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# Aegon European Asset Backed Securities

Q3 2024

*This paper summarises Aegon AM's range of ABS strategies for investors in the UK and Continental Europe. For more information on individual strategies, please contact your usual representative or visit [www.aegonam.com/afi](http://www.aegonam.com/afi).*

Asset-backed securities represent a mature and attractive asset class. They can offer investors distinct benefits, including:

- Attractive risk / return characteristics
- Low sensitivity to interest rates
- Exposure to a range of mainly consumer-backed risks
- A transparent view of collateral quality
- Diversification, due to lower correlations with other asset classes

## Overview of our key European ABS strategies

At Aegon AM we offer a range of ABS strategies to suit various investor preferences for yield and risk. Past performance does not predict future returns.

	European AAA Strategy*	European ABS Fund	ABS Opportunity Fund
Average credit quality	AAA	AA/A	BB
Yield (in GBP)	4.66%	5.35%	8.77%
Spread (in GBP)	140	160	515
Effective duration	0.25	0.28	0.21
Spread duration	4.00	2.84	5.24
Liquidity	Daily	Daily	Daily
Investment vehicle	Segregated	UCITS, segregated	Irish QIF

As of 30 September 2024. Source: Aegon AM. \*Product to be launched.



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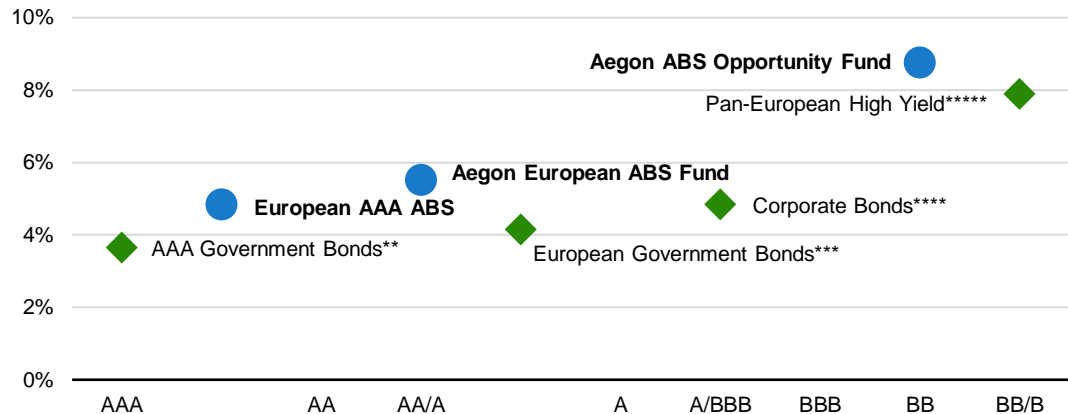


**Balint Vágvölgyi**  
Senior Portfolio Manager, Alternative Fixed Income

## Why European ABS strategies have become so popular

**Attractive yield** Please note that past performance, actual or simulated, is not a guide to future returns. As the chart below shows, asset-backed securities offer investors a structural yield premium relative to other fixed income assets with comparable credit risk.

### Yield of select asset classes (in GBP)\*



Source: Aegon Asset Management, Barclays, Bloomberg as at 30 September 2024. All yields are in GBP and gross of fees. \* Yields and Total Return Expectations with hedging to stated currency using 1-month FX forwards, \*\* Barclays Euro AAA Government Bond Index, \*\*\* Barclays Euro Aggregate Government Bond Index, \*\*\*\* Barclays Euro Aggregate Corporate Bond Index.

### Positive total return expectations

Please note that past performance, actual or simulated, is not a guide to future returns. In the table below we show the returns expected over the next 12-months in our base case scenario. It should be noted that there are wide range of scenarios that could play out, but this is our central case based on current spread levels and the default outlook.

1-year total return expectations	Aegon European AAA Strategy	Aegon European ABS Fund	Aegon ABS Opportunity Fund
<b>EUR</b>	3.75% - 4.25%	4.25% - 4.75%	7.75% - 8.25%
<b>Hedged to GBP</b>	5.75% - 6.25%	6.25% - 6.75%	9.75% - 10.25%
<b>Hedged to USD</b>	5.50% - 6.00%	5.75% - 6.25%	9.25% - 9.75%

Source: Aegon AM. As at 30 September 2024.

### Effective diversification

ABS offers exposure to direct consumer risk, which is complementary to sovereign and corporate exposure, both of which tend to be well-represented within investors' portfolios. ABS in general has low correlation with many traditional asset classes.

### Transparency of collateral

ABS is a highly transparent asset class, with extensive data available to analysts. Our powerful proprietary screening tools use a multitude of real-time data, which enables us to assess the quality and return perspective of every ABS bond, in isolation and as a group.

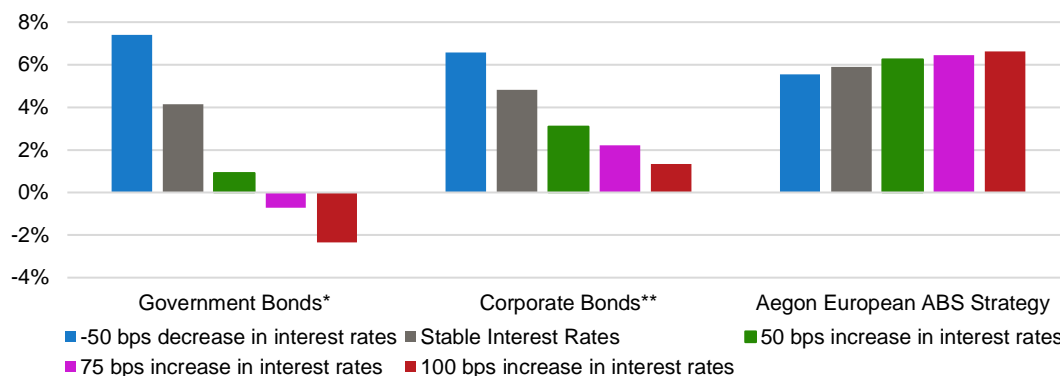
### ESG risks integrated

We cover ESG risks in our asset-selection, through a proprietary multi-angled and sector-specific assessment. These ESG risks relate to the originator, the collateral, and its geographical focus, which we score using a qualitative and quantitative assessment.

### Low interest-rate sensitivity

Unlike conventional bonds with fixed coupons, most bonds in the Fund are floating-rate notes with very short interest rate duration. This makes them less sensitive to interest-rate changes. We illustrate this for the Aegon European ABS strategy in the chart below, which shows the impact on the one-year expected total returns for five hypothetical interest-rate scenarios.

**Expected one-year return under different interest-rate scenarios**  
(All returns in GBP and gross of fees)



Source: Aegon AM. As at 30 September 2024. We assume a parallel shift of the yield curve by 0, 50 and 100 basis points and calculate one-year total returns. \*Bloomberg/Barclays Euro AAA Government Bond Index, \*\* Bloomberg/Barclays Euro Aggregate Corporate Bond Index.

### Downside protection

#### Historical asset-class characteristics (2013- Q3 2024)

Asset class	Yield to maturity	Largest drawdown	Number of drawdowns		
			Over 5%	Over 4%	Over 3%
<b>Aegon ABS Opportunity</b>	<b>8.77%</b>	<b>-13.47%</b>	<b>1</b>	<b>1</b>	<b>3</b>
<b>Aegon European ABS</b>	<b>5.35%</b>	<b>-4.44%</b>	<b>0</b>	<b>1</b>	<b>1</b>
Multi Asset Index	5.86%	-21.38%	5	5	10
Global High Yield	7.52%	-18.28%	2	3	4
Pan-European High Yield	7.88%	-15.09%	2	3	3
EM Sovereign Bonds	6.94%	-26.68%	6	7	10

Source: JPMorgan, Citibank, Barclays, Bloomberg, S&P, Aegon Asset Management. Yield to maturity as at 30 September 2024. All returns are in GBP and gross of fees. Returns are simulated for the ABS Opportunity model portfolio until 30 November 2020 and actual returns of the Aegon ABS Opportunity Fund Class Z and realised historical returns for all other asset classes. Data range: January 2013–September 2024. The indices used: Barclays Pan-European High Yield Index, Barclays Global High Yield Index, Morningstar Multi-Asset High Income Total Return Index, Barclays Emerging Market Sovereign EUR Index. Yield to maturity is either in GBP or adjusted to GBP using Bloomberg cross currency spreads. Any performance shown is gross of tax and any performance shown for the ABS Opportunity model portfolio is simulated.

## How clients are incorporating ABS into their asset allocation

We are seeing a range of different ways in which our clients are incorporating ABS into their broader asset allocation. We highlight several of the most common themes.

### The search for yield

Many clients have been drawn to ABS because of the yield pick-up it offers over traditional fixed income. A yield premium exists due to the following factors:

- **Complexity premium** – ABS is often overlooked by investors as it structurally more complex to understand and is also misunderstood by many who tend to associate it with the GFC.
- **Solvency II** - Due to Solvency II regulations, European insurers are typically unable to invest in ABS (due to capital requirements)
- **ECB asset purchases** – The ECB's asset purchasing program has concentrated on buying sovereign bonds and corporate credit, with little focus on the ABS market

<b>Seeking alternative investments</b>	A lot of clients are seeking to build allocations to alternative fixed income or illiquid asset classes. The ABS strategy is a relatively liquid alternative fixed income strategy that compares favorably with other potential options such as hedge funds (too volatile) or traditional fixed income such as high yield.
<b>Diversifying credit exposure</b>	At times of stress many similar asset classes tend to become highly correlated. While the ABS market is not immune to this type of stress, it does offer clients a degree of diversification compared to traditional fixed income markets. As global markets swing from risk-on and risk-off, some of our clients have invested in ABS to help diversify their fixed income exposure.
<b>Lower inflationary sensitivity</b>	Interest rate volatility is likely to persist given the current levels of inflation. ABS bonds are floating rate securities and hence have low interest rate duration.
<b>Access to the consumer</b>	The cash-flows produced by ABS bonds are typically generated by the underlying consumers paying their mortgages, car loans and credit cards. These tend to follow a different cycle to sovereign and corporate markets, providing a different return profile. This diversification is attractive to many investors.

## ABS is a core capability of Aegon Asset Management

<b>Scale and resources</b>	<ul style="list-style-type: none"> <li>✓ One of the largest dedicated ABS teams in Europe over 20 experienced investment professionals dedicated to the analysis of ABS bonds globally*</li> <li>✓ Manage £14.9 billion in ABS globally, of which £8 billion is in European ABS*</li> <li>✓ We also manage over £52.3 billion in alternative fixed income, including ABS collateral across commercial and residential mortgages, consumer loans, private debt, leveraged loans and SME loans*</li> </ul>
<b>Experience</b>	<ul style="list-style-type: none"> <li>✓ Investing in European ABS since 2001, and in US ABS since the late 1980s</li> <li>✓ Managed dedicated ABS funds for external clients since 2004</li> </ul>
<b>Process</b>	<ul style="list-style-type: none"> <li>✓ Consistent investment approach based on our proprietary models and systems</li> <li>✓ European ABS strategy has outperformed the benchmark in almost every year</li> </ul>
<b>Market reach</b>	<ul style="list-style-type: none"> <li>✓ Strong relationships with issuers and brokers creates a steady flow of opportunities</li> <li>✓ Also active in buying whole-loan portfolios</li> </ul>
<b>ESG**</b>	<ul style="list-style-type: none"> <li>✓ ESG and responsible investing are fully integrated in our ABS investment process</li> <li>✓ Exclusion principle of ABS bonds with a score of 4 and 5 (on a scale of 1 to 5)</li> <li>✓ We can offer fund and segregated ABS portfolios classified as 'Article 8' under SFDR</li> </ul>

\*Source: Aegon Asset Management as at 30 June 2024. \*\*AAM performs a proprietary Sustainability and ESG risk assessment on each asset in conjunction with its Responsible Investment team based on two standalone parameter's ESG risk assessment and sustainability use of proceeds

## Important information

**For Professional Investors only and not to be distributed to or relied upon by retail clients.**

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Please refer to the following legal documents of the UCITS (European ABS Fund) and the AIF (ABS Opportunity Fund) before making any final investment decisions. **For UK investors:** please refer to the Prospectus and the UCITS KIID. The principal risk of this product is the loss of capital. **For the ABS Opportunity Fund:** The ABS Opportunity Fund has a focus on sub-investment grade asset backed securities ('ABS'). Sub-investment grade ABS offer the possibility for a higher return than investment grade ABS but are more speculative in nature and involve a greater risk of default. Market prices may fluctuate more than investment grade asset backed securities and may decline significantly in periods of general economic difficulty. The secondary market for sub-investment grade ABS is typically much less liquid than the market for investment grade bonds.

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AdTrax: 5916726.8. | Expiry: 31 March 2025.