

AEGON INSIGHTS

Investing in Dutch Residential Mortgages

Aegon Asset Management (Aegon AM) is the leading asset manager for Dutch residential mortgages. The Aegon Asset Management Dutch residential mortgage strategies are available to institutional investors including banks, pension funds and insurance companies. The aim of this document is to introduce the strategy to institutional investors who seek a capital efficient investment and diversify into consumer risk. All data is per end February, unless otherwise stated. .

Strategy details

	Current yield between 3.7% and 4.4%
Attractive yield	<ul style="list-style-type: none"> • Spread over swap between 90 and 160bps • Depending on LTV, flexibility NHG or non-NHG and fixed rate period • Low capital treatment under Solvency and Basel
Low risk profile	<ul style="list-style-type: none"> • Dutch Code of Conduct ensures conservative underwriting • Since 2013 less than 1bps of cumulative losses in strategy
Strong originator	<ul style="list-style-type: none"> • Largest non-bank mortgage originator in the Netherlands • Production 2023: 8bln, 9% of total market volume.¹ • Strong alignment between external and internal investors
Size	<ul style="list-style-type: none"> • EUR 42bln² mortgage strategy at Aegon AM • Large investor base with over 200 European clients • EUR 80bln of mortgages under administration at mortgage servicer a.s.r.³
Flexibility	<ul style="list-style-type: none"> • Portfolio transactions • Forward flow
Liquidity	<ul style="list-style-type: none"> • Cashflow generation of the vehicle • Matching investors demand with large investor base



Rutger Brascamp
Head of Mortgages



Rens Ramaekers
Portfolio manager Mortgages

¹a.s.r. originates mortgages under two brands (Aegon Hypotheken and a.s.r.). The mentioned numbers are the combined volume and market share.

²Per the end of 2023

³This includes both mortgages brands and include the mortgages in the strategies of Aegon AM

Why invest in Dutch residential mortgages?

- Dutch mortgages offer attractive spread and yield levels versus traditional fixed income
- It's a relatively safe asset class due to strict underwriting criteria focusing on affordability. This resulted in low historical loss rates (<1bp)
- Underwriting criteria are strictly governed by the Dutch code of conduct for mortgage loans
- Risk diversifier into consumer risk as opposed to corporate or government risk
- Efficient capital treatment under Basel and Solvency
- Flexibility in terms of underlying risk, duration and therefore possible to optimize for the investor's capital regime
- A significant part of the market benefits from a government guarantee through the National Mortgage Guarantee Scheme (NHG).

Asset class ⁴	Spread over swap	RWA ⁵ for credit risk	RoC ⁶ Basel	SCR ⁷	RoC ⁸ Solvency II	(internal) rating	Duration
NL government bonds	-0.08%	0%	N/A	0%	N/A	AAA	8.1
IG corporate credit	0.85%	50%	16%	7%	12%	A	4.4
NHG mortgage (80% LTV) - 10 years	0.99%	3.5%	269%	3.75%	12%	AAA	6.0
Non-NHG mortgage (80% LTV) - 10 years	1.36%	35%	37%	3.75%	36%	AA	6.0
NHG mortgage (80% LTV) - 20 years	1.33%	3.5%	362%	3.75%	12%	AAA	7.8
Non-NHG mortgage (80% LTV) - 20 years	1.62%	35%	44%	3.75%	43%	AA	7.8

Table 1 - Comparison of selected asset classes. For indicative purposes only. Source: Aegon Asset Management

⁴ICE BofA Netherlands Government Index. ICE BofA Euro Corporate Index. Based on Aegon Hypotheken mortgage rates, 5% CPR. Source: Bloomberg, Aegon Asset Management

⁵Based on the current CRR of the European Banking Authority (<https://www.eba.europa.eu/regulation-and-policy/single-rulebook/interactive-single-rulebook/12674>).

⁶Calculated as spread / (RWA * required capital of 10.5%)

⁷Spread risk for IG corporate bonds. Counterparty default risk for Dutch mortgages

⁸Calculated as spread / SCR.

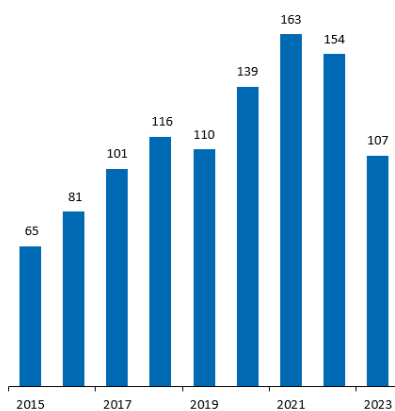
About Aegon Asset Management

- Aegon Asset Management (Aegon AM) is the leading asset manager in Alternative fixed income
- It is the largest institutional asset manager for Dutch residential mortgages
- Started to manage Dutch mortgages strategies as of 1997
- Currently Aegon AM manages over EUR 42bln of Dutch mortgages on behalf of external investors.
- The largest investors are pension funds, insurance companies and banks across Europe.
- The Aegon AM mortgages platforms offers a wide range of products and vehicles to match the specific needs of different institutional investors.
- Less than 1bps of cumulative losses in the combined mortgage strategy over the past 10 years

The mortgage originator – a.s.r.

- Aegon AM is the **exclusive distributor** of investments in Dutch mortgages originated by a.s.r., one of the largest insurance companies in the Netherlands.
- a.s.r. is currently the **largest non-bank mortgage originator in the Netherlands** with a market share of 9% and a total origination volume of 9bln last year.⁹
- The a.s.r mortgage brands are known for its conservative underwriting, premium pricing and focus on sustainability
- The a.s.r. mortgage brand won the Green Lotus Award 2022 and 2023 for most progressive in the field of sustainable home improvement

Total volume Dutch mortgage origination
Amounts in € billion



Mortgage lending market share in the Netherlands
(2023)

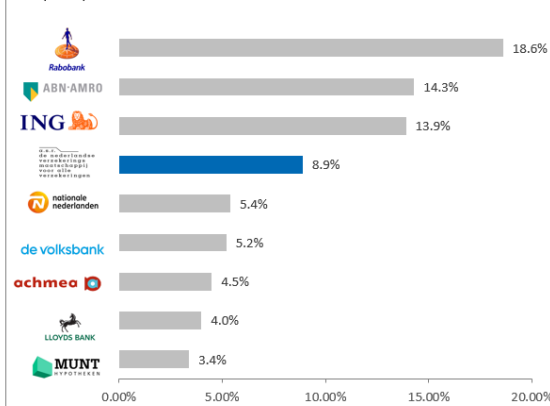


Figure 1 - Mortgage volume. Source: Kadaster, a.s.r.

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The Aegon AM mortgage platform – potential trades

Investors get access towards Dutch mortgages using two types of transactions:

- Forward flow
- Portfolio transactions

Forward flow

- The investor commits to invest in future mortgage origination of the mortgage originator
- The investor only purchases newly originated mortgages at nominal value.
- In principle, the originator only sells a vertical slice of the production to investors ensuring alignment of interest with other (internal and external) investors.
- When there are multiple investors which have preferences for only part of the vertical slice an agreement can be made such that they – together – purchase a vertical slice with only the preferred mortgage mix allocated towards the investor.

Portfolio transactions

- In a portfolio trade the investor purchases already existing mortgage receivables.
- These mortgage receivables will be bought from an existing investor at an agreed purchase price.
- a.s.r. currently has a mortgage book of 80bln euro under administration. Including the EUR42 bln euro managed by Aegon AM
- Investors can indicate (and optimize) their preferred portfolio trade in terms of risk characteristics like LTV, NHG and remaining fixed rate period

The Aegon AM mortgage platform - formats

Aegon AM offers their mortgage capabilities to its clients in the following formats:

- Commingled funds
- Single client solutions

Commingled funds – EUR 31bln

Our commingled funds are purchasing vertical slices of the production of the mortgage originator. A vertical slice is a random selection of the specific production month and checked by an external party to ensure similar characteristics – no cherry picking – between the slice sold to one of the funds versus the total production. Funds currently open for investments:

- DMF2 – vertical slice of total production
- DMF3 NHG – vertical slice of NHG production
- DMF3 non-NHG – vertical slice of non-NHG production

Please see Table 2 for characteristics

Single client solutions – EUR 11bln

The single client solutions are tailor made transactions and can be altered to the preferences of the investors. All investment vehicles can be used for both forward flow and for portfolio trades. Depending on the client's needs related to regulatory, accounting and capital treatment an optimized vehicle can be used:

- Single client funds
- Notes (through Dutch foundation or Dutch SPV)
- Whole loan transactions

29-2-2024	DMF2	DMF3 non-NHG	DMF3 NHG
Yield	4.28%	4.18%	4.11%
Spread	1.47%	1.44%	1.36%
Duration (yrs)	8.6	7.7	7.5
SCR	0.8%	1.2%	1.0%
Average LTV	62%	70%	68%
NHG loans	26%	~0%	94%
IO loanparts	40%	25%	13%
Average remaining FRP (yrs)	18.9	16.8	17.4
Seasoning (yrs)	2.9	3.1	3.3
90+days in arrears (in bps)	4	3	6
Fund size (Euro, bln)	12.7	6.5	2.0

Table 2 - Characteristics of DMF2 and DMF3. Source: Aegon Asset Management

¹⁰Per end of December 2023

Disclaimers

For Professional Investors only and not to be distributed to or relied upon by retail clients.

This is a marketing communication. Please refer to the following legal documents of the AIF before making any final investment decisions. For UK investors: please refer to the Prospectus and the UCITS KIID. For EU investors: please refer to the Prospectus and the PRIIPs KID. The principal risk of this product is the loss of capital. Please note that the investments underlying this particular fund are illiquid and investors should consider fully the consequences of investing in illiquid assets.

Past performance does not predict future returns. Outcomes, including the payment of income, are not guaranteed.

All data is sourced to Aegon Asset Management (a trade name of Aegon Investment Management B.V.) unless otherwise stated. The document is accurate at the time of writing but is subject to change without notice.

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Adtrax number: 6513139.1.

Expiry date: 1 April 2025