions, such as real or perceived adverse economic or political conditions, inflation, changes in interest rates, lack of liquidity in the bond markets or adverse investor sentiment. In addition, the market value of a fixed income security may decline if the issuer or other obligor of the security fails to pay principal and/or interest, otherwise defaults or has its credit rating downgraded or is perceived to be less creditworthy, or the credit quality or value of any underlying assets declines. When market prices fall, the value of investments will go down. The value of investments will generally go down when interest rates rise. Interest rates have been at historically low levels, therefore the investment faces a heightened risk that interest rates may rise. A rise in rates tends to have a greater impact on the prices of longer-term-or-duration securities.

**Foreign Markets Risk:** Investments in foreign securities can 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 often are 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”) have historically been 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 can 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 might 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 will typically 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 can 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.

**Legal and Regulatory Risk:** Legal and regulatory changes could occur that may adversely affect accounts, their investments, and the ability to pursue investment strategies and/or increase the costs of implementing such strategies. Revised laws or regulations may be imposed by the U.S. Securities and Exchange Commission, the U.S. Commodity Futures Trading Commission, the Internal Revenue Service, the U.S. Federal Reserve or other governmental regulatory authorities or self-regulatory organizations that could adversely affect accounts, AUIM’s management of accounts or the legal and/or regulatory consequences of transactions effected for the accounts. Accounts may also be adversely affected by changes in the enforcement or interpretation of existing statutes and rules by governmental regulatory authorities or self-regulatory organizations.


**Liquidity Risk:** AUIM may make investments that are illiquid or that become illiquid after purchase. Investments may become illiquid due to the lack of an active market, a reduced number of traditional market participants, or reduced capacity of traditional market participants to make a market in securities. The liquidity and value of investments can deteriorate rapidly, and those investments may be difficult or impossible for the fund to sell, particularly during times of market turmoil. Illiquid investments can be difficult to value. If AUIM is forced to sell an illiquid investment to meet redemption requests or other cash needs, AUIM may be forced to sell at a loss. AUIM may not receive its proceeds from the sale of certain securities for an extended period (for example, several weeks or even longer).

**Loan Risk:** Loans are subject to the risk of nonpayment of principal or interest. Economic downturns or increases in interest rates can 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 could 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.

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

**Market Risk:** The market price of securities will go up or down, sometimes rapidly or unpredictably. The value of a security can 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.

**Mortgage-Related and Asset Backed Securities Risks:** The value of mortgage-related and asset-backed securities will be influenced by factors affecting the housing market and the assets underlying such securities. As a result, during periods of declining asset values, difficult or frozen credit markets, swings in interest rates, or deteriorating economic conditions, mortgage-related and asset-backed securities may decline



in value, face valuation difficulties, become more volatile and/or become illiquid. Mortgage-backed securities may be issued by private issuers, by government-sponsored entities such as Fannie Mae or Freddie Mac or by agencies of the U.S. government, such as Ginnie Mae. Mortgage-backed securities represent direct or indirect participations in, or are collateralized by and payable from, mortgage loans secured by real property. Unlike mortgage-related securities issued or guaranteed by agencies of the U.S. government or government-sponsored entities, mortgage related securities issued by private issuers do not have a government or government-sponsored entity guarantee (but may have other credit enhancement), and may, and frequently do, have less favorable collateral, credit risk or other underwriting characteristics. Asset-backed securities represent participations in, or are secured by and payable from, assets such as installment sales or loan contracts, leases, credit card receivables and other categories of receivables. The value of mortgage-backed and asset-backed securities may be affected by changes in the credit quality or value of the mortgage loans or other assets that support the securities. Mortgage-backed and asset-backed securities are subject to prepayment or call and extension risks. Some of these securities may receive little or no collateral protection from the underlying assets. The risk of default is generally higher in the case of mortgage backed investments that include so-called “sub-prime” mortgages. The structure of some of these securities may be complex and there may be less information available than for other types of debt securities. Upon the occurrence of certain triggering events or defaults, the fund may become the holder of underlying assets at a time when those assets may be difficult to sell or may be sold only at a loss.

**Prepayment or Call Risk:** Many issuers have a right to prepay their debt securities. If interest rates fall, an issuer will typically 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 could 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 liquidation or reorganization under applicable bankruptcy or other laws, AUIM’s ability to dispose of the underlying securities will typically be restricted.

**Sovereign Debt Risk:** Sovereign debt instruments, which are debt obligations issued or guaranteed by a foreign governmental entity, are subject to the risk that the governmental entity will delay or fail to pay interest, or fail to repay principal, on debt that it has issued or guaranteed, due, for example, to cash flow problems, insufficient foreign currency reserves, political considerations, relationships with other lenders such as commercial banks, the relative size of the governmental entity’s debt position in relation to the economy, or the failure to put in place economic reforms required by the International Monetary Fund or other multilateral agencies. If a governmental entity defaults, it might ask for more time in which to pay or for further loans, or ask for forgiveness of interest or principal on its existing debt. On the other hand, a governmental entity might be unwilling to renegotiate the terms of its sovereign debt. There might be no established legal process for a bondholder to enforce its rights against a governmental entity that does not fulfill its obligations. Certain countries in Europe currently have large sovereign debts and/or fiscal deficits which has led to significant uncertainties in the market as to whether or not the governments of those countries will be able pay in full and on time the amounts due in respect of those debts.

**Valuation Risk:** The sales price an account could receive for any particular portfolio investment may differ from the value at which the investment is carried in the account (whether determined by the account’s owner, custodian, administrator or other service provider), particularly for securities that trade in thin or volatile markets, that are priced based upon valuations provided by third-party pricing services that use matrix or evaluated pricing systems, or that are valued using a fair value methodology.

**Yield Risk:** The amount of income received by the portfolio will go up or down depending on day-to-day variations in short-term interest rates, and when interest rates are very low the portfolio’s expenses could absorb all or a significant portion of the portfolio’s income. If interest rates increase, the portfolio’s yield may not increase proportionately.

## Item 9 – Disciplinary Information

AUIM has no material concluded disciplinary events to disclose but is involved in the following:

There is an ongoing formal investigation by the Securities and Exchange Commission that may lead to legal proceedings against AUIM. AUIM is cooperating in the investigation.

The investigation relates to errors in AUIM's past operation and/or implementation of models and volatility guidelines, used by AUIM in sub-advising certain tactical funds and strategies for certain Transamerica mutual funds and variable products and separately managed accounts. The investigation also concerns whether appropriate disclosures were made regarding these matters. The investigation involves the funds listed below.

### **The tactical funds involved were:**

- Transamerica Dynamic Income (formerly, Transamerica Tactical Income ("TTI"));
- Transamerica Dynamic Allocation (formerly, Transamerica Tactical Rotation ("TTR")); and
- Transamerica Dynamic Allocation II (formerly, Transamerica Tactical Allocation ("TTA")).

### **The asset allocation funds were:**

- Transamerica Managed Risk – Conservative ETF VP (formerly, Transamerica Vanguard ETF Portfolio – Conservative VP and Transamerica Index 35 (VP));
- Transamerica Managed Risk – Balanced ETF VP (formerly, Transamerica Vanguard ETF Portfolio – Balanced VP and Transamerica Index 50 (VP));
- Transamerica Managed Risk – Growth ETF VP (formerly, Transamerica ETF Portfolio – Growth VP and Transamerica Index 75 (VP));

- Transamerica QS Investors Active Asset Allocation – Conservative VP, (formerly, Transamerica Aegon Active Asset Allocation – Conservative VP);
- Transamerica QS Investors Active Asset Allocation – Moderate VP (formerly, Transamerica Aegon Active Asset Allocation – Moderate VP); and
- Transamerica QS Investors Active Asset Allocation – Moderate Growth VP (formerly, Transamerica Aegon Active Asset Allocation – Moderate Growth VP).

AUIM ceased to serve as sub-adviser to the tactical funds on April 30, 2015 and to the Transamerica asset allocation funds on June 30, 2015.

AUIM also served as a model manager for certain strategies offered through the I-Series portfolios, a separately managed account program that provided diversified model portfolios that employed strategic, alternative and tactical asset allocation strategies, offered and advised by Transamerica Financial Advisers, Inc.

### **The I-Series Strategies included:**

- Global Tactical Allocation – Conservative;
- Global Tactical Allocation – Balanced;
- Global Tactical Allocation – Growth;
- Tactical Fixed Income;
- Global Tactical Income; and
- Global Tactical Rotation.

AUIM's model-manager relationship with the I-Series Strategies ended as of May 29, 2015.

Expert analyses indicates that errors in the models and guidelines did not have a material adverse impact on fund performance. AUIM does not know the timing or outcome of any possible proceeding, including whether or not any proceeding will have a material adverse impact on it or on its affiliates.

## Item 10 – Other Financial Industry Activities and Affiliations

### Legal and Operational Structure

As mentioned in Item 4.A, Advisory Business – Overview above, AUIM is a direct wholly owned subsidiary of AUAM Holding. AUAM Holding, and in turn AUIM, are indirect wholly owned subsidiaries of Transamerica Corporation, which in turn is an indirect wholly owned subsidiary of Aegon N.V.

The day-to-day affairs of AUIM are managed and overseen by a committee called the Executive Committee (“EC”). The EC is overseen and challenged by AUIM’s Board of Managers. The Board of Managers of AUAM Holding appoints and removes AUIM’s Board of Managers in its sole discretion.

The boards of AUIM and AUAM Holding have adopted a governance framework whereby one or more entities within the Aegon N.V. organization generally oversee the Aegon Asset Management group companies. Within this framework, boards and committees of the Aegon Asset Management group companies and other affiliates within the enterprise interact and hold periodic joint meetings. Further, certain matters related to AUIM are escalated and reserved for decision-making within the global enterprise.

### A. Registered Representatives

Certain management persons and employees of AUIM are registered representatives of an unaffiliated broker-dealer. These arrangements support distribution of AUIM’s products but are not significant to AUIM’s core institutional investment management activities.

### B. Registration as Commodity Trading Advisor

AUIM is registered as a Commodity Trading Advisor (CTA) with the Commodity Futures Trading Commission (CFTC) and is a member of the National Futures Association (NFA) effective August 2015. Certain management persons and employees of AUIM are Associated Persons under AUIM’s CTA registration.

## C. Relationships with Related Persons

### 1. Participating Affiliate


As referenced in Item 8.B.1, Methods of Analysis, Investment Strategies and Risk of Loss - Methods of Analysis: Sector and security-level idea generation, AUIM and AIM share a Global Research Platform. AIM is not registered with the SEC or any state authorities. AIM is a subsidiary of Aegon Asset Management Holding Company (“AAM BV”).

AUIM receives investment research, advice and recommendations on corporate and sovereign debt issuers and securities from certain AIM personnel through a participating affiliate arrangement. These AIM personnel, with respect to their global research activities, are considered AUIM associated persons, are subject to certain of AUIM’s compliance policies and procedures (and related monitoring by AUIM and AIM), and are subject to AUIM’s supervision with respect to their Global Research Platform activities.

AUIM has identified the following AIM personnel as associated persons under the participating affiliate arrangement: Natalie Beinisch, Iavor Botev, Egbert Bronsema, Pradeep Chandra, Andries de Boer, Aurelien Drevon, Michael Etezade Keyhani, Paul Gruntjes, Tianshu He, Jordy Hermanns, Adrienne Hill-Strathy, Maarten Jan Hoefnagel, Umer Javed, Jeroen Kreuk, Jonathan Lam, Micahel Lelkens, Jieyun Lian, Brahim Marghadi, Frank Meijer, Derek Milner, Rens Ramaekers, Ruud Ramaekers, Edward Reus, Jan Schaap, Boudewijn Schoon, Esther Schreurs, Tim Sterk, Balint Vagvolgyi, Glen Van Dam, Olaf Van den Heuvel, Ewout Van der Meer, Leonard Zwikker, Frido Rolloos, Roger Wildeboer Schut, Robert-Jan van der Mark, Harald Walkate, Ian Menezes, Jacob Vijverberg, Ferry Krieger, Wim Almeloo, Arif Bagasrawalla, Andrey Belyakov, Eddo Bogaard, Martin Bottenberg, Henk Eggens, Csilla Ezsias, Spencer Hogeweg, Serdar Kucukakin, Eva Mulder, Johan Rol, Jan Frederik Slijkerman, Hendrik Tuch, Emanuele Fanelli, Michael Martherus, Fares Chachem, Huihong Wang, Jesus Martinez, Marcel Zuilen, Maurtis de Ruiter, Serdar Kucukakin and Stijin Stortelder

AUIM’s investment professionals can use investment research, advice, and recommendations from AIM personnel in making investment decisions for AUIM’s clients. However, only AUIM investment professionals make investment and trading decisions on behalf of AUIM’s clients.





AUIM and AIM independently manage investment strategies that separately utilize and depend on the Global Research Platform. Conflicts of interest, or at least the appearance of conflicts, will arise when portfolio managers from each firm invest or trade in the same securities or issuers on behalf of their respective clients. These conflicts can include advance access to investment research that results in the preferential treatment or the possibility of preferential allocation of securities trading opportunities that have limited availability.

AUIM has developed policies and monitoring designed to reasonably ensure that the activities performed by associated persons comply with applicable regulatory requirements and address material conflicts of interest.

## *2. AURA and AUIM Employee Sharing and Services Sharing Agreement*

Certain AUIM employees perform the following services for AURA: internal audit, information technology support, information security, project management, client services, compliance, human resources, legal, marketing and distribution, operational risk management, portfolio risk management and control, public relations and communications, records management, finance and accounting, and vendor management. Certain AURA employees perform the following services for AUIM: investment research and legal services.

## *3. Dual Employees and Shared Resources*

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

- Certain senior managers who work within the Aegon Asset Management group of companies are involved in aspects of AUIM's business activities but do not exercise control over setting strategy, policy and investment decision-making for AUIM's clients. Authority and responsibility for investment decision-making rests with AUIM's portfolio management teams.
- Various investment personnel within the Aegon Asset Management group of companies collaborate on development of the house views (see Top-Down Analysis under Item 8.B, Methods of Analysis, Investment Strategies and Risk of Loss - Methods of Analysis), 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.

- Certain AUIM Supervised Persons (as defined in Item 11.A, Code of Ethics – Standards of Conduct, below) serve as dual employees for various affiliates (e.g. various Transamerica insurance companies and Massachusetts Fidelity Trust Company). Some Supervised Persons also serve as senior managers, officers, or directors for one or more affiliates (e.g. AURA and Massachusetts Fidelity Trust Company).
- AUIM shares facilities with affiliates (e.g. AURA and various Transamerica insurance companies) and relies on the broader Aegon organization for centralized business functions such as operations, information technology, human resources, business continuity, legal, finance, payroll, compliance, enterprise risk management, and internal audit. Many of these activities are performed through global matrix reporting arrangements. Some of the centralized services can have a portion of the process outsourced to a third-party provider.
- Certain Supervised Persons will be involved in investment decision-making, trading processes, or administration for accounts managed on behalf of affiliates (e.g. various Transamerica insurance companies).
- Certain affiliates (e.g. Aegon Asset Management Asia, Aegon Investment Management B.V. and Kames Capital) assist AUIM in various capacities including identifying prospective clients, understanding the regulatory requirements in certain foreign jurisdictions, and managing client relationships.

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



#### *4. Insurance Companies and Other Affiliates*

AUIM serves as investment adviser to various insurance companies (e.g. Transamerica) 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 also performs administrative and back-office functions on behalf of these affiliated insurance companies that are not generally performed for unaffiliated clients.

#### *5. Pooled Investment Vehicles*

AUIM serves as sub-adviser for several open-end mutual funds that are sponsored and managed 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 serves as sub-adviser to a number of pooled investment vehicles sponsored or managed by U.S. (e.g. Massachusetts Fidelity Trust Company) or foreign Aegon affiliates (e.g. Aegon Investment Management B.V.).

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

#### *6. Other Investment Advisers*

AUIM serves as the sub-adviser for its foreign affiliate, Aegon Investment Management B.V.

#### *7. Conflicts of Interest*

Affiliate relationships, the most significant of which are insurance companies (e.g. various Transamerica insurance companies), represent AUIM's largest clients. A conflict of interest, including but not limited to conflicts of interest when allocating investment opportunities, will 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 equitable, where applicable, with the decisions made for affiliated accounts.

AUIM provides certain investment research that it creates for its discretionary investment advisory clients to a nondiscretionary affiliate client. Similarly, AUIM prepares investment research for its nondiscretionary affiliate client that could benefit its discretionary clients. AUIM has addressed the conflict of interest by limiting the research provided to issuer level research and not providing trade recommendations to the affiliate.

### **D. 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 equity and RMB bond markets.

AUIM is registered with The Netherlands Authority for Financial Markets as a manager of an alternative investment fund.

AUIM is registered with the South Korean Financial Supervisory Service as a Cross-Border Discretionary Investment Manager.

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 have access to non-public information regarding clients’ purchase or sale of securities, holdings, or research recommendations are deemed to be Access Persons and are subject to enhanced Code requirements specifically related to personal securities transactions. Access Persons 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. Accordingly, AUIM Access Persons may not:

- a. Profit, or cause others to profit, based on his or her knowledge of completed or contemplated client transactions;
- b. Engage in fraudulent conduct in connection with the trading of securities in a client account; or
- c. Personally benefit by causing a client to act, or fail to act, in making investment decisions.

To further mitigate potential conflicts of interest, the Code imposes restrictions on personal securities transactions in which Access Persons have a beneficial interest, including preclearance and holding-period requirements for certain reportable securities.

Subject to the restrictions imposed on personal securities transactions within the Code, including blackout periods and preclearance requirements, Access Persons are permitted to transact in the same securities for their personal accounts as the firm purchases or sells on behalf of its clients. Access Persons also have the opportunity to invest in certain public or private investment vehicles (directly or through their individually managed 401(k) accounts) that are advised or subadvised by AUIM.

AUIM Supervised Persons have an ethical and legal obligation to avoid conflict-of-interest situations, disclose potential conflicts, and seek clarification when warranted. To that end, AUIM Supervised Persons must comply with restrictions and reporting requirements related to the offering or receipt of gifts and entertainment. Supervised Persons must also obtain pre-approval for outside business activities that could conflict with their duties to AUIM or its clients.

Certain AIM personnel provide AUIM with investment research, advice and recommendations through a participating affiliate arrangement (see in Item 10.C.1, Other Financial Industry Activities and Affiliations – Relationships with Related Persons: Participating Affiliate). These personnel, with respect to their research, advice and recommendation activities, are considered Access Persons and subject to the Code.

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

AUIM manages accounts on behalf of related persons but does not generally 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. If AUIM engages in these principal trades, it will do so in compliance with Section 206(3) of the Act.

See Item 12.E, Brokerage Practices - Cross Transactions for a description of cross trades.

## C. Other Financial Interests

In certain circumstances AUIM portfolio managers will invest in securities issued by third parties, but managed by AUIM in lieu of similar securities issued and managed by independent entities. AUIM seeks to mitigate any conflicts of interest by ensuring that any such investments do not increase fees for AUIM or the portfolio managers involved in managing the securities.

## D. General Investment Advice

AUIM serves as investment manager for many clients. AUIM and its Supervised Persons can 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 can buy, sell or recommend for any other client or for their own accounts. Further, AUIM provides investment services or advice on specific securities or other investments that is made available to affiliated clients only.

Conflicts of interest exist any time an investment advisor manages accounts for more than one client, especially, when some of its clients are affiliated clients (e.g. various Transamerica insurance companies). To address such conflicts AUIM maintains policies and procedures and monitors for equitable trade allocation (see Item 12.D, Brokerage Practices - Trade Aggregation and Allocation).

# 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 has policies and procedures in place to ensure that fixed income and equity trades are only placed through approved brokers, which would not include brokers that are affiliated with AUIM. In placing derivative trades, derivative traders can only act on quotes from brokers with whom pre-existing derivative trading agreements are in place with clients or AUIM. These agreements include, but are not limited to: ISDA/CSA agreements, execution agreements, and give-up agreements.

AUIM prohibits trades to be placed with brokers based on conflicts of interest such as their receipt of gifts and entertainment, fund distribution, client referrals, recommending AUIM's services to current or prospective clients, or personal relationships. Finally, AUIM has not entered into any soft dollar arrangements and does not pay-up for research.

AUIM shall seek to direct the execution of securities transactions for its clients in such a manner that the client's total cost or proceeds in each transaction are the most favorable under the circumstances. AUIM recognizes that seeking best execution relies on a comprehensive trading process that incorporates various qualitative and quantitative factors, as well as retrospective review and oversight.

Although the best net price or yield for fixed income transactions, giving consideration to brokerage commissions, spreads and other costs, is an important and primary factor when traders select an appropriate broker for a given transaction, traders also consider other factors when seeking best execution for client trades such as: their knowledge of negotiated commission rates and spreads; the nature of the security or instrument to be traded; the size and type of transaction; the nature and character of the markets; the desired timing of the trade, the need for confidentiality and anonymity; the broker's settlement capabilities, reputation, and financial strength.

Secondary factors will also be considered such as: direct access to a broker's trading desk and the familiarity of the broker contact person(s) with AUIM's business and interests; the extensiveness of the broker's network and its ability to fill orders in limited availability securities; the extent to which a broker is willing to commit its own capital to fill difficult trades; research and market intelligence made available to AUIM by the broker; the extent to which the broker is able to provide access to companies through trade shows, conferences or other contacts; new issue allocations; and a broker's execution services rendered on a continuing basis. However, any secondary factors considered will not outweigh AUIM's primary goal of obtaining best net price in any given transaction and AUIM will not pay-up for research.



Traders placing derivatives transactions for clients seek competitive price quotations and multiple bids from brokers for which AUIM or clients have established trading arrangements. In seeking best execution, derivative traders may also consider the following prior to placing derivatives transactions with brokers: speed of a broker's quote, trading expertise and skill, integrity, trading facilities, responsiveness and capacity/capability in specific derivative transactions.

AUIM maintains a Best Execution Committee ("Committee") that is comprised of employees from Compliance and Investment Management. The Committee typically meets on a quarterly basis to discuss and review, among other things, order flow to existing brokers, the addition of brokers to the approved broker list, and quantitative and qualitative analysis related to best execution.

Senior Managers in the Derivatives Management team are responsible for monitoring transactions and dealer volumes for consistency with AUIM's Best Execution Policy.

## 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 provide research to AUIM. Generally speaking, such research includes 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 could be deemed soft dollar benefits even though no client brokerage commissions are used to pay for them.

AUIM's receipt of research presents a conflict of interest because AUIM receives a benefit that it does not have to pay for from its resources. This could incentivize AUIM 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 will be used in the management of all AUIM client accounts, including accounts of clients who might 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 shares certain research with its affiliates.

## C. Directed Brokerage

While AUIM generally selects broker-dealers to place client trades, clients can 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 arrangement could compromise AUIM's ability to seek best execution.
- AUIM will not negotiate commissions on the client's behalf, which could result in higher commissions, or less favorable net prices than would be the case if the firm alone selected the broker-dealers.
- The arrangement might prohibit the client from participating in aggregated trades for other client accounts, which could result in less favorable executions.
- The account might not generate returns equal to those of other AUIM clients in the same strategy who do not direct brokerage.

## 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 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;
- legal, regulatory, tax, and similar factors; and
- allocation considerations based on criteria such as round-lot provisions or minimum transaction size.

Many of the accounts that AUIM manages trade in the same securities. Given this, AUIM typically combines transactions for different clients into aggregated orders. This practice can enable the firm to seek more favorable executions and net prices. Portfolio managers can use any method to allocate transactions among participating accounts, provided the method is consistent with AUIM's policy is appropriately documented and, over time, no client is unduly favored over another.

## E. 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 will facilitate internal cross trades between two unrelated client accounts. When a mutual fund is involved, the internal cross transactions will be executed in accordance with the requirements, including pricing methodology, of Rule 17a-7 under the Investment Company Act of 1940. A conflict of interest exists when AUIM engages in internal cross transactions as AUIM is advising both clients. AUIM seeks to mitigate this conflict through policies and procedures that require any internal cross transactions to be effected at fair market value.

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 using 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.

## F. 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 the client's best interests are served 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 recurrence of, such errors.

AUIM will determine the amount to be reimbursed, if any, based on what it considers reasonable in light of all facts and circumstances related to such errors.



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 error 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 frequently reviews client accounts. Portfolio managers who have discretion over a client's portfolio are expected to review the portfolio's performance and account fundamentals, such as portfolio duration, on a daily basis. The portfolio managers also review monthly risk analysis and performance dispersion among client portfolios in the same or similar strategy. The level of review varies, depending on the level of activity, change, and volatility inherent with each account.

In addition, on a monthly basis, a committee meeting is held to review various reports associated with portfolio performance across AUIM clients. Committee attendees include the Chief Investment Officer, key investment personnel and senior representatives from other functional areas. The Committee typically discusses performance, the market environment, and portfolio dispersion. In situations where it appears that a particular portfolio is not generating performance similar to the performance of other portfolios within the same investment strategy, the portfolio manager will discuss the reasons for the performance dispersion.

Client investment guidelines are monitored on a daily basis by AUIM's Portfolio Risk Management & Control ("PRMC") team, a compliance oversight function that is separate from the portfolio management team. When necessary, portfolio managers are involved to resolve any identified compliance issues.

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

For unaffiliated clients, written reports typically are provided on a monthly basis. The contents of these reports may include, based on client preference, 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.


## Item 14 – Client Referrals and Other Compensation

### A. Client Referrals

AUIM has entered into compensation arrangements with certain affiliated (e.g. Aegon Asset Management Asia and AURA) and non-affiliated 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. These arrangements do not increase the fees charged by AUIM to any client.

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





AUIM and its affiliates also receive client referrals from unaffiliated consultants retained by investors. While AUIM does not directly compensate consultants, AUIM may from time to time make payments to these consultants to participate in conferences sponsored by the consultants in order to, among other things, obtain information about industry trends and investor investment needs. In addition, AUIM and its affiliates have historically purchased products or services from these consultants or their affiliates.

## B. Other Compensation

Other than compensation received directly from AUIM, employees cannot 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. These policies and procedures are reasonably designed 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 examination, 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. Clients are encouraged to carefully review their custodian's statements. 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 can 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 sub-advisory agreements with relevant third parties. As part of the client onboarding process, AUIM will review and negotiate the agreement with the client. 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. These guidelines are reviewed and discussed with the client during the onboarding process. When exercising discretionary authority, AUIM determines, without obtaining specific client consent, the types and quantities of securities to buy and sell. AUIM will not typically begin managing a client's account without a signed agreement including investment guidelines.

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 will 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.





AUIM engages in a variety of investment activities that can result in its Supervised Persons obtaining material, nonpublic information. In such instances, AUIM Supervised Persons must contact AUIM Compliance, which is authorized to take appropriate measures to prevent AUIM and Supervised Persons from unlawful trading on the basis of material, nonpublic information. The measures can include information barriers or a general restriction on trading in the relevant issuers. When a trading restriction is imposed by Compliance, AUIM will not be able to direct trades that it would otherwise make in client accounts, which could result in client accounts experiencing losses or being otherwise disadvantaged.

## 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 can also request that AUIM 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 will occasionally receive equity interests resulting from the restructure of debt security investments or in other special situations. AUIM will also vote proxies on the exchange-traded funds (ETFs) to which it provides investment advice and mutual funds that it subadvises. 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 will include abstention from voting. For example, AUIM will 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 can face conflicts of interest. AUIM has implemented internal processes designed to prevent conflicts of interest from influencing proxy voting decisions AUIM makes on behalf of its clients. For those proxies involving a conflict of interest, AUIM will seek to avoid any impropriety or the appearance of any impropriety. AUIM might also retain an independent third party to research the proxy and recommend a vote.

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