Insurance Solutions
Q1 2025

AEGON **INSIGHTS**

Attractiveness of asset classes through a Solvency II lens

Daniel Torres
Investment Solutions Consultant

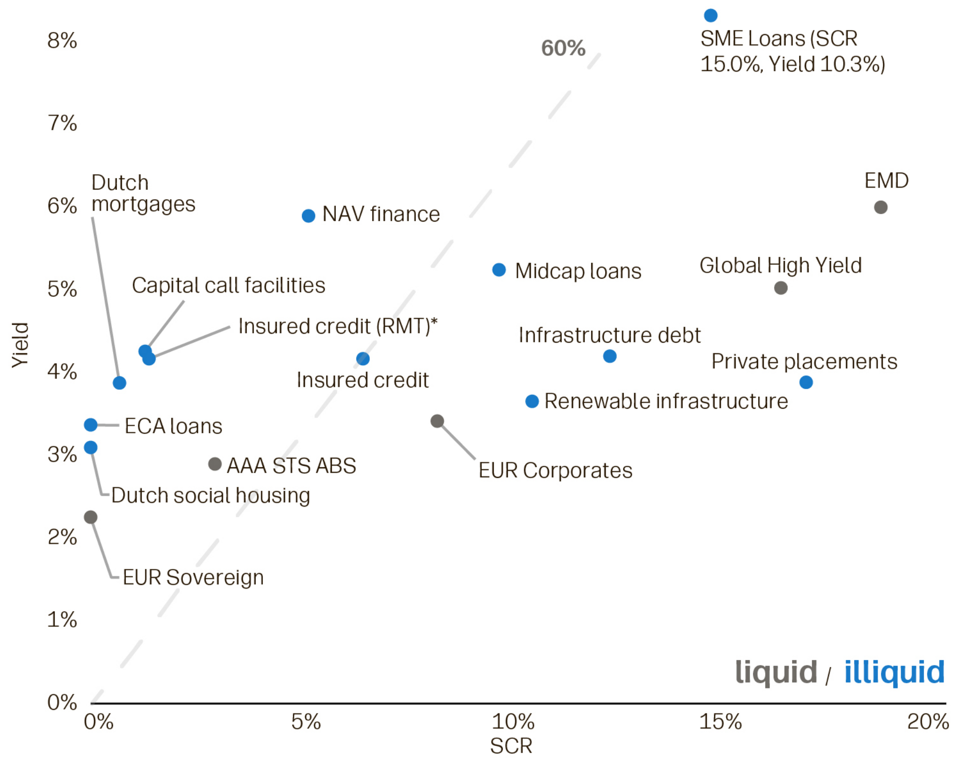
Daniel Torres is an Investment Solutions Consultant within the Fixed Income, LDI and Investment Solutions team. Daniel focuses on capital-efficient solutions and responsible investing for institutional investors.

David van Bragt
Senior Investment Solutions Consultant

David van Bragt is an Investment Solutions Consultant within the Fixed Income, LDI and Investment Solutions team. David specializes in advice on LDI, ALM and regulatory developments.

A major objective for insurers is to optimize their return relative to the Solvency II required capital (SCR). In the chart below, we show the relative attractiveness of fixed income asset classes versus the SCR for spread risk when using the Solvency II standard formula (as of 31 December 2024).

Yield vs SCR under Solvency II



Source: Aegon AM and Bloomberg, as at 31-December-2024. For illustrative purposes only. The diagonal line represents a 60% return-on-capital. Yield after expected losses hedged to EUR. Expected losses as per Moody's long-term historical expected losses. FX hedge costs assume a 1M rolling forwards-based hedge. See page 3 for additional disclosures on data sources. *Risk Mitigation Techniques, when applied, are subject to regulatory approval.

Key observations

- Alternative fixed income strategies offer a yield pick-up which enhances insurers' return on capital via illiquidity and complexity premiums. Diversification benefits and access to sustainable finance can also be found in these strategies.
- Increased interest rates have also created opportunities for investing in core liquid fixed income strategies. Sector and issuance selection is vital in this case.
- Dutch mortgages remain one of the more attractive AA-rated fixed income assets, especially given their diversification benefits under Solvency II (falling under the counterparty risk module instead of spread risk module).

Key ongoing themes for insurers

- Continuing responsible investing focus
- Strong focus on liquidity management due to potential market volatility
- Optimizing return on Solvency-II capital by assessing all assets across the spectrum

An experienced provider of insurance solutions

At Aegon Asset Management we lead the insurance market in innovative and capital-efficient solutions with extensive experience running strategies with an attractive return on capital. We manage over €139.9 billion of affiliate and third-party insurance client assets (as of 30 September 2024). This in-depth expertise means we are ideally placed to work closely with our insurance partners - according to our 'client first' principle - to deliver and service strategies that are aligned to their needs.

If you have any follow-up questions regarding investment strategies for insurers or balance sheet optimization, please get in touch with your regular Aegon Asset Management contact.

Institutional contacts

Frank Drukker
Executive Director, Business Development
+31 6 1013 2825
frank.drukker@aegonam.com

Jill Johnston
Head of UK Institutional Business
+44 (0) 7740 897 771
jill.johnston@aegonam.com

Elena Delfino
Head of Distribution Southern Europe
+44 207 200 2525
elena.delfino@aegonam.com

Frank Weber
Head Institutional Sales DACH
+49 174 4926010
frank.weber@aegonam.com

institutionalbusiness@aegonam.com

aegonam.com/insurance

Important information

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

This document is for informational purposes only in connection with the marketing and advertising of products and services, and is not investment research, advice or a recommendation. It shall not constitute an offer to sell or the solicitation to buy any investment nor shall any offer of products or services be made to any person in any jurisdiction where unlawful or unauthorized. Any opinions, estimates, or forecasts expressed are the current views of the author(s) at the time of publication and are subject to change without notice. The research taken into account in this document may or may not have been used for or be consistent with all Aegon Asset Management investment strategies. References to securities, asset classes and financial markets are included for illustrative purposes only and should not be relied upon to assist or inform the making of any investment decisions. It has not been prepared in accordance with any legal requirements designed to promote the independence of investment research, and may have been acted upon by Aegon AM and Aegon AM staff for their own purposes.

All investments contain risk and may lose value. Past performance is not a guide to future performance. All investments contain risk and may lose value.

Please note that certain performance figures are simulated. Simulated future performance is based on current and historical beliefs and therefore outcomes, including the payment of income, are not guaranteed.

Opinions and/or example trades/securities represent our understanding of markets both current and historical and are used to promote Aegon Asset Management's investment management capabilities: they are not investment recommendations, research or advice. Sources used are deemed reliable by Aegon Asset Management at the time of writing. Please note that this marketing is not prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing by Aegon Asset Management or its employees ahead of its publication.

Data attributed to a third party ("3rd Party Data") is proprietary to that third party and/or other suppliers (the "Data Owner") and is used by Aegon Investment Management B.V. under license. 3rd Party Data: (i) may not be copied or distributed; and (ii) is not warranted to be accurate, complete or timely. None of the Data Owner, Aegon Investment Management B.V. or any other person connected to, or from whom Aegon Investment Management B.V. sources, 3rd Party Data is liable for any losses or liabilities arising from use of 3rd Party Data.

Data sources for chart on page 1: Bloomberg, Aegon Asset Management, La Banque Postale Asset Management. December 31, 2024. The bullets in the chart are for illustrative purposes and do not represent exact calculations. Only Solvency II spread risk module standard formula is taken into account (except for Dutch Mortgages and Insured Credit (RMT), where counterparty risk applies). Eur Sovereign are AAA/AA with a duration of ~8.9 years. Dutch social housing are loans are AA with tenors mostly between 2-50 years. ECA loans are AAA/AA Export Credit agency loans and duration between 5-15 years. Dutch mortgages represent a large mortgage pool with an internal rating of AA and a focus on long fixed-term mortgages (the duration is about 8.7 years). Money markets are AA/A with a duration of 0.2 years. Insured Credit is A-rated, 5 years modified duration (if the note is unrated the strategy can fall under counterparty risk if risk mitigation techniques apply under the investor's and its regulators' policies). Capital call facilities is A with a duration of 1 year. STS ABS are simple, transparent and standardized asset back securities with WAL ~3.2 and modified duration ~0.25. Short Dated Investment Grade are ~2.1 years duration and have an A-credit rating. NAV finance is A with a duration od 4 years.
EUR Corporates have an average credit rating of BBB and modified duration ~5 years. Global short-dated high yield is BB with a duration of 2.2 years. Midcap loans are unrated with a duration spread duration of 3.5 years. Renewable infrastructure is unrated with a spread duration of 8 years. Infrastructure Loans are represented by the target portfolio (target return of 200 bps over Euribor -equivalent to BBB loans-, estimated weighted average life of 10-12 years). Global High Yield has an average rating BB and duration around 3.7 years. Private Placements are denominated in EUR by developed OECD countries with an average tenor of 7 years and unrated. Emerging Market Debt are mostly USD denominated bonds and the strategy has a duration ~6.5 years and average credit rating BB. SME loans are Dutch subordinated loans with EIF guarantee (50-80%), internal BB rating and duration around 5 years. Strategies are hedged to indicated currency on a month-on-month basis. RoC calculations based on Solvency II standard formula. Note that Pillar 2 is not reflected in the 15% SCR under Solvency II for Dutch SME loans. This may have impact on the overall capital charge depending on the insurance company's Own Risk Self Assessment (ORSA) and approval of the regulator In correspondence to the current methodology used for the insurance company's other assets, taking features such as volatility, value at risk, subordination and EIF guarantees into consideration.

Aegon Investment Management B.V. is registered with the Netherlands Authority for the Financial Markets as a licensed fund management company. On the basis of its fund management license Aegon Investment Management B.V. is also authorized to provide individual portfolio management and advisory services.

Please note that not all sub-funds and share classes may be available in each jurisdiction. This content is marketing and does not constitute an offer or solicitation to buy any fund(s) mentioned. No promotion or offer is intended other than where the fund(s) is/are authorised for distribution.

AdTrax code: 5644552.6. | Expiry date: 31-Mar-2026