aegon asset management

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Aegon European ABS Fund

Monthly May 2025

Market review

General financial markets

Trump headlines continued to dominate the newsfeeds in May, but with focus shifting away from trade to internal issues, such as the "One big, beautiful tax bill" and illegal immigration. While the market reaction to the tax bill was muted, it is important to realize that the US government debt is unsustainable long-term. Long-term treasury rates remained elevated in the 4.5% - 5% range. The last time rates were in this range was prior to the global financial crisis, and it is important to realize that the US debt-to-GDP ratio has more than doubled since then. Financing government debt is currently the third largest spending item in the federal budget, standing at approximately 3.5% of the GDP or approximately 15% of the total federal budget. Given the current interest rates, the financing of government debt is projected to become the largest spending item soon, with one in each four dollars of the federal budget getting spent on interest payments. While promoters of the tax bill argue this will be compensated by strong growth, it is unclear what would be the catalyst for that growth. Most tax reduction comes in the form of extending existing temporary tax cuts, so any growth effect is likely to be marginal. Nonetheless, however well-founded these concerns may be, they were clearly beyond the time horizon financial markets were willing to focus on in May, with the exception of the US treasury market.

That was clearly not the case for trade war-related news and Trump struck a more constructive tone there. It became clear that tariffs are used predominantly as a negotiating tool, and the goal is to announce trade deals, even if those were lacking on details. While the effectiveness of this trade policy is highly questionable, it is clear that the market prefers this outcome over actually having tariffs in place. As a result, risk assets rallied strongly, and credit spread compressed in May. Although the market remained sensitive to short-term volatility, we saw a diminishing impact of negative trade headlines, as threats by the Trump administration were taken less seriously.

In Europe, inflation continued to moderate, while the labor market remained strong, providing the ECB with room to continue decreasing the MRO rate in a well-controlled fashion.

ABS Market

European ABS spreads recovered from the widening observed after "Liberation Day". As the primary came to a standstill at the beginning of April, and the broader market found a firmer footing in May, ABS markets were not left behind and opened up again. Spreads started tightening further, and issuance conditions for primary deals improved again. With many investors holding sizable cash levels, the surge in supply was met with even more demand. Overall we have seen 34 ABS deals and 20 CLOs, of which 7 reset/refi, pricing in May, which is one of the highest amounts we have seen in the last few years. With the delay of issuance in April, the catch-up factor for postponed issuance and the

Gross return May 2025

B (EUR)	I (EUR)	I (GBP)	I (USD)	I (CHF)	I (AUD)
0.60	0.60	0.78	0.80	0.42	0.78

Net return May 2025

B (EUR)	I (EUR)	I (GBP)	I (USD)	I (CHF)	I (AUD)
0.58	0.58	0.75	0.77	0.39	0.76

Gross returns (%)

	YTD	1 year	3 year	5 year
B-Share (EUR)	1.60	5.11	5.17	3.59
I-Share (EUR)	1.60	5.12	5.18	3.60
I-Share (GBP)[1]	2.41	6.88	6.84	4.90
I-Share (USD)[1]	2.38	6.90	7.20	5.14
I-Share (CHF)[1]	0.60	2.50	3.16	2.30
I-Share (AUD)[1]	2.32	6.41	6.24	n.a.
Benchmark [2]	1.41	3.92	3.35	2.20

Net returns (%)

	YTD	1 year	3 year	5 year
B-Share (EUR)	1.47	4.81	4.89	3.33
I-Share (EUR)	1.48	4.82	4.90	3.34
I-Share (GBP)[1]	2.27	6.53	6.52	4.59
I-Share (USD)[1]	2.23	6.55	6.88	4.83
I-Share (CHF)[1]	0.46	2.17	2.85	2.01
I-Share (AUD)[1]	2.18	6.05	5.93	n.a.
Benchmark [2]	1.41	3.92	3.35	2.20

[1] Share class hedges the currency exposure in the pool to GBP/USD/CHF/AUD
[2] Bloomberg Barclays Capital Euro ABS Fixed and Floating Index (EUR)

Yield to maturity (%)[1]

EUR	GBP	USD	CHF	AUD
3.30	5.33	5.15	1.44	5.03

Spreads (bps)[2]

EUR	GBP	USD	CHF	AUD
139	151	155	165	157

[1] Estimated yield to maturity as per 30 May 2025 using most conservative assumptions
[2] Discount margins of the assets over the relevant swap rate per currency as of 30 May 2025.
[3] The GBP Spread is compared to SONIA (Sterling Overnight Interbank Average Rate) as of 30 May 2025. Previously this was compared to the GBP LIBOR(London Interbank Offered Rate).

approaching summer months, arrangers are rushing to clear the pipeline sooner rather than later.

Not surprisingly, the corresponding issuance volume was also remarkably high, with €10bn of ABS and €5.9bn in CLO issuance bringing the year-to-date issuance to €63bn or 95% of the level observed over the same period in 2024. In terms of sector allocation, issuance volumes are led by CLOs (40%), RMBS (25%) and Auto ABS (18%).

Outlook

Given the positive risk sentiment, European ABS showed strong performance in May. Spreads tightened and the high carry also contributed positively. CLOs outperformed other ABS sectors, and the credit curves flattened with mezzanine bonds outperforming seniors.

As we move further into 2025, the macro backdrop is uncertain despite the strong market performance recently. Amidst developments in the Middle East, geopolitical uncertainty, trade wars, diverging central bank policies and a shift in (monetary) policy in the euro area, volatility in financial markets has increased. Although European ABS tends to be more insulated from broader volatility, it is not immune to negative risk sentiment.

There has been a slight bit of dispersion in parts of the European ABS market, but spreads remain broadly around the tights of the past four years. On the technical side, while we have seen an increase in supply from primary markets, there is also (re)new(ed) interest from investors. There is plenty of cash to put to work and early redemptions and amortizations of ABS structures provide additional technical support. Net supply has been positive, and we expect the trend to remain in place. With valuations tighter (although the relative value versus other parts of the fixed income market is clearly visible), there is limited upside for spreads and risks are to the downside. Therefore, carry will be the most important driver of returns and is meanwhile providing downside protection in case of (interest rate) volatility flaring up.

From a fundamental perspective, the pickup in arrears is much lower than most would have predicted given the cost-of-living crisis many consumers have faced. Performance, however, has held up quite well and deterioration is only seen in certain parts of the market where loans could not refinance due to higher rates. With borrowing costs moving towards a more neutral rate in Europe, credit affordability should improve. Unemployment rates will therefore be the main driver of fundamental performance. Even though weaker consumers and companies will continue to face pressures, we expect defaults to remain below their long-term averages. There are certainly idiosyncratic factors that will drive dispersion within asset classes and selection will be important. Potential losses, however, can be absorbed by structural features such as excess spread and reserve funds.

The timing, number and depth of rate cuts and how quickly they are priced in by markets, are not clear-cut. With this uncertainty, predictable current, attractive, and stable income is certainly welcome, which is something that European ABS can provide. Altogether, income (coupon) tends to drive longer-term total returns more than spread movements. The current macro backdrop has also set the stage for the European ABS market to deliver attractive total returns from this point forward. We believe that ABS is set to outperform in this environment. The relatively high carry value of ABS (partially due to the inversion of the interest rate curve) coupled with limited concerns from a fundamental perspective make European ABS still an attractive asset class for the medium term.

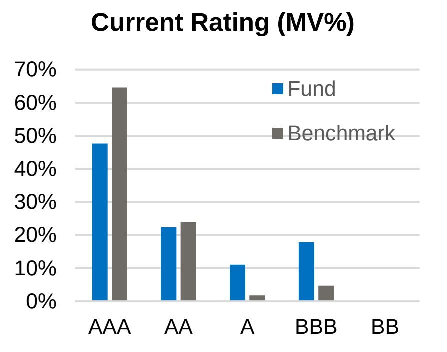
Strategy and positioning

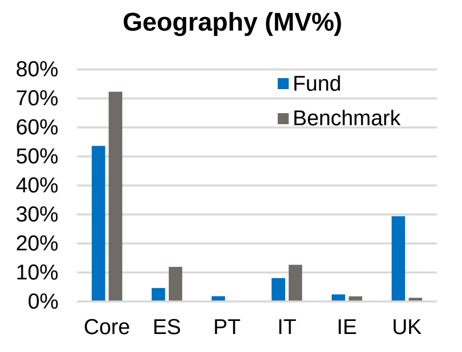
During the month of May, our fund saw very strong inflows totalling about €750 million. We used these inflows to take advantage of the attractive opportunities offered by the market. We mainly increased our allocation to CLO mezzanine bonds, and participated in several non-residential consumer ABS. This process was completed in the first week of June and is not fully reflected yet in the month-on-month portfolio changes as per end of May.

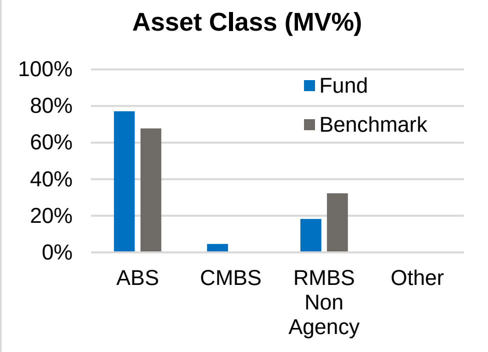
The weighted average rating of the fund is at A+, and the spread duration remained practically unchanged at 2.81 years. The yield-to-maturity of the fund decreased to 3.30% (5.33% in GBP) as lower credit spreads were partially offset by higher swap rates. The current yield decreased to 3.39% (5.72% in GBP).

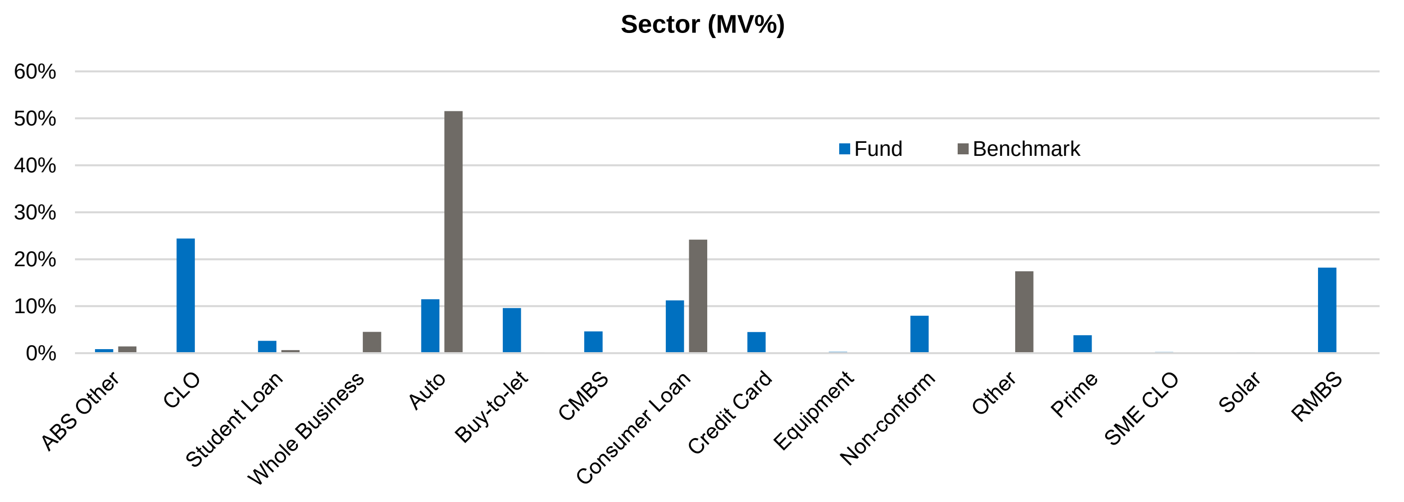
Fund positioning versus the benchmark

Please find the positioning of the fund versus the benchmark below.









Source: Aegon Asset Management, as at 31 May 2025.

Calendar year performance

	2024	2023	2022	2021	2020	2019	2018	2017
Fund Gross return (%)	7.35	8.13	-3.19	1.51	0.52	1.62	0.44	4.26
Fund Net return (%)	7.08	7.86	-3.43	1.25	0.27	1.37	0.18	4.00
Benchmark (%)	4.49	4.53	-1.31	0.46	0.09	1.10	-0.22	1.44
Tracking error ex post (%)	0.82	1.17	2.36	0.34	2.49	0.22	0.48	0.69

Source: Aegon Asset Management as of 31 December 2024. Fund launch date 11 November 2016, launch date for I EUR Acc shareclass is 25 November 2016. Benchmark: Bloomberg Barclays Capital Euro ABS Fixed and Floating Index

Important information

Investment Policy

This fund is actively managed. The Fund will seek to achieve its investment objective by investing at least 70% of its net assets in asset-backed securities. Asset-backed securities are a type of debt securities such as bonds or notes whose value and income payments are derived from an underlying pool of assets held by the issuer. The underlying pool of assets is referred to as 'collateral'. The Fund may hold bonds and notes with various types of collateral, but some examples include residential mortgages, commercial mortgages, consumer loans, car loans, credit card loans, student loans and corporate loans, such bonds will not embed any leverage.

The Fund will invest at least 70% of its net assets in bonds with a credit rating which is deemed to be 'investment grade', defined as meeting one or more of the following rating criteria: Baa3 or higher by Moody's Investor Services (Moody's); BBB- or higher by Standard & Poor's Rating Services (S&P) or Fitch Ratings Inc (Fitch).

The Fund will invest predominantly in bonds or notes issued by issuers located within Europe, but may also invest in bonds or notes issued by issuers located outside Europe.

The Fund will invest in assets denominated both in Euros and in other currencies. Where non-Euro denominated assets are held, the Investment Manager will seek to hedge the associated currency risk back to Euros.

The benchmark of this fund are Bloomberg Barclays Capital Euro Asset Backed Securities Floating Rate Note Composite Index and the Bloomberg Barclays Capital Euro Asset Backed Securities Fixed Coupon Composite Index.

The Fund's (cash) benchmark is used as a reference to measure the Fund's performance.

Risks

The main risks are:

Credit Risk: The Fund is subject to credit risk in respect to its investments and with regard to its contractual counterparties (such as hedge providers).

Asset Backed Securities Risk: The value of an asset-backed security can be affected by various factors, including:

I. changes in the market's perception of the pool of underlying assets (or collateral) backing the security;

II. economic and political factors such as interest rates and levels of unemployment and taxation, which can have an impact on repayments and default rates on the collateral;

III. changes in the market's view of the creditworthiness of the issuer;

IV. the speed at which loans which form the collateral are repaid.

For more details on the risks for this fund please see the KIID or Prospectus at www.aegonam.com/documents.

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AdTrax: 4953283.80. | Exp. Date: 30 June 2026