MIFIDPRU 8 Disclosures for year ended 31 December 2022

June 2023

Background

This document discloses key information about Aegon Asset Management UK plc ('Aegon AM UK', 'we/us/our') in respect of our financial year ending 31 December 2022. Aegon AM UK is authorised and regulated by the Financial Conduct Authority ('FCA') and these disclosures are prepared in accordance with the requirements set out in the Prudential Sourcebook for MiFID Investment Firms ('MIFIDPRU') in the FCA Handbook. Aegon AM UK is a collective portfolio management investment firm and is classified as a 'non-SNI' (non-small and non-interconnected) MIFIDPRU Investment Firm. As such, we are required by MIFIDPRU 8 to disclose information on the following areas:

- Risk management objectives and policies;
- Governance arrangements;
- Own funds;
- Own funds requirements;
- Remuneration policy and practices.

The contents of this document are produced at least annually in line with the date of publication of our statutory accounts.

Risk management objectives and policies

Risk management framework

Aegon AM UK's established risk management framework is overseen by the Aegon AM UK Board (the 'Board') and has four key objectives:

- All directors, management and staff are accountable for managing risk in line with their roles and responsibilities;
- All significant enterprise risks and risk events are identified, measured, assessed, prioritised, managed, monitored and treated in a consistent and effective manner across the organisation;
- Appropriate and reliable risk management tools (including key risk indicators, loss databases, risk and control self-assessments, monitoring reviews, and stress and scenario testing) are deployed to support enterprise risk management, particularly management reporting, decision making and capital assessment; and
- Key stakeholders receive timely, dependable assurance that the organisation is managing the significant risks.

The Risk & Compliance function oversees the collation, aggregation and analysis of risk management information and challenges it prior to submission to the Board.

Aegon AM UK is not required by MIFIDPRU 7.3.1R to establish a risk committee since it falls below the threshold set out at MIFIDPRU 7.1.4R. However, the Governance, Risk and Compliance Committee ('GRCC') oversees and actively monitors risk-taking and risk management decisions across the wider Aegon Asset Management ('Aegon AM') group. It has the authority to adjust risk positions in line with defined risk strategy and risk tolerance. GRCC minutes are shared with the Board.

Risk appetite & tolerance

Responsibility for setting Aegon AM UK's strategy and, in turn, its risk appetite and tolerance, lies with the Board which has approved the following risk appetite statement: 'We aim to fulfil our promises towards our customers and other stakeholders by delivering a sustainable, growing, profitable business with strong resilience in capital reserves and liquidity, and by running a responsible business with effective controls. Our parent will provide us with the necessary support to trade through any challenges maintaining sufficient resources to operate within appetite.'

The Board has specified that Aegon AM UK will hold target capital of 20% in addition to the mandatory capital requirement. This represents the Board's overall risk appetite. The binding constraint on our tolerance is that we do not go below 100% of our capital requirement.

The Board's risk appetite is in line with the Aegon AM Capital Management policy which states that subsidiaries will maintain capital at a level of 110% of Sectoral Capital requirement ('SCR'). For Aegon AM UK, the SCR is set at the level of FCA's Early Warning Threshold which is 110% of our capital requirement.

Risk taxonomy

Aegon AM UK has determined a risk taxonomy which we apply in completing the annual Internal Capital Adequacy and Risk Assessment ('ICARA'). This sets out the most material risks that we believe we may be exposed to, either directly as part of our operations or indirectly through our investment activities on behalf of clients, along with the harms that may result.

Risk	Harms	Description
Operational risk	Harm to firm Harm to clients Harm to market	Operational risk is the risk of losses resulting from inadequate or failed internal or external processes, people and systems, or from external events. We consider operational risk to be the key category of risk applicable to asset management. This area of risk is governed by the Aegon Group Control Excellence Framework. Aegon AM UK reports quarterly to the GRCC and to Group Operational and Model Risk Management ('OMRM') on the status of the Control Excellence Framework. The risk profile is reported to GRCC and the Board quarterly, and monthly to OMRM.
Business risk	Harm to firm Harm to clients	Business risk is the risk of losses owing to failed or inadequate strategy execution, marketing and sales practices, distribution channels, pricing, investment returns, handling of customer complaints or late reaction to changes in the business environment. Business risk is predominantly captured within the Control Excellence Framework through the risk profile for Strategy execution and Projects and Pricing/Product development.
Concentration risk	Harm to firm	The composition of our revenues and earnings shows that concentration risk is a significant risk for our business. We have a major counterparty in Aegon UK, which could choose to switch assets away from Aegon AM UK. Maintaining our privileged position with Aegon UK is a key part of our business strategy. In the event of a full asset transfer taking place in the near future, Aegon AM UK would likely move into a wind-down scenario.
Liquidity risk	Harm to firm Harm to market	Liquidity risk is the risk that Aegon AM UK does not have sufficient liquid financial resources to meet its liabilities as they fall due. Aegon AM UK follows the principles outlined in the Aegon Group Liquidity Policy and applies more restrictive liquidity requirements, with all legal entities including Aegon AM UK required to maintain all available assets in liquid form, and to hold a minimum of three months (25%) of the most recent audited yearly fixed costs in available liquid form, meaning cash/bank accounts and short-term deposits. Our capital modelling reviews the composition and size of the balance sheet and, therefore, the cash balances available to make payments as they fall due. Our review of the future forecasts shows that the company can maintain sufficient liquid assets to meet its liabilities. Aegon AM UK also considers the liquidity risk to clients through our funds. Fund liquidity risk is the risk of not being able to trade a position quickly enough against a reasonable price to comply at any time with obligations. The risk is related to the size of the fund and its individual positions compared with the size and tradability of the assets in the portfolio. Aegon AM UK has adopted an appropriate liquidity management approach comprising procedures and management system to

		monitor the liquidity risk of each fund and to ensure that the liquidity profile of the fund is in line with its underlying obligations. The legal documentation of each fund will contain a description of the redemption policy. The assessment is that these various terms and conditions adequately cover the liquidity response and allow for suspension and/or redemptions in specific circumstances. Consequently, there are mitigating measures in place against a potential liquidity event related to the funds.
Credit and counterparty risk	Harm to firm	Credit and counterparty risk is the risk that the failure (or deterioration in the financial condition which may eventually lead to the failure) of a counterparty to meet its obligations, caused by either prevailing market conditions or counterparty specific complications, leads to a financial loss to Aegon AM UK, both through loss of any monies owed to us by the counterparty, and the cost of reinstating economic exposure in the case of counterparty default. As we do not trade on our own accounts as a source of profits, cash is held in our own name against capital requirements. As outlined above, we maintain all of our assets in liquid form. We only place monies with counterparties with a rating of A or higher and we apply a limit of € 10 million per counterparty. This ensures that we engage with a range of counterparties and mitigates the risk to capital from a counterparty failure. Aegon AM UK is exposed to credit risk on standard industry terms available to clients, resulting from payments in arrears. The extent to which we provide credit to clients and, therefore, the extent to which we are subject to credit risk and how we mitigate this is governed by the terms and conditions of individual agreements with those clients. We consider that our exposure to counterparty risk to clients is limited as most of our funds accrue management and service fees on a daily basis which are deducted from the client investments in the funds. We have not had to write off any bad debts over the past 10 years. Aegon AM UK bears the risk of not being able to collect management fees from clients with a discretionary portfolio. We do hold a buffer for credit risk to reflect the risk of not receiving management fee receivables on discretionary clients. Separately documented broker/counterparty approval procedures are followed to manage the brokers and counterparties that are used in the management of our funds.
Group risk	Harm to firm	Aegon AM UK is exposed to group risk through its position within the corporate structure of, and the obligations placed upon it by, Aegon AM and the wider Aegon Group. This is mitigated through independent governance arrangements to ensure we interact appropriately with group functions to understand and influence group-level decisions.
Market risk	Harm to firm	Market risk is the risk resulting from exposure to changes in market prices of tradable financial instruments within a portfolio. Aegon AM UK has a very simple balance sheet consisting largely of cash and short-term assets and liabilities. All client assets are held separately off-balance sheet for the protection of clients. Since Aegon AM UK does not invest on its own account, its direct exposure to market risk is limited. Aegon AM UK is exposed to indirect market risk caused by fluctuations in the wider financial markets that will affect the valuation of the assets that we manage. This could have a material impact on the level of capital required due to the receipt of lower fee income than expected. Although we retain the ability to hedge this risk in certain situations, we generally consider it uncontrollable as it is inherent in the business of asset management. In practice, our exposure to this risk is diversified, to a degree, by having significant exposure to both bonds and equities. We have, however, reviewed the potential impact of a significant fall in both fixed income and equity markets. We have also modelled a 1 in 200 year market shock (i.e. a 99.5% confidence interval).
Climate risk	Harm to firm	Climate change represents one of the most significant challenges for society, the economy and financial institutions. Aegon AM UK recognises the major global challenges that come with mitigating climate change and reducing greenhouse gas emissions. Aegon AM UK, as part of Aegon N.V., believes that governments, companies and investors have a responsibility to mitigate the impact of a changing climate and facilitate the transition to a more climate-resilient economy. The Climate Change Working Group (CCWG), a working group of the RBIC, continues to be the primary body responsible for assessing and monitoring climate-related issues within Aegon.

Governance Arrangements

Aegon AM UK is closely integrated with the Aegon AM group. The composition and decision-making processes of the various Aegon AM boards and committees helps promote co-ordination across the group while ensuring appropriate scrutiny and challenge of Aegon AM decisions as they apply to, or fall to be implemented by, Aegon AM UK.

Aegon AM UK operates a governance framework by which authority is delegated by the Board to the Chief Executive and Executive Directors who are responsible for management of Aegon AM UK business on a day-to-day basis in all matters other than those explicitly reserved to the Board or to Aegon AM group. They are supported in the management and operation of the business by senior managers from the functional areas of Aegon AM UK and Aegon AM group. The Chief Executive reports to the Board at meetings and otherwise as required.

The Board is chaired by an independent, non-executive director and meets at least quarterly. Its responsibilities – in addition to those in respect of risk as noted above – include:

- reviewing and approving the strategy and business plans of Aegon AM and monitoring delivery and financial performance,
- providing challenge and oversight of senior management,
- setting and upholding the values and standards necessary to meet obligations to customers, regulators, shareholders and other stakeholders, and
- considering and approving financial statements, managing capital and approving capital requests and dividend payments to Aegon AM from time to time.

Director Name	Executive (E) or Non-Executive (N) (for Aegon AM UK)	Number of Aegon NV group Directorships (including Aegon AM UK)	Number of Directorships held outside of the Aegon NV group
Stephen J M Jones	E	3	0
Kirstie MacGillivray	E	3	2
Adrian Hull	E	3	2
Andrew Mack	N	1	4
Thomas Scherer	N	6	4
Mary T Kerrigan	N	1	8

All changes to the Board of Aegon AM UK are detailed on page 1 of the financial statements for 2022 which are available at Companies House. Andrew Mack, Kirstie MacGillivray and Adrian Hull joined the Board in September 2022. During September 2022, David Watson left his position as Non-Executive Director. Jane Daniel left her position as Executive Director in December 2022.

Recruitment and Diversity Policy for all staff including directors

Aegon AM UK operates an Equality and Diversity Policy that positively values the different perspectives and skills that a diverse workforce brings to our company. We are committed to providing equal opportunities in employment and to avoiding unlawful discrimination in employment or to customers. We will not tolerate discrimination in any form and will actively work to make sure our culture encourages, supports and develops all employees to achieve their potential. We are committed to embracing diversity, which means acknowledging, understanding and appreciating the differences between individuals and developing a workplace that enhances their value. We recognise that a diverse workforce brings a wide range of resources, skills, ideas and energy to the business, and gives us a competitive edge. Our overall ‘women in senior management’ aspiration for the coming year is to reach 37%.

Own funds

Composition of regulatory own funds			
	Item	Amount (GBP thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	**OWN FUNDS**	41,027	Total Equity
2	**TIER 1 CAPITAL**	41,027	Total Equity
3	**COMMON EQUITY TIER 1 CAPITAL**	41,027	Total Equity
4	Fully paid up capital instruments	64,000	Issued Capital
5	Share premium	-	
6	Retained earnings	(22,973)	Retained Profit
7	Accumulated other comprehensive income	-	
8	Other reserves	-	
9	Adjustments to CET1 due to prudential filters	-	
10	Other funds		
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	-	
19	CET1: Other capital elements, deductions and adjustments	-	
20	**ADDITIONAL TIER 1 CAPITAL**	-	
21	Fully paid up, directly issued capital instruments	-	
22	Share premium	-	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-	
24	Additional Tier 1: Other capital elements, deductions and adjustments	-	
25	**TIER 2 CAPITAL**	-	
26	Fully paid up, directly issued capital instruments	-	
27	Share premium	-	
28	(-) TOTAL DEDUCTIONS FROM TIER 2	-	
29	Tier 2: Other capital elements, deductions and adjustments	-	

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements				
		a	b	c
		Balance sheet as in published/audited financial statements	**Under regulatory scope of consolidation**	**Cross-reference to template OF1**
		As at period end (£k)	**As at period end**(£k)	
Assets				
1	Investment in subsidiaries	1,000	1,000	
2	Trade and Other receivables	35,074	35,074	
3	Financial Assets	893	893	
4	Cash and Short Term Deposits	44,511	44,511	
	Total Assets	81,478	81,478	
Liabilities				
1	Current Trade and Other Payables	40,392	40,392	
2	Non Current Trade and Other Payables	59	59	
	Total Liabilities	40,451	40,451	
Shareholders' Equity				
1	Issued Capital	64,000	64,000	Item 4
2	Retained Profit	(22,973)	(22,973)	Item 6
	Total Shareholders' Equity	41,027	41,027	Item 1,2 & 3

Own funds: main features of own instruments issued by the firm
Within the UK group, the only element of own funds, also known as capital resources, held is common equity tier 1 capital ('CET 1'). This is the highest form of capital and consists of share capital and retained profit.

Own funds requirements

Requirement	Amount (£k)
K-AUM (£6,868k) + K-CMH (£5k)	6,873
K-COH	0
Total K-factor Requirement ('KFR')(as at the ICARA reference date of 30th April 2022)	6,873
Fixed Overhead Requirement ('FOR')	17,334
Permanent Minimum Requirement ('PMR')	75
Own Funds Requirement (Higher of KFR, FOR and PMR)	17,334

The Board has, through the ICARA process, considered the level of own funds and liquid resources that we need to retain to remain financially viable throughout the economic cycle. This ensures we meet with the overall financial adequacy rule and allows us to demonstrate that we can address any material potential harm that may arise from our ongoing business activities and ensure that our business could be wound down in an orderly manner, minimising harm to clients and to other market participants.

We monitor capital levels against applicable capital requirements on a monthly basis. We aim to maintain regulatory capital at a level of at least 110% of our highest capital requirement at all times.

Remuneration policy and practices

The Board has oversight responsibilities for remuneration matters within Aegon AM UK and approves the remuneration policy. While Aegon AM UK is not required to establish a remuneration committee, the Aegon AM Supervisory Board operates at group level and also sits as a remuneration committee.

In addition to fixed remuneration comprising base salary and other non-performance-related amounts including pension and benefits, employees participate in the Aegon AM Discretionary Bonus Plan and the Aegon AM UK Long Term Incentive Plan ('LTIP'), as appropriate, relative to their role and seniority. The main goals of these plans are to provide fair, competitive pay that rewards firm and employee performance and to create a culture in which employees feel valued for their contributions. The Supervisory Board is responsible for reviewing this variable remuneration (both annual bonus plan and LTIP) to ensure it is in line with company results. It has the authority to change the value of the pools if required. In addition, the Supervisory Board is responsible for authorising the remuneration of our most senior employees, including senior employees in the risk and compliance functions.

Excessive risk-taking is not rewarded. Our remuneration practices have the following characteristics to support positive behaviours and to discourage excessive risk-taking or behaviours that might lead to poor customer outcomes:

1. Reward packages are based on industry benchmarking, overall company performance, individual performance and affordability.
2. Our annual bonus plan is discretionary with the following features:
   - Separation between bonus pool generation based on business performance measures and distribution of this pool, which is discretionary, based on individual performance;
   - Governance checks and balances in place at all levels. The remuneration committee confirms the annual bonus plan pool to ensure it is in line with business performance;
   - A moral hazard clause ensures that performance in respect of funds not considered in the bonus plan is managed in a similar way to those that do contribute to the bonus pool. Aegon AM UK may also use discretion if it feels customers are not receiving good outcomes;
   - The bonus plan has a measure allocated to appropriate risk management;
   - Clawback provisions are included in the plan rules.
3. The LTIP has the following relevant features:
   - Malus and clawback provisions are included in the LTIP rules;
   - Governance checks and balances in place. Awards are approved through the Board.

Our performance management process (on which the annual bonus plan and the LTIP awards are largely based) ensures that individuals have objectives aligned with company values and risk tolerance. Where anyone is found to be in breach of these, it will affect their performance appraisal and, therefore, their reward.

Ex ante risk assessments are applied to all variable remuneration before allocation (but only to that of Material Risk Takers if applied at an individual level) to ensure the projected remuneration is aligned with the risk profile of the business and to take account of quantitative and qualitative factors mitigating performance results. Ex post risk assessments take place after allocation of variable remuneration and either before it vests (malus) or after vesting (claw back) and application at an individual level is not confined to Material Risk Takers. Ex post risk assessments will take into account significant and exceptional circumstances that were not sufficiently reflected in the performance results used initially, such as failure to meet appropriate standards of competence and behaviour or being responsible for conduct that has resulted in a significant decline in the business's financial position. Guaranteed variable remuneration may only be awarded on an exceptional basis in the form of a sign-on arrangement. Severance pay may apply where an employee leaves at the firm's request, such as in circumstances of redundancy, and will not be granted where it would amount to a reward for failure or misconduct.

Aegon AM UK has identified the following as Material Risk Takers:

- Directors;
- Employees performing a Significant Influence Function (SIFs);
- Other senior managers and heads of control functions as deemed appropriate; and
- Any other member of staff qualifying as a material risk taker under applicable rules.

Quantitative disclosure

Period: 1 Jan – 31 Dec 2022				
		Senior Management	Other Material Risk Takers	Other Staff
Number of Material Risk Takers		3	9	
Remuneration awarded (£k)	Fixed	£688,541	£1,854,657	£21,955,723
	Variable	£1,308,400	£2,603,027	£10,570,958
	Total	£1,996,941	£4,457,684	£32,729,774

No severance payments were made, or guaranteed remuneration paid, to any Material Risk Takers during the above period.