

Market analysis

The title of the recent IMF World Economic Outlook report, namely "Policy Pivot, Rising Threats", is telling. Indeed, the global economy is coming from a period of monetary tightening to monetary easing ('policy pivot'), as inflation moves gradually towards central bank targets. But unfortunately there are also some darker clouds lurking in the form of the geopolitical situation and ongoing military conflicts, as well as the possibility of trade barriers ('rising threats'). All in all, the IMF still expects the global economy to grow by 3.2% in 2025, which is weak but not materially different from the long-term average. However, there are major differences among the regions, with forecasts for the growth of the US economy revised upwards while expectations for Europe have been downgraded.

Whether the US economy will continue to grow faster than the European economy will also be an important theme for financial markets in the coming year. That was clearly the case in 2024. While economic growth for 2024 as a whole is not yet known, the consensus estimate from economists on Bloomberg provides a reasonable indication. This suggests that the eurozone economy grew by 0.8% in 2024 compared to US growth of 2.7%, a difference of almost 2 percentage points. This is mainly because the US economy performed better than expected. For the coming year, economists also expect the US economy to grow faster than the eurozone economy, although the growth gap will be less pronounced. For the coming year, economists expect the US to grow by 2.1% and the eurozone to grow by 1%. For both regions, this is around the long-term average.

Interestingly, the economic growth of the US will be helped more by (implicit and explicit) government stimulus than by monetary policy, while the opposite is true for the eurozone. Namely, Trump's policy plans to cut corporate income tax to 15% and to maintain his previously implemented income tax cut are an implicit government stimulus. This is also reflected in the US budget deficit forecast according to the Bloomberg consensus for 2025, at 6.5% of GDP. In comparison, the eurozone is expected to receive much less government 'support', with a budget deficit of 'only' 3% of GDP in 2025. However, more policy rate cuts are expected from the ECB than from the Fed.

After increasing in the first half of 2024 and declining in the third quarter, government bond yields rose again slightly in the fourth quarter, averaging around 25 basis points for most European countries for both 10-year and 30-year maturities. Compared with early 2024, yields on most European government bonds did not change very much on balance, despite sometimes considerable interim fluctuations. On average, European government bonds delivered a slightly positive return over the year as a whole.

In the UK and the US, government bond yields showed a clear direction, namely upward, over both the fourth quarter and the whole of 2024. Throughout 2024, 10-year government bond yields in the UK and the US increased by around 75-100 basis points, with most of the increase (around 50-75 basis points) occurring in the fourth quarter. The re-election of Donald Trump as president in the US and doubts about the sustainability of the budget plans of the newly-elected Labour government in the UK sparked rising inflation fears and thus higher yields.

Fund strategy and results

There was considerable volatility in yields in the fourth quarter. The quarter started with declining yields on the back of poor macro data and Israel's attack on Hezbollah and invasion of Lebanon. This was very rapidly reversed in the run-up to the US election as markets prepared for a Republican victory. After the election, political turmoil in France, disappointing macro data in Germany and large hedging programmes by pension funds led to a sharp fall in yields that continued until mid-December. When these hedging programmes were completed, liquidity dried up and yields rose sharply, eventually ending the quarter higher. The 10-year German yield began the quarter at 2.12%, remained in a range of 2.01 to 2.50%, but stood at 2.37% at the end of December. Swap rates experienced a smaller net movement, but similar volatility. As a result of the hedging programmes, a historically large movement in the so-called swap spread, the differential between the German government bond yield and the swap rates, was visible. After nearly a decade of QE, in which government bond yields were artificially pushed far below swap rates, this quickly reversed in 2024, especially in the last quarter. This resulted in 10-year German yields returning to above the swap rates for the first time in years. On long maturities, this differential even reached nearly 50 basis points positive!

Interest rates at the short end of the curve were, of course, mainly determined by ECB interest rate policy and expectations in this area. Although the ECB cut interest rates twice in the fourth quarter, with the deposit rate now at 3%, this was fully in line with market expectations and the market impact was thus limited, also given the minimal movement in longer-term expectations for policy rates. At the end of December, the markets were discounting a further four rate cuts in 2025. Yield curves steepened as a result of the rise in yields on longer maturities.

With the exception of France and Belgium, country spreads had a strong quarter, not illogical given the political developments in France and a traditionally strong correlation with Belgium. It should be noted, however, that markets are increasingly distinguishing between countries that are reducing their debt ratios (such as Portugal and Ireland) and countries that are having more difficulty with this, such as France and to a lesser extent Belgium. Furthermore, in our view, the strong quarter was mainly due to a pause in the supply of new bond issues and the attractive valuation of government bonds versus swaps. This attracts buyers, even though the fundamental narrative for countries has not significantly improved. 2025 will feature heavy supply of new issues and it is questionable whether the positive sentiment will continue.

The fund had a strong quarter. Some basis points were added by the curve position anticipating steeper yield curves. A few basis points were also earned on maturity selection, partly due to the underweight of loans with very long maturities in Belgium, France and Austria. The credit risk overweight at the beginning of the quarter performed well given the tightening of country spreads. This overweight was reduced as the quarter progressed. Country selection also contributed positively, with underweights in France and Belgium against overweights in Austria, Finland and a few small Eastern European countries. The underweight in Ireland, on the basis of an unattractive valuation compared to (for example) the Netherlands, was slightly negative as Irish bonds continued to perform well in the last quarter after three very good quarters.

Looking ahead, markets will face tensions in 2025. French political uncertainty is guaranteed until at least the summer, when new elections may lead to greater stability. There will also be great uncertainty regarding US policy after Trump's victory, which in turn poses a challenge for the central banks. In addition, the combination of heavy supply of bonds and shrinking central bank balance sheets is a potential concern.

Yields moved higher in the fourth quarter of 2024, especially on longer maturities, and yield curves steepened on balance. Credit spread narrowed, apart from in France. Inflation forecasts remained around the central banks' target of 2%.

After costs, the fund had a quarterly return of -0.98% versus -1.21% for the benchmark, a positive relative return of 0.23%. It should be noted, however, that due to illiquid markets and related price volatility in the final days of the year, some basis points of unexplained return were visible in the attribution.

Outlook

Apart from listed real estate, government bonds were the worst performing asset class in 2024, although they still delivered slightly positive returns on balance. Bond yields rose slightly again towards the end of 2024, partly on the expectation that the inflation outlook could deteriorate in 2025, limiting the scope for central banks to lower interest rates further. This seems to apply more to the US than to the eurozone, where markets are still expecting rate cuts amounting to around 1 percentage point in 2025. Given the moderate growth outlook for the euro area, the limited scope for more fiscal stimulus (given the still too high budget deficits in most eurozone countries) and the market expectation that the ECB base rate will fall rather than rise in 2025, the scope for (much) higher yields on European government bonds seems relatively limited.

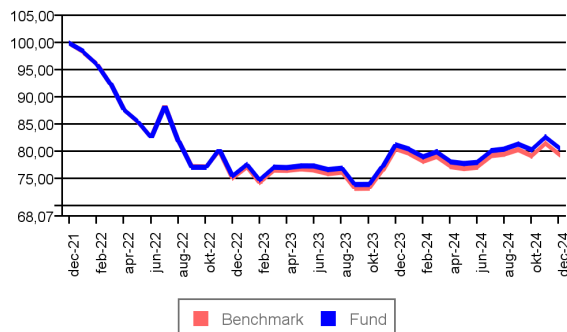
If the macro picture deteriorates further and/or financial market sentiment turns for another reason, government bonds could also play their traditional role as a safe haven investment. In other words, bond yields could fall again. This kind of scenario seems more plausible to us at the moment than one in which bond yields rise sharply in the short term. That is why we are opting for a slight overweight in government bonds on a three- to six-month horizon.

Investment strategy

The objective of the ASR Pensioen Staatsobligatiefonds 10-15 Jaar is to offer an investment in a diversified portfolio of Investment Grade fixed-interest securities and long-dated instruments, primarily issued by governments and denominated in euros. The investment policy aims to generate a target return over a three-year period that at least equals the return on the established representative benchmark, after deduction of all costs applicable to this mandate. The fund is managed in compliance with the ESG policy drafted by the Manager.

Historical indexed return

Indexation based on returns of not more than 3 years



Return (*)	Fund	Benchmark
1 month	-2,57 %	-2,67 %
3 months	-0,98 %	-1,21 %
6 months	3,33 %	2,96 %
1 year	-0,79 %	-1,39 %
3 year	-6,91 %	-7,38 %
5 year	-3,93 %	-4,31 %
Since start (*)	-1,45 %	-1,73 %
YTD	-0,79 %	-1,39 %
Sinds start	-1,45 %	-1,73 %

(*) period exceeding 1 year is annualised and is net based

Essential fund information

NAV calculation	Daily
Date of incorporation	31-10-2017
Performance calculation started on	31-10-2017
Fund administrator	ASR Vermogensbeheer N.V.
Fund manager	Marèn Klap
Entry charge (maximum)	0,10 %
Exit charge (maximum)	0,10 %
Ongoing Charges Ratio (OCR)(*)	0,20 %
Country of domicile	NL
Currency	EUR
Benchmark	Composite
ISIN	NL0012375182

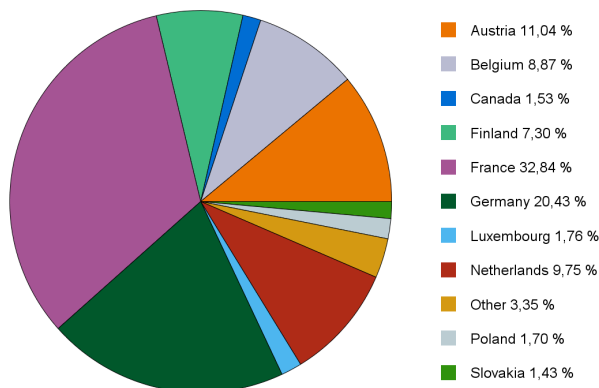
(*) The Ongoing Charges Ratio (OCR) consists of the management fee (0,10%) and the service fee (0,10%) (excluding costs which can be allocated directly to transactions) and the costs of the underlying investments.

Fund facts and prices

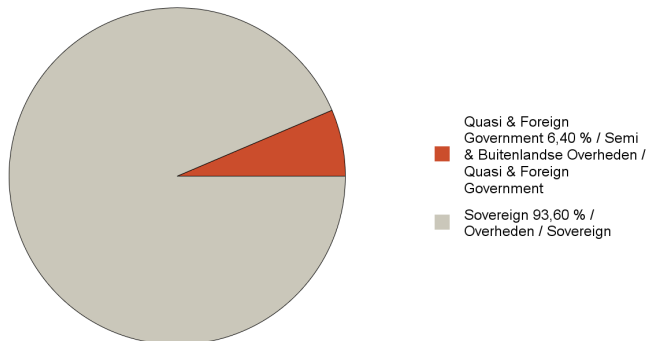
Total assets (x 1,000)	€ 746.080,62
Number of outstanding units (x1,000)	12.704,15
Net asset value per unit	58,73
Highest price in period under review	60,47
Lowest price in period under review	58,59
Dividend	None

10 largest holdings	ISIN	Country	%
FRANKRIJK 1.75% 25/06/2039	FR0013234333	France	6,05 %
FRANKRIJK 0% 25/11/2031	FR0014002WK3	France	4,27 %
FRANKRIJK 1.25% 25/05/2038	FR0014009062	France	4,27 %
OOSTENRIJK 0.9% 20/02/2032	AT0000A2WSC8	Austria	4,27 %
OOSTENRIJK 3.2% 15/07/2039	AT0000A3D3Q8	Austria	4,11 %
FRANKRIJK 4% 25/10/2038	FR0010371401	France	3,29 %
NEDERLAND 2.5% 15/07/2034	NL0015001XZ6	Netherlands	3,18 %
DUITSLAND 0% 15/08/2030	DE0001030708	Germany	3,09 %
BELGIE 5% 28/03/2035	BE0000304130	Belgium	2,77 %
FRANKRIJK 2.5% 25/05/2043	FR001400CMX2	France	2,69 %

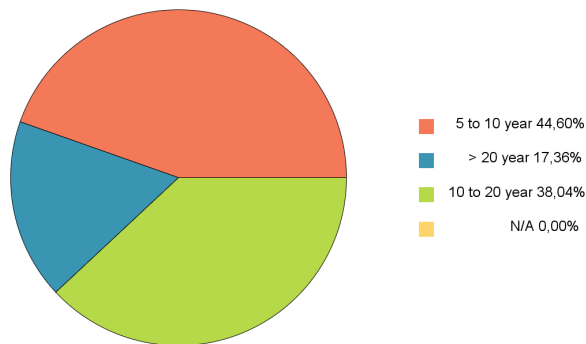
Country concentration



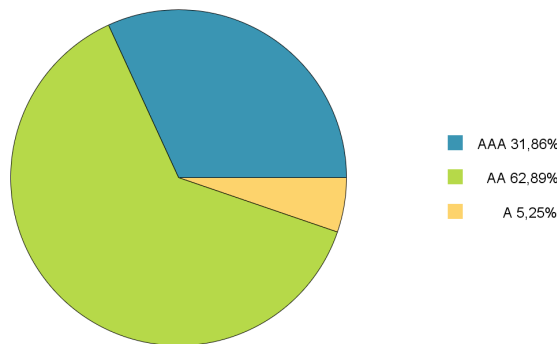
Industry concentration



Duration



Rating



Fund Governance

Als institutionele belegger toont a.s.r. vermogensbeheer haar maatschappelijke verantwoordelijkheid onder meer door toepassing van ethische en duurzaamheidscriteria in haar beleggingsbeleid. Alle beleggingen beheerd door a.s.r. vermogensbeheer worden aan de hand van ons Policy on Responsible Investments (PRI) beleid gescreend op onder meer sociale en milieuaspecten en bestuurlijke criteria. Landen en bedrijven die niet aan de criteria voldoen, worden uitgesloten. Denk hierbij aan producenten van wapens en tabak, de gokindustrie en steenkool, (onconventionele) olie en gas productie en palmolie producenten. Daarnaast beoordeelt a.s.r. bedrijven op hun naleving van internationale afspraken als de OESO-richtlijnen en richtlijnen van de VN zoals de Global Compact. De screening van ondernemingen is gebaseerd op externe, onafhankelijke research van twee externe leveranciers (MSCI ESG en ISS).

Bij het beheer van vermogen selecteert a.s.r. vermogensbeheer op basis van best practices volgens de ESG-criteria (Environmental, Social en Governance). Dit betreft alle beleggingen in landen (staatsleningen) en in ondernemingen (aandelen en bedrijfsobligaties) die het best scoren en/of passend zijn binnen de beleggingsrichtlijnen. Daarnaast investeert a.s.r. vermogensbeheer in bedrijven die een concreet duurzame bijdrage leveren aan de maatschappij.

Sustainability Policy

a.s.r. is an institutional investor that show its social responsibility, for instance by applying ethical and sustainability criteria to investment selection. All assets under management by ASR Vermogensbeheer N.V. are screened using the a.s.r. SRI (Social Responsible Investment) policy, such as social and environmental aspects. Countries and corporations that do not meet these requirements are excluded. The screening of corporations is based on external independent research by Vigeo Eiris (www.vigeoeiris.com/en/vigeo-eiris-rating/) certified to the independent ARISTA standard. Furthermore, the ASR Vermogensbeheer N.V.'s asset portfolio is externally and independently certified by Forum Ethibel (forumethibel.org/content/home.html) in semi-annual audits.

a.s.r.'s asset management selects investments based on best practices en products according to ESG-criteria (Environmental, Social and Governance). This applies to all investments in countries (sovereign debt) and in corporations (shares and corporate bonds) that score the best in and are appropriate to the policy guidelines. Furthermore, a.s.r. invest in corporations that make sustainability contributions to society.

a.s.r. also have a strict policy excluding controversial activities of countries and corporations. This applies to producers if controversial or offensive weapons, nuclear energy, the gambling industry, tobacco and coal. Furthermore, a.s.r. require that corporations comply with international agreements concerning environment, human and labor rights. For sovereign debts investments a.s.r. exclude countries that score low in the Freedom in the World Annual Report and the Corruption Perception Index. a.s.r. have signed the UNPRI and UNGC. Furthermore, a.s.r. comply with the Code Duurzaam Beleggen (Code for Sustainable Investing) for the insurance industry issued by the Vereniging van Verzekeraars (Union of Insurers), that came into force January 1, 2002.

An investment in the fund is subject to market fluctuations and to the risks inherent to investing in movable securities. The value of the investments and their revenue can increase as well as decrease. It is possible that investors will not get back the initially invested capital. The value of your investments may fluctuate and results achieved in the past offer no guarantee for the future. This publication in itself is not an offer to buy any security or an invitation to make a bid for this security. The decision to buy units in fund must be taken exclusively on the basis of the Information Memorandum. The Information Memorandum has information about the product, the investment policy, the costs and risks. Please read the Information Memorandum. The Information Memorandum and other information is available from a.s.r. or via www.asr.nl.

This is a marketing communication. Please refer to Information Memorandum before making any final investment decisions. Past performance does not predict future returns.