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Alternative fixed income: Upcoming growth and how to capture it

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Alternative fixed income has become increasingly important for institutional investors in recent years. It provides opportunities to increase the portfolio yield, decrease the risk – through more diversification, and reduce capital requirements, when the (often lower) liquidity of these assets is less of a constraint. Alternative fixed income is also well-suited for responsible investing, for investors who aim to finance a more sustainable world whilst protecting their portfolio against ESG risks.

Executive Summary

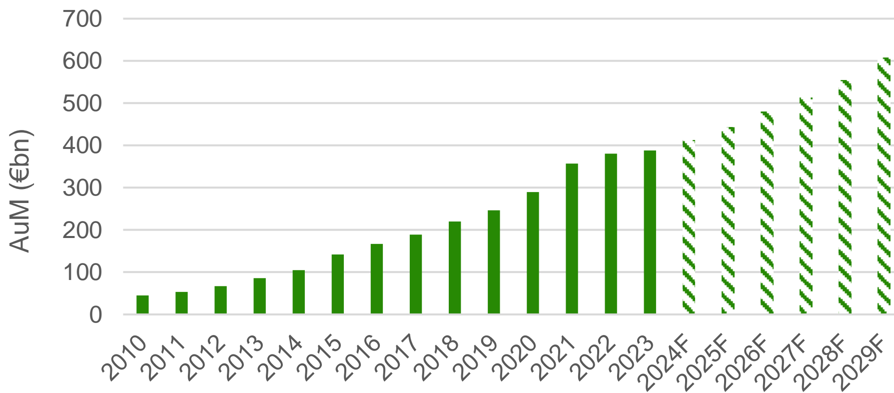
- The private debt market has grown notably in recent years and is forecast to grow at a larger pace. This growth is caused by different trends, most importantly the search for yield, diversification, and responsible investing. Private debt also forecasts the largest growth in internal rate of return within European private markets.
- The alternative fixed income asset class is highly diverse, embracing many asset classes such as asset-backed securities, fund finance, mortgage investments, direct lending, renewable infrastructure, insured credit and government guaranteed strategies, among others. These strategies typically have low correlations with traditional asset classes such as sovereign and corporate bonds, thus offering opportunities for more diversification.
- Alternative fixed income strategies exhibit great variety in terms of spread, risk, capital charge, liquidity, duration matching, and opportunities for responsible investing. This enables investors to choose those assets which best fit their particular investment needs, by taking the different characteristics of these assets into account.
- Alternative fixed income is particularly attractive for long-term investors, such as pension funds and life insurance companies, who can bear and benefit more from less liquid assets on their balance sheet.
- An interesting feature of many alternative fixed income assets are the additional safety measures and credit enhancement features compared to traditional corporate loans, such as covenants and insurance/guarantees.

Underlying trends

Growth and performance

Negative (or close to zero) interest rates were one of the main drivers for institutional investors to invest in alternative fixed income during the last decade. More recently, higher rates have had important implications for private capital. In the period from 2021 to 2023, when rates were rising, the deal-making environment deteriorated. Fundraising became meaningfully more difficult for many strategies as capital became more expensive.[1] Figure 1 shows such slowdown in the growth of private debt in Europe from 2021 to 2023. Nevertheless, Figure 1 also shows that private debt is forecast to grow again at a larger pace out to 2029.

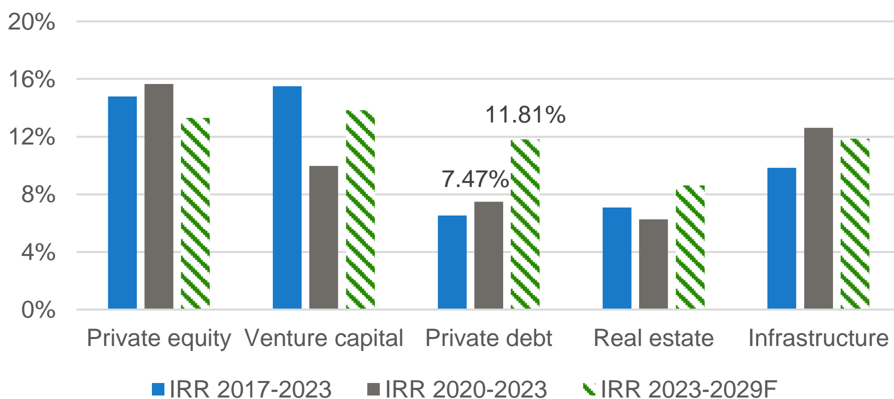
Figure 1: Europe private debt growth



Source: Preqin (2024) and Aegon AM (2025). Forecasted figures for 2024 – 2029.

The market seems to have now accepted the higher-for-longer rates scenario. In addition, private debt forecasts the largest growth in internal rate of return (IRR) within European private markets, with an 11.81% IRR, up from 7.47% in 2020–2023,[2] as show in Figure 2.

Figure 2: European private markets performance



Source: Preqin (2024). Forecasted figures for 2023 – 2029.

Private debt forecasts the largest growth in internal rate of return within European private markets

[1] Preqin, 2024 "Future of Alternatives 2029"
[2] Preqin, 2024 "Alternatives in Europe 2024"

This growth trend has also been highlighted by the European Central Bank (ECB). The compound rate of growth for private credit over the last decade has been of close to 14% in Europe and 18% in the United Kingdom. These growth rates are larger than other private asset classes such as private equity and real assets.[3]

Drivers, benefits and risks[4]

Analyzing private market's growth, the ECB has identified benefits:

- **Portfolio diversification and economic growth:** Private markets offer an alternative source of funding, with often faster and more reliable execution. For investors, they provide a portfolio diversification option and constant income streams. For the wider economy, private markets often finance the kind of smaller, riskier and innovative firms that are important for future economic growth.
- **Good fit for institutional investors:** Institutional investors tend to be the main investors in private debt. Insurance companies and pension funds account for 86% of investments into private credit funds. Insurers have a more substantial share of direct loans on their balance sheets. Life insurance companies and pension funds have the highest capacity to hold illiquid exposures, given their very long-term investment horizons.
- **Flexibility and efficiency without compromising credit quality:** Companies backed by private credit do not seem to have worse credit quality (based on interest cover ratios) than their public peers. This may suggest that the comparative advantage of private lenders is the greater flexibility and speed of execution rather than their ability to offer funding to riskier borrowers.
- **Resilience and low volatility:** Private credit shows more resilience and less price volatility relative to public credit. Median returns on private credit funds did not suffer losses during the pandemic stress period or since the start of the monetary policy tightening cycle.

Regarding risks, the ECB indicates that aggregated exposures, and private markets' resilience are all elements that warrant monitoring, especially in an environment of higher interest rates. Given the limited liquidity mismatches of private markets in aggregate, and the long-term investment horizons of their main investors, risks to euro area financial stability from private markets appear limited.

Sustainability and need for transformation

A strong need for transformation and innovation, especially around **sustainable financing**,[5] has been identified as one of the main reasons why supply of and demand for fixed income solutions in the private markets (or private debt) have grown considerably.[6] Such a need for transformation encompasses topics such as changes in the commodities market, international trade, demographics and sustainability and climate change. The long-term nature of transformative investments means that some of the most appropriate are in private markets, where investors can invest in long-duration assets and take the long-term (buy-and-hold) view.

The sustainability angle is therefore now an extra dimension that investors take into account when making investment decisions (next to the traditional risk and return characteristics).[7]

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[3] European Central Bank, 2024 "Private markets, public risk? Financial stability implications of alternative funding sources".

[4] For a more detailed overview of alternative fixed income characteristics refer to Table 2.

[5] European Commission, 2019. Available at: https://finance.ec.europa.eu/system/files/2019-03/finance-events-190321-factsheet_en_0.pdf

[6] Preqin, 2023 "Alternatives in Europe 2023".

[7] With regulatory capital being a fourth dimension, although only applicable for regulated institutional investors.

Different borrower groups: The path to diversification

As shown in Table 1, alternative fixed income can provide exposure to different borrower groups (e.g., direct consumer exposure) compared to traditional fixed income exposure to (mainly) governments and corporates. This can provide **innovation** and **strong diversification benefits** via more diverse risk / return profiles.

Table 1: Borrower groups found in alternative fixed income

Borrower group	Characteristics
Private loans to companies	Private placements allow investors and borrowers to benefit from more tailored agreements, given an often less standardized regulatory framework. This means that the investor can better negotiate elements such as the price and use of proceeds. A reduced number of lenders and a relationship-driven market are also characteristic of private loans. A sub-universe of this borrower group are SME's and mid-market companies, which contribute significantly to GDP, employment, and innovation. They operate across various industries. The diversity of sectors they cover help investors diversify their portfolios as well. Additional means of protection to the investor such as collateral, covenants and guarantees can be found in this borrower group.
Consumer exposure and asset-backed securities	Many investors have a large exposure to sovereign and corporate risk. Alternative fixed income assets can offer exposure to consumer risk, for example through investments in residential mortgage loans, credit card loans, auto loans or student loans. Exposure to private assets by capitalizing the early stages of investment funds is another source of diversification found in this borrower group.
Asset / Specialty	Specialized assets such as infrastructure, loans to export credit agencies, social housing, project finance and loans to emerging markets, offer investors the opportunity to fund projects with strong sustainable (environmental and / or social) characteristics. A longer duration and / or the existence of guarantees add value to this type of asset exposure.

Given the illiquid nature of most alternative fixed income categories, the practical allocation between sectors will not be particularly dynamic. However, the high income produced by many of these categories means there is a potential to reallocate income streams to new opportunities or increase allocations to favored sectors. Regional diversification is also important, although there may be a preference for certain regions in some sectors, given the relative size of the markets and the expertise required for investing successfully in different parts of the market.

Different needs, different strategies

In Table 2 we compare different Aegon AM strategies within the alternative fixed income spectrum. It is important to note that the scores on the different dimensions can (and will) shift over time and that the assessment is sometimes based on qualitive instead of quantitative measures (the sustainable financing alignment column in Table 2 being an example).

Table 2: Comparing different Aegon AM alternative fixed income strategies

Borrower group	Strategy	Swap spread (basis points)	Risk	Capital charge	Liquidity	Matching	Sustainable financing alignment	ESG factors
Private loans to companies	Private placements	175 - 200	Low (BBB)	Moderate	Low	High	✓	✓
	Midcap loans	~400	Moderate (BBB-BB)	Moderate	Low	Low	✓	✓
	SME loans	750 – 850	Moderate (BB)	Moderate	Low	Low	✓	✓
Consumer exposure and Asset-backed securities	Dutch mortgages	150 – 200	Very Low (AAA-AA)	Very Low	Low	Moderate		✓
	ABS	140 - 180	Low (AAA-BBB)	High	High	Low		✓
	AAA STS ABS	~70	Very Low (AAA)	Low	High	Low		✓
	Capital call facilities	200 - 250	Low (AA-A)	Low	Moderate	Low		✓
	NAV finance	350 - 550	Low (A-BBB)	Moderate	Low	Low		✓
Asset / Specialty	ECA Loans	50 – 150	Very Low (AAA-AA)	Negligible	Low	Moderate	✓	✓
	Social housing (WSW) loans	40 - 90	Very Low (AAA)	Negligible	Moderate	High	✓	✓
	Renewable infrastructure	~150	Low (A-BBB)	Moderate	Low	Low	✓	✓
	Infrastructure debt (senior)	~200	Low (BBB)	Moderate	Low	High	✓	✓
	Insured credit	200 - 225	Very Low (AA-A)	Very Low*/ Low	Low	Moderate	✓	✓

Table 2: Characteristics of a variety of alternative fixed income asset classes (for illustrative purposes only). Indicative spreads in EUR. Risk ratings in this table are either external (when available) or internal (for unrated instruments). The qualitative determination of the risk profile may take into account additional sources of protection such as guarantees.). Capital charges are determined with the standard formula of the Solvency II regulations. We here consider the matching properties for an investor with long-term liabilities. ESG Factors refers to the possibility of ESG integration (see also footnote 18). Sources: Bloomberg, Aegon AM, La Banque Postale Asset Management, as at December 31, 2024 or latest available. *Subject to regulatory approval

Regarding the strategies' alignment with sustainable financing, it is important to clarify that, although such strategies align with sustainable financing as defined on page 10, they may not fully meet the criteria for sustainable investments under the Sustainable Finance Disclosure Regulation (SFDR). The sustainable financing-aligned strategies in Table 2 contribute to sustainability themes and solutions to varying extents. For instance, some of these strategies align with the SDG's or contain sustainability-

themed solutions. However, it is important to note that this alignment does not necessarily equate to a claim of being sustainable investments.

A description of the strategies introduced in Table 2 is provided below.

Private placements	Corporate private placements are investment grade rated (with an explicit or implied rating) debt instruments sold to a limited number of qualified investors rather than publicly on the open market. Corporate private placements offer investors enhanced yields over liquid bonds, better downside protections through more stringent documentation and increased diversification into companies and industries which may not be available in the public market. There are different types of private placement formats, including USPP, EUPP and Schuldschein (SSD),[8] with USPP being the largest and most mature format, followed by SSD and EUPP. The proportion of transactions that are issued with ESG or sustainability-linked has been growing over recent years, implying that the margins on those loans can be adjusted based on the performance of the issuer in relation to ESG risk factors or the sustainability of the issuer's products and services.
Midcap loans	Institutional investors have the opportunity to allocate institutional capital into promising midcap companies that seek to grow, to become more sustainable or to refinance their business. This middle segment significantly contributes to an important part of economic activity and forms the backbone of many European economies. This strategy covers medium-sized businesses and corporations that are located in the Netherlands and its neighboring countries. There are different options available, such as senior, subordinated and unitranche floating loans. Senior loans typically demonstrate higher recovery rates relative to, for instance liquid corporate bonds due to availability of covenants and collateral. Such a relatively attractive risk profile, combined with the existence of an illiquidity premium, offers an interesting opportunity for investors who can hold on to their investments in midcap loans for the entire loan maturity (between three and seven years). Objectives aligned to the UN SDG's can also be found in midcap loans, such as good health and well-being (SDG 3), affordable and clean energy (SDG 7), sustainable cities and communities (SDG 11) and climate action (SDG 13), among others.
SME loans	This strategy provides loans to solid and profitable small or medium enterprises (SME's) in the Netherlands. Loans to SME's in the Netherlands are most attractive for long-term investors, who are comfortable holding illiquid investments within their portfolios. Typical loan maturities are between six and eight years. Compared to traditional fixed income assets, this strategy offers high lending rates above the swap curve. These rates exist across different direct lending strategies, but this specific strategy is supported by relatively low SME default rates and guarantees, provided by either the European Investment Fund (EIF), with 50% guarantee on the loan principal amount.

[8] Formats of documentation for corporate private placement deals

Direct subordinated lending aligns to economic growth, job creation and business continuity by providing access to finance (SDG 8). Also, every investment made via the EIF programme needs to meet at least one of the EIF Eligibility Criteria (SDG 7, SDG 9).[9]

These benefits should be weighed against the possible drawbacks of the loans. They are very illiquid and (currently) concentrated in Dutch SMEs. The returns also depend on the ability of the manager to invest in the most attractive loans under the right set of covenants (that are always included). A benefit is that a specialized manager can focus on the Dutch market and use established contacts with market participants such as banks and private equity investors.

Dutch mortgages

Dutch mortgages are direct-to-consumer loans, which are accessible via funds, special purpose vehicles (SPVs) or segregated mandates. Investments are typically made via a pool of many thousands of mortgages. The total size of the Dutch mortgage market is around €839 billion.[10]

The credit risk associated with this asset class is very low. Part of this market is also guaranteed by the Dutch central government (with an own-risk clause of 10% for the issuer). The liquidity of these loans is very limited, however, so this asset class is most attractive for long-term investors.[11]

Asset-backed securities

Asset-backed securities (ABS) are securities backed by specific collateral. The largest ABS sectors are residential mortgages, consumer loans (credit card and auto loans), commercial mortgages and loans to corporations. Contrary to their reputation, default rates on European ABS during the financial crisis were significantly lower than on similarly rated corporate bonds. A sub-category of ABS is the simple, transparent and standardized (STS) ABS. [12]

Simple, transparent and standardized (STS) ABS meet a more stringent set of requirements from regulators, including a multi-step process to verify the STS eligibility criteria as set out in the Securitisation Regulation. However, the resulting capital treatment for the STS sub-category is much more favorable for European insurance companies, especially for senior tranches, for high ratings and for short durations.

Other important characteristics of ABS are strong ESG integration and high liquidity via the secondary market.

Fund financing

Fund finance consists of capital call facilities and NAV loans to private market funds. Our focus is primarily on loans to private equity funds

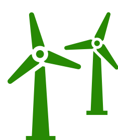
Capital call facilities are loans during the investment period of the fund with recourse to the undrawn capital commitments of fund investors (LPs). These

[9] Criteria available at https://assets.foleon.com/eu-central-1/de-uploads-7e3kk3/22890/innovation__digitalisation_slides.dedf85192f5c.pdf and https://assets.foleon.com/eu-west-2/uploads-7e3kk3/22890/sustainability_guarantee_layout.3fa120984a1d.pdf.

[10] As of Q3 2024. Source: De Nederlandsche Bank (DNB).

[11] Liquidity may be better for investors in mutual mortgage funds. Because the mortgage loans generate a substantial amount of income (due to regular mortgage payments and prepayments), enough cash may become available over time to facilitate the exit of fund participants.

[12] For investors who do not face high capital charges for ABS (e.g. retail investors or charities) the high yield segment of the ABS market may also be of interest.

	loans are short-term and have a low credit risk, rating AA or A. The credit strength is derived from both the strong LP base and structural protection.[13] NAV facilities are (very) low LTV loans to private equity funds with recourse to the fund's assets. These loans are typically three to six years and have a 10 – 20% LTV: Rating: A/BBB. The credit strength is derived from the low LTV and structural protection.
Loans with Government guarantee 	This strategy provides access to loans to regional governments and local authorities, social housing associations and project finance loans guaranteed by export credit agencies or multilateral development banks. Given the government guarantee, the credit risk and Solvency II capital charge of these loans is similar to that of government bonds while investors receive an attractive illiquidity premium. In general, liquidity through a secondary market is limited, so this strategy is mostly interesting for buy-and-hold investors. This strategy is also very suitable for investing aligned with various SDG's, for example by financing the development of social housing, or specific sustainable and/or social projects in developing countries. Two key categories within this strategy are WSW loans and ECA loans: • WSW loans are loans to Dutch housing associations that are covered by the Guarantee Fund for Social Housing (WSW in Dutch). WSW's obligations are ultimately guaranteed by the Dutch government. These are very attractive investments for an interest rate hedging or matching portfolio, given the safe, stable and predictable cash flows. Furthermore, these loans generate an attractive premium compared to government bonds and offer the opportunity to invest with (social) impact. • Export credit agency (ECA) loans are loans that can finance social and sustainable projects in developed and developing markets, such as social housing, renewable energy and healthcare. They benefit from a full guarantee from a highly-rated central government through the respective ECA.[14] Given the complexity and high entry barriers, ECA loans offer significant pick-up compared to government bonds while also providing diversification benefits as investors can find both floating and fixed-rate investments.
[Renewable] Infrastructure debt 	Infrastructure debt relates to the financing of equipment, facilities and networks that provide essential public services. These real assets typically generate predictable long-term contracted and/or regulated revenues. Infrastructure often offers some degree of inflation protection, depending on the specific investment. The rise of infrastructure as an asset class is supported by structural trends, such as the call by governments on private investors to undertake infrastructure projects. In particular, the EU and national governments have committed themselves to the energy transition, in line with the Paris climate agreement. This is leading to a growing pipeline of renewable energy and clean-tech projects. Diverse opportunities to invest in infrastructure exist, ranging from renewable energies, circular economies, clean transport, energy efficiency, innovative sectors such as e-mobility, green hydrogen and energy storage projects, among others. Investors can find fixed or floating rate options.

[13] For fund financing, structural protection refers to the way the investment scheme is structured (e.g. covenants, cash sweep triggers, events of default, etc).
[14] These ECAs are fully guaranteed by their respective central governments.

Strategies focused on renewable infrastructure and the energy transition (wind, solar, and new technologies) are also available and can be extra attractive under SFDR (Article 9 under SFDR).[15]

A further attractive feature of infrastructure debt is the moderate capital charge under Solvency II (compared to corporate bonds). Infrastructure investments, however, need to satisfy several criteria to qualify for a reduced capital charge. They also tend to be highly illiquid, so they are most appropriate for long-term investors. The stable, long-term and predictable cash flows make infrastructure loans a good candidate for a matching portfolio.[16]

Insured credit

Insured credit gives investors unique access to a private placement portfolio of A and AA-rated global, well-diversified insurance companies, all backed by some form of collateral. The strategy invests in collateral where the credit exposure is insured by AA- or A- rated insurance companies using a two-step process. First, collateral (loans, bonds or structured finance transactions) is 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 security meets strict criteria, the credit risk is transferred to AA or A rated insurance companies via the use of Non-Payment Insurance. Insurance companies then take up to 100% of the credit risk of the underlying assets in the exchange for an 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.

This asset class has a strong diversification profile compared to other fixed income asset classes, being driven by a broad spectrum of insurance companies and diverse underlying collateral. Transactions can include assets across varying countries, sectors and debtors including emerging markets, corporates, ABS, infrastructure debt, project finance, leveraged loans, among others. Investors can select their preferred collateral allocation and optimise yield requirements depending on risk appetite and portfolio objectives.

Given its spread pick-up, insured credit offers an efficient return on capital, particularly under Solvency II, where the capital requirements can be reduced due to the additional insurance protection. Liquidity via a secondary market is limited, however, so this strategy is most interesting for buy-and-hold investors.

Insured credit offers the ability to select assets with strong social and environmental characteristics. There are scalable opportunities where the underlying collateral has (strong) alignment with SDG's, particularly within emerging markets —e.g., Good Health and Well-being (SDG 3), Decent Work and Economics Growth (SDG 8) and Industry, Innovation and Infrastructure (SDG 9).

[15] Sustainability-related disclosures in the financial services sector. Available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32019R2088.
[16] Applicable for fixed-rate loans.

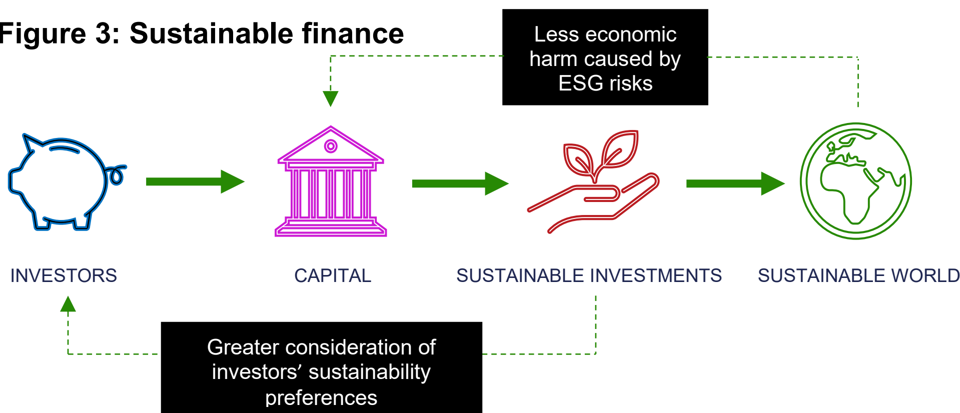
Sustainability & alternative fixed income

Financing gaps for sustainable development are large and growing. The estimates by international organizations and others are coalescing around $4 trillion additional investment needed annually for developing countries.[17] This represents a more than 50% increase over the pre-pandemic estimates. Yet, the costs of inaction, both economic and social, would be far higher still (up to five times larger costs in the case of climate action for instance). Financing needs are particularly acute in many developing countries which face higher costs of capital and significantly worse terms of access to financing.

Aiming to support closing gaps for sustainable development, investors look for opportunities to finance projects aligned with the Sustainable Development Goals (SDG's) but also for investments that do not compromise their value due to environmental, social and governance (ESG) risks.

Alternative fixed income strategies are well-suited for sustainable investing.[18] They often finance projects that do not have easy access to capital markets and would otherwise receive less financing. Sustainable investing in infrastructure, for instance, is already a major trend. Opportunities in renewables, water treatment, communications and mobility, in both developed and emerging countries are also available.

Figure 3: Sustainable finance



Source: European Commission and Aegon Asset Management (Aegon AM), 2025

Sustainability-themed investments[18]

Sustainable strategies center around a set of investment opportunities contributing to one or more sustainability challenges or trends.

Comprehensive sustainability analysis is undertaken for each eligible issuer, ensuring sufficient involvement in sustainable economic activities and no significant harm to other environmental and social objectives.

Investors in alternative fixed income can be selective and specific when it comes to responsible investing. Individually or in small groups, investors can negotiate terms to stipulate adequate reporting on ESG, or set interest rates contingent on general ESG performance or specific ESG factors. They can also have more direct controls and ways to engage with borrowers. Furthermore, many sustainable solutions are driven by smaller, innovative, privately-owned companies, which are commonly involved in direct lending transactions. Investors' preferences and requirements will depend on the strategy they are looking for and can go from exclusions to a more sophisticated strategy such as sustainability-themed.

Last but not least, the **systematic integration of ESG** as a core part of the investment process **strengthens investors' risk management**. Investors should consider ESG factors as a complement to traditional fundamental analysis of corporate financial results because such a more comprehensive view might uncover unintended or mispriced risk.[19] Investment decisions that go through an ESG integration process can give additional information as to how the investment manager accounts for risk beyond financial statements.

[17] United Nations, 2024, "Financing for Sustainable Development Report 2024".

[18] Aegon AM, 2024. Responsible investment framework. Available at: https://www.aegonam.com/globalassets/aam/responsible-investment/documents/aegon-am-responsible-investment-framework.pdf.

[19] Harper, H. 2020. "One Institutional Investor's Approach to Integrating ESG in the Investment Process".

Capital requirements under Solvency II

Due to their yield pick-up and, in some cases, a favorable capital treatment under Solvency II, alternative fixed income strategies are attractive from a return-on-capital angle. In Figure 4 we compare the capital requirements for the different strategies introduced above. We use the Solvency II capital requirement (SCR) for spread risk, except for Dutch mortgages, where we show the SCR for counterparty default risk. For comparison, results for two traditional, liquid categories (Core Euro sovereign bonds and Euro corporate bonds) are also shown in Figure 4.

Figure 4: Aegon AM Alternative Fixed Income from a Solvency II perspective

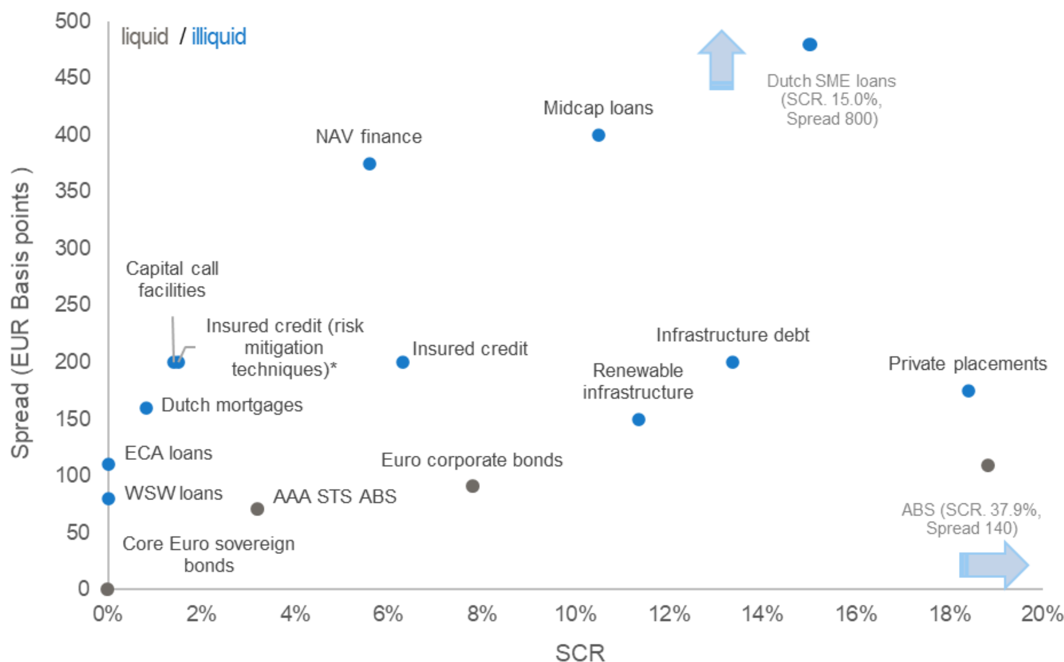


Figure 4: Solvency II capital requirement (SCR) vs. spread above swaps for a variety of fixed income asset classes. Solvency II standard formula. Spread levels are in EUR and indicative only. Sources: Bloomberg, Aegon AM, La Banque Postale Asset Management, as of as of December 31, 2024, or latest available. The graph shows estimates for illustrative purposes only. *Subject to regulatory approval on an investor-specific case.

It is clear from Figure 4 that most alternative fixed income strategies are relatively capital-efficient (a higher spread at a similar SCR, or a lower SCR at a similar spread compared to traditional, liquid asset classes). Adding these strategies will, however, typically lead to less liquid portfolios, so investors should have sufficiently large illiquidity budgets to accommodate this. It is also important to keep in mind that duration plays an important role in the calculation of the SCR for spread risk; a higher duration conveys a higher SCR. However, long-duration strategies can compensate with strong liability-matching characteristics (e.g. infrastructure and private placements).

N.B. Both non-STS ABS and the Dutch SME loans strategies are off the scale of this graph, due to the high SCR for non-STS ABS and high spread for Dutch SME loans.

Conclusions

Alternative fixed income has become an important part of portfolios of institutional investors in recent years. These assets give access to new markets, like direct lending to consumers via residential mortgages or via large pools of consumer debt. This diversifies traditional fixed income portfolios, with their heavy tilt toward government and corporate debt. Many alternative fixed income assets also offer an attractive illiquidity premium compared to liquid debt. Investors with long-term liabilities typically have a significant budget for illiquid investments and can thus harvest this premium with assets that fit well into their matching portfolio.

Alternative fixed income is also well-suited for sustainable investing. This asset class often finances projects that do not have easy access to capital markets and would otherwise receive less financing. Sustainable investing in infrastructure, for instance, is already a major trend. Opportunities in renewables, water treatment, communications, and mobility, in both developed and emerging countries are also available.

From a capital point of view, many alternative assets are also treated favorably. Examples are mortgages, insured credit, export credit agency loans and other illiquid loans with a government guarantee. For asset-backed securities, capital charges have also been reduced for the Simple, Transparent and Standard subcategory.

Alternative fixed income strategies thus show a great variety in terms of spread, risk, capital charge, liquidity, duration matching and opportunities for responsible investing. This enables investors to choose those assets which best fit their particular investment needs, by taking the different characteristics of these assets into account.

Aegon AM's sustainable solutions & ESG integration[8]

There is an evolution in sustainability-themed products and services, enticing a growing number of companies to provide solutions to key sustainability challenges. We believe this also presents compelling investment opportunities and may **generate better returns while contributing to a more sustainable world.**

Our sustainable strategies center around a set of investment opportunities contributing to one or more sustainability challenges or trends. Our dedicated Responsible Investment team leads the development of their methodology and advises on the determination of their investment universe. The processes for these activities may vary according to asset class, but usually involve a committee or discussion group chaired by an RI team member to help ensure consistency and credibility of the strategy's sustainability proposition. Comprehensive sustainability analysis is undertaken for each eligible issuer, ensuring sufficient involvement in sustainable economic activities and no significant harm to other environmental and social objectives.

Sustainability-themed strategies are one of the solutions offered by Aegon AM. We offer solutions ranging from exclusion, best-in-class, climate, sustainable, to impact investment. These solutions help create customized strategies based on client requirements, each with a specific goal. When the objective is to target certain sectors, issues, or companies, we will opt for sustainability-themed strategies or impact investment.

Our ESG integration process focuses on managing financial risks and identifying opportunities by including additional information in investment analysis to help inform our decision making

Aegon AM is a strong fixed income house and is part of Aegon Ltd, one of the world's leading financial services companies.[20] Aegon AM has €332 billion in assets under management. Aegon AM offers solutions in both liquid and illiquid strategies, public and private markets as well as short duration as long duration type products.

With over EUR €81 billion in our Alternative Fixed Income platform, Aegon AM is one of the leading asset manager offering this asset class to institutional investors.

Aegon AM has the capability to integrate all investment grade strategies into the LDI portfolios of our clients, delivering an integrated fixed income solution for our clients.

[20] Aegon AM's credentials as at 31 December 2024.

Important information

For Professional Investors 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 the investments underlying this particular strategy are illiquid and investors should consider fully the consequences of investing in illiquid assets. 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.

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