

**Item 1 – Cover Page**

AEGON USA Investment Management, LLC

4333 Edgewood Road NE

Cedar Rapids, Iowa 52499

(877) 234-6862

www.aegoninvestments.com

March 28, 2013

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 or by any state securities authority.

AUIM is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser.

Additional information about AEGON USA Investment Management, LLC is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

The discussion below summarizes the cumulative material changes made to this Brochure since the date of our last brochure dated March 29, 2012.

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

Item 4: In describing AUIM's advisory business, we added equities, including exchange traded funds ("ETFs"), exchange traded notes ("ETNs"), and derivatives to our investment management capabilities. In addition, AUIM closed its office in Louisville, Kentucky.

Item 5: A new fee schedule was added for Stable Value.

Item 8: The following sections were added: "Quantitative Strategies Investment Process" and "Derivatives". In addition, "Model Risk" and "Fund of Funds Risk" were added to the "Risk of Loss" section.

Item 10: The "Registered Representative" section was revised to reflect that AUIM has management persons and employees that are registered representatives of affiliated broker dealers. The "Relationships with Related Persons" section was updated to reflect current related persons. A new section was added titled "Foreign Financial Regulatory Authority", this section discusses that AUIM received approval from the China Securities Regulatory Commission to be a Qualified Foreign Institutional Investor.

Item 11: The "Material Financial Interest" section was revised to provide information about "Compensation of Portfolio Managers". The "Principal Trading and Cross Transaction" section was updated to reflect AUIM's policy that it will obtain written consent for cross transactions with non-affiliated clients.

Item 12: The "Trade Errors" section was updated to describe how AUIM processes trade errors, which includes a description of the responsibilities of AUIM's Trade Error Correction Committee.

Item 14: Information regarding AUIM's potential arrangements under which it may compensate a third party or related person for client referrals has been added. This section also discusses the conflicts this may create. In addition, a section was added discussing "Other Compensation".

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

*Currently, our Brochure may be requested by contacting us at (877) 234-6862 or [aegoninvestments@aegonusa.com](mailto:aegoninvestments@aegonusa.com). Our Brochure is also available free of charge on our web site [www.aegoninvestments.com](http://www.aegoninvestments.com).*

*Additional information about AUIM is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

### **Item 3 -Table of Contents**

Item 1 – Cover Page.....	i
Item 2 – Material Changes .....	ii
Item 3 - Table of Contents.....	iv
Item 4 – Advisory Business .....	1
Item 5 – Fees and Compensation .....	2
Item 6 – Performance-Based Fees and Side-By-Side Management.....	8
Item 7 – Types of Clients .....	8
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	9
Item 9 – Disciplinary Information .....	19
Item 10 – Other Financial Industry Activities and Affiliations.....	19
Item 11 – Code of Ethics .....	22
Item 12 – Brokerage Practices .....	24
Item 13 – Review of Accounts .....	27
Item 14 – Client Referrals and Other Compensation .....	28
Item 15 – Custody .....	29
Item 16 – Investment Discretion .....	29
Item 17 – Voting Client Securities .....	30
Item 18 – Financial Information.....	31

#### **Item 4 – Advisory Business**

AEGON USA Investment Management, LLC (“AUIM”) primarily manages investments in fixed income debt securities, equities, including exchange trade funds (“ETFs”), exchange traded notes (“ETNs”), and derivatives for its clients. AUIM provides investment advisory services to affiliated and non-affiliated clients; please see Item 10 for a discussion of certain of AUIM’s affiliates. AUIM provides asset liability management, asset allocation modeling and strategy services, as well as advice regarding private funds.

AUIM may provide administrative services, including certain back office and financial reporting related services, in connection with assets owned or managed by certain companies or clients. Before agreeing to manage a client's assets, AUIM typically requires a minimum asset level, which can differ depending upon the particular investment strategy involved. AUIM will tailor its advice to the needs of each particular client, depending upon such client’s situation and actual needs. Additionally, pursuant to the agreements between us and our clients, clients may impose restrictions on investments in certain securities or types of securities.

AUIM typically provides discretionary investment advisory services, but also provides some non-discretionary services to clients. As of December 31, 2012, AUIM had discretionary assets under management (“AUM”) in the amount of \$117,054,440,336 and non-discretionary AUM in the amount of \$27,237,446 for a total AUM of \$117,081,677,782. AUIM is dedicated to growing its assets under management by continuing to focus on the expansion of its client base. We believe we are well positioned to grow our business given our experienced team of investment professionals and our commitment to results and client service.

At AUIM, we believe that the key success factors to outperforming over the long-term are: recognition of the asymmetrical nature of risk in the fixed income market and the importance of strong risk management, a long term perspective and consistent focus on delivering competitive risk-adjusted returns over complete economic cycles, and balancing top-down macroeconomic analysis with proprietary traditional and non-traditional bottom-up research. See Item 8 for information about our investment strategies and methods of analysis.

AUIM employs approximately 400 professionals with offices in Baltimore, Maryland; Cedar Rapids, Iowa; and Chicago, Illinois.

AUIM is a limited liability company formed in 2001 under the laws of the State of Iowa and is an indirect subsidiary of AEGON N.V. (“AEGON”), a public company. AEGON has a primary listing on Euronext Amsterdam and has a secondary listing on the New York Stock Exchange. Previously, AEGON USA Investment Management, Inc. (“AUIM, Inc.”) was incorporated April 12, 1989, and was also a registered investment adviser. The assets that were being managed by AUIM, Inc. transitioned to being managed by AUIM on December 1, 2001.

AUIM is registered with the Securities and Exchange Commission (the “SEC”) as an investment advisor under the Investment Advisers Act of 1940, as amended (the “Act”). AUIM’s registration with the SEC became effective November 1, 2001, and its assigned IARD number is 114537. AUIM, with its principal place of business at 4333 Edgewood Road NE, Cedar Rapids, IA 52499-5338, has made notice filings with Illinois, Iowa, and Maryland as a federally regulated investment adviser.

#### **Item 5 – Fees and Compensation**

AUIM charges advisory fees consistent with applicable statutes and regulations and the relevant investment management agreement with each client.

The fees paid by the client are typically based on a client’s assets under management and may be negotiated, depending on various factors. These factors may include, but are not limited to: the services required by the client, client type, asset class, pre-existing relationship, the size of the account (current or anticipated) and/or other related accounts and investments in other strategies. As a result, clients with similar assets may have differing fee schedules, and some existing clients may pay higher or lower fees than new clients. Clients who negotiate a flat fee schedule may or may not pay a higher total fee than those who pay under a tiered schedule.

In general, upon opening an account, clients are billed for and pay fees prorated for that portion of the billing period, typically monthly or quarterly, that AUIM has provided investment services. Thereafter, when billed, clients pay AUIM a fee typically within 30 days following the close of each billing period. Upon termination, clients pay fees prorated for that portion of the billing period that AUIM provided investment services.

Custody of client assets is maintained by independent custodians. Clients pay all custody fees directly to the custodian.

AUIM's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses that may be incurred by the client. Clients may incur certain charges imposed by custodians, brokers and other third parties, such as custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and ETFs may also charge internal management fees, which are disclosed in a fund's prospectus.

Advisory fees vary according to the type of client and type of account. All fees are subject to negotiation. For non-affiliated clients, the standard annual fees are typically calculated as a percentage of market value for various asset classes as follows:

<b>Money Market (Cash Management)</b>	First	\$0 - \$25 million	.12%
	Next	\$25 - \$50 million	.12%
	Next	\$50 - \$100 million	.12%
	Next	\$100 - \$250 million	.10%
		Remaining Assets > \$250 million	.10%
<b>Enhanced Cash</b>	First	\$0 - \$25 million	.15%
	Next	\$25 - \$50 million	.15%
	Next	\$50 - \$100 million	.15%
	Next	\$100 - \$250 million	.11%
		Remaining Assets > \$250 million	.10%
<b>Core Fixed Income</b>	First	\$0 - \$25 million	.30%
	Next	\$25 - \$50 million	.24%
	Next	\$50 - \$100 million	.22%
	Next	\$100 - \$250 million	.18%
		Remaining Assets > \$250 million	.16%
<b>Long Government Credit</b>	First	\$0 - \$25 million	.25%

	Next	\$25 - \$50 million	.25%
	Next	\$50 - \$100 million	.25%
	Next	\$100 - \$250 million	.17%
		Remaining Assets > \$250 million	.16%
<b>Long Duration</b>	First	\$0 - \$25 million	.25%
	Next	\$25 - \$50 million	.25%
	Next	\$50 - \$100 million	.25%
	Next	\$100 - \$250 million	.17%
		Remaining Assets > \$250 million	.16%
<b>Core Plus Fixed Income</b>	First	\$0 - \$25 million	.32%
	Next	\$25 - \$50 million	.28%
	Next	\$50 - \$100 million	.26%
	Next	\$100 - \$250 million	.20%
		Remaining Assets > \$250 million	.19%
<b>Investment Grade Fixed Income</b>	First	\$0 - \$25 million	.30%
	Next	\$25 - \$50 million	.26%
	Next	\$50 - \$100 million	.24%
	Next	\$100 - \$250 million	.20%
		Remaining Assets > \$250 million	.18%
<b>Government Bonds</b>	First	\$0 - \$25 million	.22%
	Next	\$25 - \$50 million	.20%



	Next	\$50 - \$100 million	.16%
	Next	\$100 - \$250 million	.14%
	Remaining Assets >	\$250 million	.12%
<b>Stable Value</b>	First	\$0 - \$25 million	.26%
	Next	\$25 - \$50 million	.20%
	Next	\$50 - \$100 million	.17%
	Next	\$100 - \$250 million	.14%
	Remaining Assets >	\$250 million	.12%
<b>Short Duration</b>	First	\$0 - \$25 million	.25%
	Next	\$25 - \$50 million	.20%
	Next	\$50 - \$100 million	.17%
	Next	\$100 - \$250 million	.14%
	Remaining Assets >	\$250 million	.14%
<b>Ultra Short Duration</b>	First	\$0 - \$25 million	.22%
	Next	\$25 - \$50 million	.20%
	Next	\$50 - \$100 million	.17%
	Next	\$100 - \$250 million	.14%
	Remaining Assets >	\$250 million	.14%
<b>Mortgage Backed Securities</b>	First	\$0 - \$25 million	.33%
	Next	\$25 - \$50 million	.32%
	Next	\$50 - \$100 million	.28%
	Next	\$100 - \$250 million	.25%
	Remaining Assets >	\$250 million	.24%

### **Commercial Mortgage Backed Securities**

First	\$0 - \$25 million	.38%
Next	\$25 - \$50 million	.37%
Next	\$50 - \$100 million	.33%
Next	\$100 - \$250 million	.30%
	Remaining Assets > \$250 million	.29%

### **Emerging Markets Fixed Income**

First	\$0 - \$25 million	.50%
Next	\$25 - \$50 million	.50%
Next	\$50 - \$100 million	.48%
Next	\$100 - \$250 million	.42%
	Remaining Assets > \$250 million	.38%

### **Emerging Markets Local Currency Debt (Unhedged)**

First	\$0 - \$25 million	.60%
Next	\$25 - \$50 million	.56%
Next	\$50 - \$100 million	.52%
Next	\$100 - \$250 million	.47%
	Remaining Assets > \$250 million	.43%

### **Leveraged Loans**

First	\$0 - \$25 million	.50%
Next	\$25 - \$50 million	.50%
Next	\$50 - \$100 million	.45%
Next	\$100 - \$250 million	.42%
	Remaining Assets > \$250 million	.40%

<b>High Yield Fixed Income</b>	First	\$0 - \$25 million	.50%
	Next	\$25 - \$50 million	.50%
	Next	\$50 - \$100 million	.40%
	Next	\$100 - \$250 million	.40%
	Remaining Assets > \$250 million		.37%
<b>Convertible Securities</b>	First	0 - \$25 million	.58%
	Next	\$25 - \$50 million	.50%
	Remaining Assets > \$250 million		.48%
<b>Credit Opportunities</b>	All Amounts:		
	1.50% plus 15% carry over the negotiated preferred return. <i>(see Item 6: Performance Based Fees and Side-By-Side Management for further discussion).</i>		

Fees for entities affiliated with AUIM may differ from the above fee schedules for non-affiliated client accounts. Fees for certain sub-advisory relationships may also differ from the above fee schedule. All fees associated with mutual funds and variable annuity products that are sub-advised by AUIM, are disclosed in their respective fund prospectus.

In addition to fees calculated based on assets under management, AUIM may also charge an annual fee of approximately \$5,000 for certain accounts to cover administrative overhead costs as well as performance fees as described in Item 6.

For derivative contracts, depending on the agreement with a client, AUIM may also charge a fee of approximately \$1,050 per derivative contract per quarter for each derivatives contract in the client's account as of the last day of the prior quarter. In addition, fees may be charged for research, analysis and measurement relating to equity derivatives.

Item 12 describes the factors that AUIM considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation.

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

In addition to the fees described in Item 5, AUIM may also negotiate a fee arrangement with certain qualified clients (as defined by the Act) that includes a performance based fee. Performance based fees are typically calculated based on a share of capital gains on or capital appreciation of the assets of a client. In such cases, AUIM will structure a performance or incentive fee arrangement subject to Section 205(a)(1) of the Act in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. Charging performance-based fees may create an incentive for AUIM to recommend investments that may be riskier or more speculative than those that would be recommended under a non-performance-based fee arrangement. In addition, certain AUIM employees may manage accounts that include performance based fees as well as accounts that only have asset based fees. Such fee arrangements may create an incentive to favor performance based fee paying accounts over other accounts in the allocation of investment opportunities. AUIM mitigates these conflicts not only through its policies and procedures that are designed to ensure that all clients are treated fairly and equally and are the recipients of the fair allocation of investment opportunities, but also through training of AUIM investment team members.

See Item 12 for additional information about AUIM's Trade Aggregation and Allocation policy.

## **Item 7 – Types of Clients**

AUIM provides investment management services to insurance companies, corporate pension and profit-sharing plans, benefit plans, investment companies (including 2a-7 and closed end funds), pooled investment vehicles (other than investment companies), banks, charitable foundations, high net worth individuals, foreign funds such as Undertakings for Collective Investments in Transferable Securities ("UCITS"), other U.S. and international institutions, and other investment advisers.

AUIM typically requires a minimum balance of \$10 million for opening new client accounts. However, in certain circumstances the minimum amount may be waived.

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

### **Methods of Analysis and Investment Strategies**

AUIM's investment philosophy and strategies draw on its skilled investment teams, the perspectives of professionals across the credit-quality spectrum and the insights of a dedicated research staff.

#### ***Investment Strategies***

AUIM develops and designs investment strategies to meet its clients' needs. Examples of prominent investment strategies include: total return strategies, both for a single asset class and for multiple asset classes across the fixed income spectrum; asset liability management, which encompasses duration-sensitive management strategies as well as cash flow management; and constrained strategies based on client restrictions, which includes such parameters as rating limitations, position limits, etc. AUIM also delivers macroeconomic and model driven asset allocation strategies, which are either developed by AUIM or based on client parameters and/or requirements.

#### ***Fixed Income Investment Process***

AUIM employs a disciplined team-oriented fixed income investment process. AUIM focuses on the macroeconomic environment, fundamentals, technical analysis, and valuation at each stage of the investment decision process. The process is broken down into five main categories:

- Consideration of the macroeconomic environment
- Sector and security level idea generation
- Fundamental research review process and decision making
- Management and monitoring
- Risk overlay

#### ***Consideration of the Macroeconomic Environment***

AUIM's view of the macroeconomic environment and changes in such environment are formulated through a series of periodic meetings by the fixed income portfolio managers and research analysts. Outputs from these meetings include macroeconomic and market outlooks for the economy, interest rates, and the relative value of fixed income asset classes. These views guide decisions on portfolio duration and yield curve positioning, as

well as sector allocations across broad categories of credit, structured products and government securities.

#### *Sector and Security Level Idea Generation*

The portfolio managers and research analysts collectively contribute to idea generation. AUIM begins its investment process with fundamental independent bottom-up research of issuers, securities and sectors, leveraging the knowledge and skills of both teams. In the credit review process, AUIM utilizes a proprietary financial model where analysts evaluate financial statements with particular focus on cash flow generation, debt levels, maturity schedules, liquidity, and projections of future credit profiles. For reviews of structured securities, AUIM utilizes proprietary and third party modeling software to determine which securities offer attractive relative value versus the benchmarks. Security specific analysis for structured securities is focused on a quantitative approach to evaluating the relative value of different structures and inter-sector positioning. If a credit or structured product is deemed to have material downside risk, it is reassessed by the investment team prior to investment. In those circumstances additional valuation and liquidity scenario analysis is performed, which provides for a more comprehensive analysis of the downside risks inherent in the investment opportunity.

#### *Fundamental Research Review and Decision Making*

AUIM focuses on proprietary fundamental research and active communication between research analysts and portfolio managers. The analysts are responsible for covering the companies within a set of specific industries across the entire credit quality spectrum. This provides important industry context of all major players and gives AUIM an advantage in areas where credits are in transition. The analysts are primarily responsible for strict underwriting of new ideas being considered for the portfolio, proactive ongoing monitoring of the existing portfolio in their areas of expertise, and structured periodic reviews of their industries. The analyst team also uses this fundamental knowledge to help identify attractive relative value and absolute return ideas, which are then communicated to the portfolio managers. AUIM's core focus is on fundamental credit analysis including forming its own opinions on credit quality and assigning appropriate internal credit ratings. These fundamental views are the driver of our work related to relative value ideas, and are the starting point for the bottom-up portion of our portfolio construction and credit strategy work.

In addition, an overlay of top-down economic, business cycle and sector trend analysis is applied to investment candidates, which influences our willingness to take credit risk in certain industry or rating categories. Sector weights are compared to the underlying benchmark; however, the benchmark is a baseline, not a blueprint. AUIM is willing, and often does, accept significant tracking error when compared to the benchmark, depending on the underlying fundamental view of a sector.

### *Management and Monitoring*

AUIM's underwriting bias tends toward sectors with solid cash flow and dynamic or strong asset coverage metrics. During business cycle periods, we may decide to materially underweight or avoid certain sectors based on our fundamental outlook. In spite of that, the investment team continuously looks for opportunities where credits are undervalued and misunderstood by the market.

In the team-based environment, AUIM collaborates on both buy and sell decisions by considering input from the team members before making a decision. Final decisions, however, reside with the portfolio management team.

AUIM's sell discipline tends to fall into two broad categories: credit related or relative value trade.

- *Credit related.* The credit related category includes any new information that would alter the risk or return profile for the company. Credits are constantly monitored by the research group for new information. If a credit is experiencing significant price volatility, AUIM will re-evaluate that credit to ensure our investment thesis is still sound. AUIM does not have predetermined triggers for reviews, however, they tend to occur when a security under-performs by 5-10% on a relative basis. Given the continuous flow of information, decisions can be made and enacted quickly following reviews by the investment team.
- *Relative value trade.* Relative value trades may result from movement in security values, general market conditions or shifts in the overall portfolio strategy. Given AUIM's view that the largest component of returns is generated from the credit decision, AUIM tends to be cautious when conducting relative value trading and makes sure it considers all factors, including, but not limited to, client impact and transaction costs.

### *Risk Overlay*

AUIM has ingrained a strong risk management process into its investment framework. At the heart of this risk management culture is our rigorous credit review process. This includes the close interaction and involvement in credit underwriting between our research analysts, portfolio managers, and investment team. In addition, our systems provide AUIM with a variety of risk and compliance metrics to manage the accounts to meet client objectives.

Risk management typically occurs through three main avenues:

- *Traditional and distressed credit research efforts.* AUIM feels the combination of a traditional research effort and a distressed research effort provides an additional measure of underwriting scrutiny into the credit review process. This in turn allows AUIM to have a better understanding of the fundamental downside risks in credits throughout the portfolio and allows AUIM to make more grounded risk/reward decisions.
- *Measurement of Risk/Return Metrics.* AUIM's use of technology allows for desk top access to a variety of risk-related metrics during the portfolio management process. The primary tool is BlackRock's Aladdin® system which provides desk top access to a variety of risk measures including portfolio positioning information, tracking error information, value at risk, scenario analysis, and the ability to measure portfolio risk relative to the benchmark under a variety of market scenarios already established in the system. In addition, the system allows for customization of those scenarios in order to more fully incorporate AUIM's broader market outlook.
- *Monitoring of Risk Limits.* In addition to the risk metrics available in the BlackRock Aladdin® system, we also have the ability to monitor potential compliance issues on a real-time basis. Our system provides for both pre and post trade capabilities, which helps to ensure that the accounts are managed to client guidelines. In addition to general portfolio management and monitoring, AUIM has an independent portfolio risk compliance team ("PRC") that, based on the relevant client agreement, monitors client guidelines within the BlackRock Aladdin® system. PRC will monitor, through the use of the BlackRock Aladdin® system, any warnings or issues and will follow up with the relevant portfolio manager to ensure issue resolution.

In constructing client accounts, AUIM considers measures of risk embedded in an individual security (default, illiquidity, coupon deferral, etc.) to ensure that the account is



adequately compensated for purchasing that security. By constructing a balanced, well-diversified portfolio AUIM believes it can minimize these risks to the portfolio as a whole.

### ***Quantitative Strategies Investment Process***

AUIM utilizes a disciplined model-based investment process in managing our quantitative strategies. AUIM focuses on economic indicators, market indicators and technical analysis at each stage of the investment process. Portfolios are designed to have exposure to multiple asset classes and/or geographic regions using ETFs and ETNs that track the various asset classes and geographic regions. The models incorporate certain volatility controls which attempt to manage risks associated with economic downturns. Depending on the investment objectives, the models are designed to perform strategic and/or tactical asset allocation.

### ***Derivatives***

AUIM designs and executes derivative strategies which target the capital markets exposure management of a client's assets and/or liabilities. These derivative strategies are typically performed for affiliated insurance entities. In addition, non-affiliated clients may use derivatives to hedge certain types of investment exposures. Derivative transactions may include instruments that are cleared through regulated exchanges or executed "over-the-counter" between the client and a derivatives dealer. AUIM's policy is that all derivative transactions made on behalf of affiliated or unaffiliated clients must be traded under an approved derivatives program ("Derivative Program"), which describes the guidelines for execution and management of the derivative transactions. Derivatives transactions are documented under industry standard trading documents including but not limited to ISDA Master Agreements and Future Account Agreements. AUIM performs ongoing monitoring of a client's derivative positions, as may be required under the terms of the client's Derivative Program.

### ***Risk of Loss***

Investing in securities involves risk of loss that clients should be prepared to bear.

## ***Risks***

- **Interest Rate Risk**

Interest rate risk is the risk that fixed income securities and other instruments in a portfolio will decline in value because of an increase in interest rates. As nominal interest rates rise, the value of certain fixed income securities is likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. The values of equities and other non-fixed income securities may also decline due to fluctuations in interest rates.

Variable and floating rate securities generally are less sensitive to nominal interest rate changes but may also decline in value when interest rates rise. Conversely, floating rate securities will generally not increase in value as much as their fixed-rate counterpart if nominal interest rates decline.

- **Credit Risk**

An investor could lose money if the issuer or guarantor of a fixed income security (including a security purchased with securities lending collateral), or the counterparty to a derivatives contract, repurchase agreement or a loan of portfolio securities, is unable or unwilling, or is perceived (whether by market participants, ratings agencies, pricing services or otherwise) as unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. A downgrade of the credit of a security may also decrease its value. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings. If the issuer of a security is in default with respect to interest or principal payments, an investor may lose its entire investment.

- **High Yield Risk**

Investments in high yield securities and unrated securities of similar credit quality (commonly known as “junk bonds”) may be subject to greater levels of credit and liquidity risk than investment grade securities. High Yield securities are considered predominately speculative with respect to the issuer’s continuing ability to make principal and interest payments. An economic downturn or period of high or rising interest rates could adversely affect the market for these securities and reduce the

ability to sell these securities (liquidity risk). As noted in the Credit Risk section, if the issuer of a security is in default with respect to interest or principal payments, an investor may lose its entire investment.

- **Market Risk**

The market price of securities may go up or down, sometimes rapidly or unpredictably. Securities may decline in value due to factors affecting securities markets generally or particular industries represented in the securities markets. The value of a security may decline due to general market conditions that are not specifically related to a particular company or industry, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. During a general downturn in the securities markets, multiple asset classes may decline in value simultaneously.

- **Issuer Risk**

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

- **Liquidity Risk**

Liquidity risk exists when particular investments are difficult to purchase or sell. Illiquid securities are securities that cannot be disposed of within a reasonable time in the ordinary course of business at approximately the value at which a manager has valued the securities. Investments in illiquid securities may adversely impact returns if a manager is unable to sell the illiquid securities at an advantageous time or price. Additionally, the market for certain investments may become illiquid under adverse market or economic conditions independent of any specific adverse changes in the conditions of a particular issuer.

- **Derivatives Risk**

Derivatives are financial contracts whose value depends on, or are derived from, the value of an underlying asset, reference rate or index. Derivatives are typically used as a

substitute for taking a position in the underlying asset and/or as part of a strategy designed to reduce exposure to other risks, such as interest rate or currency risk. Managers may also use derivatives for leverage, in which case their use would involve leveraging risk. The use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks described elsewhere, such as liquidity risk, interest rate risk, market risk, credit risk and management risk. They also involve the risk of mispricing or improper valuation and the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index. Certain derivative instruments can lose more than the principal amount invested.

- **Mortgage-Related and Other Asset-Backed Risk**

Mortgage-related and other asset-backed securities often involve risks that are different from or more acute than risks associated with other types of debt instruments. Generally, rising interest rates tend to extend the duration of fixed rate mortgage-related securities, making them more sensitive to changes in future interest rates. As a result, in a period of rising interest rates these investments may lengthen and exhibit additional volatility. This is known as extension risk. In addition, adjustable and fixed rate mortgage-related securities are subject to prepayment risk. When interest rates decline, borrowers may pay off their mortgages sooner than expected. This can reduce returns because the Fund may have to reinvest cash at the lower prevailing interest rates. Investments in other asset-backed securities are subject to risks similar to those associated with mortgage-related securities, as well as additional risks associated with the nature of the underlying assets and the servicing of those assets.

- **Foreign (Non-U.S.) Investment Risk**

Investments in foreign (non-U.S., or non-home currencies for non-U.S. investors) securities may experience more rapid and extreme changes in value than investments in securities of U.S. companies. The securities markets of many foreign countries are relatively small and have less depth, with a limited number of companies representing a small number of industries. Additionally, issuers of foreign securities are often not subject to the same degree of regulation as are U.S. issuers. Reporting, accounting and auditing standards of foreign countries differ, in some cases significantly, from U.S. standards. Also, nationalization, expropriation or confiscatory taxation, currency

blockage, political changes or diplomatic developments could adversely affect investments in a foreign country. In the event of nationalization, expropriation or other confiscation, an investor could lose its entire investment in foreign securities. Adverse conditions in a certain region can adversely affect securities of other countries whose economies appear to be unrelated.

- **Emerging Markets Risk**

Foreign investment risk may be particularly high for investments in emerging market securities that are economically tied to countries with developing economies. These securities may present market, credit, currency, liquidity, legal, political and other risks different from, or greater than, the risks of investing in developed foreign countries.

- **Currency Risk**

Direct investments in foreign (non-U.S.) currencies or in securities that trade in, and receive revenues in, foreign (non-U.S.) currencies, or in derivatives that provide exposure to foreign (non-U.S.) currencies, will be subject to the risk that those currencies will decline in value relative to the U.S. dollar.

Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by U.S. or foreign governments, central banks or supranational entities such as the International Monetary Fund, or by the imposition of currency controls or other political developments in the United States or abroad. As a result, investments in foreign currency-denominated securities may reduce returns.

- **Issuer Non-Diversification Risk**

Focusing investments in a small number of issuers, industries or foreign currencies increases risk. “Non-diversified” portfolios may invest a greater percentage of their assets in the securities of a single issuer (such as bonds issued by a particular company) than funds that are “diversified.” Portfolios that invest in a relatively small number of issuers are more susceptible to risks associated with a single economic, political or regulatory occurrence than a more diversified portfolio might be. Some of those issuers also may present substantial credit or other risks.

- **Smaller Company Risk**

The general risks associated with fixed income securities are more pronounced for securities issued by companies with smaller market capitalizations. These companies may have limited product lines, markets or financial resources or they may depend on a few key employees. As a result, they may be subject to greater levels of credit, market and issuer risk. Securities of smaller companies may trade less frequently and in lesser volumes than more widely held securities and their values may fluctuate more sharply than other securities. Companies with medium-sized market capitalizations may have risks similar to those of smaller companies.

- **Management Risk**

Actively managed portfolios are subject to management risk. Individual portfolio managers will apply investment techniques and risk analyses in making investment decisions, but there can be no guarantee that these decisions will produce the desired results. Additionally, legislative, regulatory, or tax restrictions, policies or developments may affect the investment techniques available to each individual portfolio manager in connection with managing and may also adversely affect a manager's ability to achieve their investment objectives.

- **Geopolitical Risk**

The impact of international tension between nations, terrorist attacks and ongoing military and other actions, and any pandemic or other catastrophic event may adversely impact the portfolios. The continued threat of terrorism both within the United States and abroad, the ongoing military and similar actions, heightened security measures in response to these types of threats, and international tensions between nations may cause disruptions to commerce, reduce economic activity and perpetuate volatility in markets throughout the world. Some of the assets in an investment portfolio may also be adversely affected by declines in the securities markets and economic activity as a result of these factors. A severe pandemic or catastrophic event may cause significant volatility in global financial markets, disruptions to commerce and reduced economic activity. While such considerations are made during the portfolio construction process, it is difficult to predict to what extent individual

investments may suffer losses as a result of potential decreased commercial and economic activity, or how any such decrease might impact the ability of companies to pay interest or principal on their securities, or how the value of any underlying collateral might be affected.

- **Model Risk**

Models and data associated with models are subject to inherent risk. Clients that invest via strategies that rely on quantitative models and information and data supplied by third parties for use in such models are subject to the risks of (i) incorrect assumptions within the model, (ii) incorrect calibration of the model, (iii) incorrect data inputs, or (iv) incorrect implementation of the model. When models and data prove to be incorrect or incomplete, any decisions made in reliance thereon expose the client to potential risk of underperformance or loss.

- **Fund of Funds Risk**

A fund or portfolio that invests in ETFs and ETNs is subject to the risk that such ETFs and ETNs fail to adhere to their respective investment mandates which could expose the fund or portfolio to potential risk of underperformance or loss.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of an adviser or the integrity of such adviser's management. AUIM has no material legal or disciplinary information to disclose applicable to this Item 9.

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

### **Registered Representatives**

AUIM has certain management persons and other employees who are registered representatives of affiliated broker-dealers.

### **Relationships with Related Persons**

The following describes AUIM's relationships with certain of its advisory affiliates or persons under common control with AUIM. In certain cases, these relationships may create

conflicts of interest, the nature of which are described below along with how AUIM manages such conflicts.

#### *Pooled Investment Vehicles*

AUIM serves as sub-adviser for several open-end mutual funds, including the Transamerica Funds, Transamerica Series Trust, and Transamerica Partners Portfolio, each of which consists of several funds (the "Funds"). The adviser for the Funds is Transamerica Asset Management, Inc. ("TAM"), part of the AEGON family of companies, an affiliate of AUIM and a registered investment adviser. Transamerica Capital, Inc., an AEGON affiliated broker-dealer firm, serves as distributor for the Funds. AUIM also provides sub-advisory services to Transamerica Income Shares, Inc., a closed-end investment company advised by TAM.

AUIM serves as a sub-adviser to a number of open ended collective investment arrangements and pooled funds managed by AEGON Investment Management B.V., a Dutch affiliate ("AEGON BV"). In addition, AUIM serves as the sub-advisor to a Canadian fund managed by AEGON Capital Management, Inc. ("ACM") a Canadian affiliate.

AUIM serves as the managing member and investment adviser to Zero Beta Fund, LLC. This limited liability company 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. This limited liability company invests cash collateral received by AUIM's clients related to securities lending activities. Some of AUIM's affiliated insurance company clients are solicited to invest in this fund.

#### *Other Investment Advisers*

In addition to serving as a sub-adviser to ACM, AEGON BV and TAM, AUIM serves as a sub-adviser for AEGON Investment Management Ltd., which is a foreign investment adviser that is part of the AEGON family of companies and an affiliate of AUIM. In addition, AUIM serves as a sub-adviser for AEGON USA Realty Advisors, LLC, which is part of the AEGON family of companies and an affiliate of AUIM. AUIM also provides model management services to Transamerica Financial Services, Inc., which is also part of the AEGON family of companies and an affiliate of AUIM.



### *Insurance Companies*

AUIM serves as investment adviser to various affiliated insurance companies, the combined assets of these affiliates represents the largest portion of AUIM's assets under management. The following list of insurance companies are affiliated with AUIM and AUIM serves as investment adviser: AEGON Ireland plc; ARC Reinsurance Corporation; Canadian Premier Life Insurance Company; Global Preferred Re Ltd., Bermuda; Legacy General Insurance Company; LIICA Re I, Inc.; LIICA Re II, Inc.; MLIC Re I, Inc; Monumental Life Insurance Company; Pine Falls RE, Inc.; SA Reinsurance Ltd.; Southwest Equity Life Insurance Company; Stonebridge Casualty Insurance Company; Stonebridge Life Insurance Company; Stonebridge Reinsurance Company; Transamerica Advisors Life Insurance Company; Transamerica Advisors Life Insurance Company of New York; Transamerica Financial Life Insurance Company; Transamerica International Re (Bermuda) Ltd.; Transamerica Life Canada, Transamerica Life Insurance Company; Transamerica Life International (Bermuda) Ltd.; Transamerica Life (Bermuda) Ltd.; Transamerica Pacific Insurance Company, Ltd.; and Western Reserve Life Assurance Co. of Ohio. Each of these insurance companies is part of the AEGON family of companies and is an affiliate of AUIM.

### *Conflicts of Interest*

In the case of certain of the relationships above, a conflict of interest may arise when AUIM is acting for the accounts of affiliated and non-affiliated clients, including but not limited to, making decisions concerning allocations. In each case, AUIM recognizes the responsibility to treat all clients fairly and consistently, and portfolio decisions made for non-affiliated accounts will be consistent, where applicable, with the AUIM strategy being employed for affiliated accounts. Please see Item 16 for a description of AUIM's investment discretion, Item 12 for a description of our allocation policy, as well as Item 11 for a description of AUIM's policies on principal trading and cross transactions. In addition, please see Item 17 for a description of AUIM's securities voting policies.

### **Foreign Financial Regulatory Authority**

During 2012, AUIM applied and received approval from the China Securities Regulatory Commission to be a Qualified Foreign Institutional Investor ("QFII"). A QFII designation allows licensed foreign investors to participate in the Chinese A-shares and RMB bond markets.

## **Item 11 – Code of Ethics**

### **Code of Ethics**

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

AUIM employees have an ethical and legal obligation to avoid any conflicts of interest situations and to report potential conflicts and seek clarification when warranted. Among other things, the Code of Ethics prohibits the acceptance of gifts, services, trips, entertainment and other items of value and participation in personal or unrelated business transactions that create a conflict of interest with AUIM or its clients.

Our Code is distributed to employees at the time they join our firm and typically once a year afterward. We also periodically provide training for different topical areas and conduct on-going monitoring of employee activity. All supervised persons at AUIM acknowledge the terms of the Code of Ethics annually.

AUIM must not only adopt its Code of Ethics but also must implement and enforce its provisions effectively. Accordingly, AUIM has adopted compliance procedures to monitor compliance with the Code of Ethics. These procedures include:

- Pre-clearance of personal transactions in initial public offerings or limited offerings;
- Reporting of certain personal securities transactions;
- Adhering to black-out periods when personally purchasing or selling AEGON N.V. securities;
- Discouraging personal “day trading”; and
- Requiring all employees to identify certain securities accounts along with a listing of certain securities they own at the time they join the firm and annually afterward.

Upon discovering a violation of the Code of Ethics, AUIM may impose such sanctions as it deems appropriate, including, among other things, a letter of censure, disgorgement of

profits obtained in connection with a violation, the imposition of fines, restrictions on future personal trading, suspension, termination of employment, or criminal referral of the violator.

A copy of the Code of Ethics will be mailed, either electronically or through the postal service, to any client at any time upon request. AUIM's current or prospective clients may request a copy of AUIM's Code of Ethics by contacting us at (877) 234-6862 or at [aegoninvestments@aegonusa.com](mailto:aegoninvestments@aegonusa.com).

## **Material Financial Interests**

### **Compensation of Portfolio Managers**

The compensation program for Portfolio Manager's consists of a fixed base salary with a performance based incentive opportunity. Portfolio Managers generally participate in the incentive program with both cash and deferred components. Certain Senior Portfolio Managers have a significant component of their overall compensation package deferred. Portfolio Managers may participate in the AUIM long term compensation plan, which is a restricted stock program with payout based on a combination of AUIM and AEGON performance factors, including investment performance. Payment of the long term incentive program is made after a three-year vesting period. Incentive compensation participation percentages may vary by the level of employee.

The compensation arrangements noted above may create conflicts of interest associated with the metrics for portfolio investment performance. AUIM mitigates this conflict through our fair allocation procedures and training of members of the investment team.

### **Principal Trading and Cross Transactions**

AUIM may occasionally engage in "principal transactions" (i.e., those transactions where AUIM acting as principal for its own account or the proprietary account of an affiliate, buys from or sells any security to any unaffiliated advisory client). In such a situation, AUIM would disclose its principal capacity in writing to the client and obtain the client's consent to each principal transaction before the settlement of such transaction.

Generally, AUIM does not engage in "agency cross transactions" with non-affiliated clients (i.e., those transactions where AUIM, or any person controlled by or under common control with AUIM, acting as a broker between advisory client accounts, executes both a buy or a sell for the same security from one AUIM advisory client to another). In such a situation, it

is AUIM's policy to obtain written consent for such cross transactions from the non-affiliated clients.

AUIM's affiliated clients engage in internal cross transactions. These cross transactions are typically conducted due to a portfolio manager's or affiliated client's request, often for reasons such as reinsurance agreements, corporate actions or investment restrictions that would require moving the asset out of a specific affiliated client's account. AUIM does not receive compensation for such cross transactions. These transactions are typically priced as follows: For assets being transferred between accounts for the same affiliated client, these "book value" transfers can be transferred at any time during a month using book values as of the end of the prior month. For assets being transferred between affiliated clients, transfers are processed during the first ten business days of the month using the most recent month-end prices. If a transfer occurs at any other time during a month, assets must be re-priced and transferred within two business days of the effective date of the new prices. The re-pricing of assets is subject to AUIM's pricing policies and procedures.

### **General Investment Advice**

AUIM serves as investment manager for many clients. AUIM, its personnel and affiliates ("Affiliated Persons") may give advice or take action in performing duties for certain clients, or for their own accounts, that differ 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 Affiliated Persons may buy sell or recommend for any other client or for their own accounts. Our Code of Ethics does not generally prohibit personal trading activity by AUIM employees. In general and subject to some restrictions, employees may purchase or sell the same or similar securities at the same time that we place transactions for your account and the accounts of our other clients. However, we consistently monitor personal trading activities for conflicts with AUIM trading and to ensure that employees are adhering to the Code of Ethics.

### **Item 12 – Brokerage Practices**

#### **Soft Dollar Benefits**

AUIM's policy is not to utilize research, research-related products or other brokerage services on a soft dollar basis.

## **Selecting Broker-Dealers**

AUIM will choose the broker/dealer unless otherwise specified by the client. AUIM will execute securities transactions for its clients such that the client's total cost or proceeds in each transaction is the most favorable under the circumstances. Although best price is significant when selecting the appropriate broker/dealer for a given transaction, AUIM considers other factors when selecting a broker such as: financial strength, reputation, execution capability, responsiveness and the broker's willingness to negotiate pricing. In addition, some brokers may provide AUIM with research services, including recommendations and written research reports on industries or companies, which may also be considered when selecting a broker for a particular trade. These research services, however, are not provided pursuant to a "soft dollar" arrangement, and AUIM does not pay for these services.

AUIM negotiates the price of a security, which price will be as fair and reasonable as possible under the circumstances. Because AUIM operates primarily in the fixed income debt security market, commissions are not usually applicable when purchasing or selling such fixed income securities. In circumstances where commissions may be applicable, AUIM will negotiate such commissions and such commissions will be fair and reasonable given the circumstances.

AUIM does not utilize affiliated broker dealers.

## **Directed Brokerage**

When permitted by applicable law, AUIM may accept specific client instructions regarding directing a client's brokerage transactions to a particular broker-dealer. Such client instructions must be in writing. Any client instructions regarding directed brokerage are maintained by AUIM's compliance group.

If a client instructs AUIM to utilize a particular broker-dealer, AUIM will inform such client in writing that for any directed brokerage arrangements, AUIM will not negotiate commissions, may not obtain volume discounts or aggregate directed transactions, commissions will vary among AUIM clients and best execution may not be obtained. In such situations, our inability to obtain such volume discounts, for example, may cost a client more money.

## **Trade Aggregation and Allocation**

AUIM allocates securities among clients to help ensure that each client is treated fairly and objectively. When placing trade orders for a specific security simultaneously for multiple client accounts, AUIM is permitted to aggregate these orders across accounts. AUIM aggregates and allocates trades when we believe aggregation and allocation across client accounts would provide an economic benefit to those accounts. When AUIM places an aggregated order, the accounts participating in such order and each account's intended allocation must be recorded as soon as reasonably practicable. To ensure fair treatment among all client accounts, AUIM does not consider factors such as: account performance, account fees, or our affiliate relationships when aggregating and allocating orders.

Generally, various factors may influence a decision to allocate securities among client accounts, including but not limited to:

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

If an aggregated order is filled in its entirety, it will be allocated among client accounts in accordance with the intended allocations. If less than an entire aggregated order is executed, the allocation will be calculated pro rata based upon the original intended allocations, subject to minimum size requirements and round lot provisions. In certain cases, an alternate allocation methodology may be warranted, and if used, the alternate methodology and the reason for its application will be documented by AUIM personnel authorized to trade securities.

Certain security types with highly liquid markets are exempted from this policy, such as: money market instruments; U.S. Government securities, including agencies and agency mortgage-backed securities; and exchange traded funds. Also exempted from this policy are unique, highly specialized investments such as: private equity and mezzanine investments.

## **Trade Errors**

AUIM undertakes investment decisions for client accounts with the utmost care. To the extent that a trade error occurs, AUIM has adopted a trade error correction policy and procedures to protect its clients' interests.

Under the policy, the relevant trader, portfolio manager, or other staff member involved with a trade error is responsible for notifying AUIM's compliance team ("Compliance") of the error. Compliance works with the relevant parties to research the error and to ensure that the trade error documentation is complete to present to the Trade Error Correction Committee (the "TECC"). The TECC is responsible for reviewing and approving the trade error documentation, analyzing how errors have occurred and, where appropriate, recommending the appropriate means by which to reduce errors in the future. Once reviewed and approved by TECC, Compliance will document the trade error and the correction process. Compliance or its designee will then notify the client. The Chief Compliance Officer and/or his designee are responsible for maintaining all documentation of trade error corrections.

If a trade error causes a net loss for a client, AUIM will reimburse the client, unless the client expressly agrees otherwise in writing. If a trade error results in a net gain for a client, the client will receive the benefit of that gain, unless the client expressly agrees otherwise in writing.

## **Item 13 – Review of Accounts**

AUIM periodically reviews client accounts. The frequency of review varies, depending on the level of activity, change and volatility inherent with each account. As a result, such reviews will range from a daily basis to a monthly basis. Account fundamentals are reviewed on a regular basis. The movement of the pricing of securities in client accounts, purchases and sales are reviewed and examined on a monthly basis.

Our reviewers are typically senior vice presidents or vice presidents in the portfolio management area. The number of accounts assigned to a particular portfolio manager varies based upon the client type and the size of accounts. Reviews generally include monitoring the performance and compliance of the accounts with respect to investment guidelines and policies that have been adopted by AUIM.

For affiliated insurance company clients, reports are provided monthly, quarterly and annually. For affiliated corporate divisions, reports on account composition, purchase and sale activity and yields are provided monthly. Investment income trends, gains and losses and variance analyses are provided quarterly to affiliated corporate divisions. Each of these reports is typically in written format.

For unaffiliated clients, monthly or quarterly reports are typically provided, and a portfolio manager will usually meet with a client's board or decision-making body every twelve (12) to eighteen (18) months. The contents of any such reports may include the following: market commentary, account summaries (including monthly and year-to-date account changes), performance information, account statistics (account versus benchmark for yield to maturity, duration, average price and average coupon, asset class percent of account and top ten issuers percent of account), quality distribution, any applicable credit rating changes, a description of the account's holdings and any purchases or sales. Any such reports and meetings may vary, depending on the client's particular needs or requirements.

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

AUIM may enter into compensation arrangements with certain related persons who act as solicitors of clients for AUIM. In addition, AUIM may enter into arrangements with other persons who act as solicitors for clients for AUIM when it appears to AUIM that a solicitor may provide AUIM with access to clients AUIM might not otherwise be able to access. Such arrangements will at all times be maintained in compliance with Rule 206(4)-3 of the Act. AUIM may pay any such solicitor (i) a percentage of the management fee AUIM earns from the account a solicitor has introduced, (ii) a one-time fee, or (iii) any combination of (i) and (ii). Similarly, AUIM may pay referral compensation to its affiliates, joint venture partners, related persons, and/or their employees. That referral compensation does not increase the fees charged by AUIM to any client.

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



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

### **Other Compensation**

AUIM does not permit its employees to accept any form of compensation from non-clients for providing advisory services. AUIM maintains written policies and procedures with respect to the giving and receipt of gifts and entertainment and the giving of donations and contributions, which are reasonably designed to comply with applicable law, including pay-to-play restrictions. Those policies and procedures prohibit giving or receiving gifts, entertainment, donations, and contributions that AUIM determines are lavish or excessive under the circumstances.

### **Item 15 – Custody**

AUIM does not act as a custodian for client accounts and does not take physical custody of client assets. However, under Rule 206(4)-2 (the “Custody Rule”) under the Act, AUIM may be deemed to have custody of certain affiliated client assets. Clients typically select their custodian prior to or at the time of contracting with AUIM. Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains clients’ investment assets. The statements clients receive directly from the account custodian are the official record of a client’s account. To ensure that all account transactions are proper, AUIM urges clients to compare statements received from AUIM with the statements received directly from the client’s custodian. AUIM statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

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

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

policy statement or investment guidelines may be agreed to by the client that could limit AUIM's discretionary authority.

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

AUIM votes on behalf of all client accounts for which it has requisite discretionary authority except for situations in which any client notifies AUIM in writing that it has retained, and intends to exercise, the authority to vote their own securities. Clients may also ask AUIM to vote their securities in accordance with specific guidelines furnished by the client, in which case AUIM will vote such securities within the parameters of such guidelines.

AUIM primarily manages client accounts of fixed income securities and does not function to a significant extent, as a manager of equity securities other than ETFs. For fixed income clients, the issues with respect to which AUIM votes client securities generally involve amendments to loan documentation, borrower compliance with financial covenants, registration rights, prepayments, and insolvency and other distressed credit situations, rather than issues more commonly voted upon by holders or managers of equity securities, e.g. board of directors matters, general matters of corporate governance, choice of auditors and corporate social and environmental positions. Occasionally, however, AUIM's fixed income invested clients receive equity securities resulting from the restructure of debt security investments or other special situations. In the case of ETFs that AUIM invests in on behalf of its clients, the voting matters related to the companies within the ETF are voted by the ETF sponsor. In certain circumstances, the ETF may solicit proxy votes. In such cases, AUIM will vote in accordance with its proxy voting policies, as described below.

AUIM votes client securities in the best interest of its clients at all times. In general, votes will be determined on a case-by-case basis, after taking into consideration all factors relevant to the issues presented.

Because the issues on which AUIM votes client debt securities are unique to each particular borrower and relevant fact situation, and do not lend themselves to broad characterization as do many issues associated with the voting of equity security proxies, AUIM does not maintain voting policy guidelines regarding categories of issues that may come before debt security holders from time to time. AUIM, however, has adopted such guidelines for use in situations in which AUIM votes client equity securities. These guidelines provide a roadmap for arriving at voting decisions and are not meant to be exhaustive of all issues that may be raised in any or all proxy ballots or other voting opportunities. To the extent

relevant and appropriate, AUIM considers these guidelines when voting client debt securities.

Because of the expertise of its staff with the issues upon which it votes client debt securities generally, AUIM will not maintain the services of a qualified independent third party (an “Independent Third Party”) to provide guidance on such matters. Nevertheless, in appropriate situations, AUIM considers retaining the services of an Independent Third Party (either directly or via similar engagements made by affiliates) to assist with voting issues associated with client equity securities. In any such case, AUIM considers the research provided by the Independent Third Party when making voting decisions; however, the final determination on voting rests with AUIM.

AUIM recognizes the potential for material conflicts that may arise between its own interests and those of its clients. To address these concerns, AUIM takes one of the following steps to avoid any impropriety or the appearance of impropriety in any situation involving a conflict of interest:

- Vote in accordance with the recommendation of the Independent Third Party;
- Obtain the guidance of the client(s) whose account(s) are involved in the conflict;
- Obtain the review of the General Counsel of AUIM, or
- Vote in strict accordance with the Guidelines.

Clients may obtain a copy of AUIM’s complete proxy voting policies and procedures upon request. Clients may also obtain information from AUIM about how AUIM voted any proxies on behalf of their account(s) by contacting us at (877) 234-6862 or at [aegoninvestments@aegonusa.com](mailto:aegoninvestments@aegonusa.com).

### **Item 18 – Financial Information**

A registered investment adviser is required in this Item to provide you with certain financial information or disclosures about its financial condition. AUIM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.