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Aegon European ABS Fund

Q2 2025

Performance

At the beginning of the second quarter, global markets experienced heightened volatility due to the Trump administration's aggressive tariff announcements, sparking fears of a trade war, inflation, and recession. A temporary 90-day pause on most tariffs (excluding China) led to a market rebound, though uncertainty persisted. First-quarter earnings reflected this instability, with many companies issuing cautious or withdrawn guidance. In fixed income, US Treasury yields rose while European yields fell. By May, market focus shifted to domestic US issues like tax reform and immigration, though concerns about rising government debt and unsustainable interest payments grew. Despite scepticism over the effectiveness of Trump's trade strategy, markets responded positively to his more conciliatory tone, viewing tariffs as negotiation tools rather than permanent measures.

In Europe, moderating inflation and strong labour markets allowed the ECB to continue easing rates. Fiscal easing and increased spending will benefit growth, and with inflation down, the terminal rate might be closer to the current rate than earlier expected, resulting in an increase in the longer end of the interest rate curve. However, the geopolitical situation remains fluid and the impact of tariffs on inflation and the existing uncertainty over the height of tariffs has not filtered through.

After an initial widening of spreads, European ABS markets performed strongly for the remainder of the quarter as spreads continued to tighten across all European ABS sectors, with the credit curve flattening further. With the temporary halt in primary issuance, spread tightening created favourable conditions to restart primary issuance. Overall, primary issuance amounted to around €37 billion in the second quarter of 2025, which is around €10 billion lower compared to the second quarter of 2024. On the other hand, issuance year-to-date is €1 billion less compared to the same period last year, and currently stands at €76 billion.

Positioning and outlook

Over the quarter, we slightly altered the risk positioning of the portfolio. Credit curves steepened again, due to the volatility observed at the beginning of the quarter and we increased our non-senior exposure. As the quarter progressed and spreads tightened and curves flattened, we added upper mezzanine tranches and seniors. Overall, we have increased our BBB and decreased our AAA and A exposure. Our weighted average rating stayed the same at AA-/A+. The spread duration is still slightly below three years. The yield-to-maturity decreased mainly due to the decrease in rates while spreads tightened by about 5 basis points.

From a fundamental perspective, despite the uncertain geopolitical environment and the ongoing uncertainty about the impact of trade wars, we are moderately positive. While we expect modest collateral performance deterioration in 2025, lower interest rates are resulting in better credit availability in addition to the improved growth outlook in Europe. ABS performance is inherently linked to the financial health of consumers. A combination of excess savings, healthy wage growth, a change in spending habits, and stability in unemployment rates have helped borrowers manage a higher debt burden so far. ABS collateral performance is dependent on the evolution of the unemployment rate. Labor markets are still tight, and with more fiscal spending on the horizon, resulting in a more positive outlook of the eurozone economy, ABS performance should continue to be robust. Furthermore, if performance was to deteriorate, potential losses can be absorbed by structural features such as excess spread and reserve funds.

Although spreads tightened, European ABS still stand out from a valuation perspective, especially due to the high carry value, protecting investors in case sentiment changes. Low interest rate duration provides stable returns in the current uncertain interest rate environment. Even with flatter credit curves, non-senior tranches provide compelling opportunities to earn additional income, but we have become more selective as the risk-reward ratio is limited in some deals, especially now that the curve has flattened.

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: 6778138.6. | Exp Date: 31 July 2026