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# Aegon ABS Opportunity Fund

Monthly March 2025

## Market review

### General financial markets

March began with optimism in the markets, fueled by hopes that US tariffs would be more targeted and less damaging than initially feared. However, as the month progressed, doubts began to surface. Although there were some positive economic data releases, such as a US GDP growth of 2.4%, improved PMI data in the eurozone, Germany, and France, and healthy GDP growth in Spain, the looming threat of tariffs overshadowed this optimism. Meanwhile, the Fed lowered its GDP growth forecast for 2025 to 1.7% and increasing its inflation expectations, consumer sentiment dropped significantly to 57.0 in March, down from 74.0 at the start of the year. On the back of this mixed data, the rising tensions, government layoffs, and uncertainty about future tariffs fueled investor insecurity. Markets remained nervous ahead of April's deadline, with no guarantee that the tariff situation would be resolved. The uncertainty led to increased volatility towards the end of the month.

Equity markets in the US declined for the second consecutive month, with the S&P 500 down by 5.75%, while the Nasdaq dropped even more sharply, losing 8.21% due to continued pressure on technology stocks. The Euro Stoxx 50 and Nikkei also faced headwinds, declining by 3.94% and 4.14%, respectively.

In fixed income markets, US Treasury yields showed little movement, while European yields steepened, with the German 2-year yield increasing by 2 basis points to 2.05% and the 10-year yield rising by 33 basis points to 2.74%. However, European yields experienced notable volatility following the announcement of increased defense spending by EU leaders. This news led to a temporary spike in yields as investors anticipated higher government borrowing. The German 10-year yield briefly rose to 2.9% before sliding towards the end of the month.

Early April brought a dramatic shift in the market outlook as the Trump administration's tariff announcements sparked a new trade war and the global economy faced a massive negative exogenous shock. The aggressive tariffs and retaliating measures raised fears of a global recession and threaten to disrupt globalization. The heightened economic uncertainty seems unlikely to dissipate soon. Sustained tariffs could have far-reaching effects, including higher inflation, revenue shocks for tariff-exposed companies, and an increased probability of a recession.

### ABS Market

As has been the case in previous changes in investor sentiment and spikes in volatility, European ABS is not immune. While European ABS markets performed strongly in the first weeks of March, spreads, particularly for CLOs, moved wider towards the end of the month. For consumer related ABS, there was some compression in the cap stack as senior spreads moved sideways while non-seniors tightened.
The favorable (growth) outlook for Europe after the announcement of increased (fiscal) stimulus, faded after the Trump administration announced their tariffs. Even during this volatility, primary supply increased. For ABS, non-seniors were more in demand than seniors however, and for CLOs spreads widened across the capital structure. Diversity of collateral and countries increased again with 28 new deals pricing across CLOs and ABS.

### Net return March 2025

| I (EUR) | I (GBP) |
|---|---|
| -0.39 | -0.22 |

### Net returns (%)

| | YTD | 1 year | 3 year | 5 year |
|---|---|---|---|---|
| I-Share (EUR) | 1.18 | 9.56 | 7.97 | n.a. |
| I-Share (GBP)[1] | 1.63 | 11.06 | 9.56 | n.a. |

[1] Share class hedges the currency exposure in the pool to GBP

| Characteristics | EUR | GBP |
|---|---|---|
| Yield to maturity[1] | 6.8 | 8.8 |
| Current Yield[1] | 6.9 | 9.2 |
| Spread[1] | 451 | 478 |
| Spread Duration | 4.67 | |
| Modified Duration | 0.152 | |

[1] Estimated spread and yield to maturity as per 31 March 2025 using most conservative assumptions

Issuance in March 2025 was higher compared  to the same period last year and amounted to €12.1 billion, 10% higher compared to last year bringing year-to-date issuance to €38.4bn (25% higher compared to last year). The bulk of issuance came from CLOs (46%), followed by RMBS (31%). Within RMBS, issuance from the UK makes up 74%.

### Outlook

Despite the volatility, European ABS showed a positive performance in March. Carry contributed the most (~95%) as spreads, after initially moving tighter, widened again at the end of March. As such, non-seniors outperformed seniors. After the rate cuts of the ECB and the BoE, the front end of the interest rate curve decreased, referenced by 3M Euribor and overnight Sonia, and are around 0.2% higher than the 3-year point. Therefore, the current yield of European ABS is higher than the yield-to-maturity.

As we move further into 2025, although there have been some positive developments, the macro backdrop is uncertain. Amidst developments in the Middle East, geopolitical uncertainty, trade wars, diverging central bank policies and a shift in (monetary) policy in the euro area, volatility in financial markets has increased. Although European ABS tends to be more insulated from broader volatility, it is not immune to negative risk sentiment.

There has been a slight bit of dispersion in parts of the European ABS market, but spreads remain broadly around the tights of the past four years. On the technical side, while we have seen an increase in supply from primary markets, there is also (re)new(ed) interest from investors. There is plenty of cash to put to work and early redemptions and amortizations of ABS structures provide additional technical support. Net supply has been positive, and we expect the trend to remain in place. With valuations tighter (although the relative value versus other parts of the fixed income market is clearly visible), there is limited upside for spreads and risks are to the downside. Therefore, carry will be the most important driver of returns and is meanwhile providing downside protection in case of (interest rate) volatility flaring up.

From a fundamental perspective, the pickup in arrears is much lower than most would have predicted given the cost-of-living crisis many consumer have faced. Performance, however, has held up quite well and deterioration is only seen in certain parts of the market where loans could not refinance due to higher rates. With borrowing costs moving towards a more neutral rate in Europe, credit affordability should improve. Unemployment rates will therefore be the main driver of fundamental performance. Even though weaker consumers and companies will continue to face pressures, we expect defaults to remain below their long-term averages. There are certainly idiosyncratic factors that will drive dispersion within asset classes and selection will be important. Potential losses, however, can be absorbed by structural features such as excess spread and reserve funds.

The timing, number and depth of rate cuts and how quickly they are priced in by markets, are not clear-cut. With this uncertainty, predictable current, attractive, and stable income is certainly welcome, which is something that European ABS can provide. Altogether, income (coupon) tends to drive longer-term total returns more than spread movements. The current macro backdrop has also set the stage for the European ABS market to deliver attractive total returns from this point forward. We believe that ABS is set to outperform in this environment. The relatively high carry value of ABS (partially due to the inversion of the interest rate curve) coupled with limited concerns from a fundamental perspective make European ABS still an attractive asset class for the medium term.

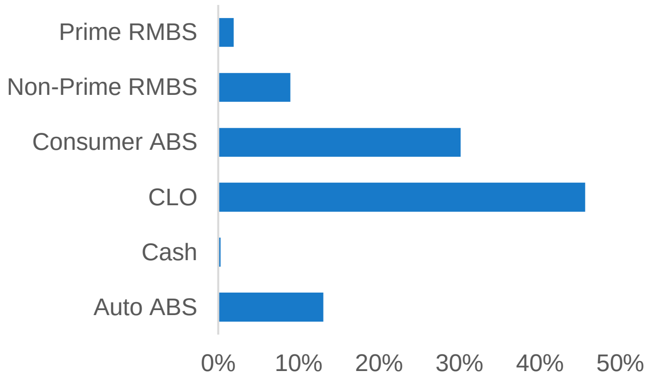
## Strategy and positioning

With the widening in the sub-investment grade part, we added a few positions from the primary market, four CLO positions and one Consumer ABS. The spread of the portfolio increased to approximately 451 (over Euribor) and increased to 478 (over SONIA) bringing the current yield to 6.9% and 9.2% in EUR and GBP respectively.

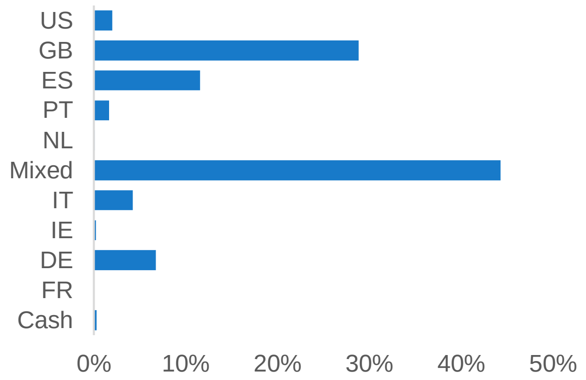
## Fund positioning

Please find the positioning of the fund below.

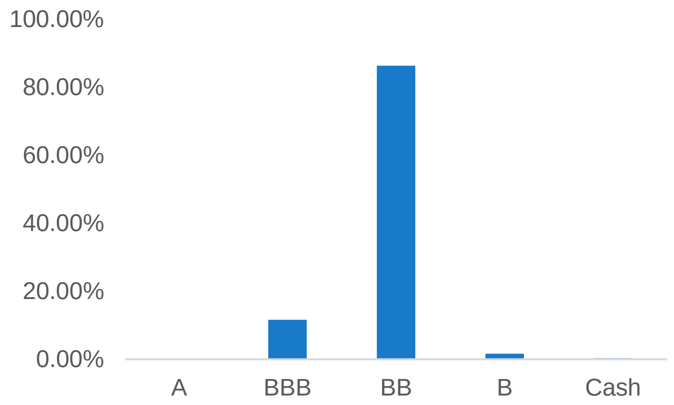
### Sector Breakdown




### Geographical Breakdown




### Rating Breakdown




Source: Aegon Asset Management

## Calendar year performance

| | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|---|---|---|
| Fund Gross return (%) | 13.49 | 13.68 | -3.52 | 6.08 | - | - | - | - |
| Fund Net return (%) | 12.92 | 13.11 | -4.00 | 5.55 | - | - | - | - |

Source: Aegon Asset Management as at 31 December 2024. Fund launch date 9 September 2020, launch date for I EUR Acc shareclass is 6 October 2020.

# Important information

## Investment Policy

This The Fund aims to achieve its objective by investing substantially in asset-backed securities (including CLO's for max 50%). The Fund will have a focus on asset backed securities with a credit rating which is deemed to be 'non-investment grade'. Non-investment grade is defined as meeting one or more of the following rating criteria: Ba1 or lower by Moody's Investor Services (Moody's); BB+ or lower by Standard & Poor's Rating Services (S&P) or Fitch Ratings Inc (Fitch).

The Fund may hold bonds and notes with various types of collateral, but some examples include residential mortgages, commercial mortgages, consumer loans, car loans, credit card loans, student loans and corporate loans. The Fund will invest the majority of its assets in the portfolio in bonds or notes issued by issuers located within Europe but may also invest in bonds or notes issues by issuers located in other OECD countries. The Fund will invest in assets denominated both in Euro and in other currencies. Where non-Euro denominated assets are held, the Investment Manager will seek to hedge the associated currency risk back to Euro.

## Risks

The main risks are:

**Objective Risk:** There can be no assurance that the Fund will achieve its investment objective. An investor should consider his personal tolerance for an investment based upon fixed income securities before investing in the Fund. The investments of the Fund will be subject to market fluctuations, currency fluctuations, custody and settlement risks, registration risk and foreign exposure risk.

**Liquidity Risk:** The secondary market for sub-investment grade bonds is typically much less liquid than the market for investment grade bonds, frequently with significantly more volatile prices and larger spreads between bid and asked price in trading.

**Asset Backed Securities Risk:** The value of an asset-backed security can be affected by various factors, including: (i) changes in the market's perception of the pool of underlying assets (or collateral) backing the security; (ii) economic and political factors such as interest rates and levels of unemployment and taxation, which can have an impact on repayments and default rates on the collateral; (iii) changes in the market's view of the creditworthiness of the issuer; and (iv) the speed at which loans which form the collateral are repaid.

Asset-backed securities that are not backed by mortgages present certain risks that are not presented by mortgage-backed securities. Primarily, these securities may not have the benefit of the same security interest in the underlying collateral. Credit card receivables, for example, are generally unsecured. Therefore, there is a possibility that recoveries on defaulted collateral may not, in some cases, be available to support payments on these securities. The investment characteristics of asset-backed securities differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, very often monthly or quarterly, and that principal may be prepaid at any time because the underlying loans may often be prepaid at any time. Investments in subordinated asset-backed securities involve greater credit risk of default than the more senior class(es) of the issue or series.

For more details on the risks for this fund please see the KIID or Prospectus at www.aegonam.com/documents.

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