aberdeen Investments

For professional investors only – not for retail distribution.

Marketing communication.

Short-dated enhanced income (SDEI) strategies for insurers

October 2026

aberdeeninvestments.com

Short-dated enhanced income (SDEI) strategies for insurers

Short-dated credit strategies can be designed to aim for an enhanced yield over money markets and defensive credit alternatives.



Key features for insurers

- Targets a higher yield than comparable alternatives with relatively low risk and solvency capital requirement (SCR) contribution
- Aims for price stability, such as implementing a minimum A- portfolio rating and duration under 2 years
- T+1 liquidity
- Vanilla instruments only (derivatives for interest rate and foreign exchange hedges only)
- Very low modelled drawdowns and volatility

Investment environment

The current environment remains uncertain, with geopolitical tensions, evolving trade policies and shifting economic expectations continuing to influence markets. While growth has proven more resilient than many anticipated, investors remain focused on the balance between moderating economic activity, inflation trends and the path of monetary policy. The outlook for monetary policy remains uncertain, as central banks continue to balance inflation risks against signs of moderating economic activity. Against this backdrop, fixed income continues to offer attractive income opportunities, while credit markets are supported by generally resilient corporate fundamentals.

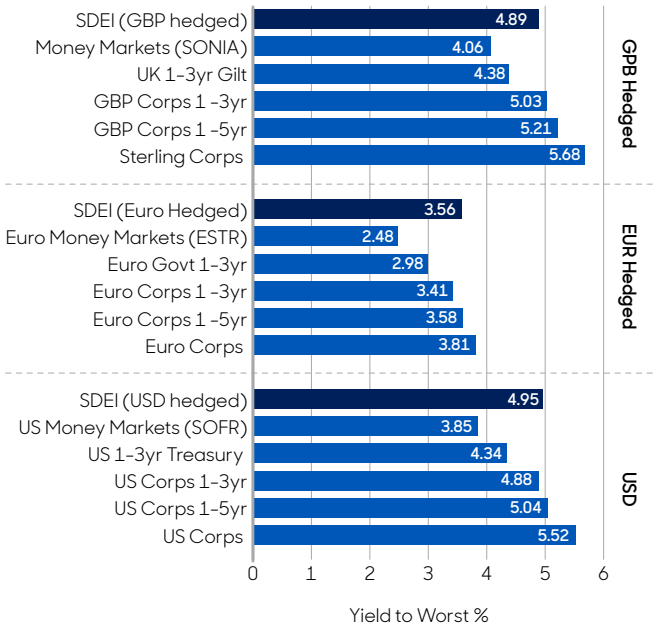
Delivering an enhanced yield

As demonstrated in Figure 1, SDEI strategies have the potential to generate notable yield pick-ups (including when currency hedged) compared to money markets and other short-dated credit options – whilst keeping price stability and liquidity front of mind. We believe that SDEI strategies should not compromise on these principles, avoiding the chase for yield in higher-risk market segments.

Taking a global approach unlocks a broader opportunity to seek investment in higher quality credits that can deliver a yield enhancement whilst balancing liquidity and price stability. For example, at the time of writing, CFE (One of the largest utilities in Latin America) offers a 1.5% spread pick-up compared with ENEL for the same BBB-rated credit risk.

While the path of monetary policy continues to evolve, policy rates remain at levels that continue to support attractive income opportunities for fixed income investors. Against this backdrop, SDEI strategies can target 0.5% to 1.0% a year (depending on share class currency) above cash returns and, over the long run, we expect the average yield enhancement over money markets to be +1.75% a year over the market cycle.

Figure 1: SDEI[1] yield to worst vs alternatives (31 August 2026)



[1] A typical SDEI strategy is used as a proxy to provide SDEI indicative yield to worst.

Price stability

The investment guidelines of an SDEI strategy are essential. They should set the foundation for delivering liquidity and price stability, balanced with the flexibility to deliver an enhanced yield. We think the below factors are some of the most important to deliver this outcome:

- Portfolio duration of two years or less, generating significant pull-to-par effects and reducing volatility
- Core opportunity set formed of single A-rated credit or better, which supports a minimum average A- portfolio credit rating
- High yield allocations constrained, with quality remaining a focus:
  - Maximum of 20% of overall portfolio
  - Core opportunity set A- rated
  - Maximum of 5% for single B rated names
  - No CCC rated names allowed.

To assess how SDEI strategies net asset value (NAV) risk might materialise in practice, we have constructed an index representing an average asset allocation and risk profile based on the guidelines discussed in this paper. We have compared this to global corporate indices (1–5 year and all maturity indices) and to a global government bond index. The results are shown in Figure 2.

Key takeaways from this analysis:

- SDEI strategies have the potential to offer an enhanced risk-adjusted outcome with a significant reduction in volatility
- 2008 was largest drawdown (4.3%) but much better versus alternative credit indices
- 2022 (one of worst periods on record for fixed income) saw 3.1% drawdown – a strong outcome vs alternative credit and government bond indices.

In practice, an active manager would aim to enhance the return and further reduce drawdowns. For example Aberdeen's SDEI strategy has a yield of c.5% compared with the proxy index of 4.4% (USD, as at 31 August 2026).

"The investment guidelines of an SDEI strategy are essential. They should set the foundation for delivering liquidity and price stability, balanced with the flexibility to deliver an enhanced yield."

Figure 2: Proxy index – maximising an SDEI strategy yields vs. volatility & drawdown (as at 31 August 2026)

	Proxy Index	1-5 year global corps	Global corps	Global govt.
Yield (%)	44 (SDEI* c.5%)	4.5	5.0	4.0
Duration (years)	1.4	2.7	5.7	6.6
Total Return	3.2%	3.6%	4.0%	2.8%
Volatility	1.6%	2.5%	5.1%	3.6%
Sharpe Ratio	2	1.4	0.8	0.8
Drawdown Analysis				
Max Drawdown	**-4.3%**	**-8.4%**	**-18.0%**	**-14.6%**
2026 (Iran-US Conflict)	-0.2%	-1.1%	-2.0%	-4.5%
2022 (Russia / Ukraine War)	-3.1%	-8.4%	-18.0%	-14.4%
2020 (Covid 19)	-2.2%	-3.8%	-6.9%	-1.0%
2016 (Energy selloff)	-0.2%	-0.7%	-3.1%	-3.3%
2013 (European sovereign crisis)	-0.4%	-1.2%	-3.9%	-2.7%
2008 (Financial Crisis)	-4.3%	-5.4%	-10.8%	-2.3%

* Aberdeen SDEI strategy. Performance USD hedged, gross of fees. Proxy index blend: 55% ICE BofA 1-3 Year Global Corporate Index, 10% ICE BofA US Treasury Bill Index, 10% ICE BofA 1-3 Year BB-B US Cash Pay High Yield Constrained Index, 20% ICE BofA 0-1 Year US Corporate Index, 5% Aberdeen US money markets fund.

Source: Aberdeen, 31 August 2026.

Liquidity

T+1 liquidity can be targeted by SDEI strategies when guidelines are carefully considered. The SDEI strategy discussed in this paper maintains 10% in treasury bills, which supports maintaining a minimum of 15% of assets inside a 1-year maturity (current allocation over 30%). This also serves to further drive the price stability objective of these strategies. Achieving T+1 liquidity is an improved outcome versus traditional short-dated credit funds, which are typically T+3 liquidity.

Solvency II capital treatment

SDEI strategies can offer an attractive investment for insurers in terms of Solvency II capital efficiency.

On a standalone basis (i.e. ignoring all other assets and liabilities), our strategy's standard formula SCR at 30/06/2026 was 8% of the investment value, significantly lower than the 11% or 18% from our short-dated and all-maturity corporate bond funds.

Notably, the increase in capital requirements from investing in SDEI would be materially lower than 8%, since this figure takes no credit for diversification with (i) other investments and (ii) non-investment risks. Furthermore, cash/money market investments attract a non-zero capital charge. Therefore, an insurer moving out of cash would expect to see their capital requirement increase by an amount much lower than 8% of the amount invested.

Case study

One of our UK insurance clients was looking for options to work excess EUR money market allocations harder. The insurer and our Strategic Insurance Group performed an exercise whose objective was to generate more yield without materially increasing the insurer's SCR. The client's conclusion was to invest into our SDEI strategy. A summary of the output of the exercise is shown in Appendix 1.

Summary

At first glance, SDEI strategies might not look dissimilar to other short-dated options. However, through careful portfolio construction, a truly global approach and an understanding of insurance asset management, SDEI strategies can be constructed to blend the benefits of money market and credit options, providing an attractive option to insurance companies.



To discuss how SDEI can support your investment strategy, contact **strategicinsurancegroup@aberdeenplc.com**



Appendix 1: Case study

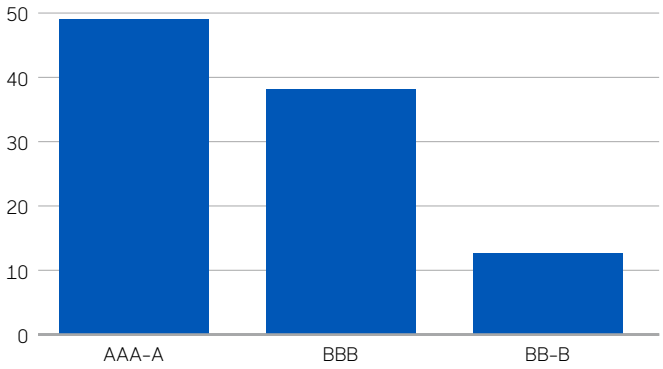
Strategy		Global Short Dated Corporate Bond	Global Corporate Bond	Short Dated Enhanced Income	Fund finance (example)	Money markets	Government bonds (example)
Duration (illustrative)		+/- 0.5 yr relative to index (approx. 2.5 yrs)	+/- 1.0 yr relative to index (approx. 7 yrs)	**Target <2.0 yrs**	Negligible / floating rate (1-4 year maturity)	Negligible / <1.0 yr	2 to 3 yrs
Illustrative returns (These are Aberdeen forecasts or targets and are not guaranteed)	**Index**	Barclays Global Agg. Corporate 1-5 Index ex-sub (FX-hedged)	Barclays Global Agg. Corporate Index (FX-hedged)	**SOFR**	SOFR / SONIA / EURIBOR	N/A	ICE 1-3 year Global Government Bonds
	Target outperformance	+0.5% p.a., gross of fees, over 3 years	+1.0% p.a., gross of fees, over 3 years	**+1.75% p.a.**	+2.2% p.a.	N/A	N/A
Credit rating		90% BBB or higher; B- minimum allocation, incl. off-benchmark high yield securities (max. exposure 10%)		**Minimum A-**	AA-	Most not rated; 46% A rated or better Accessed by AAA rated fund	Sovereign
Increase to solvency capital requirements (illustrative Sept. 2023; ex. currency) for this insurance client's specific situation		3.5% increase	9.1% increase	**1.5% increase**	Interest rate: negligible Spread: 0.8% increase Concentration: significant	[Nil / baseline]1	1.1% increase
Typical liquidity at strategy level		T + 3	T + 3	**T + 1**	None (typical 1-year term)	T + 0 available	T + 2

Appendix 2: Aberdeen SDEI strategy. Typical portfolio characteristics (31 August 2026)

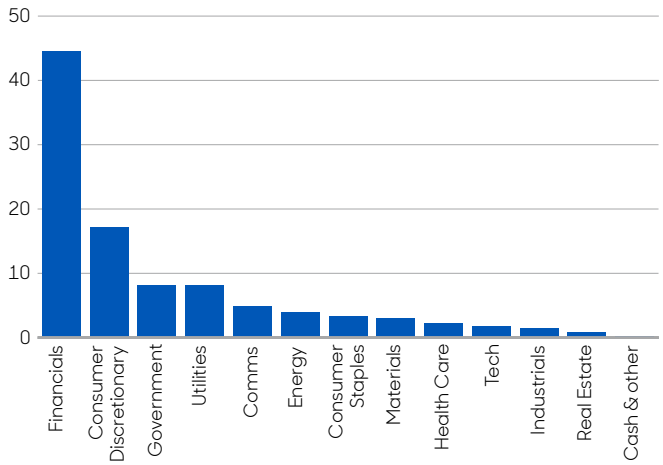
Characteristics

	Portfolio
YTW	4.78
Duration	1.4
Average Rating	A-
Average spread	110

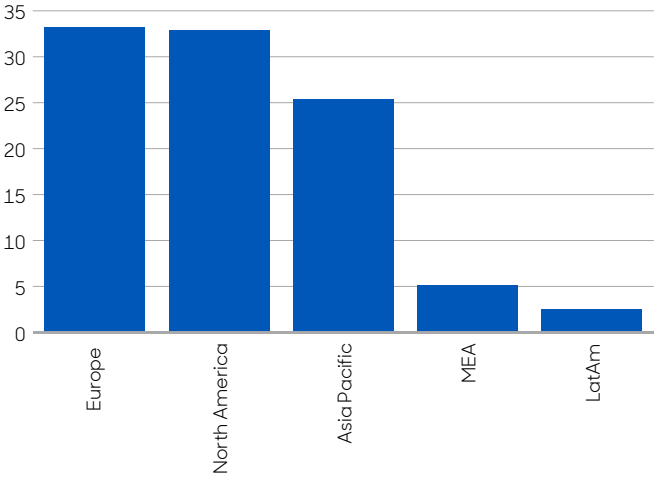
Market %



Sector %



Region %



Important information

The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested. Past performance is not a guide to future results.

Risk factors you should consider before investing:

Credit risk – The strategy invests in securities which are subject to the risk that the issuer may default on interest or capital payments.

Interest rate risk – The strategy price can go up or down daily for a variety of reasons including changes in interest rates, inflation expectations or the perceived credit quality of individual countries or securities.

High Yield Credit risk – The strategy invests in high yielding bonds which carry a greater risk of default than those with lower yields.

Emerging Markets risk – The strategy invests in emerging market equities and/or bonds. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.

Convertible Securities and CoCos risk – Convertible securities are investments that can be changed into another form upon certain triggers. As such, they can exhibit credit, equity and fixed interest risk. Contingent convertible securities (CoCos) are similar to convertible securities but have additional triggers which mean that they are more vulnerable to losses and volatile price movements and hence become less liquid.

Any data contained herein which is attributed to a third party ("Third Party Data") is the property of (a) third party supplier(s) (the "Owner") and is licensed for use by Aberdeen*. Third Party Data may not be copied or distributed. Third Party Data is provided "as is" and is not warranted to be accurate, complete or timely. To the extent permitted by applicable law, none of the Owner, Aberdeen* or any other third party (including any third party involved in providing and/or compiling Third Party Data) shall have any liability for Third Party Data or for any use made of Third Party Data. Neither the Owner nor any other third party sponsors, endorses or promotes the fund or product to which Third Party Data relates.

* Aberdeen means the relevant member of Aberdeen Group, being Aberdeen Group plc together with its subsidiaries, subsidiary undertakings and associated companies (whether direct or indirect) from time to time. This is a marketing communication.

United Kingdom (UK): Issued by abrdn Investments Limited which is registered in Scotland (SC108419) at 1 George Street, Edinburgh EH2 2LL and authorised and regulated by the Financial Conduct Authority in the UK.

Italy, Luxembourg, Portugal and Spain: Produced by abrdn Investments Limited which is registered in Scotland (SC108419) at 1 George Street, Edinburgh EH2 2LL and authorised and regulated by the Financial Conduct Authority in the UK. Unless otherwise indicated, this content refers only to the market views, analysis and investment capabilities of the foregoing entity as at the date of publication. Issued by abrdn Investments Ireland Limited. Registered in Republic of Ireland (Company No.621721) at 2-4 Merrion Row, Dublin D02 WP23. Regulated by the Central Bank of Ireland. Aberdeen Investments Global is a business name of abrdn Investments Ireland Limited.

© Aberdeen Group plc 2026. All rights reserved.

AA-071026-213792-5