AEGON
Asset Management

Annual Report 2021
AEAM Dutch Mortgage Fund

1 January 2021 through 31 December 2021

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1 General information

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

- R.R.S. Santokhi
- B. Bakker
- O.A.W.J. van den Heuvel (appointed April 15, 2021)

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

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Independent auditor
PricewaterhouseCoopers Accountants N.V.

Management and administration
The AEAM Dutch Mortgage Fund does not employ any personnel and uses 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 16 February 2022.

Starting date
The fund is established on 30 august 2013.

Profile
The fund is a fund for joint account (Dutch: “fonds voor gemene rekening”). The participations are only available to qualified investors (Dutch: “gekwalificeerde beleggers”) as defined in the Dutch Act on Financial Supervision (Dutch: “Wet op het financieel toezicht”).

Investment policy
The fund invests in Dutch mortgages issued by Aegon Hypotheken B.V., for which the collateral consists of privately owned Dutch residential property. The fund acquires mortgages by subscribing to the new mortgages 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 mortgages compared to Dutch government bonds.

Sustainability
This fund promotes ecological or social characteristics in the following way:

By investing in mortgage receivables from originators who actively promote environmental considerations as part of their underwriting and lending process. The Investment Manager works with the mortgage originator to further encourage the consideration of environmental factors, such as energy efficiency, into the underwriting and lending process. For example, the mortgage originator actively promotes a “sustainability loan” which can be used by borrowers to improve the energy performance of their home. Furthermore, the mortgage originator offers more favorable financing conditions for homes with superior energy performance. The Investment Manager requires the mortgage originator to provide regular biannual reporting, describing the extent to which the associated environmental characteristics are met, which should include, amongst others, the percentage of loans distributed to different energy labels, greenhouse gas emissions generated by the portfolios of the Fund, sustainability loans and energy saving measures that have been undertaken. In its investment policy, the fund manager has taken into account the beforementioned ecological or social characteristics.

In addition, the Taxonomy Regulation requires disclosure on how and to what extent the investments of each fund are in economic activities that qualify as environmentally sustainable pursuant to those criteria. This information and a brief explanation of the regulation are set out below.

Regulation (EU) 2020/852 regarding the establishment of a framework to promote sustainable investments (Taxonomy Regulation) establishes criteria for determining whether an economic activity qualifies as environmentally sustainable in the context of particular environmental objectives. As at the date hereof, the only such objectives are climate change mitigation and adaptation (the “Climate Objectives”).

In order for an investment to qualify as environmentally sustainable as at the date hereof, it must meet a number of different criteria, including that it contributes substantially to a Climate Objective, as measured according to the technical screening criteria set out in the Taxonomy Regulation, and that it must not significantly harm any of the other environmental objectives set out in the Taxonomy Regulation.

The technical screening criteria are very detailed and require the availability of multiple, specific data points regarding each investment. As at the date hereof, there is insufficient data available to be able to assess investments using the technical screening criteria. As such, the fund is not in a position to describe: (a) the extent to which the investments of the fund are in economic activities that qualify as environmentally sustainable pursuant to the technical screening criteria; (b) the proportion, as a percentage of the portfolio as a whole, of investments in environmentally sustainable economic activities; or (c) the proportion, as a percentage of the portfolio as a whole, of enabling and transitional activities (as such are described in the Taxonomy Regulation). Therefore, the fund manager considers that the most prudent course of action, at present, is to disclose that 0% of such funds' investments are in environmentally sustainable economic activities for the purposes of the Taxonomy Regulation.

The "do no significant harm" principle referred to above applies only to those investments underlying the relevant fund that take into account the EU criteria for environmentally sustainable economic activities; investors should note that at present none of the relevant funds take into account the EU criteria for environmentally sustainable economic activities.

The fund manager is keeping this situation under active review and where sufficient reliable, timely and verifiable data on the investment becomes available, it will re-evaluate its approach to the Taxonomy Regulation and relevant documentation will be updated.

Benchmark

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

Restrictions

Investment universe

The fund may invest in mortgages and cash equivalents. The cash equivalents can be reinvested in Dutch Government bonds. The available cash of the fund must remain between -5% and 5% of the net asset value. Non-withdrawn construction deposits are not considered as cash in this regard.

Investment strategies

The net asset value may be invested in:

- NHG Mortgages, with a minimum of 50%;
- Non-NHG Mortgages, with a maximum of 50%;
- Loan-to-Value ratio, with a maximum of 106**%.**

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

Leverage

The allowed leverage, or exposure, that follows from using the allowed credit facilities and/or the entering into contracts of derivative financial instruments (on a commitment basis), is limited at 5% of the net asset value. The allowed leverage, based on the gross method is 10% of the net asset value. These instruments (derivatives) are only used to achieve the fund objective, hedge risks and/or efficient portfolio management.

Short term deviations

Short term deviations from the beforementioned restrictions are possible due to significant subscriptions to or redemptions from the fund. Such deviations are brought within the determined limits within a period of 2 months.

Marketability

The participations of the fund are registered and cannot be transferred, with the exception of redemption of participations by the fund manager. The fund manager does not issue participations.

Fiscal status

The fund is fiscally transparent, which means that the fund is not liable for corporate tax (or subject to any other tax on profits) and is not subject to dividend withholding tax. The assets, liabilities and results of the fund are directly allocated for tax purposes to the participants of the fund in proportion to their participation. Income or capital gains earned by a participant are regarded as income or capital gains made on the assets of the fund. Changes in the relative interest of a participant, for example as a result of a new participant in the fund, can lead to the realization of capital gains for Dutch tax purposes among the other participants.

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.

Subscription and redemption fee

The fund does not charge a subscription or redemption fee on entry or exit of the fund.

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.

The fees for the audit of the annual report, fiscal advice and other non audit related services are paid by the manager from the service fee. These costs cannot be attributed to individual managed funds.

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

The pandemic
The Covid-19 pandemic was again decisive for the economic activity. At the start of 2021, vaccines were not sufficiently available yet. Many countries in Europe were in lockdown or had other restrictions to curb infections. China was relatively successful in keeping Covid-19 out. In the US the states pursued a different policy. On average, the policy was, however, considerably less restrictive compared to Europe.

From the start of the year, vaccines became available in the developed countries. The US and the UK were the first to have sufficient production of vaccines, followed by Europe and later Japan. Restrictions could be eased in that order. New variants, first Delta and later Omicron, did again result in new restrictions. Due to the experience of people and businesses with restrictions, they had a smaller impact on the economy compared to the first wave in 2020.

The recovery
Governments supported the economy through various programmes. In the US the unemployment benefit was increased, among other things, whilst Europe partly reimbursed the wage costs of affected businesses. In addition, the US adopted an extensive infrastructure package and a recovery fund was set up in Europe.

This tax support appeared to work well. The expiry of these support measures occurred without an increase in unemployment. The labour market is even fairly tight. This is caused by the drop in the participation level and the increased consumption expenditure. Among other things because of the generous unemployment benefit and the increased savings balances, consumers have more to spend. This does, for that matter, particularly apply to the US and to a lesser degree to European countries.

The flip side of the coin is that the support measures resulted in large government deficits and a steep increase of the government debt.

The degree and timing of the economic recovery differed per region. The American economy recovered swiftly through a fast vaccination programme and direct tax support. The scope of the American economy is now already bigger than prior to the pandemic. The recovery in Europe was initially slower, because the vaccination programme was slower to gather momentum as a result of which the restrictions remained in force longer. Within Europe especially Spain lagged behind due to the large dependence on tourism. The Japanese economy lagged behind because vaccination started late there, as a result of which restrictions could only be eased in the third quarter.

The Chinese economy continue to grow strongly. The export of goods increased significantly. The property market in China is, however, levelling off, which shall have a dampening effect. The strategy to keep Covid-19 out also led to lockdowns in various cities, as a result of which the growth was delayed.

The pandemic led to a more considerable demand for goods because people could spend less on services. At the same time, lockdowns and other restrictions led to disruptions in the commercial chains. As a result, the brake was put on production and the inflation strengthened.

Monetary backing
Central banks continued their broad monetary policy in 2021. Extensive purchasing programmes ensured that the interest rate remained low. As a consequence, the additional debt issuance of governments was not directly problematic.

During the year, the inflation increased. This can partly be attributed to temporary effects, like the increased energy prices. However, this inflation partly appears to be structural. Due to the tight labour market this can rather result in a higher wage development, leading to a wage-price spiral. It seems to be likely that this shall occur in the US rather than in Europe.

Due to the strong recovery and the increasing inflation, at the end of the year the central banks announced a tightening of the monetary policy. Both the FED and the ECB are going to gradually phase out the purchasing programmes. In addition, the FED expects to increase the interest rates several times in 2022.

2.2 Financial markets

Housing market

Despite the continuing Covid-19 pandemic, the Dutch housing market continued to do well in 2021. The average house price in the fourth quarter of the past year rose to slightly over € 400,000, representing a price rise of 20.1% year on year. We observe that the number of houses sold did decrease significantly with a drop of -13% to 16,048 year on year. The number of newly concluded mortgages is still on the up and increased by +9.7% to 39,690. This rise is mostly driven by the large group of re-mortgagors. Given the strong house price rises, it has become more difficult for starters to finance an owner-occupied house. In addition, it seems that we have also already reached the low point in the mortgage interest rates. This is not benefiting the financeability, especially not for starters. The major question is what the capital market interest rates are going to do in the period to come. If they continue to rise then the question also rises as to whether mortgage interest rates shall also increase further. In time, this can result in the end of the continuously increasing house prices. For the time being, analysts expect the rise in house prices to also 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	2021	2020	2019	2018	2017
Overview per participation[1]					
Changes in fair value	(0.18)	(0.10)	0.60	(0.05)	0.11
Investment result	0.36	0.35	0.35	0.35	0.36
Total result	**0.18**	**0.25**	**0.95**	**0.30**	**0.47**
Management fee and other expenses	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Net result	**0.12**	**0.19**	**0.89**	**0.24**	**0.41**
Dividend paid per participation	(0.27)	(0.27)	(0.29)	(0.30)	(0.33)
Net asset value (x € 1,000)	11,657,077	12,677,488	13,270,176	13,109,580	12,010,558
Outstanding number of participations	944,784,473	1,014,337,051	1,052,728,078	1,092,069,500	994,357,648
Net asset value per participation	12.34	12.50	12.61	12.00	12.08
Performance[2]					
Performance (net asset value)	0.87%	1.52%	7.68%	1.91%	3.42%
Performance benchmark	(3.60%)	3.71%	3.98%	2.27%	(1.02%)
Outperformance	4.63%				
Outperformance since inception	18.31%				
Annualised outperformance since inception	2.08%				
Ratios[3]					
Ongoing Charges Figure (OCF)	0.47%	0.47%			

[1] Amounts per participation are based on the average number of participations during the year.
[2] The performance is the time weighted return after costs calculated on a daily basis. The outperformance figures are presented in 2021 for the first time, therefore no comparative figures are included.
[3] Calculated based on the average net asset value on a daily basis.

2.4 Investment policy

In 2021, the AeAM Dutch Mortgage Fund realised a return of 0.87% 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 for the AeAM Dutch Mortgage Fund increased slightly. The specific composition of the portfolio of the fund led to an increased average interest rate, which led to a negative effect on the valuation of the mortgages in the fund. In 2021 we re-calibrated the parameters in our CPR model based on the updated dataset. The CPR model determines 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 -0.67%. There were no credit losses in the portfolio during 2021.

The return of 0.87% after costs is an outperformance of 4.63% compared to the benchmark. The fund has a Dutch government bond index as benchmark (JP Morgan Government Bond Index Traded Netherlands). During 2021 the Dutch government rate increased which led to a negative performance for the benchmark. For the fund the combination of the before mentioned factors (the slight increase the weighted Aegon mortgage interest rate for the AeAM Dutch Mortgage Fund (discount rate), the change of Constant Prepayment Rate (CPR) and no credit losses on the mortgages) led to a positive performance and an outperformance of the benchmark for 2021.

The impact of COVID-19 on the Dutch mortgage market has so far been very limited. The number of new mortgages increased again in 2021 compared to 2020, 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 following the start of the COVID-19 and the relative strong economic pick up after the restrictions were lifted. Instead of increasing unemployment we witness a very tight labour market which should support the Dutch mortgage market.
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 (71.3%). At the end of December 2021, the percentage of NHG mortgages was 50.8%. At the end of December the mortgage fund duration is 6.23. The fund does not make use of derivatives.

The fund has dealt with the various risks as follows:

- Concentration risk: With nearly 60,000 loans in the fund, the fund is considered to be sufficiently diversified.
- Currency risk: The fund does not run any currency risk.
- Liquidity risk: Investing in illiquid mortgages will involve liquidity risk. The monthly cashflows from the mortgages will be used to facility potential redemptions.

The expectation for the coming 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.

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.

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 investors base, the nature of the investments, the relative size of the investments and the redemption conditions in its assessment;
- 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.

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, and
- 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 calculation for most limits is delegated to Citibank. In its role as depositary and fund administrator, Citibank has full transparancy on the funds, for which Citibank checks the compliance of the limits and performs relevant calculations within their systems. AIM receives warnings (breaches of internal limits) and infringements (breaches of external limits) with all applicable data and validation checks. All limits are checked by AIM and are reported in an overview of warnings and breaches.

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 (CIO). 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.

During the reporting year, there were no breaches of restrictions.

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 management by the fund manager

AIM has organized the risk management governance according to the Three Lines of defense Model. This model distributes the responsibilities, the tasks and the set of instruments and measures needed to be ‘in control’. This model ensures independent monitoring of the risk management activities in the organization by the risk management, compliance and internal audit functions.

- First Line of defense

The first line of defense is executed by the line organization. They are responsible for the performance of the primary operational processes. Many of the risk management measures are embedded in these processes and provide reasonable assurance that the processes are performed properly. Common used control measures are, for example, the segregation of duties, the four-eyes principle and reconciliations.

The monitoring of positions and the related investment risks takes place on the level of the overall client portfolios, the investment portfolios and the individual external asset managers.

- Second Line of defense

The second line is executed by the Enterprise Risk Management (ERM), Portfolio Risk Management (PRM), Portfolio Risk Control (PRC) and Compliance. The task of the second line is to identify, register and monitor AIM's risks and assess, advise and support the first line. Second line enforces the risk culture within the first line to encourage the management on its risk management responsibilities.

- Third Line of defense

The third line of defense is executed by Internal Audit organization. Internal Audit is independently organized related to AIM and has the mandate to assess all processes performed by the first and second line.

Operational risks of the Fund
The risks are identified based on the Risk Control Self Assessment (RCSA). An effective set of control measures limits the risk of exceeding the risk tolerances for the operational risk. The most important operational risks and the risk management with regards to the multi-manager funds are:

- Inadequate selection of external managers resulting in underperforming managers which may cause incidents. This can lead to operational losses and reputational damage.

  Control measures
  Risks in relation to the selection process are managed by means of a robust and intensive selection process aimed at appointing high-quality managers for each asset class and subclass worldwide. Important selection criteria include: the investment philosophy espoused, the investment process, the personnel and organization, performance and opportunities for diversification. There are strict procedures for documenting the outcomes of the due diligence investigation into external managers and the resulting opinion, the confirmation of selected managers in the portfolio manager meeting and the authorization of a selected manager by the Manager Equities, Fixed Income & Commodities and the Chief Investment Officer (CIO). The process is also reviewed by Enterprise Risk Management before the contract is signed.

- Unreliable execution of processes by the external manager resulting in underperformance, incidents and a lack of transparency. This can lead to operational losses and reputational damage.

  Control measures
  Risks are managed by monitoring the documentation of the investment management agreements, assessment of de external managers by the portfolio managers and a yearly evaluation of the assurance reports of the auditors of the external manager, Fund Administrator (Citibank), PRC department and department Portefeuille Implementatie. This includes, amongst other things, checks of the performance by external managers (qualitative/quantitative), compliance breaches and fee notes. Portfolio managers constantly follow the performance of the external managers on the basis of portfolio information, company news, attribution analyses and risk and return criteria. There is also a clear dismissal policy on the basis of qualitative and quantitative criteria.

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.

Risk awareness and embedding within the organisation
The fund manager is well aware of the attention directed towards demeanor and conduct in regards to the risk management and compliance, the so called soft controls.

The policy is aimed at the fund manager complying to the statutory, administrative and societal norms. This entails that a breach, or the appearance of a breach, of valid law and legislation can affect trust adversely:

- while performing financial services and the ensuing commitments towards customers of the fund manager;
- in the financial markets wherein the fund manager operates.

Compliance to the external regulations has additionally been given shape by the composition of internal regulations. The various regulations that apply to the fund manager and/or her employees, are listed on the intranet and are available to all employees.

The customer is the point of focus and the know-your-customer rules have already been applied with the fund manager before it was recorded in the legislation and the provision of information receives ample attention, for example in the form of tailored customer reports.

To maintain confidence in the financial markets, the fund manager handles various procedures that, as per example, are focused on avoiding conflicts of interest and to ensure that no customers with a heightened level of integrity risk (for example due to money laundering or the financing of terrorism) are being admitted.

The fund manager additionally handles the procedures that guarantee that (international) sanction laws are being met. Sanctions could, for example, relate to certain persons, whose assets need to be frozen or to which no financial services should be given. Sanctions could also entail that no investments are allowed to be made in certain areas and/or instruments. When new sanctions are being issued or current sanctions are being altered, the compliance department will forward this information as quickly as possible to the relevant departments that apply such alterations in the portfolios.

An important part of the organizational embedding of risk management and compliance is, among others, the raising of awareness in regards to the relevant law and regulations and the monitoring of processes and procedures. The integrity risk of the fund manager is being controlled through internal guidelines, pre-employment screening, codes of conduct, e-learning modules for all employees and measures in the customer acceptance process. The compliance role plays an important part in the creation of the desired degree of risk awareness.

DUFAS
AIM has joined the Dutch Fund and Asset Management Association (DUFAS).

GIPS
AIM also complies with the Global Investment Performance Standards (GIPS). An external auditing firm reviews the investment funds of AIM on a yearly basis, with positive outcomes since 2000. AIM meets the GIPS requirements and underlines the reliability of the performance measurement of its investment funds.

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 50% of non-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 seven 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.

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 2021. The amounts have been split to management, MRT and other employees.

Personnel compensation for the financial year 2021

Groups (amounts x € 1,000)	Number of personnel	FTE[1]	Fixed salary[2]	Variable remuneration
Board of directors	3	3	1,005	400
MRT	7	7	2,359	1,315
Other staff	412	362	40,668	7,357
Total AIM employees	**422**	**372**	**44,032**	**9,072**

Personnel compensation for the financial year 2020

Groups (amounts x € 1,000)	Number of personnel	FTE[1]	Fixed salary[2]	Variable remuneration
Board of directors	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**

[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.

Delegated functions

In accordance with article 22 (2) (e) of the AIFMD, the manager is obligated to provide further details of the remuneration policy. This includes external parties to which portfolio management and risk management activities are delegated. For outsourcing relationships a proportionally effective remuneration policy is applicable. Aegon has, in accordance with AIFMD, tried to obtain the quantitative information from its external portfolio managers and risk managers. However, this information is not available at the required level. For a best estimate of the costs associated with the remuneration policy for these external portfolio managers and risk managers, we refer to the management fees charged. The management fees are disclosed in the annual report of the relevant Aegon funds.

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, the Dutch financial reporting standards ('Richtlijnen voor de jaarverslaggeving') and the Dutch Act on Financial Supervision (Wet op het financieel toezicht).

Sustainability regulations
As of March 10, 2021, Regulation (EU) 2019/2088 on sustainability related disclosures in the financial services sector (SFDR) applies to financial market participants, among which the fund manager. This regulation demands transparency on sustainability risks, negative effects on sustainability and the way in which a SFDR product promotes environmental or social characteristics or has a sustainable investment objective. The fund manager has applied the latest regulatory requirements, among others in the product documentation and on the website.
At this time, further standards have not been implemented and only the SFDR applies.

Additionally, based on Regulation (EU) 2020/852 regarding the establishment of a framework to promote sustainable investments (Taxonomy Regulation) as of January 1, 2022 in precontractual and periodical provision of information as described in the regulation, the fund manager is required to disclose information on the extent in which it applies the Taxonomy Regulation

For more information relating to the SFDR and Taxonomy regulation we refer to the fund specific information.

2.8 General outlook

Housing market
The house prices continue setting records, especially due to the low mortgage interest rate. Although the drop in the mortgage interest rate has come to a standstill as a result of the increased inflation, it is expected that on balance the mortgage interest rate shall remain low. This implies that house prices are likely to continue increasing. The increase of the prices shall reduce, because the positive effect of the low interest rate has mostly already been taken into account in the present prices.

In addition to the interest rate, the house prices are also somewhat supported by the increasing wages. The development of the salaries is positive thanks to the tight labour market and the economic recovery that is imminent now that the lockdown measures are being reversed ever more. However, it is expected that the number of transactions shall decline in the coming years. House purchases are determined strongly by the available supply. At the moment there are barely houses for sale and the building of new developments is lagging behind, as a result of which ever fewer transactions take place. House owners postpone the moment of sale because they first want to find a suitable house. Given the present price increase, it may be worthwhile to wait.

When the price increase has levelled off sufficiently and the new developments gather more momentum, it is expected that more houses shall gradually be offered again and the number of transactions shall increase slightly again from 2023.

The tumultuous trend on the housing market forced the government to take measures. Too many people were sidelined. Hence, in the coalition agreement ample attention is paid to the housing market, however after inspection the announced measures are somewhat disappointing. There shall be a Minister for Public Housing. It is, however, unclear what additional authorities shall be allocated. The government acknowledges that climate change affects housing, but does not arrive at hard conclusions. The government is, however, changing the direction of the rental market. Rutte IV is kind to social housing associations, but is turning away from private investors, a radical departure from Rutte II, which decided exactly the opposite.

Finally, the government does not dare reaching a decision on the tax system. The tax handling of owner-occupied houses consequently remains unaffected, whilst it follows from research under the authority of the Ministry of Finance that this is untenable.

The Hague, 25 March 2022

The investment manager

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

R.R.S. Santokhi
B. Bakker
O.A.W.J. van den Heuvel

3 Financial Statements AEAM Dutch Mortgage Fund

3.1 Balance sheet as at 31 December

Balance Sheet			
(before appropriation of result) (amounts x € 1,000)	Reference	2021	2020
Assets			
Investments			
Mortgage receivables		11,300,017	12,337,608
Call money		195,460	193,072
Total investments	3.4.3	**11,495,477**	**12,530,680**
Receivables			
Outstanding transactions in financial instruments		150,960	134,773
Other receivables	3.4.5	33,341	28,813
Total receivables		**184,301**	**163,586**
Total assets		**11,679,778**	**12,694,266**
Liabilities			
Net asset value			
Net assets before result		11,543,123	12,476,259
Result for the year		113,954	201,229
Total net asset value	3.4.6	**11,657,077**	**12,677,488**
Short term liabilities			
Outstanding transactions in financial instruments		19,910	15,763
Other payables and liabilities	3.4.7	2,791	1,015
Total short term liabilities		**22,701**	**16,778**
Total liabilities		**11,679,778**	**12,694,266**

3.2 Profit and loss statement

Profit and loss statement			
(amounts x € 1,000)	Reference	2021	2020
Direct result			
Interest mortgage receivables		353,243	367,102
Interest bank accounts		2	-
Total direct result		**353,245**	**367,102**
Revaluation of investments	3.4.9	(180,552)	(103,682)
Total investment result		**172,693**	**263,420**
Operating expenses			
Management fee		(25,668)	(27,334)
Service fee		(2,445)	(2,603)
Servicing fee mortgages		(29,625)	(31,362)
Interest call money		(873)	(693)
Interest bank accounts		(39)	(11)
Other expenses		(89)	(188)
Total operating expenses	3.4.11	**(58,739)**	**(62,191)**
Net result		**113,954**	**201,229**

3.3 Cash flow statement

Cash flow statement			
(amounts x € 1,000)	Reference	2021	2020
Cash flow from investment activities			
Mortgage loans issued		(315,123)	(629,320)
Mortgage loans repayments		1,160,122	1,098,647
Net receipts/(payments) for call money transactions		(2,388)	21,286
Interest received		348,717	368,173
Management fee paid		(25,398)	(28,174)
Service fee paid		(2,475)	(2,627)
Servicing fee paid mortgages		(28,089)	(33,177)
Interest paid		(912)	(704)
Other expenses paid		(89)	(188)
Net cash flow from investment activities		**1,134,365**	**793,916**
Cash flow from financing activities			
Subscriptions		172,143	-
Redemptions		(1,231,418)	(742,091)
Dividend paid		(75,090)	(51,826)
Net cash flow from financing activities		**(1,134,365)**	**(793,917)**
Net cash flow		**-**	**(1)**
Cash and cash equivalents opening balance		-	1
Cash and cash equivalents closing balance		**-**	**-**

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.

Foreign currencies
The reporting and functional currency of the fund is the euro due to the issue of participations in euro and most of the transactions being in euro. Monetary assets and liabilities in foreign currency are translated by the closing rate. Non-monetary assets and liabilities that are valued on a historical cost basis are translated by the rate of the foreign currency at the date of the transaction.

Purchases and sales during the reporting period are translated by the rate of the foreign currency at the date of the transaction. The same applies to foreign currencies related to profit and loss statement.

Differences related to foreign currency translations on investments are recognized in the profit and loss statement as part of the revaluation of investments.

Differences related to foreign currency translations on receivables and payables are recognized in the profit and loss statement under currency translation differences.

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 Fair value determination.

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)	2021	2020
Mortgage receivables		
Opening balance	12,337,608	12,925,838
Issued	319,270	630,869
Repayments	(1,176,309)	(1,115,417)
Revaluation	(180,552)	(103,682)
Closing balance	**11,300,017**	**12,337,608**
Call money		
Opening balance	193,072	214,358
Net amount for transactions in call money	2,388	(21,286)
Closing balance	**195,460**	**193,072**

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 dividend 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 has euro investments only 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.

Mortageportfolio to product		
	2021	2020
Product		
Annuity	62.4%	62.8%
Interest-only	28.7%	27.8%
Linear repayment	4.7%	4.9%
Bank savings (“Bankspaar”)	3.7%	3.8%
Savings (“Spaar”)	0.5%	0.7%
Total as at 31 december	**100.0%**	**100.0%**

Distribution portfolio by region

Mortgage receivable portfolio by province	2021	2020
Province		
Drenthe	3.4%	3.3%
Flevoland	2.0%	2.0%
Friesland	4.1%	4.0%
Gelderland	14.3%	14.1%
Groningen	3.5%	3.4%
Limburg	6.9%	6.9%
Noord-Brabant	16.0%	16.2%
Noord-Holland	12.3%	12.4%
Overijssel	8.0%	8.0%
Utrecht	8.3%	8.4%
Zeeland	2.6%	2.5%
Zuid-Holland	18.6%	18.8%
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 2021

(amounts x € 1,000)	2021					
	Shorter than 1 year	**Between 1 and 5 years**	**Between 5 and 10 years**	**Between 10 and 20 years**	**Longer than 20 years**	**Total**
Mortgage rec.	82,388	290,377	360,550	8,273,623	2,293,079	11,300,017
Call money	193,072	-	-	-	-	193,072
Total	**277,848**	**290,377**	**360,550**	**8,273,623**	**2,293,079**	**11,495,477**

Remaining fixed rate period 2020

(amounts x € 1,000)	2020					
	Shorter than 1 year	**Between 1 and 5 years**	**Between 5 and 10 years**	**Between 10 and 20 years**	**Longer than 20 years**	**Total**
Mortgage rec.	113,827	305,195	402,428	9,117,369	2,398,789	12,337,608
Call money	193,072	-	-	-	-	193,072
Total	**306,899**	**305,195**	**402,428**	**9,117,369**	**2,398,789**	**12,530,680**

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 € 11,679,778,000 (2020: € 12,694,266,000).

The fund primarily invests in mortgages 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 mortgages provided. In addition, credit risk is hedged by limiting the LTFV (volume of loans in relation to the execution value of the collateral) 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.

Allocation of mortgage receivables portfolio by remaining debt at year-end

	2021	2020
Remaining debt		
Lower than 100.000	5.8%	4.4%
100.000 – 150.000	15.0%	14.1%
150.000 – 200.000	23.9%	23.5%
200.000 – 250.000	22.2%	23.3%
250.000 – 300.000	12.9%	13.2%
300.000 – 350.000	7.6%	8.1%
350.000 – 400.000	5.0%	5.0%
Higher than 400.000	7.6%	8.4%
Total as at 31 December	**100.0%**	**100.0%**

Allocation of mortgage receivables remaining debt in relation to fair value of the underlying property

	2021	2020
Remaining debt		
NHG	50.8%	51.7%
0 through 50%	17.6%	11.0%
50% through 100%	31.6%	37.3%
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	-	10.430.921	50.7%
Overdue up to 3 months	247	43.873	70.3%
Overdue between 3 and 6 months	55	2.962	85.5%
Overdue for more than 6 months	73	1.858	70.8%
Total as at 31 December	**375**	**10.479.614**	**51.7%**

The total losses on mortgage receivables in 2021 amount to € 249,000 (2020: € 262,000).

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.

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)	2021	2020
Accrued interest	33,341	28,813
Total as at 31 December	**33,341**	**28,813**

3.4.6 Net asset value

Movement schedule net asset value		
(amounts x € 1,000)	2021	2020
Net asset value participants		
Opening balance	12,677,488	13,270,176
Subscriptions	370,048	262,884
Redemptions	(1,231,418)	(742,091)
Dividends	(272,995)	(314,710)
Closing balance	**11,543,123**	**12,476,259**
Net result for the year	**113,954**	**201,229**
Total net asset value as at 31 December	**11,657,077**	**12,677,488**

Investments without a quoted market price in an active market require a revaluation reserve for the unrealised positive revaluation. The unrealised positive revaluation for these investments amounts to € 855,035,000 (2020: € 1,035,587,000).

Movement schedule of participations		
	2021	2020
Number of participations as at 1 January	1,014,337,051	1,052,728,078
Subscriptions	30,006,859	21,350,252
Redemptions	(99,559,437)	(59,741,279)
Number of participations as at 31 December	**944,784,473**	**1,014,337,051**

Historical summary			
	2021	2020	2019
Net asset value (X € 1,000)	11,657,077	12,677,488	13,270,176
Number of participations outstanding (units)	944,784,473	1,014,337,051	1,052,728,078
Net asset value per participation in €	12.34	12.50	12.61
Performance (net asset value)	0.87%	1.52%	7.68%

Dividend
Payment of dividend over 2021 took place on 20 January 2022 for an amount of € 0.25 per participation. The dividend amount is based on the direct result minus the fees and expenses of the financial year 2021. The dividend amount is also based on the average interest rate of the mortgage receivables in 2021 and the average net asset value of the fund.

3.4.7 Other payables

Other payables		
(amounts x € 1,000)	2021	2020
Management fee payable	270	-
Service fee payable	26	56
Servicing fee mortgages payable	2,495	959
Total as at 31 December	**2,791**	**1,015**

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
Changes in fair value of mortgage receivables are generally accounted for as unrealised result because the mortgage receivables are held to maturity, except for the premature repayment of mortgages by the issuer. 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)	2021	2020
Unrealised price- and currency losses mortgage recievables	(180,552)	(103,682)
Total as at 31 December	**(180,552)**	**(103,682)**

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 annual management fee amounts to 0.21% per year.

Service fee
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 mortgages and the (special) management of the mortgage portfolio. The mortgage servicing fee amounts to 0.27% per year.

Ongoing Charges Figure (OCF)

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.

The overview below shows the costs during the year:

OCF		
(amounts x € 1,000)	2021	2020
Average net asset value	12,216,864	12,975,456
Total costs within the fund including fee sharing agreements	57,738	61,299
Total costs	**57,738**	**61,299**
OCF	**0.47%**	**0.47%**

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:
[(Total 1 – 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 (determined in line with the related OCF method)

TR		
(amounts x € 1,000)	2021	2020
Purchases of investments	319,270	630,869
Sales of investments	1,176,309	1,115,417
Total investment transactions	**1,495,579**	**1,746,286**
Subscriptions	197,905	262,884
Redemptions	1,059,276	742,091
Total movements in participations	**1,257,181**	**1,004,975**
Average net asset value	12,216,864	12,975,456
TR	**2**	**6**

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. Aegon Custody B.V. is a fully-owned subsidiary of Aegon Asset Management Holding B.V. It is registered in the Chamber of Commerce register of The Hague under number 27134727.

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 Asset Management Value Hub B.V.: shared service centre for transaction processing and performance measurement;
- Aegon Derivatives N.V.: services related to the management of cash and collateral;
- Aegon EDC Limited: IT infrastructure services;
- Citibank N.A. (London Branch): operational execution of securities lending transactions, fund accounting and corporate actions;
- Aegon N.V. (Group Treasury): services in the field of cash management;
- Aegon Asset Management UK Plc.I: calculation of fund performance and benchmark performance;
- Aegon Hypotheken B.V.: issue of mortgages and the (special) management of the mortgage portfolio.

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.

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, 25 March 2022

The investment manager

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

R.R.S. Santokhi
B. Bakker
O.A.W.J. van den Heuvel

4 Other information

4.1 Management board interests

During 2021, the board members of the investment manager held no direct or indirect interests in the fund or in any of the external managers appointed by the fund.

4.2 Independent auditor's report

To: the investment manager of AEAM Dutch Mortgage Fund

Report on the financial statements 2021

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 2021, 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 2021 of AeAM Dutch Mortgage Fund, Den Haag.

The financial statements comprise:

- the balance sheet as at 31 December 2021;
- the profit and loss statement for the year then ended; and
- the notes, comprising a summary of the accounting policies applied 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

The annual report contains other information. This includes all information in the annual report in addition to the financial statements and our auditor's report thereon.

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 all the information regarding the report of investment manager and the other 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 the 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 procedures performed in our audit of the financial statements.

The investment manager is responsible for the preparation of the other information, including the report of the investment manager 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 in the financial statements any event and circumstances that may cast significant doubt on the Fund's ability to continue as a going concern.

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 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, 25 March 2022
PricewaterhouseCoopers Accountants N.V.

Appendix to our auditor's report on the financial statements 2021 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' 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.