SHINING A LIGHT ON THE……
Aegon Ethical Corporate Bond Fund

AT A GLANCE

Investment Objective
The investment objective is to provide a combination of income and capital growth over any 7-year period. The Fund operates an ethical screen which means that the Fund may not invest in particular industries and sectors. In all cases, the investments of the Fund will meet the Fund's predefined ethical criteria. The Fund will invest at least 80% in a portfolio of investment grade corporate bonds issued anywhere in the world.

Inception Date	3rd June 2004
Fund Factsheet Link	https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F0GBR06I6A

Management	
Manager Name	**Start Date**
Euan McNeil	1st January 2011
Iain Buckle	1st October 2009

FUND PERFORMANCE

Performance from 1st January 2017 to 31st August 2022:

	2017	**2018**	**2019**	**2020**	**2021**	**2022**
Aegon Ethical Corporate Bond Fund	4.64%	-1.89%	8.63%	7.88%	-1.39%	-14.40%
Markit iBoxx GBP Collateralized&Corp TR	4.92%	-2.01%	10.58%	8.61%	-3.05%	-16.93%

Performance over 12 months, 3 years, 5 years and since fund manager inception:

	1 year	**3 years**	**5 years**	**Since launch**
Aegon Ethical Corporate Bond Fund	-15.89%	-9.31%	-2.57%	75.22%
Markit iBoxx GBP Collateralized&Corp TR	-18.52%	-12.82%	-5.19%	73.16%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

Tracking Error	**Upside Capture Ratio**	**Downside Capture Ratio**	**Batting Average**	**Beta**	**Alpha**	**Credit Quality**
1.46	97.99	89.82	69.44	0.96	0.84	-

Volatility Measurements	
3-Yr Std Dev (volatility)	7.33%
3-Yr Mean Return (average)	8.65%

Credit Quality	
AAA	-
AA	-
A	-
BBB	-
BB	-
B	-
Below B	-
Not Rated	-

Top 5 Holdings – 138 bond holdings, 46 other holdings		
United Kingdom of Great Britain ...	-	1.79%
Cooperatieve Rabobank U.A. 5.25%	-	1.23%
Skipton Building Society 2%	-	1.22%
Transport For London 5%	-	1.22%
ING Groep N.V. 1.13%	-	1.18%

Fixed Income	
Effective Maturity	-
Effective Duration	-

UPDATE….

We have used this strategy in our ethical portfolio since it was launched in 2014. This was originally under the Kames brand and more recently under Aegon. The company have 30+ plus years' experience in ethical investing and therefore have the pedigree to run a strategy such as this. They have a team of six focused on the ethical product suite and they are supported by a team of six across the ESG research desk. They also have access to the wider investment team across Aegon.

We touched on ESG, and they explained that this is the process of looking at a company and seeing whether certain factors are priced in. As an example, the risks associated with tobacco or oil could be priced in and therefore pass the ESG criteria. So effectively this is the starting point. For this strategy there is the ethical exclusionary overlay which would exclude these types of assets. On this they have the usual exclusions but also animal welfare and some of the banking sector.

Within this discussion we talked about "green bonds", and they explained that they won't participate where the company is exclusionary. So, for example, Shell might issue a "green bond" but they would not hold this because of their activities in oil and gas. This is important as some strategies might hold this type of bond. The only time they might consider are for specific government projects such as electrification of the UK bus network.

Screening is a mix of external and internal sources. Internal screening considers reputational risk and ESG factors. Although they don't consider themes, they have mapped out the fund and can attribute 50 to 70% of the holdings to environmental and social pillars.

Environmental pillars include climate change, eco solutions and resource efficiency. This includes companies such as TC Dudgeon, Greater Gabbard, Transport for London, Bazalgette Finance, Yorkshire Water and Severn Trent.

Social pillars include health and wellbeing, inclusion, and sustainable growth. This includes companies such as Assura, Onward Homes, Aster Housing and Sage Group.

It is important that the strategy taps into the growing environmental and social themes. The team focus on high quality assets although they can hold up to 10% in high yield if they see opportunities. At the start of the year, they were more defensive, and this has helped them to slightly outperform the benchmark. They have been mindful of liquidity during this period although they have been using the cash within the fund to take on more risk.

They currently only hold sterling dominated debt, but they are considering changing this strategy and this would be subject to investor approval. Not holding euro debt has benefited the fund so if this changed this would need to be carefully managed.

The yield on the fund is at its highest level for many years, at 5.5%. 18 months ago, this was around 3%. They are not going to guess the future of the markets, but they believe that pricing is such that investors are being attractively compensated for holding bonds. They feel that markets have priced a lot of the bad news. Taking this a step further even if the markets, do nothing, with a yield of 5.5% it provides a strong buffer for investors.

We talked about what changes in the UK market and they explained that we need some form of stability. We had a glimpse of this in June, July, and August. However, fear over energy prices, political uncertainty etc has pushed this back.

In summary, this was our first meeting with the team. They acknowledged this has been a difficult period for bonds (debt), however although they can't call the bottom of the market, they do believe that the markets have priced in most of the bad news. This has enabled them to move from a defensive position to a more "risk on" position. The rally in the summary demonstrated that the fund is well positioned to benefit when the market turns. From our perspective we see this as a well-managed strategy and see no reason to remove. The only change to this would be if we could find a strategic bond strategy and then we would want to compare carefully.

Investors need to understand that the exclusions may hinder performance, and this may not appeal to everyone.

The source of information in this note has been provided by AEGON and is correct as of September 2022. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to decide based on these notes we cannot take responsibility for this, and you should carry out your own research before deciding. We would also recommend that you receive advice before following up on any decision.