

Gross return (%) August 2024

B (EUR)	I (EUR)	I (GBP)	I (USD)	I (CHF)	I (AUD)
0.33	0.33	0.44	0.48	0.10	0.39

Net return (%) August 2024

B (EUR)	I (EUR)	I (GBP)	I (USD)	I (CHF)	I (AUD)
0.31	0.31	0.42	0.46	0.08	0.36

Gross returns (%)

	YTD	1 year	3 year	5 year
B-Share (EUR)	5.35	7.71	3.36	2.37
I-Share (EUR)	5.36	7.72	3.37	2.38
I-Share (GBP)¹	6.28	9.12	4.78	3.53
I-Share (USD)¹	6.44	9.42	5.13	3.99
I-Share (CHF)¹	3.58	5.11	1.96	1.41
I-Share (AUD)¹	5.68	8.13	4.21	n.a.
Benchmark ²	3.17	4.83	2.04	1.31

Net returns (%)

	YTD	1 year	3 year	5 year
B-Share (EUR)	5.17	7.44	3.10	2.11
I-Share (EUR)	5.18	7.45	3.11	2.12
I-Share (GBP)¹	6.08	8.82	4.49	3.24
I-Share (USD)¹	6.24	9.11	4.84	3.70
I-Share (CHF)¹	3.38	4.81	1.67	1.13
I-Share (AUD)¹	5.48	7.83	3.92	n.a.
Benchmark ²	3.17	4.83	2.04	1.31

¹ Share class hedges the currency exposure in the pool to GBP/USD/CHF/AUD

² Bloomberg Barclays Capital Euro ABS Fixed and Floating Index (EUR)

Yield to maturity (%)¹

EUR	GBP	USD	CHF	AUD
4.13	5.62	5.38	2.25	5.5

Spreads (bps)²

EUR	GBP ³	USD	CHF	AUD
147	161	153	149	128

¹ Estimated yield to maturity as per 30 August 2024 using most conservative assumptions

² Discount margins of the assets over the relevant swap rate per currency as of 30 August 2024

³ The GBP Spread is compared to SONIA (Sterling Overnight Interbank Average Rate) as of 30 August 2024. Previously this was compared to the GBP LIBOR(London Interbank Offered Rate).

Market review

General financial markets

August got off to an rough start as fears mounted about an economic slowdown in the US. The catalyst for this were disappointing PMI data and the US jobs report on August 2 that came out softer than expected, although there were several underlying factors that also contributed to the turmoil. Furthermore, the weak jobs report came shortly after the Bank of Japan hiked rates, which contributed to a strengthening yen, further dollar depreciation as investors increased the amount of expected rate cuts from the Fed, which in turn caused significant problems for the yen carry trade. This trade relied on Japan being a low-yielding currency, as investors borrowed in yen and invested in high-yielding currencies. The combination led to in a massive drop of the Japanese equity index (TOPIX), increasing volatility across equity markets around the globe. The volatility index (VIX) reached its highest intraday level since the market turmoil in March 2020 when the Covid-19 pandemic began. More positive data on the US economy indicating that a recession was not imminent and the Fed signalling that it is emphasizing the employment component of its dual mandate more, restored markets with equities managing to show positive returns toward the end of the month. For sovereign bonds there were also gains as investors priced in more rate cuts and both US Treasuries and euro sovereigns posted positive returns.

In Europe meanwhile, the ECB is still struggling with the data dispersion across countries on activity, labor markets and prices as well as sectors, which makes it hard to have strong views on the business cycle and the pace of disinflation. As the majority of central banks across the globe have commenced cutting rates, it seems that concerns around high inflation have receded and that growth risks are increasingly in focus. The ECB cycle and the markets' expectations of interest rates, have been very sensitive to macroeconomic data and spot inflation in particular. Currently, as inflation risks subside, the sensitivity of euro area rates to data is shifting, with growth becoming increasingly important and similar to the US, markets have started to price in more aggressive ECB rate cuts due to growth concerns. Recent PMIs surprised to the upside, but while the periphery continues to be an area of economic strength, German data remains lackluster. With the ECB focused on price developments, such as wages and profit margins, there could be an eventual shift in ECB focus towards downside growth risks as disinflation continues. This implies the market warrants itself some room to price an acceleration of ECB cuts in 2025. However, a strong focus on spot inflation developments will remain an obstacle to pricing a deeper cutting cycle. Indeed, the ECB's recent communication has been non-committal, with some members of the Governing Council (GC) increasingly confident on the extent and pace of disinflation while others remain hesitant and concerned about upside risks.

ABS Market

The summer slowdown came about over August as primary issuance slowed down. Despite the volatility seen in broader markets, European ABS markets performed strongly, aided by the positive supply-demand technical. European ABS spreads moved sideways to slightly wider with the differential between primary and secondary spreads increasing. While supply decreased compared to June/July, primary supply amounted to just under €6 billion in August. In terms of sectors, CLOs slightly underperformed, as they tend to be more correlated to broader markets, while other sectors saw spreads mostly moving sideways. While higher beta sectors like CLOs and UK buy-to-let appear to be closer to spreads observed at the tight, ECB-eligible sectors like Auto ABS, Dutch RMBS and French RMBS are still wider and are not expected to reach those tight as the ECB has exited its ABS purchase program.

Issuance year-to-date is just over of €95 billion. The bulk of issuance comes from the UK (31% YTD) and is geared towards RMBS. Within RMBS, issuance from the UK makes up 70%. With spreads tightening significantly over the past year, CLO issuance (34% YTD) continues to be buoyant and is expected to continue. Furthermore, we have seen CLOs being called and reissued, or using refinancing or resets which add to the supply. The sector with record issuance last year (26% of supply), Auto ABS, increased to over 6% YTD. Overall, RMBS makes up 35% of issuance, followed by CLOs (34%) and consumer ABS (27%).

Outlook

European ABS showed a positive performance in August. Carry again contributed the most (~95%) as spreads moved sideways to slightly wider and non-seniors outperforming seniors due to higher carry. As spreads could be volatile, like we have seen early August, high carry is an important element to generate higher/positive returns. The front end of the interest rate curve at the 1-year point is currently around 0.6% higher than the 3-year point. As such, the current yield of European ABS is 0.6% higher than the yield-to-maturity which would mean that if (the pace of) rate cuts are pushed out, the yield-to-maturity would increase once more, while earning high carry at present. Considering the broader macro backdrop i.e., geopolitics, recession risk, continuous repricing of central bank expectations, and idiosyncratic corporate downgrade events, there are many uncertainties that will affect returns.

There has been a slight bit of dispersion in parts of the European ABS market, but spreads broadly remain around the tightness of the past 36 months (about three years). Looking ahead to the remainder of the year, the way spreads would move will be influenced by idiosyncratic events and the expectations regarding fundamentals. With borrowing costs moving towards a more neutral rate in Europe, credit availability should improve. On the technical side, while we have seen an increase in supply from primary markets, there is also (re)new(ed) interest from certain investor groups. There is plenty of cash to put to work and early redemptions and amortizations of ABS structures provide additional technical support. Net supply so far has been slightly positive, and we expect the trend to remain in place over the remainder of the year. With valuations tighter (although the relative value versus other parts of the fixed income market is clearly visible), there is limited upside for spreads to go tighter on a standalone basis. Therefore, carry will be the most important driver of returns and is meanwhile providing downside protection in case of volatility flaring up.

While market pricing of interest rates is currently quite aggressive (similar to December 2023), central banks have reiterated that they are very much data-dependent and data could involve surprises, as we have seen many times before. Surprises will come from central bank communications, incoming data, or the flaccid geopolitical environment. The timing of any rate cuts and how quickly they are priced in by the markets presents a great deal of uncertainty and markets may quickly reverse early optimism. With this uncertainty, predictable current, attractive, and stable income is certainly welcome, which is something that European ABS can provide.

From a fundamental perspective, with unemployment rates still low, the pickup in arrears is much lower than most would have predicted. So far, the main drivers of European ABS performance are interest rates and the possible interest rate shock that consumers could face. Performance, however, has held up quite well and deterioration is only seen in certain parts of the market where loans needed refinancing. We have seen arrears increasing in some sectors, especially those that mostly have exposure to floating-rate collateral. Idiosyncratic issues are also creating more bifurcation across the market, leading to an uptick in distressed situations and defaults. Even though weaker consumers and companies will continue to face pressures, we expect defaults to remain below their long-term averages. As credits become more stressed and idiosyncratic factors drive dispersion, selection will be increasingly important, and we believe it is prudent to be modestly defensive. Potential losses, however, can be absorbed by structural features such as excess spread and reserve funds.

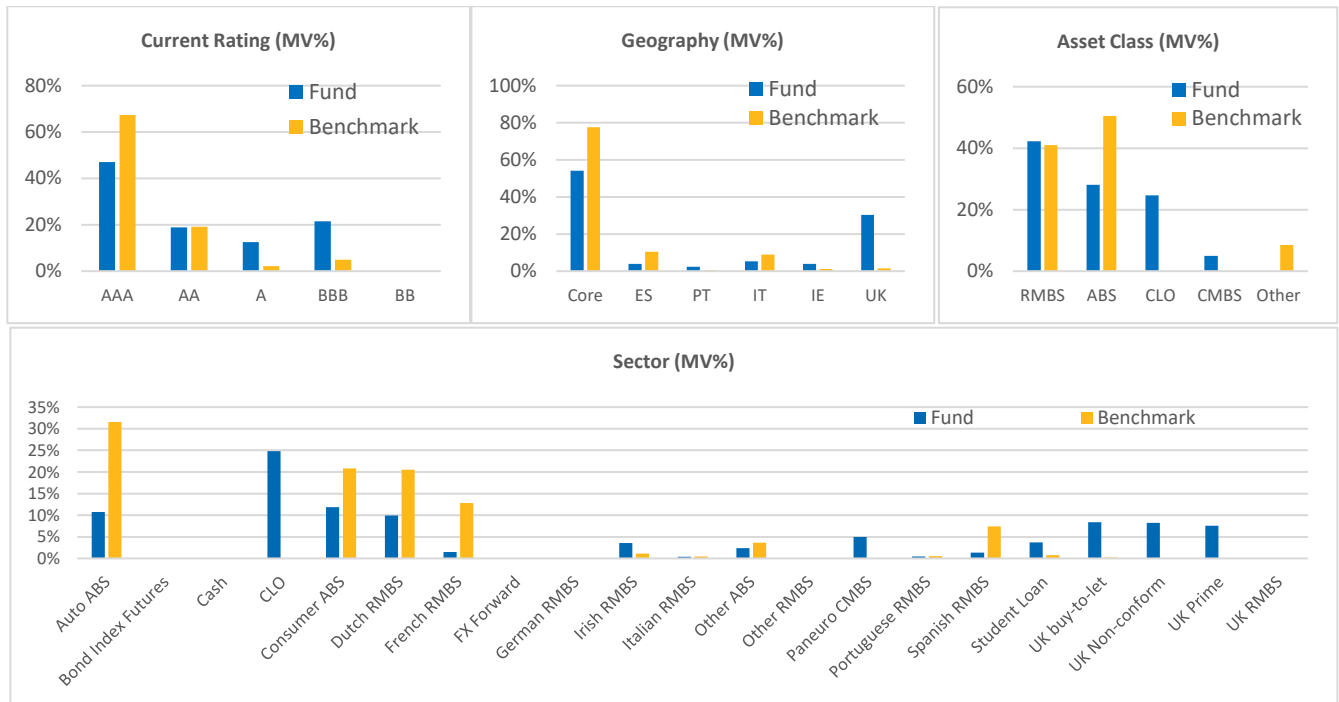
Altogether, income (coupon) tends to drive longer-term total returns more than spread movements. The current macro backdrop has also set the stage for the European ABS market to deliver attractive total returns from this point forward. We believe that ABS is set to outperform in an environment where there are many uncertainties. The relatively high carry value (partially due to the inversion of the interest rate curve) of ABS coupled with limited concerns from a fundamental perspective and valuations that are attractive from both a relative and an historical perspective remains for the rest of 2024.

Strategy and positioning

With a heavy pipeline ahead in (early) September, we have limited our investments to the occasional secondary trade and no significant changes occurred in our positioning. Overall we continue to increase our ABS holdings and decreasing our CMBS exposure. In terms of countries, we have increased our Dutch, Belgian and Finish allocations, while decreasing our UK exposure. Our positioning senior/non-senior decreased slightly to around 61/39. The weighted average rating is at A+, and spread duration decreased slightly to 2.95 years. The yield-to-maturity of the fund decreased to 3.94% mainly due to the decrease in rates.

Fund positioning versus the benchmark

Please find the positioning of the fund versus the benchmark below.



Source: Aegon Asset Management

Calendar year performance

	2023	2022	2021	2020	2019	2018	2017
Fund Gross return (%)	8.13	-3.19	1.51	0.52	1.62	0.44	4.26
Fund Net return (%)	7.86	-3.43	1.25	0.27	1.37	0.18	4.00
Benchmark (%)	4.53	-1.31	0.46	0.09	1.10	-0.22	1.44
Tracking error ex post (%)	1.17	2.36	0.34	2.49	0.22	0.48	0.69
Information ratio	2.72	-0.91	2.32	0.07	1.19	0.85	3.63

Source: Aegon Asset Management as of 31 December 2023. Fund launch date 11 November 2016, launch date for I EUR Acc shareclass is 25 November 2016. Benchmark: Bloomberg Barclays Capital Euro ABS Fixed and Floating Index

Important information

Investment Policy

This fund is actively managed. The Fund will seek to achieve its investment objective by investing at least 70% of its net assets in asset-backed securities. Asset-backed securities are a type of debt securities such as bonds or notes whose value and income payments are derived from an underlying pool of assets held by the issuer. The underlying pool of assets is referred to as 'collateral'. 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, such bonds will not embed any leverage.

The Fund will invest at least 70% of its net assets in bonds with a credit rating which is deemed to be 'investment grade', defined as meeting one or more of the following rating criteria: Baa3 or higher by Moody's Investor Services (Moody's); BBB- or higher by Standard & Poor's Rating Services (S&P) or Fitch Ratings Inc (Fitch).

The Fund will invest predominantly in bonds or notes issued by issuers located within Europe, but may also invest in bonds or notes issued by issuers located outside Europe.

The Fund will invest in assets denominated both in Euros and in other currencies. Where non-Euro denominated assets are held, the Investment Manager will seek to hedge the associated currency risk back to Euros.

The benchmark of this fund are Bloomberg Barclays Capital Euro Asset Backed Securities Floating Rate Note Composite Index and the Bloomberg Barclays Capital Euro Asset Backed Securities Fixed Coupon Composite Index.

The Fund's (cash) benchmark is used as a reference to measure the Fund's performance.

Risks

The main risks are:

Credit Risk: The Fund is subject to credit risk in respect to its investments and with regard to its contractual counterparties (such as hedge providers).

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;
- (iv) the speed at which loans which form the collateral are repaid.

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

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