aegon asset management

Asset class perspective

June 2025

AEGON **INSIGHTS**

Innovation in investment grade private debt: Insured Credit

The private debt market, valued at approximately $1.5 trillion AUM as of 2023 year's end is poised for significant growth, with forecasts projecting an increase to over $2.8 trillion AUM by 2028*.

George Nijborg
Head of Insured Strategies and European Private Placements

George Nijborg is head of EU private placements & insured strategies. He leads the team responsible for government guaranteed, insured credit and corporate private placements. Prior to joining the firm, he worked for Goldman Sachs as an executive director in the debt capital markets (DCM) team in London, focusing on the origination and syndication of public, private and structured debt transactions. Prior still, he worked as a director in the DCM team of Citigroup, and as an associate in the DCM team of Morgan Stanley in London. George has been in the industry since 2006 and joined the firm in 2020. He holds a Master's degree in industrial relations from Warwick Business School.

Offering diversification from public markets and a spread premium over publicly traded bonds, private debt can be attractive for investors seeking higher risk-adjusted returns and exposures to risk not available through capital markets. Furthermore, its vast investment universe offers customization by issuer, geography, or sector, making it complementary to a variety of existing portfolios, liability profiles, and risk tolerances.

As institutional investors look to increase their investment-grade private debt allocations, the market has responded with new, tailored solutions designed to address investors' specific requirements for credit quality, sustainability, and capital treatment.

Among these is Insured Credit, a marriage of ECA (Export Credit Agency)/ government-guaranteed transactions and credit insurance protection used by banks. This strategy offers institutional investors exposure to debt assets in a low-risk and capital-efficient manner.

What is 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 replaces or complements existing investment grade (IG) corporate credit and private placement exposure while targeting an attractive yield of swaps +225bps. At Aegon Asset Management (Aegon AM), we select collateral, in the form of loans or bonds, and insure 100% of the credit by A and AA rated, global, well diversified insurance companies. Ultimately, the credit risk is against the insurance companies leaving investors with a portfolio of insurance company private placements, all backed by collateral.

*Source: Preqin, Future of Alternatives 2028, 2023.

Why is Insured Credit of Interest to investors?

Comparable to NHG mortgages, government guarantees, covered bonds and CDS basis trades

Yield enhancement over core fixed income products

With a pick-up in excess of 140 basis points over insurance company public debt and 100 basis points over investment grade corporate bonds, this strategy offers an attractive risk-adjusted return.

Low credit risk

The credit risk on the underlying collateral is mitigated with the use of non-payment insurance, transforming assets into A/AA rated notes with double recourse: firstly, to the debt collateral for principal & interest, and secondly, in case of non-payment of collateral, to the A/AA rated insurance companies.

Diversified exposure

With an investment universe of over 60 insurance companies providing credit protection, this strategy can offer investors exposure to a broad range of counterparties, thereby replacing or complementing any existing IG corporate credit and private placement portfolios.

Attractive capital treatment

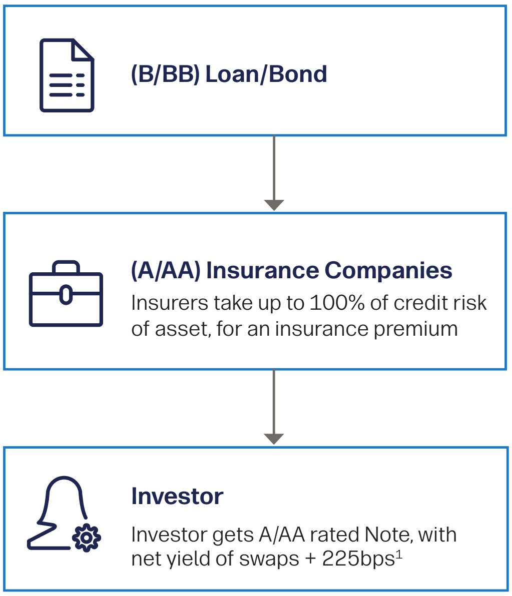
Insured Credit facilitates organic capital creation and improved return-on-capital thanks to the use of credit protection with the Solvency II standard model gross capital charges typically between ~2% and ~6%.

UN SDG alignment

Insured Credit enables investors access to de-risked debt collateral with strong social and environmental ties. Our most recent transactions have funded water sanitation, electricity transmission, and road development projects, contributing to multiple UN SDGs (Sustainable Development Goals) in the process.

Structure

Comparable to NHG mortgages, government guarantees, covered bonds and CDS basis trades



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

Why Aegon Asset Management?

Thanks to our team of senior insurance specialists experienced in broking and underwriting roles and our portfolio manager's unique relationship with origination counterparties, Aegon AM has a first mover advantage when it comes to sourcing scalable, best-in-class insurance protection and pricing.

And having been active in Insured Strategies across Government Guaranteed and Insured Solutions since the 1980s and maintaining a successful track record of no credit losses to date, our team is well equipped to deliver this opportunity to institutional investors.

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Disclosures

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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.

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

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AdTrax: 7804557.1. | Expiry: 01/04/2026