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asset management

Capital efficient investments in alternative fixed income

Triple A – Capital generation seminar

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Agenda:

1 **Capital efficient investments**

2 **Dutch residential mortgages**

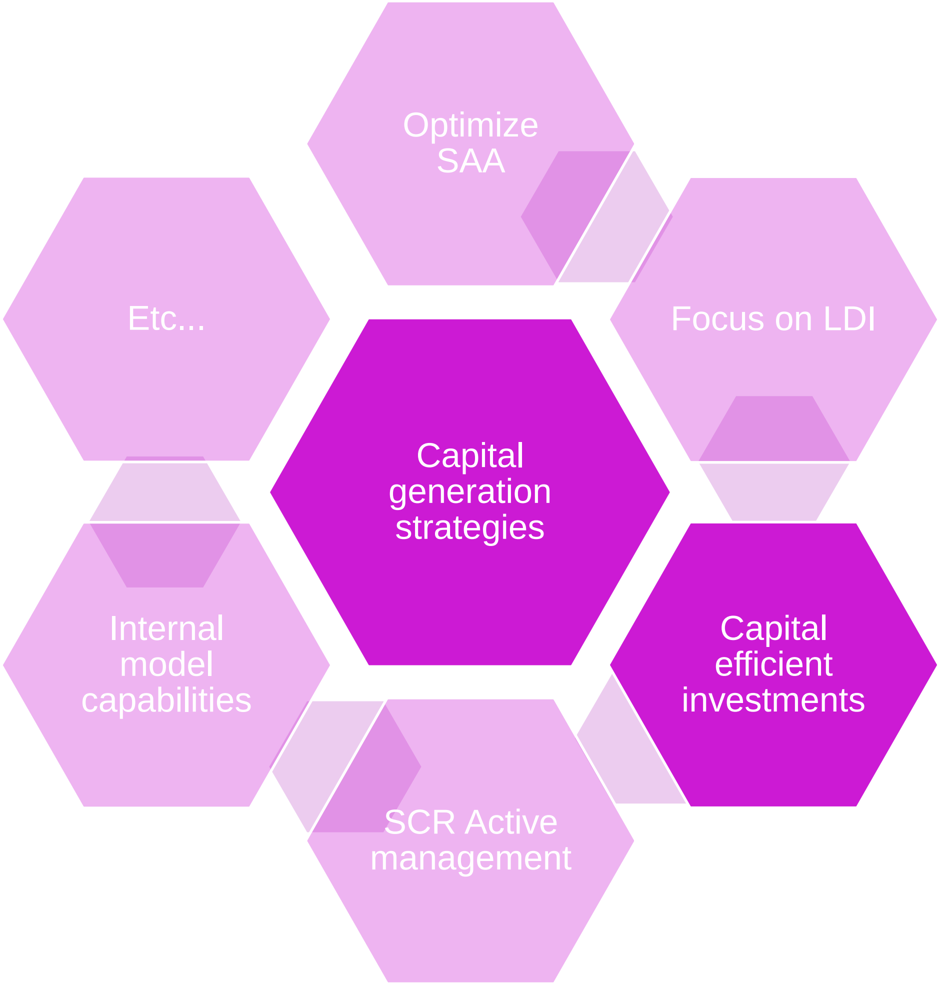
3 **Insured credit**

4 **Capital call facilities**

5 **Renewable infrastructure debt**

6 **Closing remarks and Q&A**

Capital generation strategies



Capital efficient investments

*Investments in assets that offer a better return on capital under Solvency II**

- Relative to assets with similar risk profile
- Via excess [expected] return
- Via reduced SCR

Focus of the presentation:

Alternative fixed income – capital efficiency

*Solvency II standard formula

Dutch residential mortgages

Characteristics

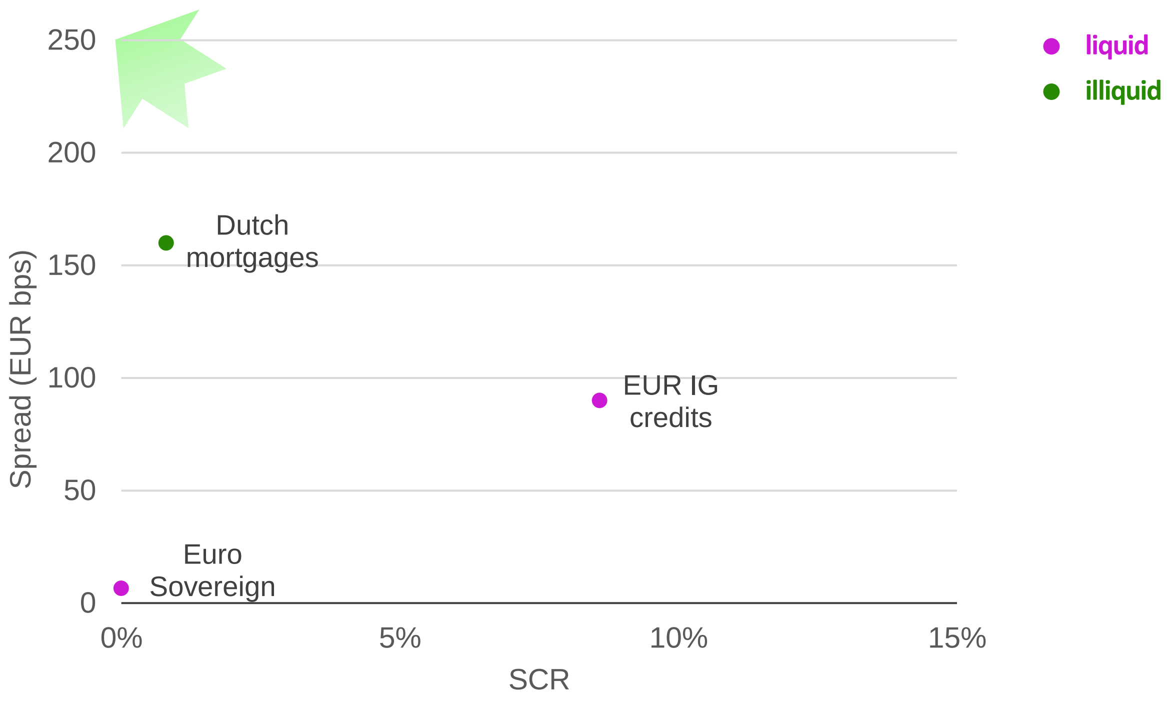
- Direct-to-consumer loans
- Underlying guarantee
- Risk diversifier (internal rating AA)
- Spread pickup. ~160 -180 bps
- Long duration ~8 years
- Illiquid

Market update

- Market size ~850bln
- Annual new production ~130bln
- Increased mortgage applications in 2024
- Insufficient new properties built
- Increasing house prices in 2024
- Arrears remain close to historical lows

Capital efficiency profile

- Counterparty default risk module
- Additional SCR diversification effect at a portfolio level
  - Correlation of 0.25 with market risk module



Source: Aegon AM and Bloomberg. As at 30-Sep-2024. Figures in EUR. Spreads over 6m Euribor. The values for the graph are for illustrative purposes only. Solvency II standard formula. SCR for the spread risk submodule is used (except for Dutch mortgages where counterparty default risk applies). Dutch mortgages is represented by Aegon AM DMF2. Euro Sovereign represented by Bloomberg Barclays Euro Treasury AAA index. EUR IG credits represented by Bloomberg Barclays Euro Aggregate Corporate.

Insured credit

What is it?

- Access to de-risked assets, while preserving elevated yields
- Impactful opportunities aligned with UN SDG's
- Two-step process:

B/BB-rated loan / bond

A/AA Insurance company takes up to 100% of credit risk

=

Investor gets A/AA-rated note

EM Sovereign loans, ABS bonds, Infrastructure / Corporate debt, across countries, sectors and debtors

Non-payment insurance: Principal and interest payments

+60 insurers

Spread ~225 bps

A/AA rated

~5 years WAL

Source: Aegon AM and Bloomberg. As at 30-Sep-2024.

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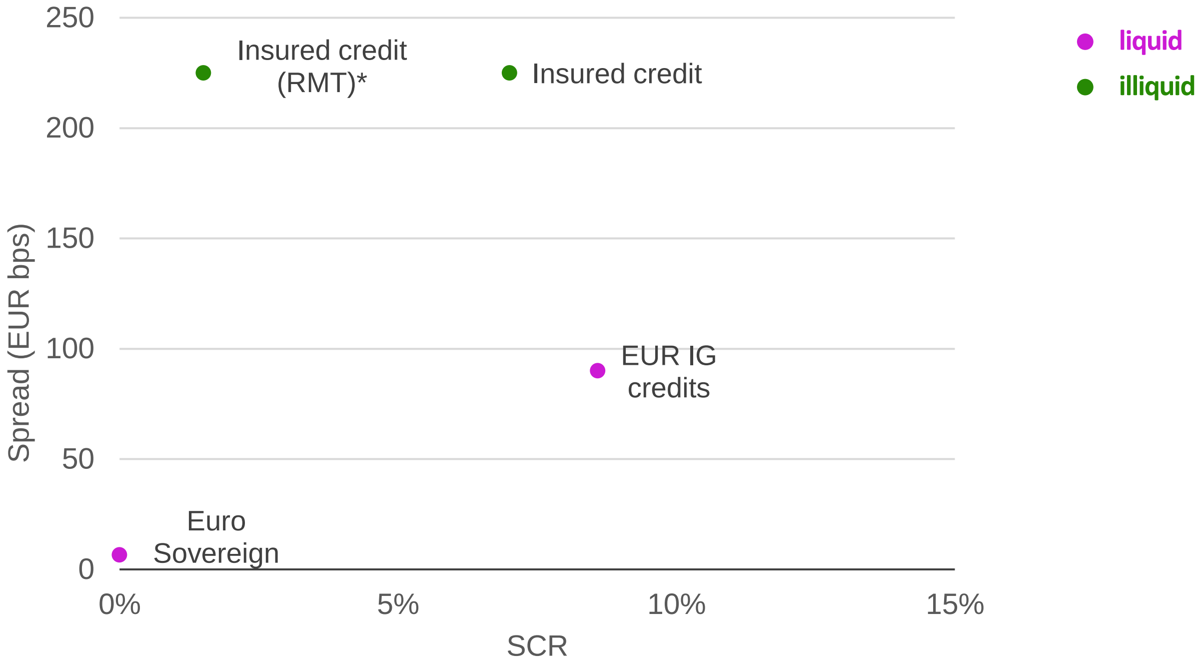
Capital efficiency profile

i. AA/A-rated note: Spread risk SCR

ii. Risk mitigation techniques (RMT)

- Non-Payment policies can be used as RMT
- From spread risk SCR to counterparty risk SCR



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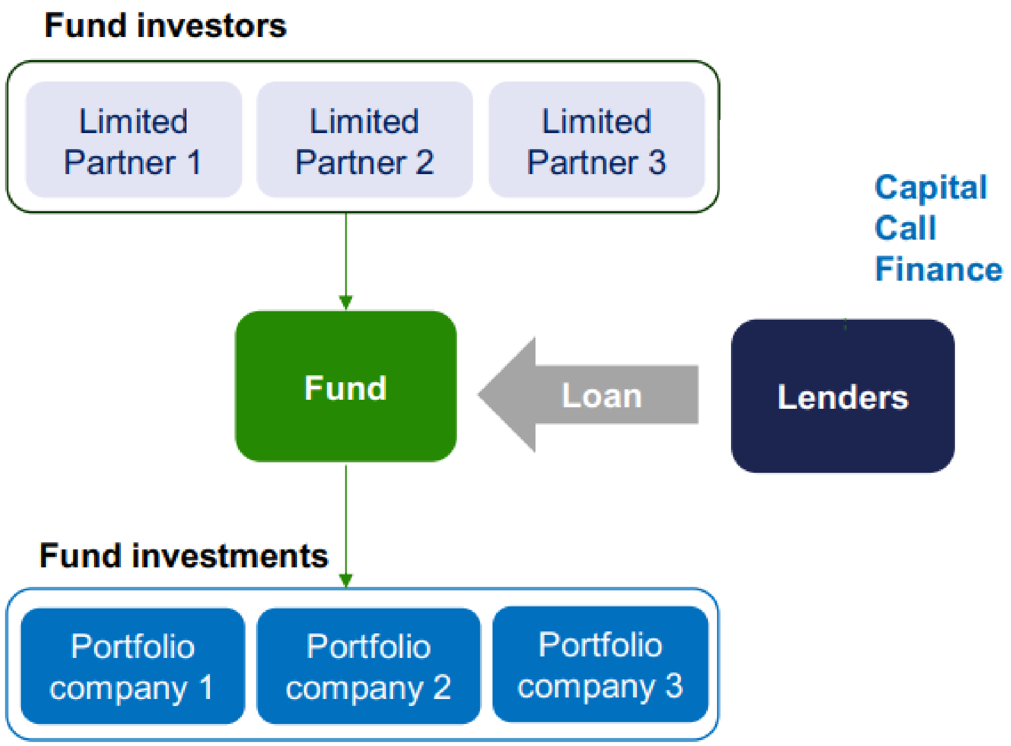
Capital call facilities (Fund financing)

What is it?

- Senior loans to private equity funds
- High quality short-term working capital facilities for investment funds
- Direct recourse to fund LPs and therefore low credit risk.

Characteristics

- Credit rating: AA/A
- Maturities: Max. 12 – 18 months
- Illiquid
- Spread: ~200 bps
- Floating rate



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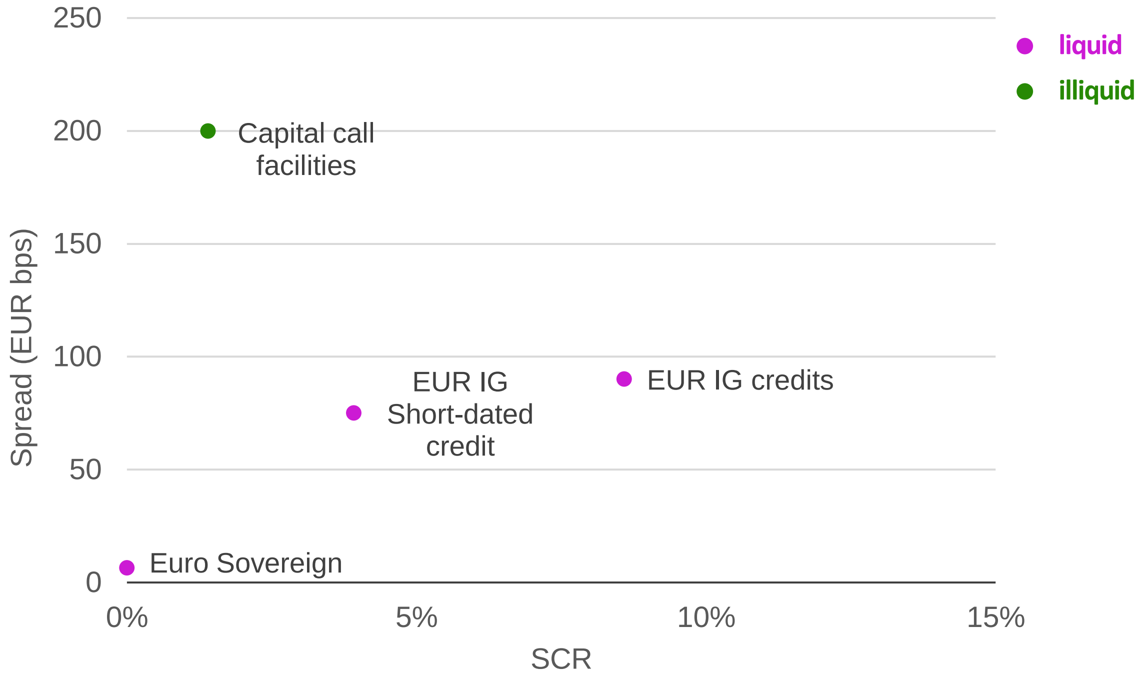
Capital efficiency profile

- Spread risk sub-module
- Low SCR due to short duration and good credit quality step
- Relatively higher RoC via large spread pick up



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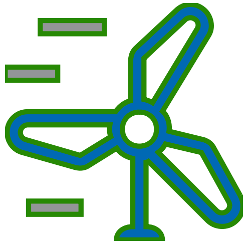
Renewable infrastructure debt

What is it?

Senior project finance loans for generation, transportation and storage of renewable energy

Characteristics

- Credit rating: BBB (internal)
- WAL: ~8 – 9 years
- Illiquid
- Spread: ~150 - 200 bps
- Floating rate
- Impact investing



Investment objective: Climate change mitigation

Environmental activity EU Taxonomy

SFDR Article 9

Scalable impact opportunities

Source: Aegon AM and Bloomberg. As at 30-Sep-2024.

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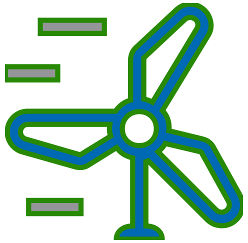
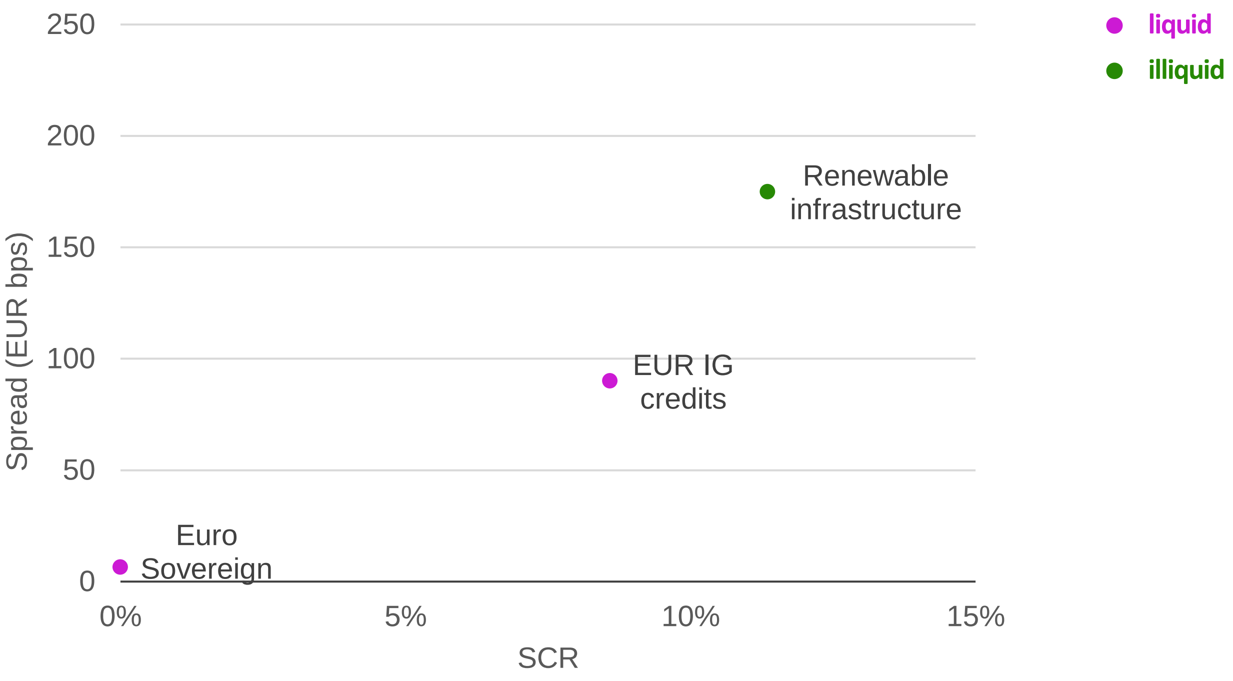


Capital efficiency profile

When criteria is satisfied, infrastructure investments qualify for relatively low SCRs



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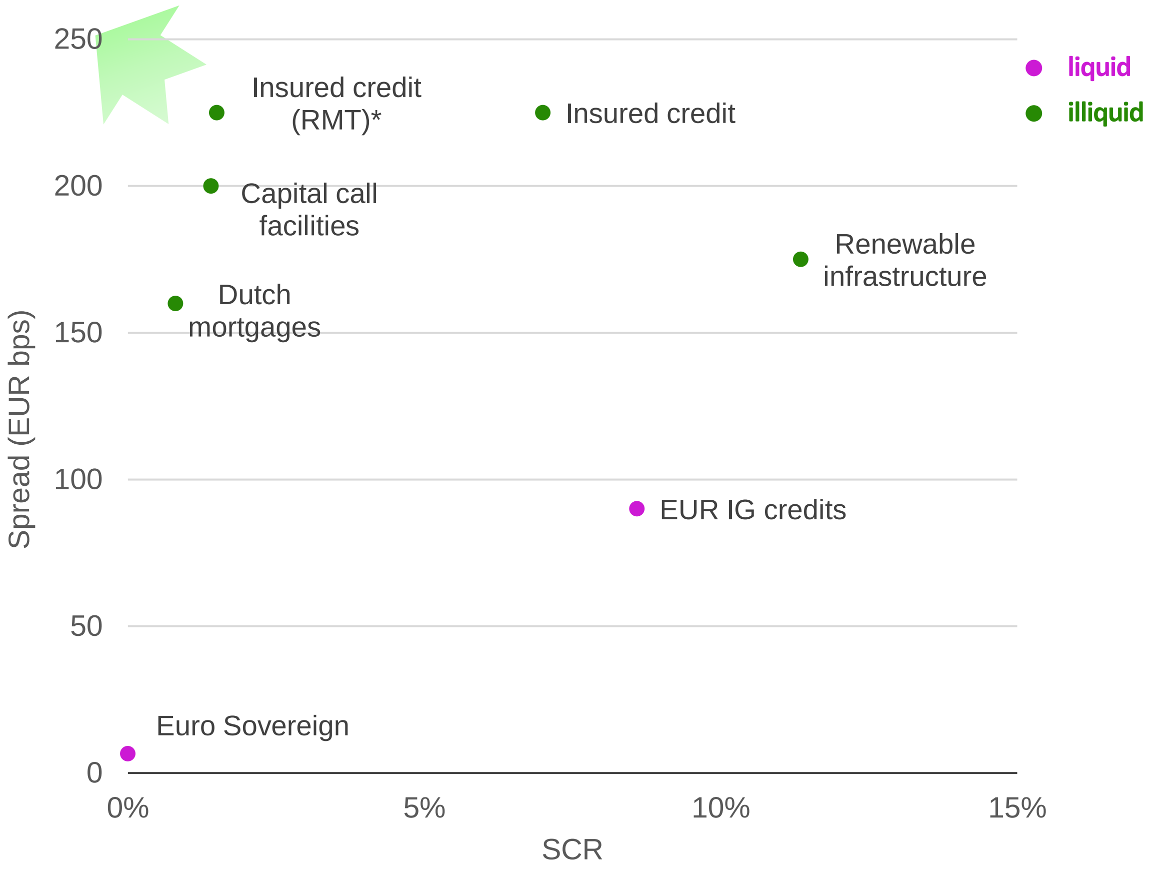
Closing remarks



Strategy	RoC
Dutch mortgages	200%
Insured credit (RMT)*	150%
Capital call facilities	143%
Insured credit	32%
Renewable infrastructure	15%

Capital efficient investments in alternative fixed income.

Better return-on-capital via:

- **Extra spread**
- **Reduced SCR**
- **Diversifiable capital treatment**

Source: Aegon AM and Bloomberg. As at 30-Sep-2024. The values for the graph are for illustrtive purposes only. Solvency II standard formula. RoC is calculatd as spread (EUR) over Euribor 6m divided by SCR. SCR for the spread risk submodule is used (except for Dutch mortgages and Insured credit RMT, where counterparty default risk applies). Dutch morgages is represented by Aegon AM DMF2. Insured credit, capital call facilities and renewable energy are represented by Aegon AM strategies. EUR IG credits represented by Bloomberg Barclays Euro Aggregate Corporate. *Risk mitigation techniques when applied require regulatory approval.

Q & A

Thank you


AEGON **INSIGHTS**

The Solvency II review has finished – What will change?

The global 2020 Solvency II review has finally reached its conclusion after a political compromise was reached at the end of 2023. We here analyze some major changes, namely the liability discount curve, the required capital for interest rate risk, the treatment of equities, the risk margin and the volatility adjustment, and assess the impact on European insurers.

Executive summary

- The global Solvency II review is now coming to an end
- We here focus on some core elements of Solvency II which have a direct impact on the valuation of insurance liabilities and the standard required capital calculation
- Some changes will have a significant impact, especially the changes to the risk margin, volatility adjustment and interest rate stress scenarios
- After the official legislation has been published, the Member States will have a two-year period to implement the legislation in their national frameworks
- The full implementation is therefore not expected before 2026-2027

Introduction

The Solvency II Directive 2009/138/EC entered into force on January 1, 2016 for European insurance companies.[1] The Solvency II Directive states that certain areas of this legislation should be reviewed periodically. Currently, the global 2020 review of Solvency is finishing. This review covers the following areas:

- Long-term guarantee measures and measures on equity risk
- Methods, assumptions and standard parameters used when calculating the solvency capital requirement standard formula
- Member States' rules and supervisory authorities' practices regarding the calculation of the minimum capital requirement
- Group supervision and capital management within a group of insurance or

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