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# Aegon High Yield Global Bond Fund

Q2 2025

## Executive summary

- Despite geopolitical risk and lingering macro uncertainty, the high yield market remained resilient and spreads tightened in the second quarter. Against this backdrop, the ICE BofA Global High Yield Constrained index gained 3.11% during the second quarter on a USD hedged basis, bringing the year-to-date return to 4.37%.
- During the quarter, the Aegon High Yield Global Bond Fund returned 2.80% (B Inc USD, net) relative to the ICE BofA Global High Yield Constrained Index at 3.12% (USD-hedged) and the Lipper Global Bond Global High Yield USD peer group at 3.10%. Despite the modest underperformance in the second quarter, the fund continues to outpace the index on a year-to-date basis.\*
- While trading was active during the quarter, the overall shape of risk positioning remains the same as the fund is focused on income generation and defensive positioning to help insulate from potential downside risk.



**Thomas Hanson, CFA**  
Head of Europe  
High Yield



**Mark Benbow**  
Investment Manager,  
Fixed Income

## Market summary

Despite the tariff turmoil and lingering macro uncertainty, the high yield market remained relatively resilient and spreads tightened during the second quarter. Market volatility intensified in April as the highly anticipated Liberation Day announcements and tariff plans laid out by the Trump administration initially rattled financial markets. Although the tariffs initially prompted weakness across risk assets and fears of global recession risk, the tone quickly changed as some of the tariffs were dialed back and recession concerns moderated. While recession risk is not off the table, it appears the probability has decreased. Amid positive trade developments and receding recession concerns, the market liked the directional progress and a risk-on tone resurfaced.

As the quarter wore on, geopolitical risk intensified as the Israel/Iran conflict escalated during June. Although the US attack on Iran's nuclear facilities created more uncertainty and had the potential to weigh on market sentiment, optimism returned with the hope that some form of a truce would prevail. Concerns around a potential oil shock and volatile prices also added to the uncertainty. However, risk assets remained surprisingly calm and resilient. As Middle East tensions dissipated, investors shifted back to macro data, which has been mixed recently. For the most part, companies continued to report solid earnings results during the quarter, however guidance has become more mixed or pulled entirely as companies try to evaluate the second-order impact of tariffs.

Against this backdrop, the ICE BofA Global High Yield Constrained index gained 3.11% during the second quarter on a USD fully hedged basis, bringing the year-to-date return to 4.37%. Within the index, all rating categories were up during the quarter. B-rated bonds gained 3.12% followed by BBs at 3.08%. The CCCs and below cohort gained 2.69% for the quarter. While lower-quality credit had positive returns, this segment remains bifurcated. By region, the US high yield market outpaced Europe and emerging markets, although all regions had positive returns on a hedged basis. The all-in yield for the high yield index moved lower to end the quarter at 6.84%. Spreads tightened and the index OAS landed at 313 bps as of 30 June 2025.



From a technicals standpoint, the asset class remained well supported with inflows and increasing new issuance. Although market volatility in early April initially prompted investor outflows from the asset class, demand quickly returned to the market. From a supply standpoint, capital market activity stalled in April but increased in May and June as issuers returned to the market as market volatility faded. Despite the elevated new issuance pace, this was no match for the flows coming into the high yield market. The new supply was easily absorbed as demand persisted and investors put excess cash to work.

## Performance review

During the quarter, the Aegon High Yield Global Bond Fund returned 2.80% (B Inc USD, net) relative to the ICE BofA Global High Yield Constrained Index at 3.12% (USD-hedged) and the Lipper Global Bond Global High Yield USD peer group at 3.10%. Despite the modest underperformance in the second quarter, the fund continues to outpace the index on a year-to-date basis.\*

Strong security selection was a key contributor to performance again this quarter. Notably, the bond selection within the UK and the GBP holdings contributed significantly as many of our high-conviction ideas added value. Many of our emerging market positions also added value, particularly in Latin America. Conversely, the lower allocation to the US detracted slightly as the region modestly outpaced Europe during the quarter.

By rating, the exposure in BBs contributed positively due to a combination of selection and allocation decisions. The higher exposure to B-rated bonds also added value. Additionally, the selection in lower-quality segment contributed positively. Although we own less CCCs than the overall index, the bonds we do own performed well. Conversely, the modest exposure in investment grade bonds detracted as did the holdings in B-rated bonds. By issuer, the top contributors included Landsea, Grupo Nutresa and Metro Bank as many of our high-conviction ideas and emerging markets exposures added value. Conversely, the largest issuer detractors included Worldline and Zorlu Enerji, as well as no exposure to Pemex which tends to be a volatile name that we prefer to avoid at this time.

## Positioning

While trading was active during the quarter, the overall shape of risk positioning remains the same as the fund is focused on income generation and defensive positioning. We are focused on delivering returns via carry by investing in short-dated bonds and adding defensiveness to the fund through well-covered bonds that have good security packages to protect on the downside.

From an overall risk positioning perspective, we maintain our defensive stance to help insulate the portfolio from potential spread widening. Although there have been pockets of spread widening year-to-date, spreads have returned to tight levels once again. Despite the waning macro outlook, the strong market technical has continued as the persistent demand for high yield bonds has kept spreads tight. Although technical support could continue, we believe the market is skewed more to the downside. As a result, we maintain a relatively cautious positioning stance. We remain focused on income generation as tight spreads offer little incentive to chase capital appreciation. The fund's focus on carry is reflected by the average coupon rate over 8%, which is significantly higher than the index around 6%. We continue to favour opportunities that allow us to increase yield while also de-risking the portfolio.

***“While trading was active during the quarter, the overall shape of risk positioning remains the same as the fund is focused on income generation and defensive positioning.”***

In terms of credit rating allocations, we have added exposure to B-rated bonds over recent quarters. Looking back to 2023 and early 2024, the fund was positioned more up-in-quality with a higher allocation to BBs and some exposure to investment grade corporates. In the second half of 2024 and into 2025, we moved from an up-in-quality stance to what we call the 'paid to wait' strategy in which we focus on short-dated bonds that offer high income and attractive yields. This has resulted in moving down in quality slightly with a higher exposure to B-rated bonds that offer more spread and yield. However, we maintain the lower exposure to CCCs and below as we do not believe this is the environment to chase risk in lower-quality credit.

By region, we continue to hold higher exposure to emerging markets (hard currency) and Europe over the US. This positioning is largely driven by bottom-up, company-level views as well as the risk-reward profile. At a high-level, European and emerging market high yield corporate bonds offer enhanced spreads and lower leverage relative to the US, although we are regularly reviewing our overall positioning themes.

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. On the back of the recent oil volatility, we have been looking for opportunities to add energy exposure with a focus on E&P names that have a low breakeven and offer attractive spreads. At a security level, we have added more exposure to secured bonds to ensure that we have good coverage, regardless of the outcome of the business. As we often say, we are happy to own a 'good' bond in a so-called 'bad' business as long as we are well-covered in the structure and we have confidence of the company's ability to repay their debt.

## Market outlook

The outlook for the high yield bond market remains mixed with elevated macro uncertainty contrasted by solid company fundamentals and supportive market technicals. The ongoing tariff saga, as well as the intensifying situation in the Middle East are likely to continue to create heightened uncertainty. For the high yield market, we expect the macro uncertainty will result in bouts of market volatility in the second half of 2025, which can create compelling opportunities for investors.

Despite macro uncertainty, high yield companies are performing well in general, and we expect fundamentals to remain relatively stable with muted bond default activity. High yield company fundamentals remain in relatively good shape as most companies have healthy balance sheets relative to historical averages. Credit metrics have declined from prior peaks but remain healthy versus historical standards. However, the tariffs and the uncertain economic outlook have created headwinds and have the potential to negatively impact fundamentals, particularly within the more tariff-exposed sectors. On the surface, we believe most companies are performing decently and are well-positioned in this environment. Although the situation remains fluid, in the near term we do not anticipate a material increase in the default rate for high yield bonds.

From a valuation perspective, spreads are tight and look relatively expensive, however the market continues to offer reasonably attractive yields and relatively high income. Although the high yield market experienced some volatility in early April and an overdue valuation reset with spreads moving wider, that quickly dissipated as sentiment improved and buyers stepped back into the market. Now, spreads are back near historically tight levels and we think it is unlikely that spreads will experience material tightening going forward. Although spreads could remain range bound in the absence of a volatility catalyst, we continue to think that spreads are more likely biased toward widening. That said, as we saw in April, the spread widening could be short-lived. If spread widening does persist, it could be relatively contained given the higher-quality composition of the market today, provided the technicals remain supportive.

All of that leads us to be cautiously constructive. We expect economic uncertainty to persist and there are various catalysts that could prompt volatility in the market. However, high yield company fundamentals are expected to stay in relatively good shape and default expectations to remain muted. In addition, high yield bonds continue to offer reasonably attractive yields, which translates into attractive long-term return potential. The high yield market also continues to offer high income and we could see carry-like returns for the remainder of the year if market technicals remain supportive and the economic outlook does not materially decline.

\*Source: Lipper as at 30 June 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](http://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

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

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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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AdTrax: 5441364.12. | Expiry: 31 July 2026