

# NN Liability Matching Fund - XL

Fund in scope

All data as of end December 2018



- German 10-year Bund yield declined 22 bps in the third quarter to 0.25%
- We expect gradual higher yield for the safe Euro bonds
- 40-year EUR swap rate down 15 bps over the quarter; from 1.52 to 1.37%
- Positive return of 6.6% reflection of the decrease in rates; duration 40.1 years

## Performance

During the fourth quarter of 2018, developed bond yields reversed the increase of the previous quarter. The underlying reason for the move was clearly different, however. In the previous quarter, bond yields mainly moved higher because of higher real yields, related to continuing strong US economic data. In the last quarter of the year, bond yields mainly declined because of lower break-even inflation due to the sharp drop in oil prices. On balance, yields on 10-year German government bond yields declined from almost 0.5% at the start of the quarter to about 0.25% at year-end and over the quarter the 40-year EUR swap rate decreased from 1.52% to 1.37%. Over the quarter the fund realized a net return of 6.6%. This increase reflects the incremental decrease in Euro swap rates. At the end of the quarter, the AUM of the fund amounted to € 1,577 mln.

## Outlook

Our view is that economic growth in developed markets will converge as the US fiscal “sugar high” fades. At the same time, we foresee a recovery in Europe and Japan, driven by domestic demand and a recovery from the one-off headwinds (new emission rules and natural disasters).

In this environment, we expect more Fed rate hikes and probably a first rate hike from the ECB. Combined with an expected recovery in oil prices and less supportive demand-supply dynamics for government bonds – mostly because of the end of ECB QE and the Fed’s ongoing balance sheet reduction – we expect a gradual rise in safe government bond yields. However, spikes in uncertainty might temporarily drive investors into safe government bonds.

ISIN code	NL0010290565
Inception date	March 2014
Ongoing charges	0.25%

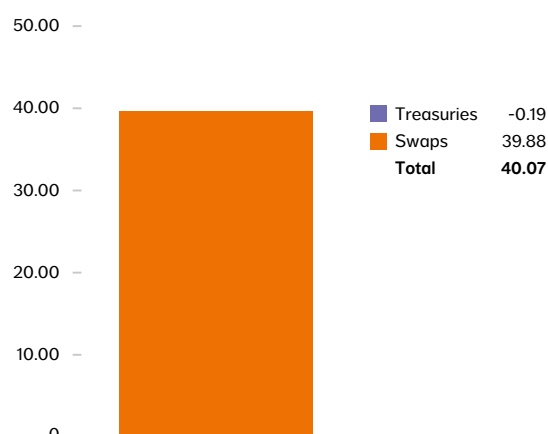
## Net Performance (%)

	3 Months	Year to date	1 year	3 year (ann)	5 year (ann)
NN Liability Matching Fund XL - N	6.6	6.8	6.8	4.5	13.4

## Net Performance (%)

Treasuries	45.6
Swaps	2.0
Cash	52.4

## Duration contribution (year)



Source: NN IP Performance Measurement Europe

## Fund description

The NN Liability Matching Funds combine a matching portfolio tailored to individual pension goals with the practical advantages of a fund solution. By using three funds we are able to keep costs limited while maintaining high matching standards almost similar to a fully tailored institutional solution.

We manage three Liability Matching Funds with different interest rate sensitivity (duration) profiles. The three funds primarily invest in Euro government bonds with a AAA rating (at purchase) and a maturity at issue of 1-3 years\*. Within each of the three funds we

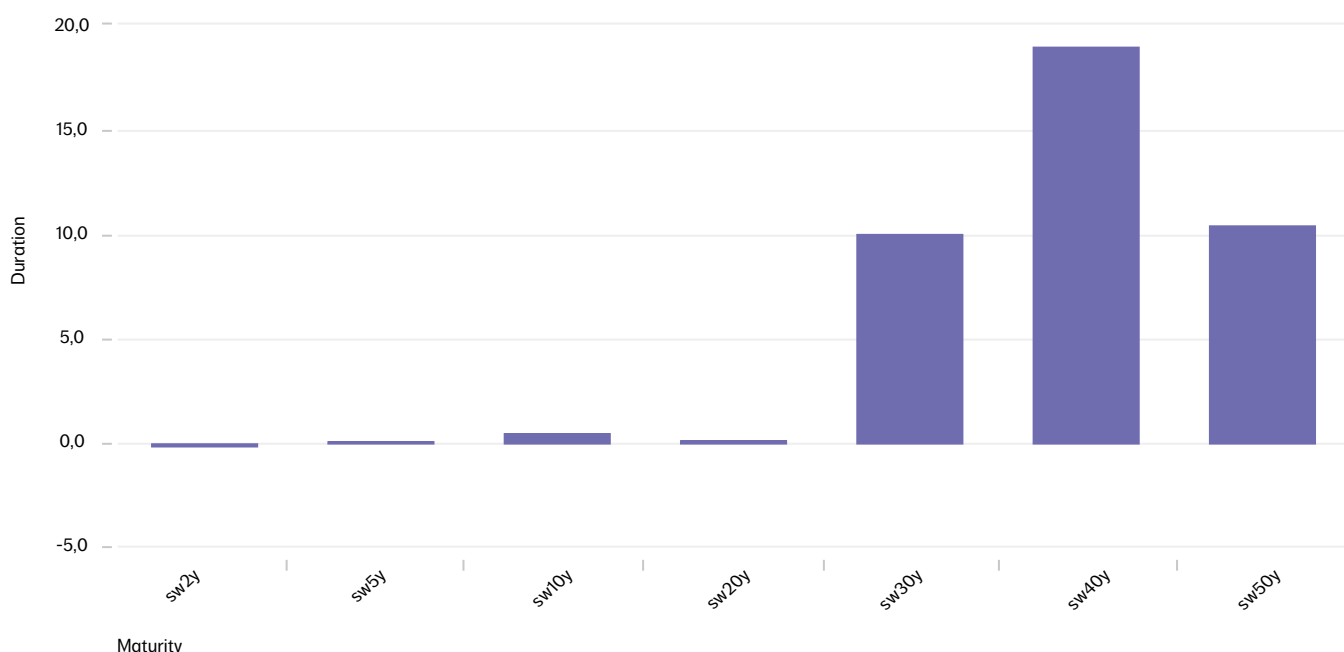
raise the duration by interest rate swaps and bond futures.

NN Liability Matching Fund (M) aims for a duration of around 4 years and LMF (L) and LMF (XL) of around 20 and 40 years respectively. The three funds are passively managed.

The duration profiles of funds are constructed in such a way that when optimally combined they can closely match client specific duration profiles based on typical cashflow schemes.

\* When a bond rating is downgraded or the maturity drops below 1 year we do not need to sell.

## Duration allocation



Source: NN IP Performance Measurement Europe

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