a.s.r.
asset
management

5 questions about:
Mortgages

1. Why are mortgages such an interesting investment option?

First of all, diversification within an investment portfolio is key.
As an asset class, mortgages offer attractive interest returns. To illustrate, as of 16 June 2022 yields on a Dutch government loan stood at 2.1%. Average payment on a 10-year interest-only mortgage (not backed by a National Mortgage Guarantee (NHG)) is 4.0%.

Risks
However, a mortgage can be repaid early (either in whole or in part), for example when the borrower moves into a new home. This may lower the interest income. Further, the interest rate might fall slightly during the term as borrowers make repayments on the outstanding debt. Because: lower risk for the lender translates into a lower interest rate. In short, the return on mortgages should be adjusted to reflect a number of 'options', but overall an attractive return still remains.

What if borrowers are no longer able to meet their obligations? This risk seems limited. Based on recent years, losses of less than 0.01% on an annual basis are conceivable for the coming years as well (due to the strong increase in house prices and more or less mandatory mortgage repayments).

Looking at the past: after the credit crisis, the maximum loss in a year was about 0.1% (based on public data from the Homeownership Guarantee Fund, the ECB and securitisations of various banks). The highest losses occurred during the oil crisis in the 1970s, when interest rates were well above 10%. At that time, the highest loss in one year was about 0.2%.

So it's all moonlight and roses then? Certainly not. There are two issues to consider. The first is duration, or average term, of a mortgage investment, which is generally around 8 years. If interest rates rise sharply, this will have a considerable impact on the price development because the underlying mortgages are measured at current market rates. The second thing to consider when investing in an investment fund is the mortgage pipeline risk. We will discuss this in more detail below.

2. What is mortgage pipeline risk?

One thing to consider when investing in a mortgage fund is the mortgage pipeline risk. Upon purchase, mortgages are concluded for you first, which are then included in the investment fund at market value. The time from when a mortgage proposal is issued until it is signed at the civil law notary's office is generally about 3 to 4 months. During these months, interest rates may fluctuate. Investors, or lenders, want compensation for this risk. As a rule, this compensation is around 0.05% – 0.10% on an annual basis over the entire fixed-rate period.

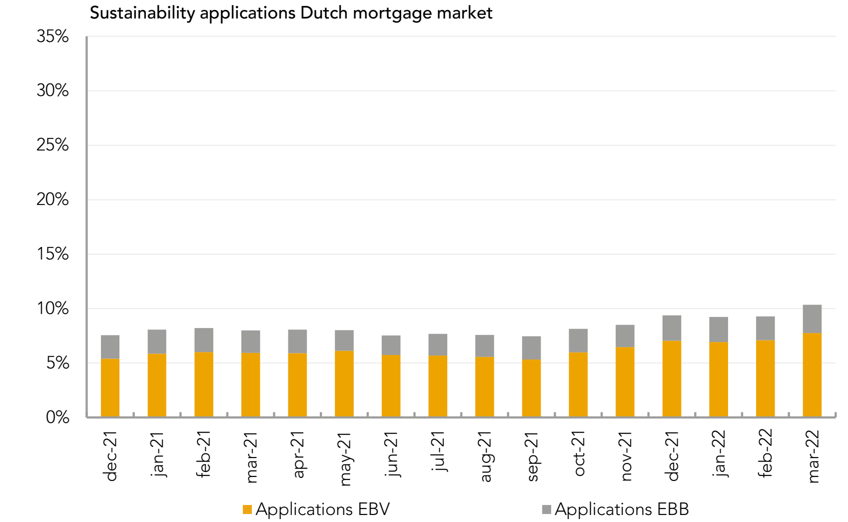
If the interest rate remains the same or drops, the yield is positive.
For example: if the interest rate offered is 4% and the interest rate upon transfer of the loan to the fund is also 4%, a profit is made immediately at the start, equal to the fixed-rate period (for example 10 years) multiplied by the compensation for the mortgage pipeline risk (for example 0.05%), i.e. 10 x 0.05% = 0.5%.

But if the interest rate goes up during the 3 to 4 months between the proposal and the transfer at the civil law notary's office, the mortgage pipeline risk will hurt. Suppose the interest rate increases by 0.25%. In that case, the borrower will be entitled to an interest rate of 4%, whereas the market demands 4.25%. The yield of the mortgage pipeline risk is 0.50% (10 years x 0.05%). On the other side of the scale there is a loss. Based on a level repayment loan of 10 years and a duration of 8 years, this amounts to approximately 2% (8 x 0.25%). We see that interest rate movements in the mortgage market are often gradual. The risk is then generally lower and the likelihood of positive performance greater.

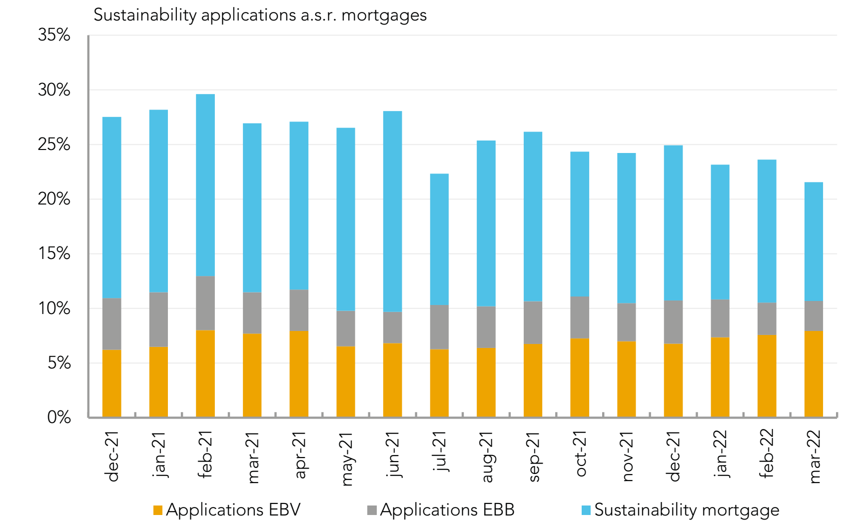
3. How are the ASR Mortgage Funds aligned with a.s.r.'s 'green policy'?

At a.s.r. we have been informing homeowners for years about how to make their homes more sustainable, and in that context we have entered into a partnership with Essent. Further, a few years ago we were the first insurance company to introduce the Sustainability Mortgage. When taking out this mortgage, homeowners can immediately indicate whether they want to qualify for a sustainability loan. The option is valid for up to two years. The advantage is that after purchasing and moving into the new house, buyers do not need to take out a new mortgage if they decide at a later point to implement sustainability measures. It also saves them another visit to the civil law notary.

The figures on the right show the percentage of Sustainability Mortgages concluded by a.s.r. and below them is the market average based on data from Hypotheken Data Netwerk (HDN). ESB stands for Energy Saving Budget and ESM stands for Energy Saving Measures. The main difference between the two is that with ESB it is already clear in advance what energy saving measures will be taken. What is important is the percentage of mortgages taken out that actually 'withdraw' the money to set to work. That percentage is around 75-80% (depending on NHG-backed or non-NHG-backed loans).

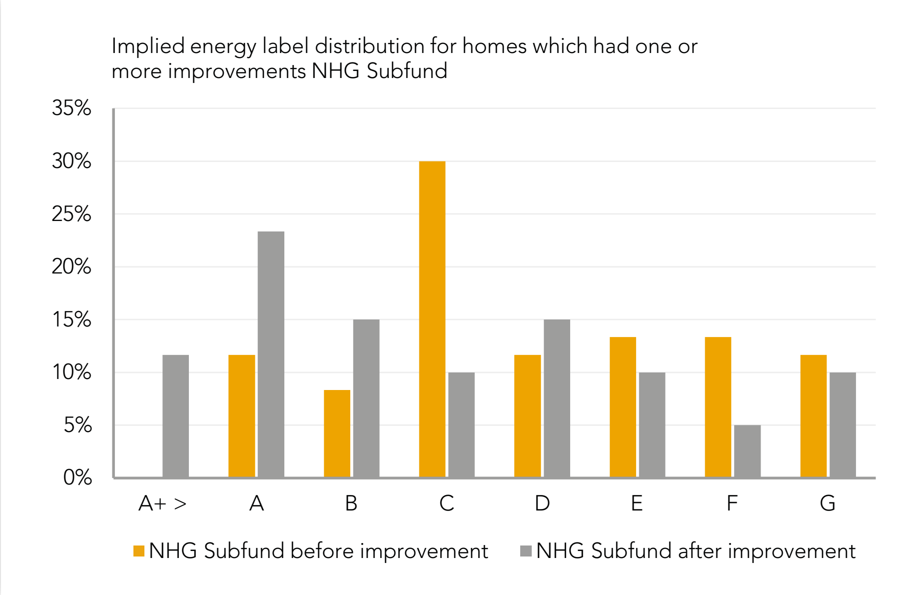


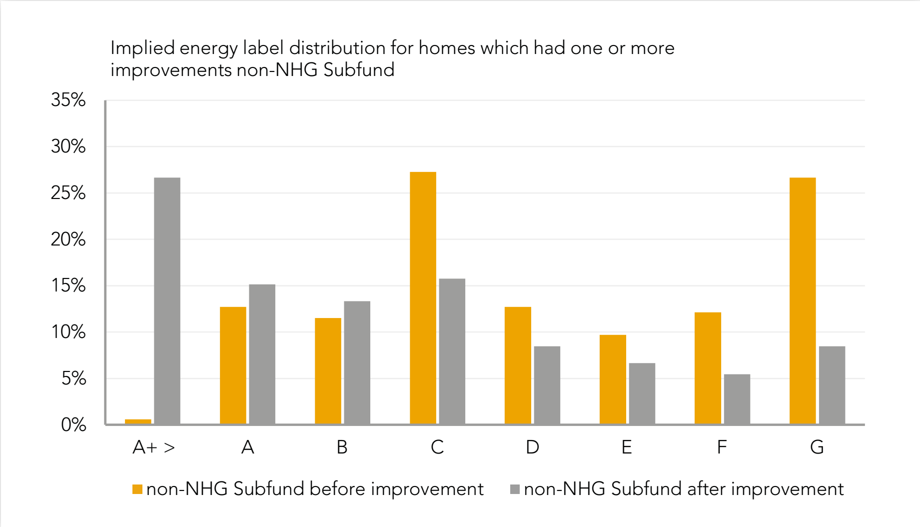
Source: HDN



Source: HDN & a.s.r.

What is the effect on carbon emissions and the energy label? Can we truly measure the fruit of our efforts? Unfortunately, this is still difficult. There is no incentive for homeowners to apply for a new energy label when sustainability measures have been implemented, for example. That is why we, together with Calcasa, have developed a method to measure the effect of sustainability measures, such as home insulation, solar panels and heat pumps. This method takes into account the measures chosen, which must be demonstrated by means of invoices, and the type of house (age, terraced/detached house, etc.). Below you can see the effect on the energy label. In general, the sustainability initiatives can be said to result in an improvement of the energy label by approximately 1.5 steps.





4. Why invest in mortgages at a.s.r. vermogensbeheer?

There are various reasons to invest in our Mortgage Fund:

- Investors choose what percentage of NHG-backed versus non-NHG-backed loans they want to include in the portfolio.
- Both a.s.r. and (external) institutional investors invest via the same 'WelThuis' label, which means that there are no conflicts of interest or less favourable conditions, for example.
- There is full alignment with a.s.r. via the 'vertical slice method' (no cherry picking): you receive a cross-section of the production that a.s.r. itself also purchases.
- a.s.r. itself also invests in the mortgage funds of a.s.r. vermogensbeheer – your interest is also our interest.

- No pre-financing required – a.s.r. Leven produces the mortgages and payment takes place upon investment.
- There is an independent external Supervisory Board.
- Investors can switch free of charge between the subfunds of the ASR Mortgage Fund. If, for example, a more favourable regime will apply to NHG-backed mortgages under Solvency II in the future, insurance companies can easily convert their investments.
- The valuation method is based on a.s.r. Leven's model, with the exception that if the rates differ from the market average by more than 0.20%, the market average is used.
- We do not give a discount on A-label homes – instead, we actively encourage homeowners to implement sustainability measures in their homes.
- Sustainability plays an important role in our product development.
- Our good network with smaller and medium-sized intermediaries ensures more attractive margins.
- We are members of the pricing committee that sets the interest rates (50% voting right).
- No derivatives or money market funds are used.
- No unpleasant surprises regarding costs – you pay an all-in fee.
- a.s.r. is the most sustainable insurance company according to Sustainalytics (www.sustainalytics.com).

The ASR Mortgage Fund is actively managed.

5. To whom is the ASR Mortgage Fund particularly interesting?

The ASR Mortgage Fund can be an interesting option for investors with a long horizon. However, please note that mortgages are an illiquid investment and there is usually no daily liquidity, which means that selling may take somewhat longer.

Investing in mortgages is usually only reserved for professional parties such as pension funds and insurance companies. The lower limit for mortgage fund purchases is usually 5 million euros.

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