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Aegon High Yield Global Bond Fund

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Executive summary

- Despite the barrage of headlines related to tariffs, the high yield bond market initially held in well, however the weakness eventually spilled over to high yield bonds as spreads widened in March.
- During the quarter, the fund outperformed the peer group median and the ICE BofA Global High Yield Constrained Index*.
- From a positioning perspective, we continue to focus on income generation while maintaining defensive positioning to help insulate the portfolio from potential downside risk.

Market summary

Political developments and macro uncertainty were front and center during the first quarter. After the inauguration of President Trump in January, the new administration wasted no time in enacting various executive orders and embarking on its plan to increase tariffs. This included broad-based tariffs on Chinese goods as well as tariffs on steel, aluminum and auto imports. From a macro perspective, most of the US economic data early in the quarter pointed to a resilient economy and the Fed held rates steady. However, volatility picked up in March amid concerns related to tariff threats and signs of weakening in certain economic indicators. As the quarter came to a close, uncertainty remained high as markets anxiously awaited the so-called Liberation Day to see which other industries might fall under the administration's tariff wrath.

Despite the barrage of headlines related to tariffs, the high yield bond market initially held in well, digesting the news in stride and continuing to clip a coupon. However, in March the tariff talk and a perception that the US economy might be slowing proved too much for risk assets to withstand. Equity markets came under pressure and volatility increased. Although the high yield market was initially resilient and trading remained orderly, the weakness eventually spilled over to high yield bonds as spreads widened in March.

During the quarter, the ICE BofA Global High Yield Constrained Index returned 1.22% (USD hedged)*. Gains in January and February were partially offset by losses in March. Within the index, investors sought refuge in higher-quality bonds. BBs gained 1.51% followed by B-rated bonds at 0.93%. Lower-quality bonds came under some pressure as investors were less willing to chase risk given the more cautious tone and uncertain outlook. As a result, CCCs returned -0.24% during the quarter. Across the global high yield market, emerging markets outpaced the US and Europe, with European high yield modestly trailing the other regions. The yield to worst on the index increased to 7.39% as spreads widened to around 355 basis points as of March 31.

Performance review

During the quarter, the fund returned 1.92% outperforming the peer group median of 0.89% and the ICE BofA Global High Yield Constrained Index (USD hedged) return of 1.22%*. The portfolio's defensive positioning and strong security selection contributed to the outperformance during the quarter.

By rating categories, security selection contributed positively across all segments. Notably, the B-rated holdings contributed the most to outperformance, driven by strong bottom-up selection. The CCC and below cohort also contributed to relative performance due to advantageous selection and allocation decisions. The fund's lower exposure to CCCs added value as that segment lagged the overall market. The selection within the subset of CCCs that are held in the fund also performed well. In addition, the opportunistic exposure within investment grade corporate bonds also added value during the quarter. Conversely, the allocation within BBs and Bs detracted slightly, however this was more than offset by positive contribution effects from selection across rating categories.

By region and currency, the fund's European exposure added value with both the EUR- and GBP-denominated debt continuing to contribute positively to outperformance. The lower exposure to the US also added value during the quarter. From a sector perspective, the banking segment was the top contributor while the communications sector detracted. By issuer, many of the fund's high-conviction holdings added value with the top three contributors including Metro Bank, Adler Financing and Medical Properties Trust (MPW). Conversely, the top three detractors by issuer included Cornerstone Building Brands, Cimpress and Cablevision (CSC Holdings). Overall, the fund's defensive positioning, regional exposure and security selection helped the fund outperform during the first quarter.

"We are maintaining our defensive positioning to help insulate the portfolio from potential spread widening."

Positioning

From a positioning perspective, we continue to focus on income generation while maintaining defensive positioning to help insulate the portfolio from potential downside risk. Although spreads widened modestly in March and started to move closer toward fair value, we still believe downside risks remain as uncertainty is elevated. As a result, we remain focused on income generation over capital appreciation. This is reflected in the fund's high coupon rate of around 8.2% relative to the index rate of around 6.2% as of March.

We are maintaining our defensive positioning to help insulate the portfolio from potential spread widening. The ongoing tariff threats and waning economic outlooks present uncertainty, and we believe the market is skewed more to the downside in the short-term. As a result, we do not believe this is the environment to chase risk in lower-quality credit and the fund maintains its lower exposure to CCCs and below. By region, we maintain our preference for Europe and Emerging Markets over the US. This positioning is largely driven by bottom-up, company-level views as well as valuations. At a high-level, European and emerging market high yield corporate bonds offer enhanced spreads and lower leverage relative to the US, and a better overall risk-reward profile.

From a sector perspective, we are cautious on sectors that could be prone to volatility related to tariffs, such as autos/auto parts manufacturers. We are limiting exposure to the commodity-sensitive segments that could be volatile, such as energy, chemicals and mining. We continue to like many of the consumer-related sectors such as retail and leisure. With unemployment rates remaining low and consumer spending habits remaining intact, many of the consumer-related companies continue to post solid earnings. We also continue to like the exposure in the real estate sector, such as hotels, logistics and residential property with a focus on companies that have strong asset backing.

Market outlook

The market outlook has shifted dramatically in a matter of days in early April as the Trump tariff announcements ushered in a new trade war. The aggressive tariffs prompted fears of a global recession and have the potential to significantly reorder the global trading system 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. That said, the situation remains very fluid.

While the economic outlook is waning, market volatility creates opportunities. For the high yield market, the heightened macro uncertainty will likely result in ongoing market volatility in the near term. Although the market has experienced a decent repricing with spreads resetting higher, we anticipate that spreads could go wider from here. Assuming that the tariffs move forward as outlined, we anticipate more volatility in the days/weeks ahead as the market evaluates the second-order effects of the widespread tariffs. However, 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 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.

Looking ahead, we think the global high yield bond market presents attractive opportunities with yields increasing above 8% and spreads above 400 basis points. While this may not be the time to be aggressively adding high yield exposure, we think there is merit in legging into the asset class at these levels. Although spreads may widen, the all-in yields may decline. In addition, any spread widening could be met with a market snapback, as it is challenging to time the market. For long-term investors, we think high yield continues to offer attractive opportunities now based on elevated yields, which tend to be a reasonably good indicator of the future five-year returns.

*Source: Lipper as at 31 March 2025. Performance shown is for the B USD Inc share class. NAV to NAV, noon prices, income reinvested, net of ongoing charges, excluding entry or exit charges. The Fund is in the Lipper Global – Bond Global High Yield sector. Compiled using Lipper Primary share classes. Lipper primary share classes are generally the highest charging share classes available and are usually the 'A' retail share classes for Aegon AM funds. Note: peer group benchmarks have noon prices. Note: index benchmarks have close of day prices. Returns shown in the table are based on monthly data points. ICE BofA Global High Yield Constrained Index was formerly known as BofA Merrill Lynch Global High Yield Constrained Index.

Calendar year performance (%)

	2024	2023	2022	2021	2020
Aegon High Yield Global Bond Fund USD B Inc	10.9	14.7	-7.7	6.1	6.4
Lipper Global Bond Global High Yield USD Peer Group	7.5	11.6	-11.6	3.0	4.2
ICE BofA Global High Yield Constrained (USD Hedged) Index*	9.2	12.9	-11.4	3.0	6.5
	2019	**2018**	**2017**	**2016**	**2015**
Aegon High Yield Global Bond Fund USD B Inc	15.4	-0.5	6.4	9.5	-0.7
Lipper Global Bond Global High Yield USD Peer Group	13.2	-3.3	6.9	13.3	-3.2
ICE BofA Global High Yield Constrained (USD Hedged) Index*	14.5	-1.9	8.0	16.2	-2.0

Source: Lipper as at 31 December 2024. Performance shown is for the B USD Inc share class. NAV to NAV, noon prices, income reinvested, net of ongoing charges, excluding entry or exit charges. The Fund is in the Lipper Global – Bond Global High Yield sector. Compiled using Lipper Primary share classes. Lipper primary share classes are generally the highest charging share classes available and are usually the 'A' retail share classes for Aegon AM funds. Note: peer group benchmarks have noon prices and index benchmarks have close of day prices. *Formerly known as BofA Merrill Lynch Global High Yield Constrained (USD Hedged) Index.

Investment policy and risks

Below we summarise the investment policy and key risks. For more information, please refer to the Key Investor Information Document (KIID) and the Fund Supplement to the Prospectus at **www.aegonam.com/documents**.

Investment policy

The Aegon High Yield Global Bond Fund invests predominantly in high yield (higher risk) bonds, investment grade (lower risk) bonds and cash. Bonds will be issued by companies and governments worldwide. The Fund is actively managed. The Fund may also invest in derivatives (financial contracts whose value is linked to an underlying asset). The Fund may invest up to 20% in emerging markets. In investment terms, this means those economies that are still developing. Within the limits set out above, the Fund has discretion in its choice of investments and is not restricted by market sector. It may also hold a limited range of other investments and it is not constrained by any benchmark or index.

The Fund may use investment techniques to manage risks and costs. These techniques include 'hedging' (using derivatives to reduce the risk associated with making investments in other currencies). Up to 20% of the Fund may not be 'hedged' i.e. the Fund is exposed to the risks of investing in another currency for this portion.

Risks – the main risks 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.

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.

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

Important information

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

Fund charges are deducted from capital which has the effect of increasing income distributions but constraining capital growth.

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

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