

February 2024



George Nijborg

Head of Insured Strategies and EU Private Placements




Harriet Rowland Clark

Senior Insurance Specialist

In this document, we discuss the investment opportunity in Insured Credit. Enabling access to de-risked alternative debt assets, a pickup to liquid markets, an attractive capital treatment and ESG friendly assets, this strategy delivers an attractive investment opportunity to institutional investors.

Key facts

Investment strategy	Assets insured by private market AA/A rated credit insurance companies	
Yield	5.6% in EUR	6month EURIBOR + 225bps
	7.7% in GBP	6month SONIA + 272bps
	7.0% in USD	6month SOFR + 284bps
Rating	AA/A	
Maturity	Up to 15 years (WAL: 5 years / Modified Duration: 2.5-5 years)	
Loan size	EUR 25 to >150 million	
Structure	Fixed or floating	
Repayment	Amortising or bullet	
Sustainability		
Market size	EUR 100 – 150bn	
Diversification	60+ insurance companies	
SII – Spread capital charge	~7% if SCR applied	~1.5% if risk mitigation applied

Source Aegon AM as at 2 Jan 2024.

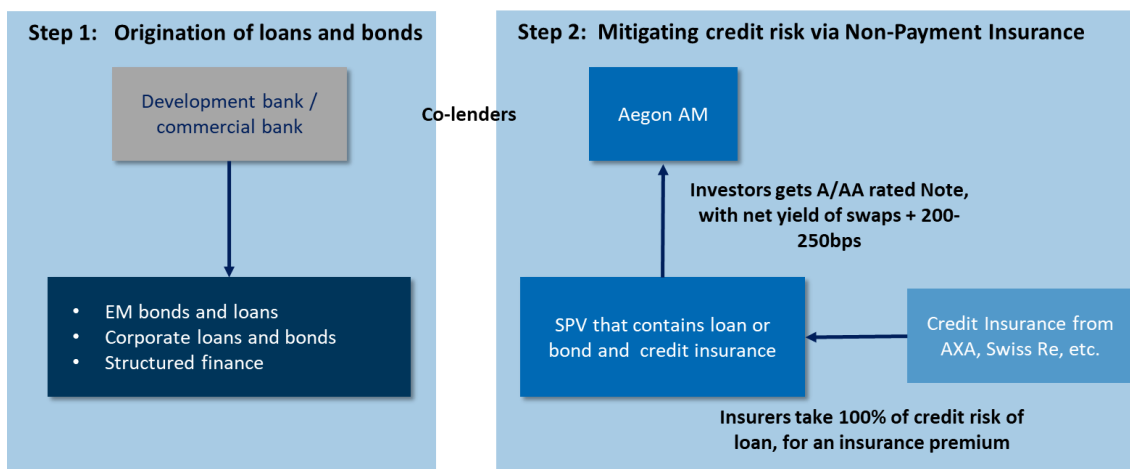
Executive summary

Insured Credit offers institutional investors a compelling investment opportunity for their portfolios for several reasons:

- **Low credit risk:** Access to de-risked alternative debt assets with double recourse. The credit risk on the underlying asset is mitigated via the use of non-payment insurance transforming assets into A/AA rated notes with double recourse: 1) debt collateral for principal & interest and 2) non-payment of collateral insured by A/AA rated insurance companies.
- **High yield pick-up¹:** Offers EUR swaps + 200-250bps, Insured Credit provides yield enhancement over core fixed income products. Thus far, the strategy has achieved pick-up of 132bps versus liquid credit.
- **Strong diversification profile:** The credit insurance market consists of 60+ insurers providing investors with a broad spectrum of exposure including counterparties not accessible through capital markets.
- **Responsible Investing²:** Offers opportunities in responsible investing and the strategy is able to source assets with strong social and sustainable characteristics. Aegon AM performs extensive ESG and sustainability screening of collateral and insurance companies. Only ESG “neutral” or better assets can be invested in.
- **Solvency II³:** Provides opportunities for capital constrained investors and those looking to optimize their use of capital. The use of credit protection enables these assets to be very capital efficient under Solvency II and SCR can be reduced as low as 2% for certain investors
- **Preferred allocation & yield optimisation:** Investors can select their preferred collateral allocation and optimise yield requirements depending on risk appetite and portfolio objectives.
- **Investment Team:** Aegon AM has a strong track record with an experienced investment team with credit, structuring and (London-based) credit insurance experts.

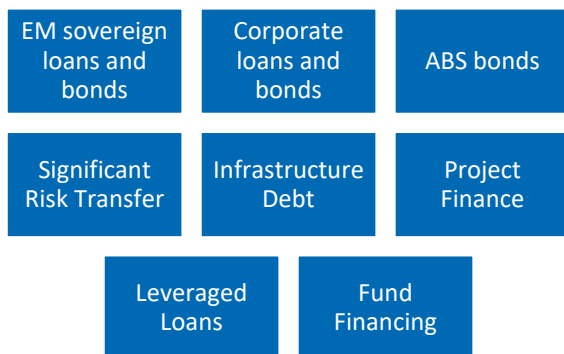
What is Insured Credit?

The aim of the strategy is to provide investors access to de-risked alternative debt assets while preserving an attractive yield. The strategy invests in assets where the credit exposure is insured by AA or A rated insurance companies using a two-step process. First, assets (loans, bonds or structured finance transactions) are sourced via development and commercial banks and the underlying collateral is assessed by Aegon AM’s team of credit, ESG and insurance experts. If the asset meets strict criteria, the credit risk of the underlying asset is transferred to AA or A rated insurance companies via the use of Non-Payment Insurance. Insurance companies take up to 100% of the credit risk of the underlying assets in the exchange for insurance premium. The investor therefore benefits from double recourse: first, to the collateral for principal and interest payments and second to the insurance companies for non-payment of the collateral. The investor purchases a note which is rated AA or A, reflecting the rating of the insurance company.



Underlying collateral

The universe of Insured Credit assets is diverse and assets can be sourced to satisfy varying investor appetites and requirements. Transactions are screened by Aegon AM’s investment team and can include assets across different countries, sectors and debtors including:



Portfolio characteristics:

- Tenors up to 15 years
- Weighted average life of 5 years
- Modified duration of 2.5-5years
- USD, EUR and GBP. FX risk will be hedged
- Either fixed or floating formats
- Transaction Size of 25-150million

Non-Payment Insurance (NPI)

NPI is used as a risk mitigation tool to transfer the credit risk of an underlying asset to an insurance company. NPI protects against the failure, refusal, or inability of an obligor to pay any amount due on a particular asset *for any reason*. In Aegon AM’s structure, NPI policies cover up to 100% of the principal and interest on an asset and provide full recourse to the insurer(s) delivering the credit protection. At Aegon AM, we use a bespoke NPI policy akin to a financial guarantee with limited exclusions. Key elements of an NPI insurance policy in an Aegon AM structure include:

- Policy covers non-payment for any reason
- Up to 100% of principal and interest insured
- Policy period matches the maturity of underlying collateral
- Policy is non-cancellable even in the event of non-payment of premium
- Premium rates are set at inception and cannot be amended unilaterally
- Claims are subject to a “waiting period” which is capped at a maximum of 180 days
- Exclusions are limited
- All clauses are within the direct control of the Insured party

Why invest in Insured Credit?

Low Credit Risk

Investor’s exposure is ultimately against the insurance company with the benefit of double recourse: firstly to the underlying collateral and secondly to the A and AA rated insurance companies insuring the non-payment risk of that collateral. As a result, expected loss rates are very low at less than 1 basis point. Insurance policies also benefit from super-senior status under Solvency II meaning that policyholders have a privileged position as creditor further strengthening the low credit risk nature of these assets.

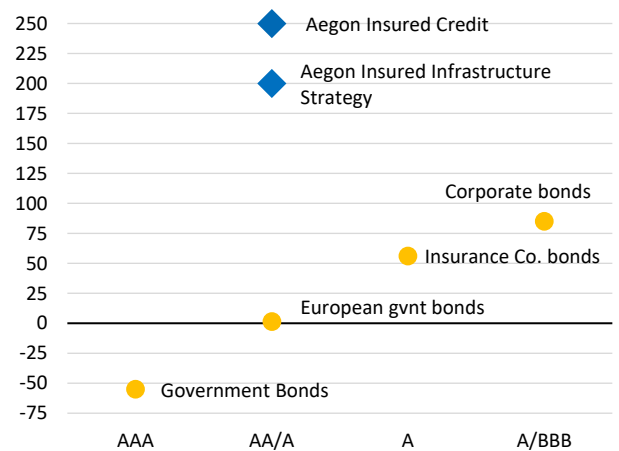
Yield

These assets provide an attractive source of extra yield. Aegon AM’s Insured Credit strategy offers yields of 6month EURIBOR + 225bps // SONIA + 272bps // SOFR + 284bps. The portfolio has achieved pick up of 132 bps vs liquid credits to date. This graph shows various example comparison points, with Insured Credit providing pick ups of >140bps against insurance company bonds and >100bps against Investment grade corporate bonds.

Yield Optimisation

Whilst Aegon AM is able to offer its investors 100% credit insured exposure, it also provides investors with the optionality to select their preferred allocation of collateral exposure. By varying exposure to the underlying collateral versus the exposure to insurance companies investors are able to optimise the yield achieved by their investments.

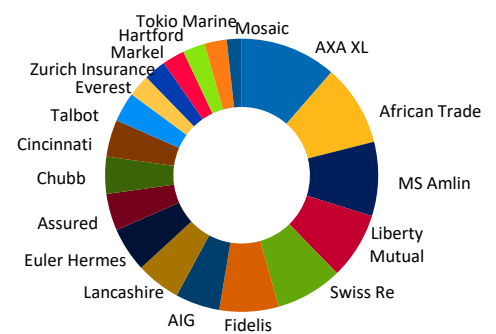
Spreads over swaps of selected asset classes (in €)⁴



Diversified Exposure

There are over 60 different insurance companies providing this type of credit protection meaning that this strategy can provide investors with exposure to a broad range of A and AA rated insurance counterparties, often with no senior unsecured bonds outstanding which means the strategy is uniquely positioned to give exposure to these insurers through the strategy. The graph to the left provides a snapshot of the granular nature of what a model portfolio could look like.

Insurance Company

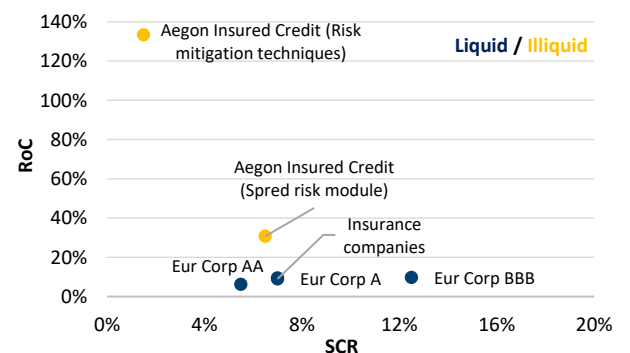


Solvency II treatment⁵

Insured Credit assets are fully credit protected via insurance policies provided by AA/A rated insurance companies. Under Solvency II there are two techniques that can be used to reduce the capital charge for these assets:

- First option is to use the spread risk module. Aegon AM’s Insured Credit transactions have obtained “A” and “AA” ratings by ECAI’s which can be used to achieve SCR of ~7%.
- Alternatively, Non-Payment policies can be used as “risk mitigation” which reduces SCR even further to below 2%.

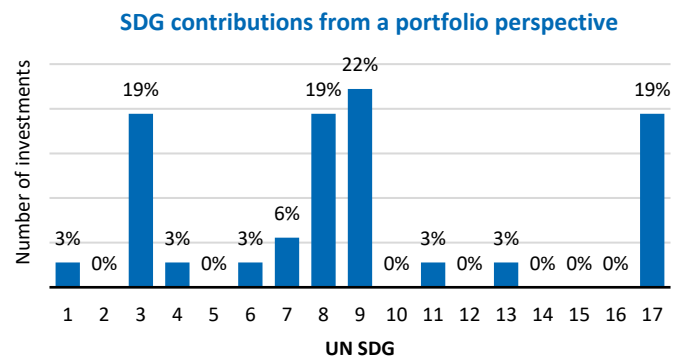
Insured Credit Under Solvency II⁶



Insured Credit and sustainable investing⁷

The Insured Credit strategy offers investors the ability to select assets with strong social and sustainable characteristics to satisfy their ESG needs. These are scalable opportunities where the underlying collateral has (strong) alignment with United Nations' Social Development Goals (SDG's) particularly within emerging markets. Aegon AM's Insured Credit team works closely with Aegon AM's Responsible Investment team to assess each transaction and thus far the strategy has contributed to 10 different SDG's via its investments. As the graph below shows, Good Health and Well-being (SDG 3), Decent Work and Economics Growth (SDG 8), Industry, Innovation and Infrastructure (SDG 9) and Partnerships for the Goals (SDG 17) are the most frequent SDG contributions from a portfolio perspective. Example projects funded via Insured Credit investments include:

- Intelligent road traffic management systems
- Construction of healthcare facilities
- Water sanitation
- Communication infrastructure
- Electrification network upgrades
- Airport development
- Road infrastructure



Aegon AM – co-investment with ASR/Aegon and key partners

Strong track record

Aegon AM has been active in this market since 2021. It is a seasoned team within a global platform with key individuals having direct experience working within the credit insurance sector. Currently the team manages a portfolio of EUR 750m including 50 notes with exposure to 25 insurance companies. There has been no credit mitigation or credit losses to date.

Sourcing and alignment

It is estimated that the market size for Insured Credit assets is EUR 100-150bn. Annual deal volumes rely heavily on Aegon AM's relationship with origination counterparties and, since inception of the strategy, we have established an extensive industry network. Our proven track record in 'delivering, and within timeframe' ensures that we are the lender of choice for many first-class multilateral development banks.

Conclusion – Insured Credit offers a strong investment opportunity

- ✓ Insured Credit provides investors **access to de-risked alternative debt assets** while preserving an **attractive yield** and **return on capital**.
- ✓ It delivers **low credit risk** exposure to highly rated (AA and A) assets which benefit from **double recourse** protection.
- ✓ This relatively new asset class brings a **strong diversification profile** compared to other fixed income asset classes driven by a broad spectrum of insurance companies and diverse underlying collateral.
- ✓ It provides investors with a versatile option to cover **different liability profiles**.
- ✓ The strategy allows investors to select their allocation of exposure to the underlying allowing for **customized yield optimization**.
- ✓ Responsible investing, a topic at the top of the agenda of investors, can also be accessed via this strategy as it offers numerous possibilities for **sustainable investing** and partnerships with key strategic partners.

Disclosures

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

The principal risk of this product is the loss of capital. Please note that other risks will be present. The materiality of these risks will be accounted for in the mandate which will be governed by an investment management agreement.

All investments contain risk and may lose value. Responsible investing is qualitative and subjective by nature, and there is no guarantee that the criteria utilized, or judgement exercised, by any company of Aegon Asset Management will reflect the beliefs or values of any one particular investor. Responsible investing norms differ by region. There is no assurance that the responsible investing strategy and techniques employed will be successful. Investors should consult their investment professional prior to making an investment decision.

Past performance does not predict future returns. 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.

All data is sourced to Aegon Asset Management unless otherwise stated. The document is accurate at the time of writing but is subject to change without notice. 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 licence. 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.

Aegon Asset Management UK plc is authorized and regulated by the Financial Conduct Authority. Aegon Investment Management B.V. (Chamber of Commerce number: 27075825) 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. Aegon AM NL also operates through branches in Germany and Spain. These branches are regulated by the BaFin (Germany) and CNMV (Spain) based on the home-host state supervision rules.

AdTrax: 6251423.10. | Exp Date: 31 January 2025

¹ All yields are in EUR and gross of fees unless stated otherwise.

² The strategy has the ability to finance a wide range of projects that can contribute to the UN Sustainable Development Goals, including but not limited to the SDGs mentioned.

³ Subject to regulatory approval

⁴ Source: Barclays, Bloomberg (as of August 2023). All yields are in EUR and gross of fees.

⁵ Subject to regulatory approval

⁶ Source: EIOPA, Bloomberg as of 28 February 2023. For illustrative purposes only. For Insured Credit we assume rated notes (33% AA and 67% A). If the note is unrated it is possible to apply the look-through approach. By doing this, the insurance policy could be used as a risk mitigation technique (RMT) under Solvency II, hence reducing the SCR. The applicability of this depends on the investor's and regulator's policies. SCR under Solvency II Pillar Spread risk only. Corporate insurance represented by Barclays Euro Corporate Insurance Senior Index. Insurance companies are investment grade (~A). Eur Corps are Bloomberg Pan-European Corporate Index AA/A/BBB. Spread over swaps figures used to calculate RoC are in Euro. For more details on the chart please get in touch with us.

⁷ The strategy has the ability to finance a wide range of projects that can contribute to the UN Sustainable Development Goals, including but not limited to the SDGs mentioned on this slide.