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After the initial financial turmoil caused by the worldwide outbreak of Covid-19, spreads in liquid fixed income asset classes widened significantly. However subsequent performance has been strong and spreads have tightened considerably. Around 70-80% of the losses of market value in these asset classes has been recovered. But as yields tighten, where's next for institutional investors? What options can they consider for their strategic asset allocation and long-term objectives?

We have entered the second half of the year. Institutional investors often now begin considering ALM studies and reviewing their asset allocation for the year to come. Amongst the lessons learned from the very volatile first half of 2020 is that alternative fixed income emerged as a highly resilient asset class. Alternatives stand out as an option to gain additional yield, driven by factors such as illiquidity, size and complexity. Furthermore, they offer investors diversification benefits as well as stable returns compared to more traditional investments. In addition, the asset class can help investors manage their ESG risk objectives.

Financial markets have seen robust growth in new opportunities within the broader fixed income space. This has been particularly evident with the growing allocation to fixed income alternatives by institutional investors. Aegon Asset Management has one of the largest and most experienced portfolio management teams to select and monitor opportunities in the alternative fixed income space. Another important trend in the global financial markets is the move towards ESG integration and impact investing. ESG risks can generally be managed very well in alternative asset class portfolios. Furthermore, some strategies such as SME loans are specifically suited for impact-related activities.

A key point highlighted in the webinar series is that investing for impact does not mean one has to sacrifice yield. We tend to see only minimal differences in our investment universe in terms of yield pick-up between positive impact investments and those who do not have that specific impact angle. This can also be observed throughout a broader group of alternative fixed income strategies.

Within the alternative fixed income space, three strategies that align responsible investing stand out: Asset Backed Securities, SME loans and government-guaranteed loans. These strategies are discussed in more detail in the full article.





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