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# Aegon European ABS Fund

Q3 2024

*The Aegon European ABS Fund invests in asset-backed securities across a diverse range of issuers, collaterals, sectors, and countries. It offers an opportunity for investors to enhance the return and diversify the risk of their portfolio. The Fund qualifies under Article 8 of SFDR.*



**Frank Meijer**  
Head of Alternative  
Fixed Income



**Egbert  
Bronsema**  
Senior Portfolio  
Manager, Alternative  
Fixed Income



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

## Key data

Average credit quality	AAA
Spread duration	2.84 years
Yield-to-maturity (£)	5.35%
1-year total return expectation (£)	6.25% - 6.75%
Assets under management*	£8 billion

Source: Aegon AM. All yields are in GBP and gross of fees. Data as at 30 September 2024 for Aegon European ABS Fund. \*Aegon European ABS Strategy AUM as at 30 June 2024.

## Why invest?

1. Investors have the potential to benefit from **attractive spread levels** that reflect the complexity of European ABS compared to similarly rated corporate bonds.
2. European ABS can offer investors **diversification** from traditional fixed income holdings, by providing exposure to areas such as residential mortgages, car loans and consumer credit.
3. Due to the short duration and floating rate nature, European ABS can **mitigate the impact of interest rate volatility** (depending on interest-rate hedging applied).
4. The **transparency of the underlying collateral** enables us to utilise our powerful screening tools to assess the quality and return perspective of every ABS bond.
5. EU '**Securitisation Regulation**' imposes stringent due diligence, stress testing and ongoing monitoring requirements on ABS investors.

## Why Aegon Am for European ABS




<b>Scale and resources</b>	<ul style="list-style-type: none"> <li>Aegon AM has one of the largest dedicated ABS teams: 9 ABS professionals in Europe and 23 globally covering the ABS universe.</li> <li>Manage £8 billion in European ABS and £52.3 billion* globally in alternative fixed income.</li> </ul>
<b>Experience</b>	<ul style="list-style-type: none"> <li>Investing in European ABS since 2001.</li> <li>Managed dedicated European ABS funds for external clients since 2004.</li> </ul>
<b>Proven investment process</b>	<ul style="list-style-type: none"> <li>Robust investment process based on our proprietary quadrant approach, incorporating both qualitative and quantitative factors.</li> <li>We utilize proprietary analysis and monitoring tools &amp; systems.</li> </ul>
<b>ESG integrated</b>	<ul style="list-style-type: none"> <li>Integrate proprietary ESG research into our investment process.</li> <li>No investment in bonds with ESG scores of 4 and 5.**</li> </ul>
<b>Extensive market reach</b>	<ul style="list-style-type: none"> <li>We have strong relationships with issuers and brokers, resulting in a healthy flow of opportunities.</li> <li>Active in buying whole-loan portfolios.</li> </ul>
<b>Product options</b>	<ul style="list-style-type: none"> <li>European ABS UCITS fund with daily liquidity</li> <li>EUR, GBP and USD share classes</li> <li>Bespoke European ABS segregated mandates.</li> </ul>



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

## A team-based approach

The Fund is managed by the 9-strong European ABS team, led Aegon AM's Head of Alternative Fixed Income, Frank Meijer. The team has access to resources across Aegon AM's fixed income and responsible investment teams.

 <b>Portfolio management team</b>	 <b>Support from global research teams</b>	 <b>Global responsible investment team</b>
<p>23 experienced investment professionals dedicated to the analysis of ABS bonds, of which 9 are focused on European ABS.</p>	<p>Drawing upon 28-strong global credit research team to access sector and geographical expertise.</p>	<p>21-strong team providing specialist ESG research, voting and engagement activities and ESG reporting.</p>

Source: Aegon Asset Management as at 30 June 2024.

## Review of quarter to 30 September 2024

The third quarter of 2024 again was very strong for European ABS markets. The quarter started with the market expecting around four rate cuts until the end of the year, of which one rate cut was announced in September. The market is pricing in two additional rate cuts for the remainder of the year. As most 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. Currently, as inflation risks subside, the sensitivity of interest rates is shifting, with growth becoming increasingly important. In Europe, recent PMIs surprised to the upside, but while the periphery continues to be an area of economic strength, German data remains lackluster. The dispersion across countries on activity, labor markets and prices, makes it hard to have strong views on the business cycle and the pace of disinflation and the growth trajectory. However, the ECB's 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 increasingly confident on the extent and pace of disinflation while others remain hesitant and concerned about upside risks.

US economic strength contrasts with the weakness in Europe. The most recent labor market figures reinforce the conviction that the US economy remains very resilient, and the fear of a recession seemed to be premature. After the 50-bps rate cut by the Fed, markets are pricing in a more gradual cutting cycle, in line with recent communications where Fed chair Powell repeatedly made the case that the FOMC is in no hurry to cut rates.

After being rattled by an escalation of Middle East tensions following Iran's military strikes on Israel at the end of the quarter, financial markets remain very nervous as we enter the final quarter of 2024. The US and Europe jobs reports helped temporarily distract from geopolitics, but volatility remains due to the constant changing and diverging expectations on central banks actions. With geopolitical tensions intensifying and the US elections around the corner, there is quite some uncertainty. Also, while the market is looking for more stimulus measures from China, boosting demand, a negative supply shock due to further escalation of tensions in the Middle East, higher (import) tariffs, and other import restrictions, would disrupt the disinflation trend, resulting in central banks not delivering on the significant easing priced in by markets.

In this volatile environment, European ABS markets performed strongly as spreads continued to tighten across all European ABS sectors, further triggering conditions in which primary issuance continued to be plentiful. Primary issuance amounted to around €35 billion in the third quarter of 2024, bringing year-to-date issuance to €111 billion, an increase of 65% compared to the same period last year. While spreads initially tightened during the quarter before moving to approximately the same level as where they started.

## Fund performance

Annualized gross returns (%)	1 year	3 years	4 years	5 years	Since inception
<b>Aegon European ABS Fund*</b>	<b>9.25</b>	<b>4.94</b>	<b>4.41</b>	<b>3.67</b>	<b>3.31</b>
Barclays ABS Benchmark**	6.22	3.57	3.04	2.55	2.33
Relative performance	3.03	1.37	1.36	1.13	0.98

Calendar year gross returns (%)	2023	2022	2021	2020	2019	2018
<b>Aegon European ABS Fund*</b>	<b>9.57</b>	<b>-1.57</b>	<b>2.13</b>	<b>1.27</b>	<b>2.83</b>	<b>1.55</b>
Barclays ABS Benchmark**	6.02	0.19	1.11	0.78	2.36	0.71
Relative performance	3.55	-1.75	1.02	0.48	0.47	0.83

Source: Aegon Asset Management. All figures presented gross of fees and in GBP. All data as at 30 September 2024. Returns for periods longer than 12 months have been annualized. \*Figures for Aegon European ABS Fund I GBP hedged Acc. \*\*Market value weighted combination of the Barclays Capital Euro ABS Floating Rate Composite Index and the Barclays Capital Euro ABS Fixed Rate Composite Index.

## Fund details

<b>Fund launched</b>	11 November 2016
<b>Strategy and fund size</b>	£8 billion / £5.7 billion*
<b>Objective</b>	The Fund primarily invests direct or indirect in asset-backed securities listed in euros or converted to euros, distributed over different issuers, collaterals, sectors and countries.
<b>Fund benchmark</b>	The Bloomberg Euro ABS Floating Rate Composite Index and The Bloomberg Euro ABS Fixed Rate Composite Index. The proportion between the two indices is rebalanced monthly based on market weights. Indicatively, the ratio is approximately 95% floating and 5% fixed.
<b>Portfolio characteristics</b>	<ul style="list-style-type: none"> <li>Well-diversified</li> <li>No leverage</li> <li>Average credit quality AA/A (all bonds externally rated)</li> <li>1-year total return expectation: 6.25% – 6.75% in GBP</li> <li>Yield-to-maturity: 5.35%</li> <li>Modified duration: 0.28 years</li> <li>Spread duration: 2.84 years</li> <li>Daily liquidity</li> </ul>
<b>Investment universe</b>	<ul style="list-style-type: none"> <li>Invest in a broad range of ABS bonds denominated in European currencies, mainly euros.</li> <li>The fund invests mostly in consumer credit related ABS.</li> <li>Some exposure to collateralised loan obligations and commercial backed mortgages.</li> <li>European exposure hedged back to base currency to minimise currency risk.</li> </ul>
<b>Share classes</b>	<ul style="list-style-type: none"> <li>GBP, EUR and USD, CHF and AUD hedged also available.</li> </ul>
<b>Fund structure</b>	<ul style="list-style-type: none"> <li>Irish-domiciled OEIC (UCITS structure)</li> </ul>

Source: Aegon Asset Management, as at 30 June 2024. All yields are in GBP and gross of fees. \*As at 30 September 2024; fund size converted from EUR to GBP using the exchange rate of 0.832035.

## About Aegon Asset Management

Aegon AM is an active global investor. Our 385 investment professionals manage and advise on assets of £270 billion\* for a global client-base of pension plans, public funds, insurance companies, banks, foundations, wealth managers and family offices. We are an international business with 1,155 employees working from 14 locations across Europe, the Americas and Asia.

We organise our investment capabilities around focused investment platforms where we have deep asset-class expertise. Each platform has dedicated teams, organised globally and committed to maximising client benefit from their specialist areas. These platforms are supported by teams dedicated to responsible investing and multi-management.

Aegon Asset Management is a wholly owned subsidiary of Aegon N.V., a leading global financial services business. Aegon N.V.

For more information visit [www.aegonam.com](http://www.aegonam.com) or contact [institutionalbusiness@aegonam.com](mailto:institutionalbusiness@aegonam.com).

\* As at 30 June 2024.



## Investment policy and risks

### 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).

**Liquidity risk:** The secondary market for sub-investment grade bonds is typically much less liquid than the market for investment grade bonds, frequently with significantly more volatile prices and larger spreads between bid and asked price in trading.

**ABS risk:** The value of an asset-backed security can be affected by various factors, including:

- changes in the market's perception of the pool of underlying assets (or collateral) backing the security.
- 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.
- changes in the market's view of the creditworthiness of the issuer.
- 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](http://www.aegonam.com/documents).

## Important information

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

**This is a marketing communication. Please refer to the Prospectus of the UCITS and to the KIID before making any final investment decisions. The relevant documents can be found at [aegonam.com](http://aegonam.com). The principal risk of this product is the loss of capital.**

Past performance does not predict future returns. Outcomes, including the payment of income, are not guaranteed.

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Aegon Asset Management Europe ICAV is an umbrella type open-ended investment company with variable capital, registered in the Republic of Ireland (Company No. C153036) at 25-28 North Wall Quay, International Financial Services Centre, Dublin 1. Board of Directors: M. Kirby, S. Donald and B. Wright. Aegon Asset Management Europe ICAV is regulated by the Central Bank of Ireland. Aegon Investment Management B.V (Aegon AM NL) is the appointed management company. Aegon AM NL is registered with and supervised by the Dutch Authority for Financial Markets (AFM).

Aegon AM UK markets AAMICI in the UK and otherwise outside of the EEA. Aegon Asset Management UK plc (Aegon AM UK) is authorised and regulated by the Financial Conduct Authority.

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