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Aegon European High Yield Bond Fund

Monthly March 2025

The markets started March on the right foot amid hope that US tariffs would be more focused and perhaps not as damaging as initially thought. But doubts started to creep in as the month progressed, and the tone turned sour as the US announced tariffs on autos and threatened more tariffs on Canada and Europe. Risk markets suffered across the board, and safe havens gained some ground. European high yield delivered a return of -1.09% according to the Barclays Pan European High Yield ex Financials Euro Hedged Index. The Aegon European High Yield Bond Fund was down 1.21% over the month, bringing the year-to-date return at +0.24%.

Net return March 2025

Monthly	Year to Date
-1.21%	0.24%

Gross returns (%)

	YTD	1 year	3 year	5 year
Fund	0.24	5.74	4.90	7.13
Benchmark[1]	0.41	6.34	4.41	6.26
Excess Return	-0.16	-0.57	0.47	0.83

[1] Bloomberg Barclays Pan-European High Yield 3% issuer constrained, excluding Financials.

Market review

This month saw some economic data releases, including US GDP, which came in at 2.4%, as well as better PMI data in the eurozone, Germany and France, and healthy GDP growth in Spain. But all of this was overshadowed by the threats of tariffs to come, and the markets remained nervous ahead of April's deadline. But there is no guarantee that this will be the last word on tariffs, which may shift or be postponed, watered down or doubled down. Until there is more clarity and certainty, the markets will likely remain volatile.

High yield spreads

European High Yield spreads widened by 60 basis points (bps) to 355 bps during March. BBs outperformed with a return of -1.0%, followed by single-Bs (-1.3%) and CCCs (-2.3%) respectively. The utilities and technology sectors outperformed. The consumer cyclical and basic industry sectors underperformed.

The average yield-to-worst (YTW) for the index currently stands at 6.0%.

Strategy and Positioning

Entering March, we increased our defensive positioning in the portfolio. We are slightly lighter in yield and a bit longer in duration. We reduced exposure to AT1s and increased BBB exposure and raised cash. We remain cautious with CCCs and find single-Bs still expensive, as we see an increasing risk for decompression when a potential correction or weakness materializes.

Comment

The I-shares of the Aegon European High Yield Bond Fund achieved an absolute gross return of -1.17% in March. The fund underperformed by 8 bps against the benchmark, the Bloomberg Barclays Pan European High Yield ex Financials index. SES SA and DSM Firmenich contributed the most to the performance, alongside our cash holdings. On the negative side, our positioning in Forvia and Eutelsat (not held) were the major performance detractors.

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Outlook

The market outlook has shifted dramatically recently as the Trump tariff announcements in April ushered in a new trade war. The aggressive tariffs prompted fears of a global recession and have the potential to upend globalization as we know it. More than anything, the recent events have created heightened economic uncertainty that is unlikely to go away anytime soon. If the tariffs are sustained, the knock-on effects could be far-reaching and result in higher inflation, revenue shocks to tariff-exposed companies and an increased probability of a recession. In macroeconomic terms, the global economy is likely to be hit with a massive negative exogenous shock.

For the high yield market, we expect the heightened macro uncertainty will likely result in ongoing market volatility in the near term, which will also present potential opportunities. Although high yield bonds experienced a decent repricing in March and early April, we expect spreads will continue move wider as investors evaluate the economic and fundamental impacts of the tariffs. In terms of market technicals, the supply-demand imbalance that has supported the market and kept spreads tight in recent years is likely to change. While the demand profile for high yield bonds has not shifted materially as of this writing, flows may turn negative and the selling pressure could send spreads wider, if recession probabilities increase and sentiment continues to sour. As valuations reset and yields move higher, high yield bonds are likely to present attractive entry points and cheap buying opportunities.

From a fundamental perspective, most high yield companies continue to be in good shape with healthy balance sheets relative to historical standards. However, the tariffs and waning economic outlook have the potential to negatively impact fundamentals, particularly within the more tariff-exposed sectors such as retail as well as the energy sector. On the surface, we believe most companies have adequate liquidity to weather a revenue shock, however the permanency of the tariffs or an economic recession could create declining fundamental outlooks and stressed situations. Although the situation remains fluid, in the near term we do not anticipate a material increase in the default rate as we believe that most companies will be able to weather the storm.

Calendar year performance

	2024	2023	2022	2021	2020	2019	2018	2017
Fund Gross return (%)	7.91	15.56	-9.87	4.16	5.03	11.68	-2.11	4.73
Fund Net return (%)	7.40	15.02	-10.29	3.67	4.54	11.15	-2.57	4.60
Benchmark (%)	7.01	13.01	-10.02	3.48	2.34	10.71	-3.60	6.04
Tracking error ex post (%)	0.78	0.92	1.09	0.51	0.75	0.49	0.60	0.73
Information ratio	0.47	1.92	-0.28	0.37	2.86	0.82	1.76	-1.86

Source: Aegon Asset Management as at 31 December 2023. Fund launch date 11 November 2016, launch date for I EUR Acc shareclass is 22 September 2017.
Benchmark: Bloomberg Barclays Pan-European High Yield (Euro) 3% Issuer Cap Index ex Financials

Important information

Investment Policy

This fund is actively managed. The Fund will seek to achieve its investment objective by investing at least 67% of its net assets directly in high yield corporate bonds and notes, which may be at a fixed or floating rate and are rated by rating's agencies as set out below. The Fund may hold selected investment grade bonds and notes. All bonds and notes held will be denominated either in Euro or in the currency of another European country which is not a member of the Euro.

The Fund will invest in assets denominated both in Euros and in the currencies of other European countries. Where non-Euro denominated assets are held, the Investment Manager will seek to hedge the associated currency risk back to Euros. The Fund will invest at least 67% of its net assets in corporate bonds with credit ratings deemed to be 'high yield', 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 average quality of the Fund's holdings will usually be in the range of B3 to Ba1 (B- to BB+), but may fluctuate. The Fund will not generally seek to invest in bonds rated Ca1 (CC+) or lower. The Fund may invest at most 20% of its net assets in bonds issued by companies whose credit rating 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 may invest up to 20% of its net assets in what the Investment Manager considers to be smaller, less-developed or emerging markets. The Fund will invest predominantly in bonds issued by issuers located within Europe, but may also invest in bonds issued by issuers located outside Europe. The Fund may invest in financial derivative instruments for investment purpose.

Risks

The main risks are:

Currency Risk: The Net Asset Value per Share will be computed in the Base Currency of the relevant Fund, whereas each Fund's investments may be acquired in a wide range of currencies, some of which may be affected by currency movements of a more volatile nature than those of developed countries and some of which may not be freely convertible. It may not be possible or practical to hedge against the consequent currency risk exposure and in certain instances the Manager may consider it desirable not to hedge against such risk. In certain Funds the Manager may enter into cross currency transactions for the purpose of enhancing the returns from the portfolio. In such cases this will be clearly highlighted in the Supplement to the relevant Fund.

Foreign Exchange Risk: Changes in rates of exchange may have an adverse effect on the Net Asset Value of a Fund. In addition a change in foreign currency exchange rates may adversely affect cash flows or income from investments which are denominated in currencies other than the Base Currency of the relevant Fund, which could in turn adversely affect a Fund's ability to pay dividends. Foreign exchange investment and hedging strategies that may be employed to manage such risks might not be successful.

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

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AdTrax: 5777376.23. | Exp Date: 30 April 2026