aegon asset management

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Aegon Global Short Dated Climate Transition Fund

Q1 2025

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 Fund returned 1.82% over Q1 vs 1.13% for the GBP SONIA Index*.

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SFDR CLASSIFICATION: ARTICLE 8

The market backdrop through the period was supportive for total returns with lower government bond yields and tighter credit spreads, particularly through January and February. Headline duration was maintained between 2.5 and 2.6 years throughout the period. US duration was added early in January and then increased further in February with a corresponding reduction in UK duration. These changes were additive to performance given the relative outperformance of short-dated US yields through February and March.

The move tighter in credit spreads benefitted the portfolios positions in the financial and real estate sectors most notably as compression between rating cohorts and sectors continued. Through February and March US$ denominated bonds with these sectors stood out as they benefitted from both tighter credit spreads and an outperformance in underlying government bond yields. Representative examples included the fund's US$ holdings in French bank BPCE and real estate company Aroundtown.

Activity during the period was dominated by rotating maturing bond proceeds into primary opportunities while also topping up preferred secondary holdings. In January we added exposure to Aroundtown, the French bank Credit Agricole and Novo Nordisk. In February we added a new position in Motability and Unibail-Rodamco-Westfield, the global real estate company while in March a notable addition was a new issue from Mars Inc, a rare well rated issuer with a strong climate profile categorised as 'Prepared' within our proprietary framework.

Market outlook

Credit spreads softened towards the end of March reflecting growing concerns around potential tariff impacts on inflation and growth. 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 offer compelling value.

Performance

	3 months	1 year	3 Years (Cumulative)	3 Years (Annualised)	Since Inception (Cumulative)**	Since Inception (Annualised)**	Calendar Year 2024	Calendar Year 2023	Calendar Year 2022
Fund (%)	1.82	6.29	11.56	3.71	10.12	2.40	4.98	6.52	-3.46
Index (%)	1.13	5.07	12.86	4.11	13.02	3.05	5.23	4.69	1.40

Source: Lipper/Aegon AM as at 31 March 2025. Performance is shown for the S Acc GBP share class, NAV to NAV, noon prices, income reinvested, net of ongoing charges, excluding entry or exit charges. Benchmark: Sonia Compounded Index Total Return GBP. **Inception is 4 March 2021. Past performance is not a guide to future returns.

Investment policy and risks

Investment policy

Invests predominantly in global investment grade (lower risk) bonds. The fund may also hold selected high yield (higher risk) bonds, contingent convertible (higher risk) bonds and cash. Bonds will be issued by companies and governments worldwide. A minimum of 80% of the Fund's net assets will be invested in investment grade bonds that have a residual maturity that does not exceed four years. The Fund is actively managed.

Risks

The main risks of the fund 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. Both default and expected default may cause the Fund's value to fall. High yield bonds generally offer higher returns because of their higher default risk and 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, off-benchmark or emerging market bonds

For more details on the risks for this fund please see the KIID or Prospectus.

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