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**The Aegon Global Short Dated Climate Transition Fund delivered a positive return of 1.00% for the quarter, against the cash benchmark return of 1.32%.\***

## Market summary

Government bond yields (Treasuries, bunds and gilts) moved higher across the yield curve, driven in large part by continued resilient job market data, and an inflation backdrop that for the most part - at least until the latter part of June - was uncomfortably high for central banks. Market expectations for rate cuts continued to moderate, with futures moving to price in (broadly) two rate cuts across the three major markets by year-end.

Global credit spreads made further progress, reaching levels last seen in the early part of 2022. After a robust quarter one, front end credit spreads initially widened during the first half of April in response to higher underlying yields, related volatility and increased geopolitical risks in the middle east. However, the strong technical we have witnessed all year reasserted itself mid-month and through May as the risk of further escalation dissipated and higher all-in yields attracted buyers.

Short dated credit spreads widened during June. For context, the spread (over government bonds) on the ICE BoA Global Large Cap 1-5 year index increased by 9bps to 86bps from a year to date tight spread of 77bps.

While French related risk significantly underperformed, the weakness in response to the heightened macro volatility was relatively broad based after a consistent move tighter in recent months.

Whilst spread valuations had become somewhat stretched relative to recent history, the overall value proposition (from an all-in yield perspective) looked as attractive as it has done over the past ten years, and helped to underpin demand, especially in the primary market. The announcement of the UK election had no discernible impact on domestic credit spreads, although it did force OFWAT (UK water regulator) into a period of self-imposed purdah, which meant that we saw no further progress on the draft determination for the latest regulatory review.

By contrast, the announcement of a snap election in France did create a brief period (around two weeks) in June when credit spreads retraced some of the largely uninterrupted period of compression we had seen thus far this year. However, the failure of any one party in France to emerge with a clear majority gave corporate bond markets some relief. The prospect of a prolonged period of political stalemate was something of a comfort, notwithstanding the tougher fiscal decisions that will need to be addressed in the longer term.

## Fund review

Persistent inflation continued to moderate interest rate cut expectations and rates volatility continued, therefore active duration positioning was a key contributor to the fund's total return. The fund's headline duration was broadly maintained through the quarter between 2.4 and 2.6 years, with a preference for UK duration given the macro outlook and market pricing of rate expectations. The duration position, at the higher end of our permitted 0-3-year range, hurt performance in April as yields rose. However, the positioning was supportive for the rest of the quarter as front-end 2-year government bond yields fell in June, then finished back to where they were at the start of the quarter.

UK and German bonds outperformed their US counterparts and our allocation to UK and EUR duration was therefore beneficial. Macro, political and regulatory uncertainty continued to be key themes and drove the contribution from sector and individual company selection.

Our exposure to subordinated financials continued to perform well including bonds from Legal & General, Barclays and NatWest. Our low exposure to UK water companies, and no Thames Water holdings, was beneficial given ongoing regulatory challenges in that sector. Several of our selective real estate names also continued to progress given the outlook for rate cuts.

The news of a snap French election in June caught the market by surprise and led to a significant underperformance of all French related assets. French government bonds for example, underperformed their German counterparts by 30bps while in credit, senior bonds issued by French banks widened by as much as 40bps intra-month before recovering about half of the underperformance by quarter end. Our French related exposures e.g. EDF, BNP, Credit Agricole therefore detracted from performance.

New fund flows and the reinvestment of the proceeds from maturing bonds & coupons, brought portfolio activity focused on rotation and taking advantage of new primary market supply. We added attractive euro exposure with a new position from highly rated Danish pharmaceutical, Novo Nordisk – which offered an attractive spread relative to peers. We also increased our exposure to RCI Banque, the finance arm of Renault (classified as ‘Prepared’ within our climate transition framework) and to Enel (Climate Transition ‘Leader’). We took advantage of the weakness in French related assets in June to increase our exposure to CNP, the French insurance company, by adding some single A rated 2028 bonds some 40bps wider they had been trading prior to the snap election announcement. We also extended our subordinated exposure and added to our exposure in Nationwide, Prologis, VW, and SSE hybrids.

## Market outlook

We expect the return prospects for corporate bonds to be reasonably well underpinned, driven by what are relatively high starting all-in yields. Despite concerns about rising borrowing costs, corporate profitability remains elevated, and the global economy’s resilience should help support this. It is difficult to foresee much in the way of generic spread compression from what are relatively stretched levels (across all three global investment grade markets). Any prospects for capital upside in investment grade from here are likely to be driven by central banks cutting rates, and the underlying government bond yields falling as a result.

The most recent (global) inflation data has certainly been encouraging on this front and should allow the Fed and MPC to follow the ECB and start to cut interest rates in the third quarter. Current market pricing at the end of the second quarter (which suggests two rate cuts from the Fed, ECB and MPC by year-end) is a reasonable expectation.

## Performance

	3 Months	1 Year	3 Years (Cumulative)	3 Years (Annualised)	Since Inception (Cumulative)**	Since Inception (Annualised)**
Fund (%)	1.00	7.71	4.19	1.38	4.64	1.37
Index (%)	1.32	5.29	8.97	2.91	8.99	2.63

\*Source: Lipper as at 30 June 2024. Performance is shown for the S Acc GBP share class, NAV to NAV, noon prices, income reinvested, net of ongoing charges, excluding entry or exit charges. Benchmark: SONIA Compounded Index Total Return GBP. \*\*Inception is 4 March 2021. Past performance is not a guide to future returns.

## Important information

### Investment Policy

Invests predominantly in global investment grade (lower risk) bonds. The fund may also hold selected high yield (higher risk) bonds, contingent convertible (higher risk) bonds and cash. Bonds will be issued by companies and governments worldwide. A minimum of 80% of the Fund's net assets will be invested in investment grade bonds that have a residual maturity that does not exceed four years. The Fund is actively managed.

### Risks

The main risks of the fund are:

**Credit:** An issuer of bonds may be unable to make payments due to the Fund (known as a default). The value of bonds may fall as default becomes more likely. Both default and expected default may cause the Fund's value to fall. High yield bonds generally offer higher returns because of their higher default risk and investment grade bonds generally offer lower returns because of their lower default risk.

**Liquidity:** The Fund's value may fall if bonds become more difficult to trade or value due to market conditions or a lack of supply and demand. This risk increases where the Fund invests in high yield, off-benchmark or emerging market bonds.

For more details on the risks for this fund please see the KIID or Prospectus.

## Calendar Year Performance

	2023	2022
Fund (%)	6.52	-3.46
Index (%)	4.69	1.40

Source: Lipper as at 31 December 2023. Performance is shown for the S Acc GBP share class, NAV to NAV, noon prices, income reinvested, net of ongoing charges, excluding entry or exit charges. Benchmark: SONIA Compounded Index Total Return GBP. Inception is 4 March 2021. Past performance is not a guide to future returns.

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Fund Charges are taken from income but will be taken from capital where income is insufficient to cover charges.

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