

# The ABC of ABS

March 2018



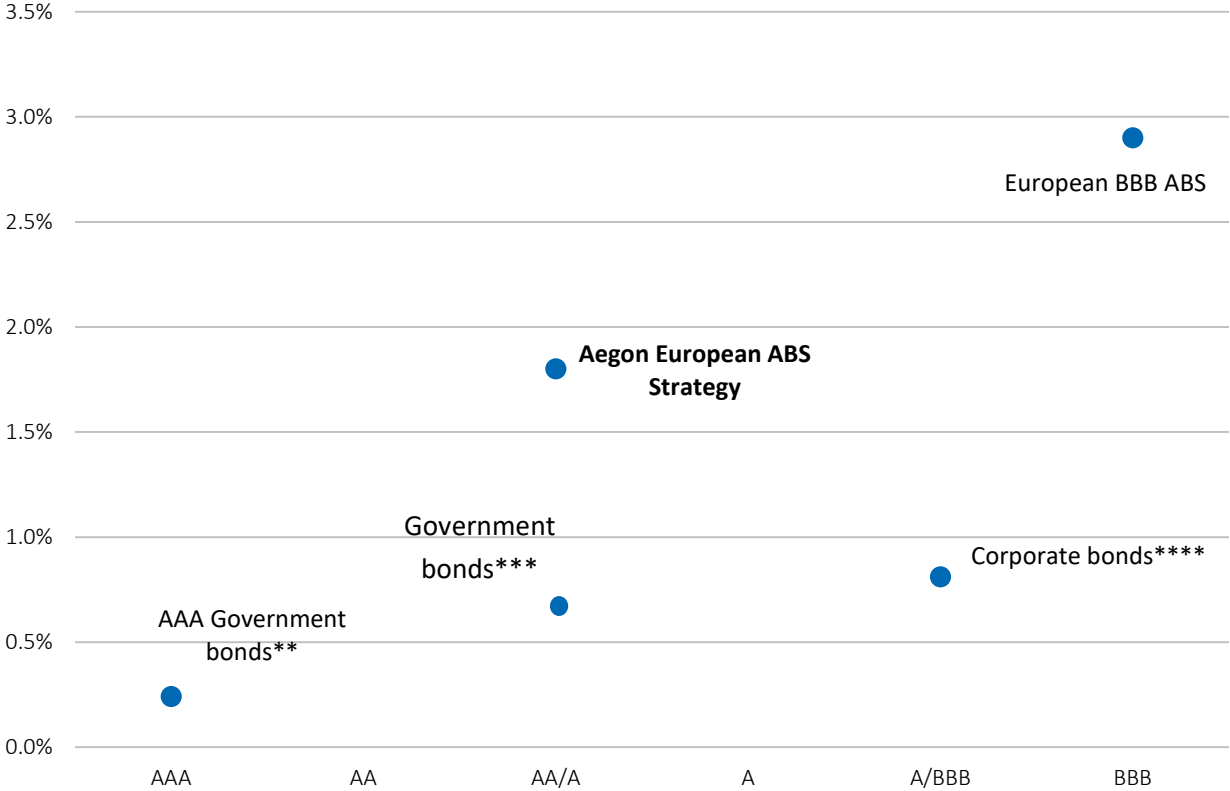
# Why consider European ABS?

- ✓ Attractive Yield
- ✓ Diversification benefits
- ✓ Predictable returns

# European ABS: Investment Case

# European ABS offers attractive yield

**Yields of select asset classes (in Euro)**



Current yield* Aegon European ABS Fund	
Currency	Spread
In EUR	€ L + 150bps
Hedged to USD	\$ L + 190bps

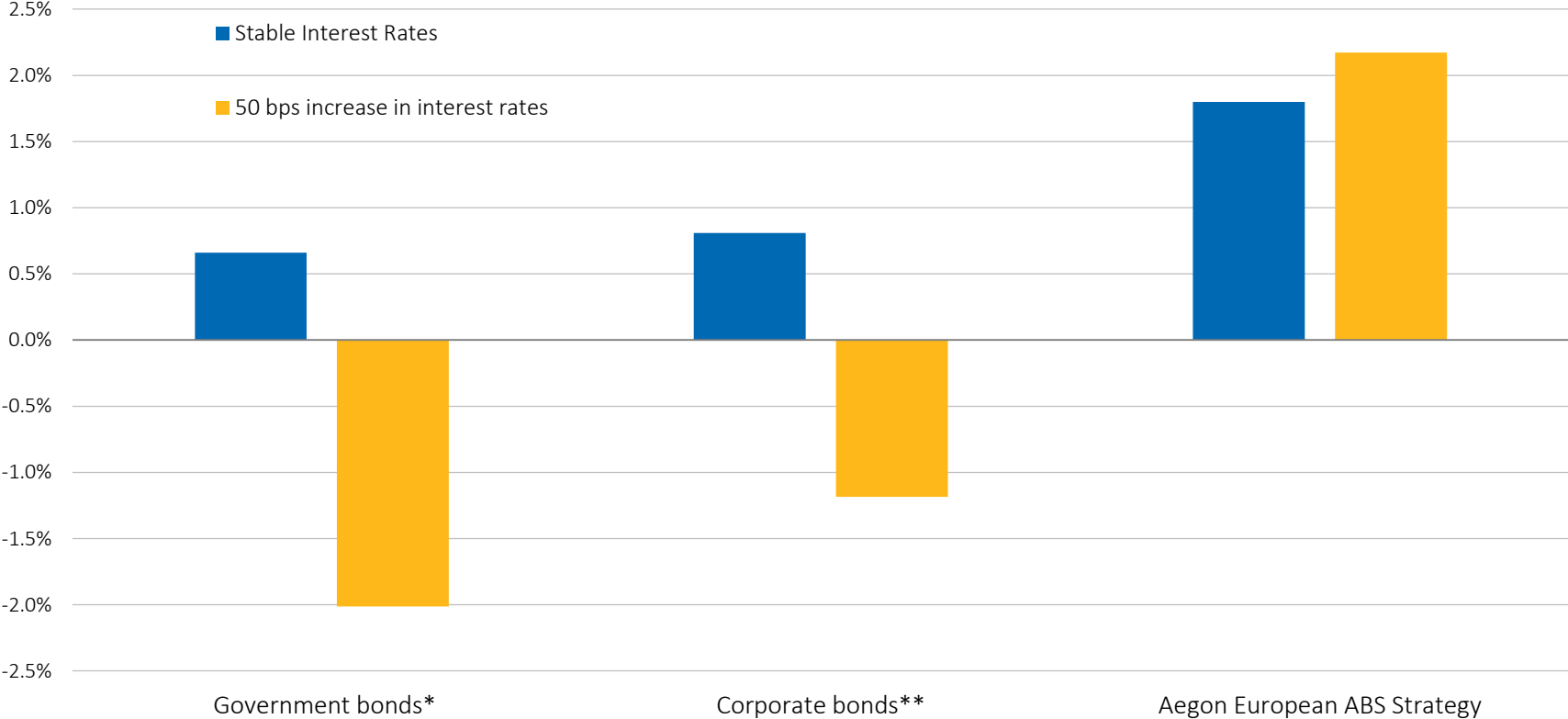
1 Year Total Return Expectation* Aegon European ABS Fund	
Currency	Total Return (in €, \$)
In EUR	2.5% - 3.0%
Hedged to USD	5.3% - 5.8%

Source: Aegon Asset Management, Barclays, Bloomberg (As of January 31, 2018). \*Yields and Total Return Expectations with hedging to stated currency using a matching FX Swap

\*\*Barclays Euro AAA Government Bond Index, \*\*\*Barclays Euro Aggregate Government Bond Index, \*\*\*\*Barclays Euro Aggregate Corporate Bond Index

# European ABS has short interest rate duration

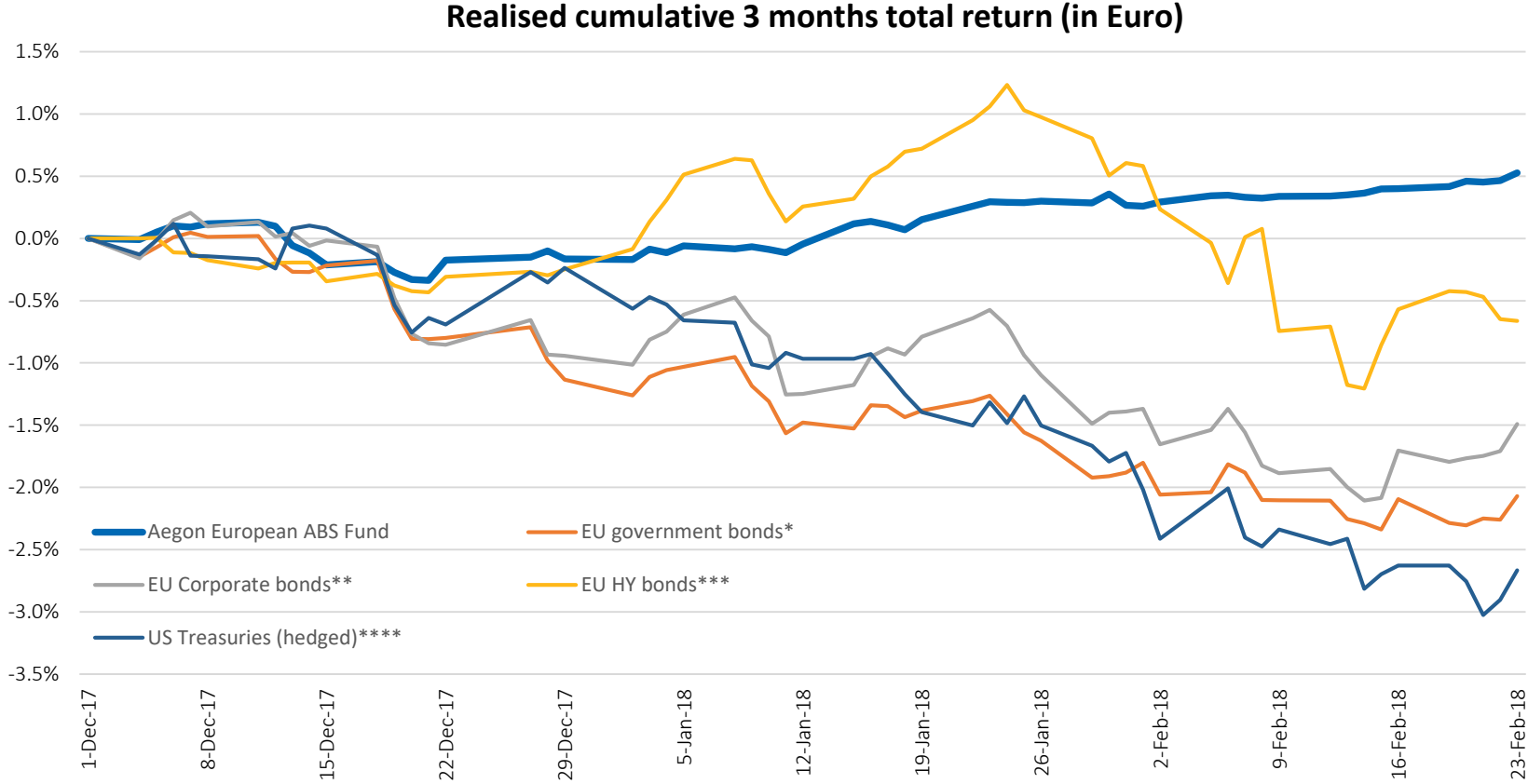
1 Year Total Return, in stable and rising interest rate scenarios (in Euro)



Source: Aegon Asset Management, POINT (Data as of January 31, 2018) Note: We assume a parallel shift of the yield curve by 0 and 50 basis points and calculate one year total returns

\* Barclays Euro Aggregate Government Bond Index \*\* Barclays Euro Aggregate Corporate Bond Index

# European ABS during recent stress



Source: Aegon Asset Management, POINT (Data as of 28 February 2018)

\* Barclays Euro Aggregate Government Bond Index, \*\* Barclays Euro Aggregate Corporate Bond Index, \*\*\* Barclays Euro HY Bond Index, \*\*\*\* Barclays US Treasury (EUR hedged) Index

# European ABS offers risk diversification: Consumer Risk

**ABS returns have been lowly correlated with traditional Fixed Income and Equities**

	Gov	IG	HY	EMD	ABS	Equities	CRE
Government bonds (EUR)	1.0	0.4	-0.2	0.1	-0.2	-0.2	-0.0
IG credits (EUR)	0.4	1.0	0.6	0.6	0.4	0.3	0.5
Global High Yield	-0.2	0.6	1.0	0.7	0.4	0.6	0.7
Emerging market debt	0.1	0.6	0.7	1.0	0.2	0.4	0.6
<b>European ABS (EUR)</b>	<b>-0.2</b>	<b>0.4</b>	<b>0.4</b>	<b>0.2</b>	<b>1.0</b>	<b>0.3</b>	<b>0.3</b>
Global Equities	-0.2	0.3	0.6	0.4	0.3	1.0	0.7
Indirect real estate	-0.0	0.5	0.7	0.6	0.3	0.7	1.0

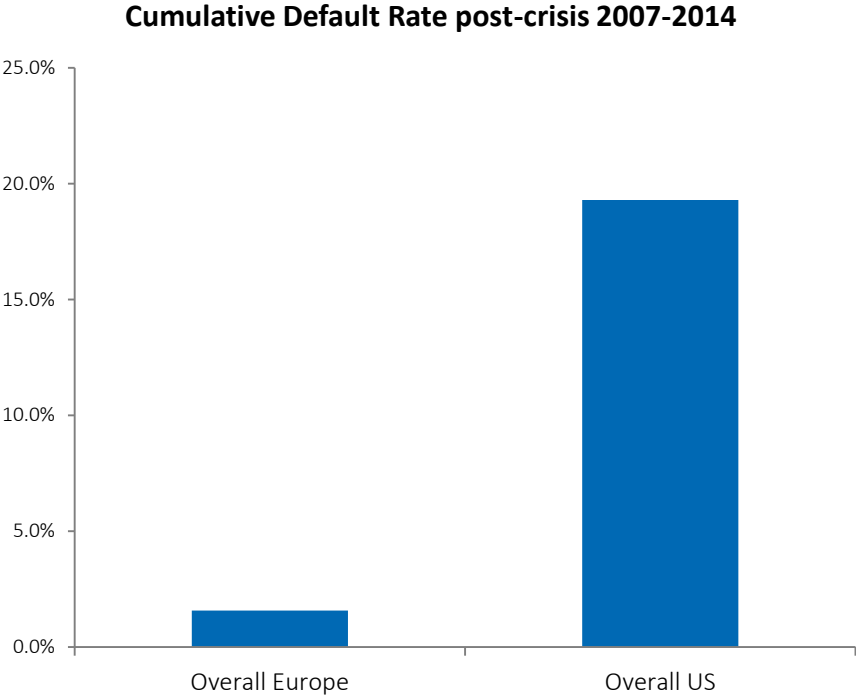
Source: Aegon Asset Management. Period in scope: Nov 2004 – Sept 2017

# European ABS - Structural aspects



# Europe is not the US: Fundamental Differences

European ABS has proven much more resilient than US ABS



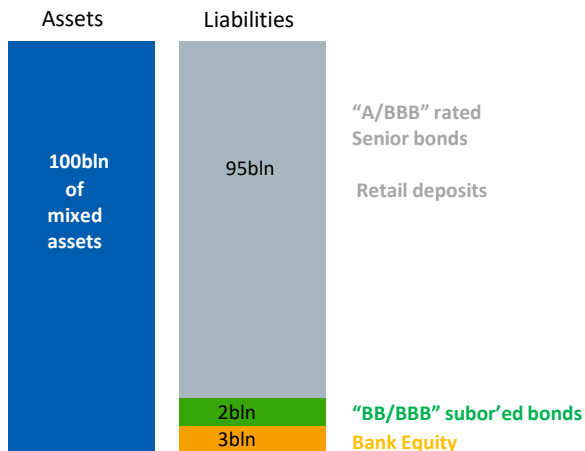
Fundamental Differences	
Europe	United States
Majority of loans are originated by banks	Alt-A and Subprime were mostly originated by non-bank institutions
Full recourse on the borrower	Most states have no full recourse on the borrower
Mostly loans to prime borrowers	There was a large segment of non-agency and non-prime borrowers
Originator typically holds first-loss tranche	Often no risk retention by originator

Source: S&P

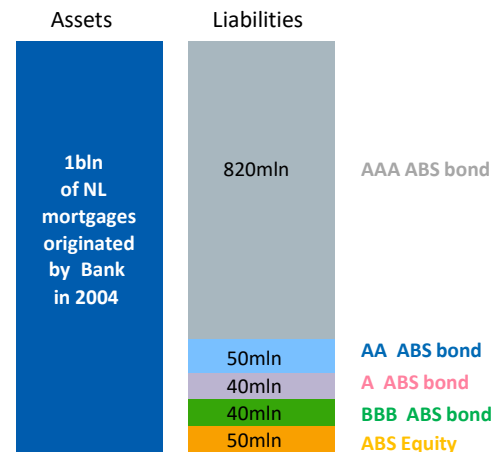
# ABS can be viewed as a “mini-bank”

ABS has a similar capital structure as a regular bank, but has many advantages

## Normal Bank PLC

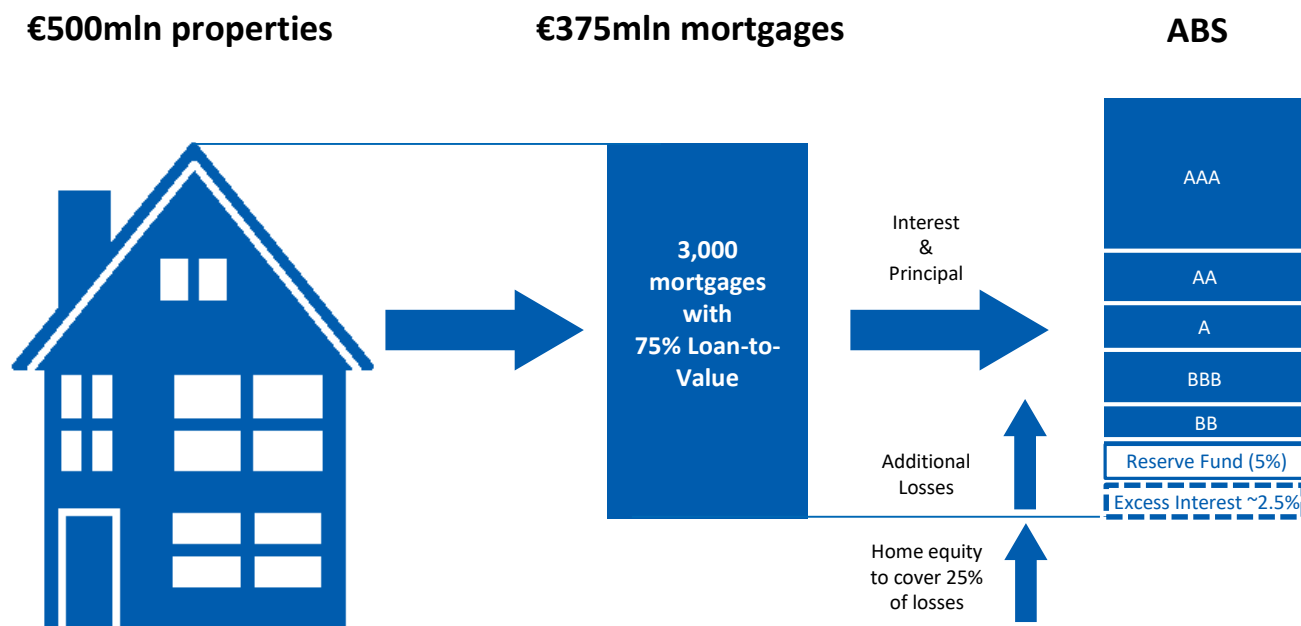


## ABS PLC



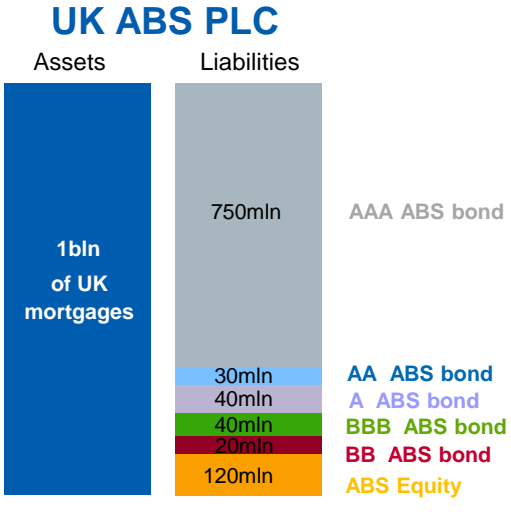
- Assets on the Bank’s balance sheet are unknown
- No term finance
- Balance sheets of banks are similar
- ABS collateral is known by investors (reporting + ECB)
- Term finance
- Invest in assets you like

# The structure of an ABS backed by mortgages



Source: Aegon Asset Management. The presented capital structures are hypothetical and for illustrative purposes only

# Scenario analysis on collateral is essential to assess risk



## Impairments on a BBB-rated UK ABS bond under different scenarios

		House price decline in the UK (from current levels)														
		0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%
Cumulative mortgage defaults	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	5%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	10%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	15%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	20%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	25%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	30%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	11%
	35%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	17%	37%
	40%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	19%	39%	57%
	45%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	17%	37%	56%	74%	
	50%	0%	0%	0%	0%	0%	0%	0%	0%	0%	11%	33%	53%	72%	92%	
	55%	0%	0%	0%	0%	0%	0%	0%	0%	0%	3%	26%	46%	67%	88%	100%
	60%	0%	0%	0%	0%	0%	0%	0%	0%	0%	16%	38%	59%	82%	100%	100%
	65%	0%	0%	0%	0%	0%	0%	0%	0%	5%	27%	50%	73%	97%	100%	100%
70%	0%	0%	0%	0%	0%	0%	0%	0%	14%	37%	61%	86%	100%	100%	100%	

Internal Rating

Source: Aegon Asset Management

# The ABS strategy

# Track record: European ABS Insured Composite

## Calendar year returns (End of December 2017)

	2017	2016	2015	2014	2013
European ABS Composite*	4.63%	4.03%	0.66%	12.83%	11.20%
Relative performance versus benchmark**	2.77%	1.44%	0.90%	6.18%	4.86%
Estimated return USD hedged***	6.74%	5.38%	1.20%	12.90%	11.63%

	2012	2011	2010	2009	2008
European ABS Composite*	19.14%	-2.52%	12.98%	24.64%	-13.88%
Relative performance versus benchmark**	5.72%	0.23%	6.01%	11.08%	1.15%
Estimated return USD hedged***	19.84%	-2.69%	12.79%	23.85%	-14.15%

	2007	2006	2005		
European ABS Composite*	1.49%	2.75%	2.60%		
Relative performance versus benchmark**	0.27%	-0.18%	0.16%		
Estimated return USD hedged***	2.78%	4.78%	3.34%		

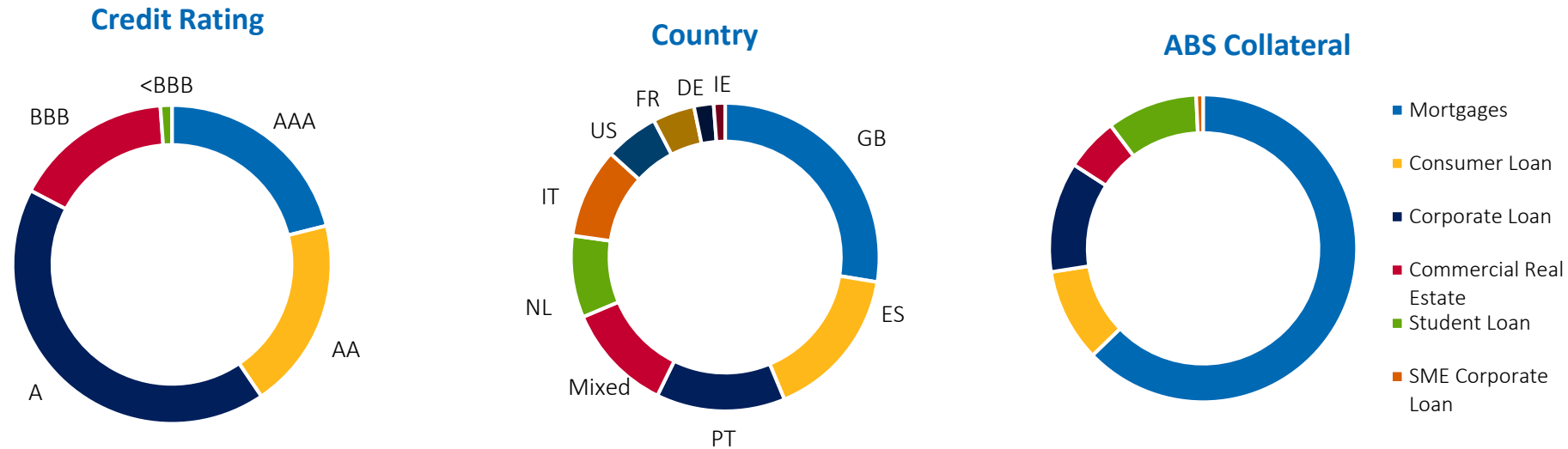
\* Figures for Asset Backed Securities Insured composite; creation date: December 1, 2004. The track record of the Asset Backed Securities Insured composite is intended for illustrative purposes only. Only professional investors within the meaning of the Dutch Financial Supervision Act ("Wft") who belong to the fiscal entity of Aegon N.V. can participate in the collective investment vehicle underlying this composite. Source: Aegon Asset Management. Past performance is not indicative of future results.

\*\* Market value-weighted combination of the Barclays Capital Euro ABS Fixed Rate Composite Index (customized) and the Barclays Capital Euro ABS Floating Rate Composite Index (customized).

\*\*\* USD return is estimated by hedging the FX position with a one-year forwards on the 1<sup>st</sup> of January each year.

All figures presented gross of fees. The estimated USD figures are presented in USD, all other figures are in €.

# Positioning of Aegon European ABS Strategy



## Key characteristics

- ✓ “Pure ABS strategy”, well diversified over countries, collateral types and individual ABS bonds
- ✓ No leverage
- ✓ Solid Investment Grade risk profile (but can continue holding downgraded ABS bonds)
- ✓ Expected return: 2.5% – 3% in Euro (approximately 5.3% -5.8% in USD)
- ✓ Duration: ~0.5 years
- ✓ Daily liquidity
- ✓ AMC of 25bps (+max 6bps fund fees)

Source: Aegon Asset Management. Data as of Dec 31, 2017

# Summary



# Summary

<b>Target yield</b>	✓ 2.5% - 3% in Euro (or 5.3% - 5.8% in USD)
<b>Floating rate</b>	✓ Positive returns in a rising rate environment
<b>Risk diversification</b>	✓ Consumer Risk, instead of Corporate Risk or Government Risk
<b>Liquidity</b>	✓ Daily liquidity
<b>Investment team</b>	✓ One of the largest dedicated ABS teams in Europe, with strong performance record, investing since 2001
<b>Competitive fees</b>	✓ AMC of 0.25%

# Disclosures

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