Aegon Polish Bond Fund P series

GENERAL INFORMATION

Fund Manager:	AEGON Hungary Fund Manager Ltd.
Custodian:	Unicredit Bank Hungary Zrt.
Main distributor:	AEGON Hungary Fund Manager Ltd.
Benchmark composition:	100% TBSP Index
ISIN code:	HU0000713565
Start:	03/28/2014
Currency:	PLN
Total Net Asset Value of the whole Fund:	5,687,827,073 HUF
Net Asset Value of P series:	31,097,424 PLN
Net Asset Value per unit:	1.100577 PLN

INVESTMENT POLICY OF THE FUND:

The aim of the investment fund is to give investors access to the Polish bond market and to function as a relatively stable, medium-risk investment already medium term, offering our customers stable real returns without the need to tie up their savings for a fixed period. The fund primarily invests into Zloty denominated Polish government bonds but the portfolio manager has some room to use other fixed income investments. We aim to maximise returns with the given risk level. Our investment decisions are based on fundamental research extended by technical research while we also take into account global market sentiment. Expexted shifts in the yield curve based on our macro expectations are at the core of our investment process. Risk/return characteristics are also considered when we select suitable and safe investments. We aim to totally hedge any currency risk in the fund.

DISTRIBUTORS

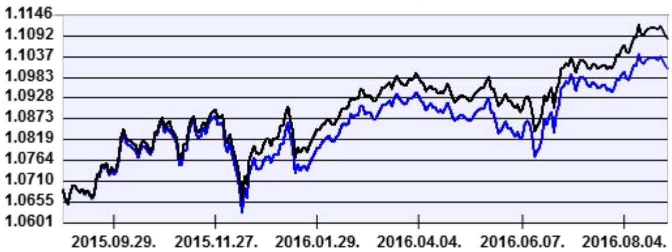
Aegon Towarzystwo Ubezpieczen na Zycie Spolka

NET YIELD PERFORMANCE OF THE FUND:

Interval	Yield of note	Benchmark yield
From start	4.03 %	5.07 %
2015	0.22 %	1.68 %

NET PERFORMANCE OF THE FUND

NET ASSET VALUE PER SHARE, 09/01/2015 - 08/31/2016



----- Aegon Polish Bond Fund P series ----- Benchmark

Past performance is no guarantee of future results. This report should not be considered as an offer or investment advisory. The Fund Prospectus contains the detailed conditions of the investment. The distribution costs of the fund purchase can be found at the distributors.

RISK INDICATORS FOR THE LAST 12 MONTHS:

Annualized standard deviation of the fund's weekly yields: 3.43 %

Annualized standard deviation of the benchmark's weekly yields: 3.33 %

INVESTMENT HORIZON:

Suggested minimum investment period:

3 months | 6 months | **1 year** (selected) | 2 years | 3 years | 4 years | 5 years

Risk and Reward Profile:

very low | low | **moderate** (selected) | intermediate | significant | high | very high

MARKET SUMMARY:

This month was characterized by two distinct periods. During the first part bond markets continued their march: inflows into risky bond funds showed good risk appetite, however core market yields lost steam. In Poland more details were disclosed about the mortgage conversion plan: banks will be encouraged via regulatory tools to convert CHF loans (not compulsory), but costs could be significantly lower than expected, which was bond positive as the milder solution reduced somewhat the risk of additional downgrades by rating agencies.
The Bank of England cut Bank Rate by 25bps, announced new Gilt purchases of GBP 60bln and cut GDP forecasts acting more aggressively than market expected.
Polish GDP came lower than expected (3,1% YoY vs. 3,3%), high frequency data surprised also on the downside (retail sales, industrial production), that fueled rate cut expectations again. After the data Zyzinski (a well known dove) and Łon spoke about potential rate cuts. This was the first time after a long period a 50 bps rate cut was mentioned again, so it was quite supportive for Polish bonds.
Meanwhile, in the US with impressive run of job gains (255.000 vs. 180.000 expected) a September rate hike from Fed came in play again. In Poland other MPC members argued against a rate cut and watered down expectations. When it comes to Polish monetary policy, we believe, that Poland would have some room to ease monetary policy, but MPC comments suggest the bar for rate cut remains high, meaning a further aggressive deterioration in the economic outlook will be necessary for the MPC to move. Valuation of Polish bonds became stretched (spreads versus core yields came down by 25-30 bps, yields of both 5Y and 10Y papers reached their fair values after a long time), when global bond market sentiment started to change and idiosyncratic risks (Top Court issue, fiscal problems) in Poland gained attraction again causing profit taking.
Local sentiment deteriorated further after the budget draft has been released by the ministry of finance, which sees the budget deficit widening from 2.6% of GDP in 2016 to 2.9% in 2017, just shy of the 3% threshold, that could trigger the excessive deficit procedure again. Furthermore the government has signaled that economic hurdles won't keep it from delivering on costly campaign pledges (lowering the retirement age, increasing public wages and minimum pension, providing free medicines for senior citizens and increased outlays on defense). With slowing growth and increased spending the government's plan to hold the deficit within European Union limits are becoming more and more unrealistic. Fitch's statement saw "fiscal downside risks" in Poland's 2017 budget draft.
Moody's released a warning too, saying that the recent escalation of the Constitutional Court row is credit negative as it is likely to increase tensions with the European Union, with a higher risk of further impairment of Poland's investment climate. Moody's opened the door for a downgrade of Poland in September, however consensus expectation is for no change in rating.
Meanwhile global bond sentiment deteriorated due to hawkish comments and increasing FED rate hike probability, however the debate about lower natural interest rate alleviated the pain. At the end of the month Jackson Hole stimulated Fed rate hike expectations further: 10-year Treasury yields rose to the highest level in two months and the greenback appreciated. Comments of Yellen show that she still has confidence in her forecast-based policy using traditional models of the economy. With hawkish comments already ahead of Yellen's Jackson Hole speech, the market priced approximately a 10pp higher probability for September and December rate hike than a week ago.
Altogether, Polish 5Y bond yields reached a low at 2,04%, meanwhile 10Y bond yields reached a low at 2,6% before bouncing 20-25 bps.

ASSET ALLOCATION OF THE FUND ON 08/31/2016

Asset type	Weight
Government bonds	72.67 %
T-bills	15.09 %
Corporate bonds	1.55 %
Current account	10.64 %
Receivables	0.21 %
Liabilities	-0.02 %
Market value of open derivative positions	-0.07 %
total	100,00 %
Derivative products	7.08 %
Net corrected leverage	103.53 %

TOP 5 POSITIONS
PLGB 2021/10 5,75% (Lengyel Állam)
PLGB 2023/10/25 4% (Lengyel Állam)
PLGB 2022/09 5,75% (Lengyel Állam)
PLGB 2018/10/25 0% (Lengyel Állam)
PLGB 2020/04 1,5% (Lengyel Állam)

Assets with over 10% weight
PLGB 2021/10 5,75% (Lengyel Állam)
PLGB 2023/10/25 4% (Lengyel Állam)
PLGB 2022/09 5,75% (Lengyel Állam)
PLGB 2018/10/25 0% (Lengyel Állam)
PLGB 2020/04 1,5% (Lengyel Állam)

Bonds by tenor: