

Annual Report

1 January 2020 through 31 December 2020

AeAM Dutch Mortgage Fund

This is an English translation of the original Dutch text, furnished for convenience only. In case of any conflict between this translation and the original text, the latter will prevail.



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1 General information

Manager

Aegon Investment Management B.V. (AIM), established in The Hague, of which the board consists of:

- E. van der Maarel (resigned as of July 1, 2020)
- W.J.J. Peters (resigned as of February 1, 2020)
- R.R.S. Santokhi
- B. Bakker
- O. van den Heuvel (resigned as of February 1, 2020)
- P. Smith (resigned as of February 1, 2020)
- C. Luning (resigned as of February 1, 2020)
- F.F.F. de Beaufort (resigned as of February 1, 2020)

Depository

Citibank Europe Plc. Netherlands Branch, established in Schiphol, is appointed as the depository of the fund. Aegon Custody B.V. fulfils the role of legal owner. The board of Aegon Custody B.V. consists of AIM.

Address

Aegonplein 50
2591 TV The Hague
The Netherlands

Mailing Address

P.O. Box 202
2501 CE The Hague
The Netherlands

Phone number: +31 (0)70 344 32 10

Website: www.aegon.nl

Legal advisor

Allen & Overy LLP
Apollolaan 15
1077 AB Amsterdam
The Netherlands

Independent auditor

PricewaterhouseCoopers Accountants N.V.
Fascinatio Boulevard 350
3065 WB Rotterdam
The Netherlands

Management and administration

The AeAM Dutch Mortgage Fund do not employ any personnel and use the services of AIM for management and administration. The personnel of AIM is legally employed by Aegon Nederland N.V.

Information memorandum

The most recent information memorandum is dated 10 March 2021.

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Profile

AeAM Dutch Mortgage Fund (hereafter “the fund”), established on 30 August 2013, is a fund for joint account (Dutch: “fonds voor gemene rekening”). The fund is only accessible for professional investors (Dutch: “professionele beleggers”) as defined in the Dutch Act on Financial Supervision (Dutch: “Wet op het financieel toezicht”).

Investment policy

The fund invests in Dutch mortgage receivables issued by Aegon Hypotheken B.V., for which the collateral consists of privately owned Dutch residential property. The fund acquires mortgage receivables by subscribing to the new mortgage receivables production of Aegon Hypotheken B.V. In addition, the fund can also maintain an amount of cash and cash equivalents to facilitate subscriptions and redemptions. Cash and cash equivalents can also be invested in Dutch government bonds. For the use of other techniques, instruments and / or structures, the prior approval of the participants of the meeting is obligatory.

Objective

The investment objective of the fund is long term outperformance of the benchmark, before deduction of management fees, resulting from the spread of Dutch mortgage receivables compared to Dutch government bonds.

Benchmark

The benchmark of the fund is the JP Morgan Government Bond Index Traded Netherlands.

Investments

The fund can invest in mortgage receivables and cash and cash equivalents. Cash and cash equivalents, which are being managed by the fund, can also be invested in Dutch government bonds. The fund is required to maintain a freely available cash position at all times equal to -5% through 5 % of the fund assets. Outstanding construction deposits are not included in cash and cash equivalents.

Fiscal status

The fund is a closed mutual fund and is not liable to corporate income tax and dividend tax (tax transparent). To preserve the fund’s transparent tax status, participations in the fund may only be transferred to the fund. All revenue received by the fund, both ongoing revenue and capital gains, will be immediately allocated to the participants in the fund for Dutch tax purposes in proportion to their relative holding of the number of outstanding participations. Revenue or capital gains obtained by a participant with a participation will be regarded as revenue or capital gains obtained with the fund Securities. Changes to a participant’s relative holding, for example as a result of the entry to the fund of a new participant, may lead to the realisation of capital gains for Dutch tax purposes for the other participants.

Restrictions

The fund invests in mortgage receivables. The following restrictions apply:

- NHG Mortgages: minimum of 50%
- Non-NHG Mortgages: maximum of 50%
- Loan-to-Value ratio: maximum of 106%

The Loan-to-Value ratio is calculated by dividing the total outstanding principal of the mortgage claim by the calculated market value of the collateral.

Leverage

The fund’s strategy is to invest for 0% in cash and cash equivalents, with a minimum of -5% and a maximum of +5%. Outstanding construction deposits are not included in the calculation for the exposure in cash and cash equivalents. Cash and cash equivalents can be invested in Dutch government bonds.

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Short-term deviations

Short-term deviations from the restrictions, mentioned above, are possible as a result of large subscriptions into the fund or withdrawals from the fund. Such deviations are neutralised within a period of two months.

Marketability

The fund is not listed on any stock exchange. Participations are only issued in registered form and not physically issued.

Dividend policy

The fund pays annual dividends to participants based on the average interest rate of the mortgage receivables and the average net asset value of the fund. Dividend is either issued as participations or distributed as cash.

Management fee

The manager charges a management fee for managing the Fund's assets. The management fee is determined as a percentage on an annual basis. The manager charges the fund an annual management fee of 0.21% of the net assets of the fund.

Service fee

The manager charges a service fee to the fund. The service fee serves as a compensation for costs such as custody fees, audit fees, legal and advisory fees, incorporation costs, administration fees and marketing and communication costs. The service fee is determined as a percentage on an annual basis. The service fee is charged to the fund each day based on the net asset value of the fund at the end of the preceding trading day. The service fee is 0.02% per year.

Mortgage servicing fee

The fund pays a fee to Aegon Hypotheken B.V. for services related to the distribution of mortgage receivables and in particular the management of the mortgage portfolio. These services consist, among others, of administration of the mortgage portfolio, communication with debtors, facilitation of the payments process regarding to mortgage loans and management reporting for the fund. The mortgage service fee amounts to 0.27% per year and is based on the nominal amount of outstanding mortgage receivables.

2 Report of the Investment Manager

2.1 Economic developments

In this section we give a brief summary of the performance of the fund compared to the benchmark. The mentioned out- or underperformance of the fund compared to the benchmark are calculated using the geometric method. This method calculates the relative difference compared to the benchmark, not the absolute difference.

The initial impact of COVID-19

In the first few months, much of economic activity came to an abrupt halt. To limit the spread of the virus, global measures were taken in the first and second quarters. The economic thermometer dropped far below freezing and the lockdowns resulted in the largest economic contraction since the Second World War. The major economic setback and uncertainty had a major negative impact on various facets of the economy. Consumption fell, global trade flows declined and labour market conditions deteriorated rapidly.

Support packages

Governments and central banks have intervened on an unprecedented scale to limit the economic impact of the crisis and to ensure that the economy's recovery was sustained. This should allow the economy to grow again as soon as the restrictions are eased. Central banks have intervened in various ways. A number of central banks - including the US Federal Reserve and the Bank of England - cut the policy rate to near zero. Buying programmes were also implemented around the world - including by the European Central Bank - to provide liquidity for governments, companies and financial markets. Governments were also quick to take action. Worldwide, an enormous amount of fiscal aid was made available to support inhabitants, workers and businesses during the crisis. This resulted in large government deficits and a rapidly rising national debt.

Recovery with risks

After a large economic contraction in the first half of the year, the economic recovery was strong in the third quarter. In large parts of the world, the lockdowns were relaxed and economic activity picked up. The recovery of the economic momentum created better circumstances. The labour market recovered and the number of jobs increased again. In the fourth quarter, a number of coronavirus vaccines proved to be much more effective than expected whereby the long-term economic risks decreased. However, the economy suffered a new setback in the fourth quarter - especially in Europe - as strict lockdowns were once again required to contain the virus.

Despite the recovery in the third quarter, the global economy is still smaller than it was at the beginning of the year. The US economy is expected to have shrunk by about 4% in 2020. Europe and the UK fared even worse with a contraction of around 7% and 11%, respectively. The Chinese economy is one of the few economies that does show growth this year, of around 2%, but this growth is well below China's trend growth.

2.2 Financial Markets

Housing Market

Despite the corona pandemic, the Dutch residential market continued to do well in 2020. The average house price in the fourth quarter of 2020 rose to € 365,000, representing a price rise of 11.6% year on year. In order to still be eligible for mortgage interest relief, new mortgages must be repaid at least on an annuity basis and within thirty years. Furthermore, the mortgage norms based on the Nibud financing cost guidelines remained fairly stable in 2020. These norms proscribe that households should only spend a limited part of their income on mortgage costs. The changes to the tax regulations since 2013 and the stricter Nibud norms in recent years have made the market for new mortgages more solid. This is also reflected in the housing market. Analysts expect the rise in house prices to continue next year, albeit at a slightly lower level than we have seen in recent years. A growing proportion of households are finding that the current value of their homes is increasingly more than their outstanding mortgages, which further supports the housing market.

2.3 Key Figures

Key figures					
	2020	2019	2018	2017	2016
<i>Overview per participation</i>					
Changes in fair value	(0.10)	0.60	(0.05)	0.11	0.35
Investment result	0.35	0.35	0.35	0.36	0.39
Total result	0.25	0.95	0.30	0.47	0.74
Management fee and other expenses	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Net result	0.19	0.89	0.24	0.41	0.68
Dividend paid per participation	(0.27)	(0.29)	(0.30)	(0.33)	(0.17)
Net asset value (x € 1,000)	12,677,488	13,270,176	13,109,580	12,010,558	9,189,909
Outstanding number of participations	1,014,337,051	1,052,728,078	1,092,069,500	994,357,648	765,384,446
Net asset value per participation	12.50	12.61	12.00	12.08	12.01
Performance (net asset value)	1.52%	7.68%	1.91%	3.42%	5.81%
Performance Benchmark	3.71%	3.98%	2.27%	(1.02%)	4.33%

Amounts per participation are based on the average number of participations during the year. Dividend paid reflects the actual dividend paid per participation.

2.4 Investment policy

In 2020, the AeAM Dutch Mortgage Fund realised a return of 1.52% after costs. The return can be explained by the following factors: the change of the AEGON mortgage interest rate, the change of Constant Prepayment Rate (CPR) and credit losses on the mortgages. During the year the weighted Aegon mortgage interest rate fell. However, due to the specific composition of the portfolio of the fund the weighted average interest rate increased, which led to a negative effect on the valuation of the mortgages in the fund. In the past year we amended the CPR methodology for cash flow projections and valuation purposes of the fund. Whereas we used to have a short term (0-24 months) and long term (25-360 months) CPR on a fund level this is now changed to an individual CPR curve per loan. This CPR curve per loan is based on loan characteristics such as the loan age and market interest rate differential. At date of implementation the effect on the net asset value was -0.9%. The credit losses in the fund were, just like in 2019, limited to less than one base point.

The return of 1.52% after costs is an underperformance of -2.11% compared to the benchmark. The fund has a Dutch government bond index as benchmark (JP Morgan Government Bond Index Traded Netherlands). In the course of 2020, the Dutch government interest rate decreased compared to the weighted average mortgage interest rate of the fund, which increased. This resulted in a positive performance for the benchmark and therefore a relative underperformance for the fund. The combination of the before mentioned four factors (the change of the Aegon mortgage interest rate, the change of Constant Prepayment Rate (CPR), credit losses on the mortgages and sharper decline of Dutch government interest rates compared to the Aegon mortgage interest rate) led to an underperformance in 2020.

The impact of the coronavirus on the Dutch mortgage market has so far been very limited. The number of new mortgages increased again in 2020 compared to 2019, as did house prices. We have also hardly seen any increase in the number of arrears. These have remained so low due to strong government intervention. The expectation is that, as the support measures are phased out and unemployment rises, the arrears will also rise somewhat. However, only to very limited levels.

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The fund invests in new mortgages on Dutch residences, granted by Aegon after 1 January 2013, and thus bears debtor risk via mortgages. These new mortgages comply with the more stringent granting criteria, implemented since January 2013. The maximum LTV (loan compared to value of collateral) against which mortgages can be granted decreased in annual steps of 1% to the present maximum of 100%. Moreover, repayment has become the norm. A considerable part of the mortgages in the fund has a straight-line or other form of repayment (~72%). At the end of December 2020, the percentage of NHG mortgages was 51.7%. At the end of December the mortgage fund duration is 7.05. Mortgages are an illiquid investment because they cannot be sold easily in the marketplace. The mortgage portfolio only contains Dutch mortgages but has a very wide spread across the various provinces.

The expectation for the upcoming period is that the housing market will be supported by low capital market interest rates, a recovering economy, healthy origination volumes and slightly rising housing prices. As per 1st of January 2021 the Dutch transfer tax on property has changed, the expected impact of this change is unknown.

2.5 Risk management

The fund manager has the responsibility to manage the financial risks of all funds. The fund manager has identified a number of financial risks, of which the most important are:

- Interest risk
- Inflation risk
- Credit risk
- Liquidity risk
- Leverage (a measure of the degree of the applied leverage)

For each type of risk, risk criteria have been set in the form of restrictions in order to manage these risks. These restrictions are included in the fund mandates where they are tailored to the strategy of the fund. All restrictions are, where possible, monitored on a daily basis by the manager and by Citibank, which operates independently as depositary. Citibank has been appointed as depositary following the Alternative Investment Fund Managers Directive (AIFM-Directive) which requires managers to appoint an independent body to perform monitoring tasks.

In addition to restrictions monitoring, the manager monitors control limits which are intended to prevent breaches of restrictions. These control limits have tighter criteria than the restrictions and are used as a warning in order to prevent that restrictions are breached. When breaches of restrictions occur, relevant stakeholders will be notified and further actions shall be determined to resolve the breaches. All breaches and warnings are periodically reported to all internal stakeholders, including the management and all relevant external stakeholders if necessary.

Below is a description of the objectives and policies of the fund on risk management with respect to the use of financial instruments when managing risks. Also included is an explanation of the risk management measures that are in place.

Interest risk

Interest risk occurs as a result of investments in fixed income securities. Interest risk is usually measured by the duration. This risk is measured as the deviation (in years of under- or overweighed) in duration from the benchmark.

Inflation risk

Inflation risk occurs as a result of changes in the inflation level of a country. This has an effect on various financial instruments, specifically instruments with a fixed interest rate. Inflation risk is already included within other risks, such as interest risk, and therefore no additional specific measures are required to manage this risk.

Credit risk

Credit risk is the risk that a counterparty is unable to meet the obligations as set out in the terms of a financial instrument. This risk can result in the loss of the nominal amount or lead to a significant increase in spreads when dealing on the market.

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Credit risk is managed by imposing restrictions on the maximum Loan-to-Value ratio and a minimum share of mortgage receivables with a NHG guarantee.

The restrictions as mentioned above are managed based on the Loan-to-Value ratio when acquiring the mortgage receivables and the share of mortgage receivables with a NHG guarantee on the current date.

For newly acquired mortgage receivables, restrictions imposed will apply on additional purchases of mortgage receivables.

The measure that is taken:

- Non-NHG mortgages are maximised at 50%
- Loan-to-Value ratio is maximised at 106%

Liquidity risk

Liquidity risk is the risk the fund is not able to quickly sell an investment for a reasonable price. This risk is related to the volume of the fund and the individual positions compared to the volume and liquidity of the investments in the portfolio. The fund manager has an appropriate liquidity management system which includes procedures to monitor the liquidity risk of each fund and to ensure that the liquidity of the fund is aligned with the underlying obligations.

The liquidity management system:

- keeps a level of liquidity in a fund that matches the underlying obligations, based on an estimate of the relative liquidity of the underlying assets in the market;
- monitors the liquidity profile of the funds' portfolio. This takes into account the possible marginal contribution of the individual assets that may have a material effect on liquidity, as well as the material liabilities and obligations that a fund can have in relation to its underlying obligations. For this purpose, AIM includes the profile of the investorsbase, the nature of the investments, the relative size of the investments and the redemption conditions in its assessment;
- Implements procedures to monitor the quantitative and qualitative risks of the investments portfolio and proposed investments which may have a material impact on the liquidity of the Fund;
- implements the instruments and arrangements necessary to manage the liquidity risk of each fund. The fair treatment of all participants with regard to each fund must be considered.

Leverage

Leverage expresses the relation between the exposure of the fund and the net asset value of the fund. The leverage in the fund is calculated in two different ways: the gross method and the commitment method. Both methods are prescribed by the AIFMD.

The gross method:

- excludes from the calculations the value of the cash and cash equivalents and the highly liquid investments in euro of the fund that can immediately be converted into cash and cash equivalents, subject to an insignificant risk of changes in value and provide a yield not exceeding the yield on three months high-quality government bonds;
- converts derivative positions (using specific conversion methods) to the equivalent position of the underlying assets;
- excludes loans that are cash borrowings for which the amount due is known;
- includes exposures due to reinvested cash borrowings, expressed as the higher of the market value of the investments or the total amount of borrowed cash; and
- includes positions in repo- or reverse repo transactions and security lending arrangements.

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The commitment method:

- converts derivatives positions (using specific conversion methods) to their equivalent position in the underlying assets, provided certain criteria are met;
- takes into account clearing and hedging arrangements (also under certain conditions);
- calculates the exposure created by the reinvestment of loans and borrowings, when the reinvestment increases the exposure of the fund; and
- excludes derivatives that are used for currency hedging purposes.

Each fund has leverage restrictions that are monitored just like other investment restrictions. In the case of investments in third-party funds, the leverage of such third-party funds is not included in the leverage calculations of the fund or fund structure.

Risk limits management

Risk limits management is undertaken to ensure that the risk profile of the fund can be effectively monitored. The Dutch authority for the financial market (AFM) receives a message if there is a mismatch between the risk profile of the fund and the risk limits or when there is a substantial risk that such a mismatch might occur. The match between the risk limits and risk profile is checked at least annually.

For every type of financial risk, applicable measures are defined to manage these risks. The most appropriate measures may vary per fund, based on the strategy of the fund. For the selected measures, appropriate risk limits are set, which are actively monitored. This will ensure that the fund act within their mandates.

To provide for an efficient and effective risk management process, the risk measures and the resulting risk limits meet the following principles:

- Quantitative limits are measurable;
- Restrictions or limits have clear definitions;
- Measures are chosen in such a way that the measurements and monitoring can be automated;
- Multiple restrictions with a similar objective are avoided, except when there is a legitimate reason;
- Each fund has limits for all identified risks;
- Restrictions are designed to reduce complexity, hence a restriction per type of risk instead of combining different types of risks to a restriction.

The risk limits of the fund are monitored on a daily basis. Monitoring consists of the calculation of the control variables for each of the fund, comparison of the internal and external risk limits and the escalation of overruns within the organisation.

Internal limits are set as warning limits to prevent breaches of external limits or as a further limitation due to other considerations (for example, exclusion lists based on socially responsible investments policy or liquidity management).

The risks are calculated, checked and followed by AAM on a daily basis. The relevant outcome is reported in a combined overview of warnings and transgressions.

These warnings and breaches are analysed and different processes are followed depending on the materiality of the warning or breach. Immaterial warnings are usually resolved within few days and are only reported to the portfolio manager if they remain outstanding for a longer period. Material warnings are reported to the portfolio manager for validation of the warning and to verify the solution. High risk problems are immediately reported to the Chief Investment Officer. On a weekly basis, all outstanding material warnings and breaches are internally reported to, among others, the management. On a monthly basis, the Risk Control Committee is informed on all the warnings and breaches, including the status or the solution.

Operational risk management

The fund manager has defined operational risk as follows: "The risk of a loss as result of inadequate or failing internal processes, people and systems or external events". The fund manager has designed a comprehensive framework for the definition and classification of risks and the organisation of risk management activities.

The operational risk management policy includes the strategy and the objectives for the operational risk management and the processes that the fund manager has designed to achieve these objectives. The objectives for operational risk management (ORM) are:

- All major operational risks are identified, measured, evaluated, prioritised, managed, monitored and treated in a consistent and effective way throughout the organisation;
- Appropriate and reliable tools for risk management (including the main risk indicators, database with risk events, risk & control self-assessments, monitoring reviews, and stress and scenario tests) are used to support management reporting, decision-making and assessment of required (reserve) capital;
- All directors, management and staff are responsible for managing the operational risks in line with the roles and responsibilities; and
- Key stakeholders timely receive a reliable confirmation that the organisation manages its activities for the important operational risks.

Risk monitoring

The purpose of operational risk monitoring is to protect the investments of the customers of the fund manager, to ensure that customers are treated fairly and to ensure that the manager meets all his legal obligations. Risk monitoring also includes providing feedback to the company about the effectiveness of their operational management measures and comparing the current operational risk profile with the established risk tolerance. An important part is testing of internal controls to provide for an independent assessment of the adequacy of the design and the operational effectiveness of key operational management measures that have been established by the management. The outcome of this is reviewed by an independent auditor and reported in a ISAE3402 Type II statement. Furthermore, compliance of the policy of the fund manager and Aegon Group is monitored and any failures are reported to the responsible management.

Continuity management

The purpose of continuity management by the fund manager is to ensure the continuity of its activities, to establish trust, safeguarding of assets, to meet obligations, comply with the internal and external regulations and to prevent or mitigate damage and risk. The fund manager has taken measures to reduce the risk of a disruption of continuity to an acceptable level as much as possible. This will ensure that the fund manager maintains a prudent operational risk profile both under normal business conditions as well as under extreme conditions due to unforeseen events.

The fund manager has taken measures to identify and manage risks to an acceptable level. An acceptable level of risk is determined by the balance between the costs of the measures for mitigating risks and the value of the assets of the fund manager.

The responsibility for the adequate establishment of continuity management is part of the primary process. It is the responsibility of Operational Risk Management to independently supervise that the fund manager properly fulfils his responsibilities. This will ensure that the fund manager maintains a prudent operational risk profile in case of normal business conditions, as well as in case of extreme conditions caused by unforeseen events.

During the year no restriction overruns have occurred.

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2.6 Notes on the remuneration policy

Remuneration Policy

For the remuneration policy AIM, being part of Aegon N.V., is bound to the Aegon Group Global Remuneration Framework. This framework is designed in line with relevant laws and regulations, such as the Dutch law on remuneration policy for financial institutions and Solvency II. The Framework includes principles and guidelines for a careful, controlled and sustainable remuneration policy, that adheres to the strategic goals, HRM aspirations and core values of Aegon N.V. This also meets the AIFMD requirements for the remuneration policy, including contributing to effective and efficient risk management and not encouraging taking more risks than allowed by the investment policy and fund terms and conditions. In situations of delegation of fund management after the AIFMD became effective, AIM monitors that the AIFMD or equivalent guidelines and restrictions for remuneration are in place. This framework is tested annually against laws and regulations, amended where necessary and presented to the Remuneration Committee of Aegon Group for approval. This body also monitors the remuneration of all AIM employees that have been designated as Material Risk Taker (MRT).

Fixed remuneration

Fixed remuneration of AIM employees consists of the monthly salary, a flexible budget (including, among others, holiday allowance and 13th month allowance), pension allowance and other secondary employment terms that are customary in the Dutch market. AIM has different salary systems for employees under collective employment agreements ('CAO gebonden posities'), portfolio managers and senior management positions. All three systems are reviewed annually on market conformity using various external market surveys on remuneration.

Variable remuneration

A selection of AIM employees is eligible for variable remuneration. This variable remuneration is an integral part of the total remuneration package. For the calculation of the annual budget for variable remuneration, a so called bonus pool method is used. This means that the size of the pool (in other words, the budget) is determined by comparing the actual results to the predetermined goals. This consists of a mix of long term and short term fund results, client satisfaction, profitability, sales figures, risk management and Aegon N.V. results. Granting of any variable remuneration, within the budget, is done based on individual performance. For granting of variable remuneration, based on the bonus pool and at individual level, the performance indicators consist for a maximum of 40% of risk adjusted financial performance indicators and for at least 50% of non-financial indicators.

In addition, employees that are not eligible for variable remuneration can, under strict conditions, be granted a variable remuneration.

Material Risk Taker (MRT)

On the basis of the AIFMD selection criteria, ten internal positions have been qualified as MRT, of which eight are senior management positions. This concerns staff members of which professional activities have significant influence on the risk profile of AIM and/or the managed funds.

When qualifying for a certain fixed income and variable remuneration, no distinction is made between MRT and other employees. Different rules do, however, apply in the area of personal targets and payment of variable remuneration. The personal targets of Identified Staff are assessed in advance on the degree of risk control and are, where required, adjusted accordingly. In addition, in case of MRT variable remuneration is not paid in cash in one instalment. The initial 50% are paid directly in cash after the year of performance. The other 50% are paid directly in instruments, the so-called phantom shares. The phantom shares are subject to a holding period of three years. They are made available after that. Before each of these elements is paid, it is established whether there are still facts on the basis of which the variable remuneration should be adjusted downward. The phantom shares are linked to the fund performances of the main funds of the Manager. After allocation the shares are held for a year before they are settled and paid to the employee in cash.

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Remuneration overview

The table below consists of the fixed remuneration (12 times the monthly salary, income tax, social security contributions, pension contributions and the flexible budget) and the variable remuneration granted to all employees and temporary employees of AIM in 2020. The amounts have been split to management, MRT and other employees.

Remuneration 2020				
Groups (amounts x € 1,000)	Positions	FTE ⁽¹⁾	Fixed remuneration ⁽²⁾	Variable remuneration
Management	2	2	488	97
MRT	8	8	2,511	1,052
Other staff	404	360	43,299	4,629
Total AIM employees	414	370	46,298	5,778

Remuneration 2019				
Groups (amounts x € 1,000)	Positions	FTE ⁽¹⁾	Fixed remuneration ⁽²⁾	Variable remuneration
Management	5	5	1,443	511
MRT	7	7	1,777	1,000
Other staff	426	360	41,329	4,459
Total AIM employees	438	371	44,548	5,970

⁽¹⁾ 1 FTE = 40 contractual hours per week

⁽²⁾ This consists of twelve times the monthly salary and a fixed flexible budget (including, among others, holiday allowance and 13th month allowance).

The remuneration for the employees includes activities performed for Aegon Nederland N.V. Employees are not directly employed by or working exclusively for specific individual funds. The total remuneration has not been allocated to the individual funds, since the information required for this allocation is not readily available. There are no employees for which the total remuneration is greater than 1 million euro.

The manager does not receive any compensation other than the predetermined management fee, which is a percentage of the net asset value. Therefore, there is no carried interest.

2.7 Laws and regulations

The fund is subject to the regulatory supervision of the Dutch Act on Financial Supervision (Wet op het financieel toezicht).

The annual report is prepared in accordance with Title 9 of Book 2 of the Dutch Civil Code and the Dutch financial reporting standards ('Richtlijnen voor de jaarverslaggeving').

2.8 Voting- and responsible investment policy

When exercising voting rights, the fund manager adheres to the voting policy as determined by Aegon Nederland N.V., which has its roots in the Dutch Corporate Governance Code, and with the best-practices and general principles of the AEGON Global Voting Policy.

Resulting from the voting policy of Aegon Nederland N.V., votes are cast on:

- All Dutch interests in the portfolio of the Aegon funds;
- Non-Dutch interests in actively managed equity positions in companies where at least one tenth of a percent of the outstanding amount of equity with voting right is owned.

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The manager ensures the voting rights of the financial instruments in which the fund invests, through a Basisfund or Pool, are executed. Before exercising the right to vote, the fund manager will consider the interests of the shareholders in the best possible way prior to his decision. If financial instruments have been lent, it is not possible for the manager to exercise voting rights. For all Dutch interests the financial instruments, if lent, are being retrieved for the purpose of our voting rights. When non-Dutch interests are concerned, the fund manager will strive to ensure that the relevant financial instruments won't be lent at the time the fund manager actively wants to go to vote during a shareholders' meeting of the company. This situation can occur when the fund manager finds the subject on the agenda to be of great importance for the company and stakeholders.

The policy formulated by Aegon (Beleid Verantwoord Beleggen) is applicable to the investments managed by the fund manager. The fund manager implements this policy in different ways.

An exclusion list applies to the investment range. The exclusion list contains companies and states which ones do not meet the criteria as defined in the policy of Aegon (Beleid Verantwoord Beleggen). The monitoring of compliance of these investment restrictions takes place pre-trade as well as post-trade.

A company can be excluded a priori, for example because the company is involved with the production of controversial weapons, and a company can be excluded when a dialogue with the company did not lead to the desired change in behaviour. Entering into a dialogue with a company is called engagement. Engagement is, together with the exercise of voting rights, the shareholders proposals and the litigation against a company, part of what we call an active (share) holdership (active ownership). This is an important part of the policy on responsible investment (Verantwoord Beleggen) with the result that during the exercise of voting, the voting takes place in accordance with the responsible investment policy. This means that not only governance factors are taken into account, but also the environmental and social aspects are considered. This of course is in accordance with our fiduciary duties and in accordance with various initiatives and codes within the sector, as for example the UN PRI (United Nations Principles for Responsible Investment). A summary of the goals, activities and results of the engagement strategies is laid out in our Responsible Investment Report.

Finally, the portfolio managers will consider material environmental-, social- and governance factors when selecting investments. To this end our analysts have taken these factors into account and in their analysis. This is called ESG (Environment, Social and Governance) –integration. From a risk and result point of view it makes sense to consider all relevant non-financial information in the investment decisions because this information (in due term) could have financial consequences.

Aegon has a large diversity of customers. When formulating the responsible investment policy, we tried to take into account the interests of these customers. A complete overview of the responsible investment policy together with the Aegon Responsible Investment Report can be downloaded from the fund manager's website www.aegon.nl.

2.9 General outlook

Housing Market

In the first few months, much of economic activity came to an abrupt halt. To limit the spread of the virus, global measures were taken in the first and second quarters. The lockdowns resulted in the largest economic contraction since the Second World War. The major economic setback and uncertainty had a large negative impact on different parts of the economy. Consumption fell, global trade flows declined and labour market conditions deteriorated rapidly. After a large economic contraction in the first half of the year, the economic recovery was strong in the third quarter. The labour market recovered and the number of jobs increased again. Looking at the major movements in the economy, it is very interesting to see that, so far, the corona epidemic has had virtually no impact on the Dutch housing market. Never before have there been so few homes for sale. Currently, there are just under 27,000 properties for sale. Compare that to 5 years ago when there were over 200,000 homes for sale. This shortage of supply has had an upward effect on prices. The average house price in the fourth quarter of 2020 rose to € 365,000, representing a price rise of 11.6% year on year.

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Expectations for the coming year are a continuation of the trends that have already started. A further decline in the number of transactions, albeit only slight. Expectations are that house prices will rise on average by about 4-5%. Mortgage interest rates have fallen further over the past year as a result of falling capital market interest rates and the great interest of institutional parties to invest in mortgages. Capital market interest rates are expected to remain stable in 2021 due to the continued loose monetary policy of the European Central Bank. The expectation for Dutch mortgage interest rates in 2021 is thus stable to a slight decline.

The Hague, 1 April 2021

The investment manager

Aegon Investment Management B.V., on behalf of:

R.R.S. Santokhi

B. Bakker

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3 Financial statements 2020 AeAM Dutch Mortgage Fund

3.1 Balance sheet as at 31 December

Balance Sheet			
(before appropriation of result) (amounts x € 1,000)	Reference	2020	2019
Assets			
Investments			
Mortgage receivables		12,337,608	12,925,838
Call money		193,072	214,358
Total investments	3.4.3	12,530,680	13,140,196
Receivables			
Outstanding transactions in financial instruments		134,773	118,003
Other receivables	3.4.5	28,813	29,884
Total receivables		163,586	147,887
Other assets			
Cash and cash equivalents		-	1
Total other assets		-	1
Total assets		12,694,266	13,288,084
Liabilities			
Net asset value			
Net assets before result		12,476,259	12,314,115
Result for the year		201,229	956,061
Total net asset value	3.4.6	12,677,488	13,270,176
Short term liabilities			
Outstanding transactions in financial instruments		15,763	14,214
Other payables and liabilities	3.4.7	1,015	3,694
Total short term liabilities		16,778	17,908
Total liabilities		12,694,266	13,288,084

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3.2 Profit and loss statement

Profit and loss statement			
(amounts x € 1,000)	Reference	2020	2019
Direct result			
Interest mortgage receivables		367,102	374,484
Interest bank accounts		-	4
Total direct result		367,102	374,488
Revaluation of investments	3.4.9	(103,682)	644,863
Total investment result		263,420	1,019,351
Operating expenses			
Management fee		(27,334)	(27,378)
Service fee		(2,603)	(2,607)
Servicing fee mortgages		(31,362)	(32,810)
Interest call money		(693)	(294)
Interest bank accounts		(11)	(22)
Other expenses		(188)	(179)
Total operating expenses	3.4.11	(62,191)	(63,290)
Net result		201,229	956,061

3.3 Cash flow statement

Cash flow statement			
(amounts x € 1,000)	Reference	2020	2019
Cash flow from investment activities			
Mortgage loans issued		(629,320)	(238,816)
Mortgage loans repayments		1,098,647	844,800
Net receipts/(payments) for call money transactions		21,286	(123,230)
Interest received		368,173	376,296
Management fee paid		(28,174)	(27,435)
Service fee paid		(2,627)	(2,612)
Servicing fee paid mortgages		(33,177)	(32,937)
Interest paid		(704)	(421)
Other expenses paid		(188)	(179)
Net cash flow from investment activities		793,916	795,466
Cash flow from financing activities			
Subscriptions		-	1,080,023
Redemptions		(742,091)	(1,795,364)
Dividend paid		(51,826)	(80,124)
Net cash flow from financing activities		(793,917)	(795,465)
Net cash flow		(1)	1
Cash and cash equivalents opening balance		1	-
Cash and cash equivalents closing balance		-	1

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3.4 Notes to the financial statements

3.4.1 Accounting principles and the calculation methods for ratios

General

The financial statements are prepared in accordance with Title 9 of Book 2 of the Dutch Civil Code and the Dutch Act on Financial Supervision ("Wet op het financieel toezicht"). The financial statements are prepared according to the financial statements models for investment institutions as established by the legislator. Wording may be used that deviates from these models to better reflect the contents of the specific items.

Unless indicated otherwise, amounts are reflected in euro.

Comparison to the previous year

The accounting principles have remained unchanged in comparison to the previous year.

Change in estimates

The manager makes an estimation of the Constant Prepayment Rate for the preparation of the financial statements of the fund. In the past year we amended the CPR methodology for cash flow projections and valuation purposes of the fund. Whereas we used to apply a short term (0-24 months) and long term (25-360 months) CPR on a fund level this is now changed to an CPR curve per individual loan. This CPR curve per loan is based on loan characteristics as loan age and market interest rate differential. At implementation the effect on the net asset value was -0.9%.

The effect of the change in estimate has been fully accounted for during the implementation in 2020. As a result, no further impact is expected.

Cash flow statement

The cash flow statement is prepared using the direct method. A distinction is made between cash flows arising from financing activities which reflect all cash flows between the fund and its participants and the cash flows from investment activities which reflect the operations activities of the fund.

Cash and cash equivalents consist of cash at banks and bank overdrafts.

Principles for valuation

Unless stated otherwise, assets and liabilities are included in the balance sheet at nominal value. Investments are valued at fair value. The manner in which this fair value is determined is further explained in the paragraph: Determination of fair value of investments.

Investments

Investments in mortgage receivables are held to maturity. These investments are not considered to be part of the trading portfolio.

Criteria for recognition on the balance sheet

Financial instruments are recognised in the balance sheet when the fund becomes a party in the contractual clauses of the financial instrument. The fair value of the financial instruments at initial recognition is the cost price of the financial instruments.

A financial instrument is no longer recognised in the balance sheet if a transaction leads to the transfer of all or nearly all economic benefits and all or nearly all risks of the financial instrument to a third party.

Recognition of transaction

Transactions are processed based on settlement date (settlement date accounting).

Transaction cost recording

Transaction costs for purchases of investments are included in the cost price of the investments and are accounted for as part of the unrealised result on investments in the profit and loss statement. As a result, no transaction costs are expensed at the end of the year. Transaction costs related to sales of investments are accounted for as part of the realised result on investments. Transaction costs upon purchases of derivatives are directly accounted for in the profit and loss statement.

The total amount for identified transaction costs of investments (besides the transaction costs of derivatives) of the financial year is disclosed in the fees and expenses paragraph.

Fair value determination

The mortgage receivables are acquired from Aegon Hypotheken B.V. at their fair value. At the date of transfer, mortgage receivables are assumed to have been acquired at the conditions then applicable. The fair value of a mortgage is determined by discounting the future contractual cash flows against the Aegon interest rate, taking into account early repayments by the customer. The discount rate will be equal to the rates applied by Aegon Hypotheken B.V. for comparable mortgages at such time, as published on the website of Aegon, given that the difference between those rates and rates offered in the market is smaller than 25 basis points. If this would not be the case, the discount rate would be adjusted downward if the rate exceeds the market by more than 25 basis points, and vice versa in case the rate is more than 25 basis points below the market. Each such adjustment shall be made only to the extent needed to reach a discount rate that differs from the market rate with a maximum of 25 basis points. By using this method, the fair value is equal to the nominal value at the date of transfer. The market value of the mortgage portfolio is similarly calculated on a monthly basis. When calculating the fair value, the applicable sales restrictions are taken into account. The mortgage receivables can only be sold to a party affiliated with Aegon.

The market value of call money is based on the theoretical price, calculated using data from active markets.

Asset and liabilities

Assets and liabilities are valued at fair value upon initial recognition. Subsequently, assets and liabilities are valued at amortised cost. When no premium, discount or transaction costs apply, the amortised cost equals the nominal value of the asset or liability.

Cash and cash equivalents

Cash and cash equivalents are valued at nominal value.

Net asset value

In the net asset value of the fund, the transactions with participants and the appropriation of the result are recorded. Transactions with participants are processed against the subscription- or redemption price excluding subscription or redemption fee.

Performance calculation based on dividend reinvestment

The performance (net asset value) is calculated based on the net asset value at the end of the year and the net asset value of the previous year. Dividend distributions are considered to be reinvested at the net asset value per participation on the day of the dividend distribution.

3.4.2 Subsequent events

There have been no events after the balance sheet date for which disclosure is required.

3.4.3 Investments

Movement schedule of investments		
(amounts x € 1,000)	2020	2019
<i>Mortgage receivables</i>		
Opening balance	12,925,838	12,935,424
Issued	630,869	249,247
Repayments	(1,115,417)	(903,696)
Revaluation	(103,682)	644,863
Closing balance as at 31 December	12,337,608	12,925,838
<i>Call money</i>		
Opening balance	214,358	91,128
Net amount for transactions in call money	(21,286)	123,230
Closing balance as at 31 December	193,072	214,358

3.4.4 Risks with respect to financial instruments

This paragraph shows the important risks associated with the investments of the fund.

Price risk

Price risk can be divided into:

- Currency risk is the risk that the value of a financial instrument will fluctuate as a result of changes in exchange rates;
- Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, either caused by factors that exclusively apply to the individual instrument or the issuer thereof or by factors that influence all instruments that are traded in the market;
- Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates.

The concept of price risk does not only comprise possibility of losses but also the possibility of gains.

Currency risk

The fund predominantly has euro investments and is therefore not exposed to significant currency risk.

Market risk

The risk that relates to changes in market prices is limited by the spread in mortgage products and regions. The market price is influenced by the limitation in mortgage tradability. The mortgage receivables can only be sold to a party affiliated with Aegon.

Mortgage receivable portfolio by product		
	2020	2019
Product		
Annuity	62.8%	63.0%
Interest-only	27.8%	27.1%
Linear repayment	4.9%	5.1%
Banksavings ("Bankspaar")	3.8%	4.0%
Savings ("Spaar")	0.7%	0.8%
Total as at 31 December	100.0%	100.0%

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Distribution portfolio by region

Mortgage receivable portfolio by province		
	2020	2019
Province		
Drenthe	3.3%	3.2%
Flevoland	2.0%	1.9%
Friesland	4.0%	3.8%
Gelderland	14.1%	13.8%
Groningen	3.4%	3.4%
Limburg	6.9%	6.7%
North-Brabant	16.2%	16.3%
North-Holland	12.4%	12.8%
Overijssel	8.0%	7.8%
Utrecht	8.4%	8.5%
Zeeland	2.5%	2.5%
South-Holland	18.8%	19.3%
Total as at 31 December	100.0%	100.0%

Interest rate risk

The fund invests in long term fixed income securities and is therefore exposed to significant interest rate risk. The table below categorises the mortgage receivables and call money into fixed interest maturity buckets. In this table no consideration is given to (early) repayment of mortgage receivables.

Remaining fixed rate period 2020						
(amounts x € 1,000)						
	2020					
	Less than 1 year	Between 1 - 5 years	Between 5 - 10 years	Between 10 - 20 years	Greater than 20 years	Total
Mortgage receivables	113,827	305,195	402,428	9,117,369	2,398,789	12,337,608
Call money	193,072	-	-	-	-	193,072
Total as at 31 December	306,899	305,195	402,428	9,117,369	2,398,789	12,530,680

Remaining fixed rate period 2019						
(amounts x € 1,000)						
	2019					
	Less than 1 year	Between 1 - 5 years	Between 5 - 10 years	Between 10 - 20 years	Greater than 20 years	Total
Mortgage receivables	149,940	248,176	487,304	9,651,723	2,388,695	12,925,838
Call money	214,358	-	-	-	-	214,358
Total as at 31 December	364,298	248,176	487,304	9,651,723	2,388,695	13,140,196

Cash flow risk

Cash flow risk is the risk that future cash flows of a monetary financial instrument will fluctuate in size.

The fund has limited investments in financial instruments with variable interest rates and is therefore not exposed to significant cash flow risk.

Credit risk

Credit risk is the risk that counterparties of investments cannot meet their obligations, causing the fund to incur a financial loss. The amount which best represents the maximum credit risk of the fund is € 12.694.266.000 (2019: € 13.288.084.000).

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The fund primarily invests in mortgage receivables for which the collateral consists of privately owned Dutch residential property. The credit risk is therefore initially hedged by the property that serves as collateral for the mortgage receivables provided. In addition, credit risk is hedged by limiting the LTV in the fund mandate and by setting a maximum amount per loan.

A significant amount of the mortgage portfolio is subject to the NHG-arrangement, which means that the Dutch Government guarantees fulfilment of the financial obligations of the mortgage receivables.

Allocation of mortgage receivables portfolio by remaining debt at year-end		
	2020	2019
Remaining debt		
Lower than 100,000	4.4%	3.4%
100,000 – 150,000	14.1%	13.4%
150,000 – 200,000	23.5%	22.9%
200,000 – 250,000	23.3%	23.8%
250,000 – 300,000	13.2%	13.1%
300,000 – 350,000	8.1%	8.4%
350,000 – 400,000	5.0%	5.5%
Higher than 400,000	8.4%	9.5%
Total as at 31 December	100.0%	100.0%

Allocation of mortgage receivables remaining debt in relation to fair value of the underlying property		
	2020	2019
Remaining debt		
NHG	51.7%	50.7%
0 through 50%	11.0%	8.4%
50% through 100%	37.3%	40.9%
Total as at 31 December	100.0%	100.0%

Overdue mortgage receivable payments			
(amounts x € 1,000)	Amount overdue	Outstanding nominal	NHG
Outstanding debt			
Not overdue	-	12,251,366	51.7%
Overdue up to 3 months	282	53,151	73.3%
Overdue between 3 and 6 months	87	4,889	48.2%
Overdue for more than 6 months	20	635	100.0%
Total as at 31 December 2019	389	11,310,042	51.7%

The total losses on mortgage receivables in 2020 amount to € 262,000 (2019: € 281,000).

Liquidity risk

Liquidity risk, also known as 'funding risk', is the risk that the fund is not able to meet the financial obligations associated with its financial instruments or redemptions by participants. Liquidity risk can, among others, occur from the inability to sell a financial asset in the short term for (an amount close to) its fair value.

The investments of the fund cannot be liquidated immediately. The fund is therefore exposed to significant liquidity risk. This liquidity risk is reduced by existing restrictions for withdrawals from the fund. Participants can exit the fund on the first working day of each month.

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The redemption of participations will be financed using the cash flows under the Investments or arising from new issues of participations in the fund. Mortgage receivables are illiquid investments that normally cannot be liquidated. Therefore, upon exit from the fund, participants will be dependent on the available cash and the new inflow of (prospective) participants into the fund. As a result of this restricted liquidity, outflow from the fund may take a long time.

If the liquidity of the fund is insufficient to comply with a redemption request (in full), the relevant participations will be 'included' again in the next redemption round according to the same procedure, etc. If and as long as one or several participations are offered to the fund for redemption, the manager will not make any further investments until all these participations have been redeemed.

3.4.5 Other receivables

Other receivables		
(amounts x € 1,000)	2020	2019
Accrued interest	28,813	29,884
Total as at 31 December	28,813	29,884

3.4.6 Net asset value

Net asset value participants

Changes in net assets consist of transactions with participants, payments of dividends and the net result at the end of the year. The transactions with participants are incorporated against subscription or redemption rate excluding mark-up or mark-down for the subscription and redemption fee.

Movement schedule net asset value		
(amounts x € 1,000)	2020	2019
Net asset value participants		
Opening balance	13,270,176	13,109,580
Subscriptions	262,884	1,313,804
Redemptions	(742,091)	(1,795,364)
Dividends	(314,710)	(313,905)
Closing balance	12,476,259	12,314,115
Net result for the year	201,229	956,061
Total net asset value as at 31 December	12,677,488	13,270,176

For illiquid investments, the fund needs to account for a revaluation reserve for the amount of the unrealised revaluation of the illiquid investments. The unrealised revaluation of illiquid investments amounts to € 1,035,587,000 (2019: € 1,100,404,000).

Movement schedule of participations		
	2020	2019
Number of participations as at 1 January	1,052,728,078	1,092,069,500
Subscriptions	21,350,252	107,122,458
Redemptions	(59,741,279)	(146,463,880)
Number of participations as at 31 December	1,014,337,051	1,052,728,078

Historical summary			
	2020	2019	2018
Net asset value (x € 1.000)	12,677,488	13,270,176	13,109,580
Number of participations outstanding (units)	1,014,337,051	1,052,728,078	1,092,069,500
Net asset value per participation in €	12.50	12.61	12.00
Performance (net asset value)	1.52%	7.68%	1.91%

Dividend

Payment of dividend over 2020 took place on 21 January 2021 for an amount of € 0.27 per participation. The dividend amount is based on the direct result minus the fees and expenses of the financial year 2020. The dividend amount is also based on the average interest rate of the mortgage receivables in 2020 and the average net asset value of the fund.

3.4.7 Other payables

Other payables		
(amounts x € 1,000)	2020	2019
Management fee payable	-	840
Service fee payable	56	80
Servicing fee mortgages payable	959	2,774
Total as at 31 December	1,015	3,694

3.4.8 Profit and loss statement

Income and expense recognition

The profit and loss statement accounts for income and expenses resulting from business operations during the year. Transaction costs for investments and derivatives are directly accounted for in the profit and loss statement.

Interest income and expenses

Interest is accounted for in the period to which it relates. Interest income and expenses are processed on a time proportion basis, considering the effective interest rate of the concerned assets and liabilities.

Revaluation of investments

Revaluation of investments consists of realised and unrealised changes in fair value and foreign currency gains and losses. These revenues are included in the period to which they relate.

The realised changes in fair value and foreign currency gains and losses are determined as the difference between the sales price and the average historical cost of the investment. The unrealised changes in fair value and foreign currency gains and losses are determined as the change in the unrealised balance for each investment during the year. The reversal of unrealised changes in fair value and foreign currency gains and losses of previous years is included in the unrealised changes in fair value and foreign currency gains and losses upon realisation of these results.

Changes in fair value of mortgage receivables are generally accounted for as unrealised result because the mortgage receivables are held to maturity.

Since all transactions are in euro, no currency results exist.

Expenses

Expenses are recorded in the period to which they relate.

3.4.9 Changes in fair value of investments

Changes in fair value of investments (amounts x € 1,000)	2020	2019
Unrealised price- and currency losses mortgage receivables	(103,682)	644,863
Total change in fair value of investments	(103,682)	644,863

3.4.10 Subscription and redemption fee

The fund does not charge subscription and redemption fees.

3.4.11 Costs and fees

Management fee

The manager charges a fixed management fee for the management of the fund assets. The management fee is determined as a percentage on an annual basis. The management fee is charged to the fund each day on the basis of the net asset value of the fund at the end of the preceding trading day.

The annual management fee amounts to 0,21%.

Service fee

The fund manager charges a service fee to the fund. The service fee serves as compensation for costs such as costs of regulators, custody costs, auditors' fees, legal- and consultant fees, incorporation costs, administration fees and marketing- and communication costs.

The service fee is charged on a daily basis based on the intrinsic value of the fund as at the end of the previous day of trading. The service fee amounts to 0.02% per year of the net asset value.

Mortgage servicing fee

The fund pays Aegon Hypotheken B.V. a fee for services related to the distribution of mortgage receivables and the (special) management of the mortgage portfolio.

These services consist, among others, of administration of the mortgage portfolio, communication with overdue debtors, provision of payments regarding mortgage receivables loans and providing management reports to the fund. The mortgage servicing fee amounts to 0.27% per year and is based on the nominal amount of the mortgage receivables portfolio of the fund.

OCF ('Ongoing Charges Figure')

The OCF is a standard for ongoing costs that are charged to the fund during the reporting period. For the calculation of the OCF, the following needs to be considered:

- The OCF represents the ratio between ongoing costs and the average net asset value. The ongoing costs include all expenses that have been charged to the fund during the reporting period, with the exception of subscription- and redemption fees, performance fees, transaction costs for investments and interest expenses on bank accounts. The fund can invest in other Aegon funds. In addition to the costs directly recognised by the fund, the calculation of the fund's ongoing costs also includes the ongoing costs of other Aegon funds in which the fund invests as well as the costs of fee sharing agreements.
- The average net asset value is based on the number of days when a net asset value calculation was performed during the reporting period.

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The overview below shows the costs during the year:

OCF		
(amounts x € 1,000)	2020	2019
Average net asset value	12,975,456	13,039,117
Total costs within the fund including fee sharing agreements	61,299	62,795
Total costs	61,299	62,795
OCF	0.47%	0.48%

Turnover Ratio (TR)

The Turnover Ratio gives an indication of the turnover of the fund's investment portfolio by providing insight in the extent to which the fund manager actively changes the investment portfolio based on his investment decisions. The Turnover Ratio gives information on the relative amount of transaction costs involved with portfolio management. Active portfolio management means higher transaction costs. A turnover ratio of 200 indicates that purchase- and sales transactions have been executed for twice the amount of the average net asset value on top of the purchase- and sales transactions caused by subscriptions and redemptions of participants. Transaction in call money are not included in the calculation of the TR.

Subscriptions and redemptions of participations are netted on a daily basis to determine the actual in- or outflow on a daily basis. The purpose of this is to better align the in- or outflow with the purchases and sales as a result of transactions with participants. As a result, the amounts may differ from the amounts as stated in the movement schedule of the net asset value and the cash flow statement.

A fund can invest partially or entirely in participations in other Aegon investment funds in which the actual purchases and sales of investments take place. The TR of the underlying Aegon investment funds is more relevant and will be disclosed in the Financial Statements of this particular Aegon investment fund.

The Turnover Ratio is calculated as follows:

$$[(\text{Total 1} - \text{Total 2}) / X] * 100$$

Total 1: the total amount of securities transactions (securities purchases + securities sales).

Total 2: the total amount of transactions (subscriptions + redemptions) of participations of the fund.

X: the average net asset value of the fund.

Portfolio Turnover Rate (PTR)		
(amounts x € 1,000)	2020	2019
Purchases of investments	630,869	249,247
Sales of investments	1,115,417	903,696
Total investment transactions	1,746,286	1,152,944
Subscriptions	262,884	233,781
Redemptions	742,091	599,625
Total movements in participations	1,004,975	833,406
Average net asset value	12,975,456	13,039,117
PTR	6	2

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Related parties

All transactions with related parties have been entered into at arm's length and under normal market conditions. For completeness purposes, the related parties and information on the agreements with these parties are detailed below.

Fund manager

The fund uses the services of the fund manager, AIM, and does not employ any personnel. The personnel that AIM uses is employed by Aegon Nederland N.V. The expenses for the use of the personnel of the fund manager are covered by the management fee that the fund pays to the fund manager.

Legal owner

Aegon Custody B.V. serves as legal owner of the investments.

Aegon Custody B.V. was incorporated on 25 April 1991. The legal owner is a private limited liability company with its registered office at Aegonplein 50, 2591 TV, The Hague. It is registered in the Chamber of Commerce register of The Hague under number 27134727. Until 22 July 2014, Aegon Custody B.V. was a fully-owned subsidiary of Aegon Nederland N.V. Since 22 July 2014 Aegon Custody B.V. is a fully-owned subsidiary of Aegon Asset Management Holding B.V.

Aegon N.V.

Aegon N.V. renders the following services for the benefit of the fund, represented by the fund manager and the legal owner:

- Cash management: Aegon N.V. performs day-to-day cash management duties and manages the funds' aggregate cash pool.

Aegon Asset Management UK plc.

The fund manager has a service level agreement with Aegon Asset Management UK plc. regarding the calculation of fund- and benchmark performance that the manager uses for reporting on the funds.

Aegon Hypotheken B.V.

The fund pays Aegon Hypotheken B.V. a fee for services related to the distribution of mortgage receivables and the management of the mortgage portfolio. These services consist, among others, of administration of the mortgage portfolio, communication with overdue debtors, provision of payments regarding mortgage receivables loans and providing management reports to the fund.

Outsourcing

The fund manager has delegated tasks to the following parties in the context of the management of the fund:

- Aegon N.V. (Group Treasury): services in the field of cash management;
- Citibank NA: operational execution of securities lending transactions and fund accounting;
- Aegon Asset Management UK plc.: calculation of fund performance and benchmark performance;
- Aegon EDC Limited: IT infrastructure services;
- Aegon Asset Management Value Hub B.V.: shared service centre for transaction processing and performance measurement.

Liability of the depositary

The depositary is liable to the the fund and the participants for the loss of any financial instrument taken into custody by the depositary or a third party to which it has transferred the custody. The depositary will not be liable if it can demonstrate that the loss was caused by an external event beyond his reasonable control, the consequences of which were unavoidable despite any efforts to prevent them.

The depositary is also liable to the the fund and the participants for any other losses they suffer due to the depositary's failure to properly fulfil its obligations under this depositary agreement with intent or due to negligence. Participants may indirectly invoke the liability of the depositary via the fund manager. If the fund manager refuses to cooperate with such a request, the participants are authorised to file the claim for damages directly with the depositary.

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Hard commissions and softdollar arrangements

The fund does not enter into hard commission arrangements. With respect to softdollar arrangements, AIM complies with the DUFAS Fund Governance Principles. AIM is charged by brokers for research information. This research information is beneficial to the fund and its participants.

Proposed profit appropriation

The Board of Management proposes to add the profit for the financial year to the fund's participants capital.

The Hague, 1 April 2021

The investment manager

Signed on behalf of Aegon Investment Management B.V. by:

R.R.S. Santokhi

B. Bakker

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4 Other information

4.1 Independent auditor's report

To: the investment manager of AeAM Dutch Mortgage Fund

Report on the financial statements 2020

Our opinion

In our opinion, the financial statements of AeAM Dutch Mortgage Fund ('the Fund') give a true and fair view of the financial position of the Fund as at 31 December 2020, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2020 of AeAM Dutch Mortgage Fund, The Hague.

The financial statements comprise:

- the balance sheet as at 31 December 2020;
- the profit and loss account for the year then ended;
- the notes, comprising the accounting policies and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of AeAM Dutch Mortgage Fund in accordance with the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- General information;
- Report of the Investment Manager;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The investment manager is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Responsibilities for the financial statements and the audit

Responsibilities of the investment manager

The investment manager is responsible for:

- the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the investment manager determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the investment manager is responsible for assessing the Fund's ability to continue as a going concern. Based on the financial reporting framework mentioned, the investment manager should prepare the financial statements using the going-concern basis of accounting unless the investment manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so. The investment manager should disclose events and circumstances that may cast significant doubt on the Fund's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all material misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Rotterdam, 1 April 2021

PricewaterhouseCoopers Accountants N.V.

This is an English translation of the original Dutch text, furnished for convenience only. In case of any conflict between this translation and the original text, the latter will prevail.

Appendix to our auditor's report on the financial statements 2020 of AeAM Dutch Mortgage Fund

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements.

Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the investment manager.
- Concluding on the appropriateness of the investment manager's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the investment manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.