

Cofunds Limited

Corporate Governance Disclosures

This statement presents corporate governance disclosures included in the annual report for Cofunds Limited for the year ended 31 December 2019. The Companies (Miscellaneous Reporting) Regulations 2018 requires these disclosures to be included in Cofunds Limited's (the Company) statutory accounts and published on the Company's website. This document is prepared based on the annual report disclosure and published on the Company's website to fulfil that requirement.

Introduction

New corporate governance reporting requirements were introduced under the Companies (Miscellaneous Reporting) Regulations 2018 (the "Regulations") and apply to companies meeting specific qualifying conditions. The Company meets some of these qualifying conditions and is required in its Annual Report to include disclosures on:

- i) how the Directors have had regard to the matters in section 172 (1)(a) to (f) of the Companies Act 2006 (the "Act");
- ii) how the Directors have engaged with employees; and
- iii) how the Directors have engaged with customers, suppliers and others.

These new requirements apply to the Company reporting for financial years commencing on or after 1 January 2019. Disclosures addressing point (i) are presented below.

Section 172(1) Companies Act 2006 Statement

Section 172 (1) of the Act states that: "A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- (a) The likely consequences of any decision in the long term;
- (b) The interests of the company's employees;
- (c) The need to foster the company's business relationships with suppliers, customers and others;
- (d) The impact of the company's operations on the community and the environment;



- (e) The desirability of the company maintaining a reputation for high standards of business conduct;
and
- (f) The need to act fairly as between members of the company.”

The Directors consider all matters relevant to the particular issue before them for consideration whilst acting in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members. This includes, amongst other things, the factors listed above.

Aegon UK Corporate Services Limited (AUKCS), a fellow subsidiary of Aegon UK plc, provides services to the Aegon UK Group and in particular employ those personnel who provide services to the Company. Therefore, as the Company has no employees under contracts of service, it is those personnel that are referred to as employees throughout this statement.

The Directors have put in place suitable processes so that all relevant matters are factored into the Board’s decision making. These are part of the corporate governance framework as described above, and include, for example the Regulatory Risk team and the Regulatory Development Group. They also include, for example, the requirement that all papers prepared for the Board following a template which requires the paper author to set out, amongst other things, the key matters, points for discussion, stakeholder implications (stakeholder implications covering the Company’s customers, suppliers, regulators, employees, the community and the environment) and risk and capital implications of the matters in the paper. These ensure the stakeholder implications and risk and capital implications alongside other key points, for example protection of client money, can be appropriately considered by the Board in their deliberations.

The Board also, as part of its corporate governance framework, has a training plan in place. This ensures that each year the Directors receive regular training from subject matter experts on a wide range of topics which in 2019 included Unconscious Bias and Information Security. Such training helps to ensure that the Directors are kept up to date regarding the range of matters to be taken into account in respect of each decision they are asked to make.

During the year, this approach assisted the Directors with their consideration of a programme to migrate approximately £8bn of assets to a new technology platform. The Board received updates on the progress of preparedness for the migration and these papers highlighted the implications for, amongst others, employees, customers, regulators, the shareholder and suppliers. Further detail on how the directors demonstrated their responsibilities under s172 as part of this project is presented as follows:

- In terms of the consideration of the likely consequences of any decision in the long term, the Board considered the financial implications of the migration, including the costs and long-term benefits of undertaking this. The Board also benefitted from a review of the programme from the Risk function as well as Internal and External Audit.

- In terms of the impact of the migration on the interests of employees, the Board considered that the programme would involve a temporary increase in the number of employees to help ensure a smooth transition.
- The impact on the customers of the Company was also considered by the Board and was satisfied that the migration was in the interests of customers due to the safeguards put in place to ensure their data was transferred safely during the migration and they were appropriately supported after the migration.
- The impact on the shareholder of the Company and the ultimate beneficial owner of the Company, Aegon N.V., was carefully considered as part of the migration project. These considerations included the financial impact of the migration on the Company and therefore its ability to pay dividends to its shareholders in the short, medium and long term.
- The views of the regulators of the Company of the migration was appropriately considered by the Board and the Board ensured that Management engaged the Regulators regularly regarding the progress of the project and the key risks and issues.
- The commercial impact of the migration on the Company's suppliers was considered by the Board.
- The impact of the migration on the community and the environment was appropriately considered by the Board. The migration moved the Company towards becoming a centre of excellence for the administration of investments thereby securing employment in the community.
- As part of the migration, the Board was concerned to maintain and protect its reputation for high standards of business conduct and insisted that Management undertake a robust migration programme, with detailed testing and independent reviews of progress of the programme.

In respect of all the decisions before it the Board does not have to consider the need to act fairly between members of the Company as there is only one member which is ultimately beneficially owned by Aegon N.V..

For more information regarding the Board's consideration of:

- employees, refer to disclosures in the Statement on engagement with employees and other stakeholders below. This outlines, amongst other things, the main methods the Directors have used to engage with employees; and



- the Company's suppliers, customers and others refer to disclosures in the Statement on engagement with employees and other stakeholders below. This outlines, amongst other things, the main methods the Directors have used to engage with the Company's suppliers, customers and others including, without limitation, the Company's Regulators and Shareholder.

Statement on engagement with employees and other stakeholders

The Companies (Miscellaneous Reporting) Regulations 2018' (SI 2018/860) amended 'The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008' (SI 2008/410) to introduce a requirement for companies above a certain size to include information about engagement with employees, suppliers, customers and other stakeholders.

Aegon UK Corporate Services Limited (AUKCS), a fellow subsidiary of the Company, provides services to the Aegon UK Group and in particular employ those personnel who provide services to the Company. Therefore, as the Company has no employees under contracts of service it is those personnel that are referred to as employees throughout this statement.

It is Aegon's policy to ensure equal opportunities for all employees of the Aegon UK Group. The only criteria considered for the recruitment or promotion of staff is suitability for the position, regardless of sex, sexual orientation, marital status, age, religion, ethnic origin or disability (having due regard to the individual's aptitudes and abilities). It is Aegon's policy, wherever possible, to continue the employment of staff who have become disabled (with appropriate re-training when required). No discrimination is made against disabled employees with regard to training, career development or promotion.

By means of regular announcements and staff briefings and meetings with the independent trade unions, AEGIS and UNITE, Aegon has maintained its policy of providing information and consulting on matters likely to affect the interests of staff.

Employees are a key stakeholder of the Company. The Board concluded during 2019 that the most appropriate enhancement to make to its employee engagement model would be a hybrid between a formal work force advisory panel and a designated non-executive director for workplace engagement. One of the non-executive Directors of the Company's shareholder, Aegon UK plc, has taken on the role of strengthening the Aegon UK plc Board and the Company's Board's engagement with employees.

The following are examples of the Company's engagement with employees:

- To support the development of its Inclusion and Diversity (I&D) vision and strategy, Aegon appointed a specialist independent consultancy to conduct a detailed qualitative and quantitative study of its I&D profile and has included inclusion and diversity questions into its annual Employee Survey. The results of this research have been presented to the Board during 2019 and have been shared with all Aegon UK employees.

- 'Employee Voice' has received significant focus during 2019 with the appointment in Q3 of a dedicated Non-Executive Director with responsibility for Workforce Engagement and Employee Voice. A dedicated channel of communication has been established in for employees to raise issues directly with the Board going forward.
- Aegon UK operates a robust pay and grading framework, based on a recognised job evaluation methodology. Within this framework, Aegon UK conducts annual benchmarking to ensure that terms and conditions of employment and employee total reward packages are positioned at competitive levels.
- The Company engages with employees on at least a quarterly basis through senior manager briefings the contents of which are cascaded to all employees. At these briefings members of the Executive of the Company share updates regarding key topics such as the financial results, strategy development and business performance. In addition the Company holds an annual event for all employees that covers progress over the year and objectives for the following year. This is hosted by the Executive of the Company and as well as cascading information is an opportunity for any individual to ask questions of the Executive.

In respect of engagement with suppliers, the Directors regularly review Management Information on the Company's relationship with its key suppliers. This informs them of the status of the relationship with each key supplier and their current performance against, amongst other things, service levels. The Board is also regularly updated regarding the key activities being undertaken by the Company to continually improve its approach to supplier management in order to ensure protection for its customers, including Risk Assessments and Contingency Plans.

In respect of engagement with customers, the Company has established a number of customer and adviser panels which it uses to engage with customers and advisers on relevant issues. These are used, amongst other things, to help shape proposition developments.

In respect of engagement with regulators, the Company has regular engagement with its regulators and maintains an open dialogue with them. Such engagement includes periodic meetings with Board members and some of the Executive covering topics including, without limitation, governance arrangements, systems and controls, and risk and capital matters. These meetings enable the Company to understand the regulators' perspective on the key issues which it faces in order that these can be taken into account in the matters before the Board.

In respect of engagement with shareholders, the Board has a shareholder representative on it and receives at each meeting an update from Aegon N.V.. In addition, the CEO is a member of the Management Board of Aegon N.V. and regularly engages with Aegon N.V. in respect of the key issues facing the Company. This enables the Board to take into account as appropriate the perspective of the shareholder in respect of the matters for its consideration.

The implications for the Company's stakeholders (which includes, without limitation, its employees, suppliers, customers, regulators and shareholder) of matters presented to the Board for decision must

be included in all board papers. This is explained more above with examples of the effect of the consideration of such factors on some key decisions taken by the Company during the year.