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Aegon Investment Grade Global Bond Fund

Q1 2025

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Market summary

The opening three months of the year have proved to be roller coaster ride for fixed income markets. The interplay between politics, economics and financials markets succeeded in delivering one of the most uncertain periods for investors since the Covid pandemic - and one which appears to have no near-term end in sight.

Much of the market volatility came from the new White House administration. Since the election in November last year, the prevailing market narrative was around upside risks for the US economy, equity markets and Treasury yields - this spilled into the start of this year with 10yr US Treasuries touching 4.80%, its highest level since Q4 2023.

After the inauguration, President Trump's more aggressive stance on trade tariffs (and frequent backtracking on policies), caused uncertainty to rise and sentiment to fall within businesses and consumers. This increased the downside risks to US GDP. This theme has dominated since mid-February, causing the S&P to fall sharply and 10yr US Treasury yields to fall 60bps from their year-to-date peak. Credit spreads spent much of the period unmoved by the volatility before moving wider through March – US investment grade and high yield spreads widened 20bps and 70bps respectively from their February lows.

Arguably the biggest event in Q1 took place in Germany, as a massive fiscal package was agreed and passed. Totalling over EUR500bln, the mix of defence and infrastructure spending is far in excess of any increased spending plans that had been expected. This announcement saw 10yr Bund yields surge 50bps higher, turbocharged European equity markets and added further support to European credit markets. Near term growth challenges still need to be overcome - impact of trade tariffs etc – but the longer-term outlook for the European economy looks more positive.

The UK market found itself caught between the influence of offshore markets (US and Europe) and its own domestic fundamentals. The upcoming changes to National Insurance payments and concerns over the level of fiscal headroom saw UK Gilts trade poorly in early January and then fail to keep up with the fall in US Treasury yields through the remainder of the period.

The Government's Spring Statement looks to have bought the Chancellor some time, but the medium-term challenges of sluggish economic growth but with rising debt interest costs has not gone away. The Bank of England cut rates to 4.50% in February and will likely do so again in the coming months unless the stickiness in inflation proves to be too much.

Fund review

The Aegon Investment Grade Global Bond Fund returned 2.15% over the first quarter of 2025, as compared to 1.76% for the index*.

The market backdrop through January and the first half of February was supportive for credit risk. Robust corporate fundamentals and attractive yield levels saw credit spreads compress across US $, Euro and GBP markets despite volatility in underlying government bonds.

The Euro credit market outperformed and continued to tighten in spread to the end of February, supported by an improving growth outlook driven by the German fiscal package. Although spreads subsequently widened through March to quarter end across all markets, euro credit spreads finished the period tighter overall in contrast to both the US $ and GBP markets.

The fund's exposure to euro credit risk in particular was additive to performance due to this relative performance.

The portfolio's overall duration varied between approximately 6 years and 5.6 years, so a relatively tight range. Whilst headline duration activity was more subdued, the fund benefitted from our cross-market duration views.

The funds exposure to US interest rate risk and lower exposure to Europe and the UK was beneficial.

As previously noted, underlying yield curves and credit curves were relatively flat coming into the year which warranted fund positioning that favoured a bias towards shorter dated credit exposure and steeper curves. Therefore, the fund's bias towards shorter duration risk was additive, with all 3 government bond curves steepening during the first quarter.

Through the first half of the period, spread compression continued to be supportive while expectations of further rate cuts, particularly in Europe, benefitted the real estate sector. Direct tariff impacts on these sectors are seen as more limited, which provided further relative support as the market weakened towards the end of the period.

Bottom-up security selection was key over the quarter, generating an important source of alpha across a range of holdings. The fund's exposure to names such as Societe Generale, Intesa Sanpaolo and Close Brothers were representative of the strong contribution from holdings in the banking sector. We also saw performance from selected property holdings such as Public Property and Citycon.

In terms of fund activity during Q1, January saw us rotating existing holdings into both primary and secondary opportunities. Examples include new additions of financial names Capital One and Rabobank (in Dollars), and water utility Severn Trent (in Euros).

February saw the portfolio again active as we sought primary and secondary opportunities. The latter avenue was more fruitful, and we added to diverse health care exposures through Merck and Centene. In primary, the fund added a position in a Euro deal from well rated Johnson and Johnson, following strong initial performance the position was exited soon after purchase.

In March positions were established in bonds from insurer Swiss Life, Fortitude, and American Honda (among others). These were funded through the outright sale or reduction in positions from, amongst others, Nissan Motors, oil services name Schlumberger, and utility Eurogrid. Whilst mid-month we took the opportunity to manage our overall property exposures (against a backdrop of rising European Government bond yields), sales of Public Property REIT and retail REIT Via Outlets were indicative of our approach.

"Whilst headline duration activity was more subdued, the fund benefitted from our cross-market duration views."

Market outlook

Credit spreads started to reflect growing concerns around potential tariff impacts on inflation and growth through March and this trend has only accelerated post ‘Liberation Day’. With heightened risks, increased volatility and lower equity markets credit spreads have moved significantly wider. However, given spreads were at or close to multi-year tights in mid-February and the risk of recession in the US and beyond has grown substantially it is not obvious that the prevailing level of spreads some 40bps wider from their February tights offer compelling value.

*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. Past performance is not a guide to future returns. Aegon Investment Grade Global Bond Fund is measured versus the Barclays Global Aggregate Corporate TR USD Hedged.

Calendar year performance (%)

	2024	2023	2022	2021	2020
Investment Grade Global Bond Fund B USD Inc	3.49	9.78	-15.46	-0.80	10.67
Barclays Global Aggregate Corporates	3.69	9.10	-14.11	-0.79	8.26
	2019	**2018**	**2017**	**2016**	**2015**
Investment Grade Global Bond Fund B USD Inc	14.24	-2.91	7.58	6.29	0.96
Barclays Global Aggregate Corporates	12.51	-1.00	5.70	6.22	-0.24

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. Aegon Investment Grade Global Bond Fund is measured versus the Barclays Global Aggregate Corporate.

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 Fund invests primarily in investment grade (lower risk) bonds issued by companies and governments worldwide. The Fund may also invest in:

- Cash, deposits and money market instruments (a form of debt security).
- Up to 20% in high yield (higher risk) bonds issued by companies and governments.

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 is actively managed. The Fund may use investment techniques to manage risks and costs. These techniques include 'hedging' (using derivatives to reduce the risk associated with: (i) making investments in other currencies: or (ii) interest rates changing). 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 following risks are relevant to the Fund:

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. 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 bonds.

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 following legal documents of the UCITS before making any final investment decisions. For UK investors: please refer to the Prospectus and the UCITS KIID. For EU investors: please refer to the Prospectus and the PRIIPs KID. The relevant documents can be found at 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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Fund Charges are taken from income but will be taken from capital where income is insufficient to cover charges.

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