

# NN Liability Matching Fund L - T

ISIN code	NL0013040355
Inception date	November 2018
Ongoing charges	0.15%

## Fund in scope

All data as of end March 2020



- Governments across the globe announced massive fiscal stimulus to contain the drag from the COVID-19 pandemic.
- The combination of a sharp economic slowdown in the near term and a huge increase in uncertainty has resulted in very aggressive price adjustments on financial markets.
- The 20-years EUR swap rate decreased by 38 bps to 0.22%.

### Performance

It seems a lifetime ago, but in the first few weeks of the year, financial markets continued the risk-on trend that had been ongoing since last October. This completely changed in February and March when it became clear that the coronavirus was spreading rapidly around the globe. In reaction, almost all governments moved to (partially) lock down their countries. There is no doubt that the increasingly stringent lockdown measures to combat the virus will have a severe negative impact on the economy in the near term. The combination of a sharp economic slowdown in the near term and a huge increase in uncertainty has resulted in very aggressive price adjustments on financial markets. The US 10-yr Treasury yield dropped from 1.92% at end-2019 to 0.7% at the end of Q1 2020, after reaching an all-time low of 0.5% on 9 March. In the same period, the German 10-year Bund yield decreased from -0.19% to -0.46%, after touching -0.90% on 9 March. The relatively modest decline in German yields is partly attributable to the ECB's confirmed reluctance to cut the deposit rate below -0.5%. By contrast, the Fed cut its key policy rate all the way from 1.5-1.75% to 0.0-0.25%.

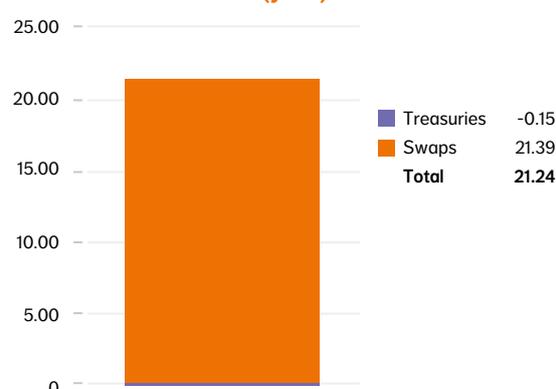
At the end of the quarter, the AUM of the fund amounted to € 1,675 mln and the overall duration of the fund was 21.2 years.

Net Performance (%)	3 Months	Year to date	1 Year
NN Liability Matching Fund L - T	7.9	7.9	18.2

### Outlook

The uncertainty about the virus outlook and the length of the lockdowns makes it difficult to assess economic damage and the eventual magnitude of the contraction. As long as we do not know when the lockdowns will be lifted and economies can begin to normalize, we cannot easily make assumptions about the timing and shape of the recovery. The economic contraction in the US and Europe could reach 10% or far more, depending on the immediate virus dynamics and the strategy chosen by governments to minimize health risks in the medium term. Fiscal deficits are likely to exceed the 10%-of-GDP mark in the US and the hardest-hit European countries. However, partly thanks to central bank buying of government bonds, the rapid widening of fiscal deficits should not create financing problems in the short term. Together with rock-bottom key policy rates, this implies that government bond yields will probably stay low for the next few months. Eurozone peripheral sovereign bonds are likely to remain protected by the ECB buying.

### 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

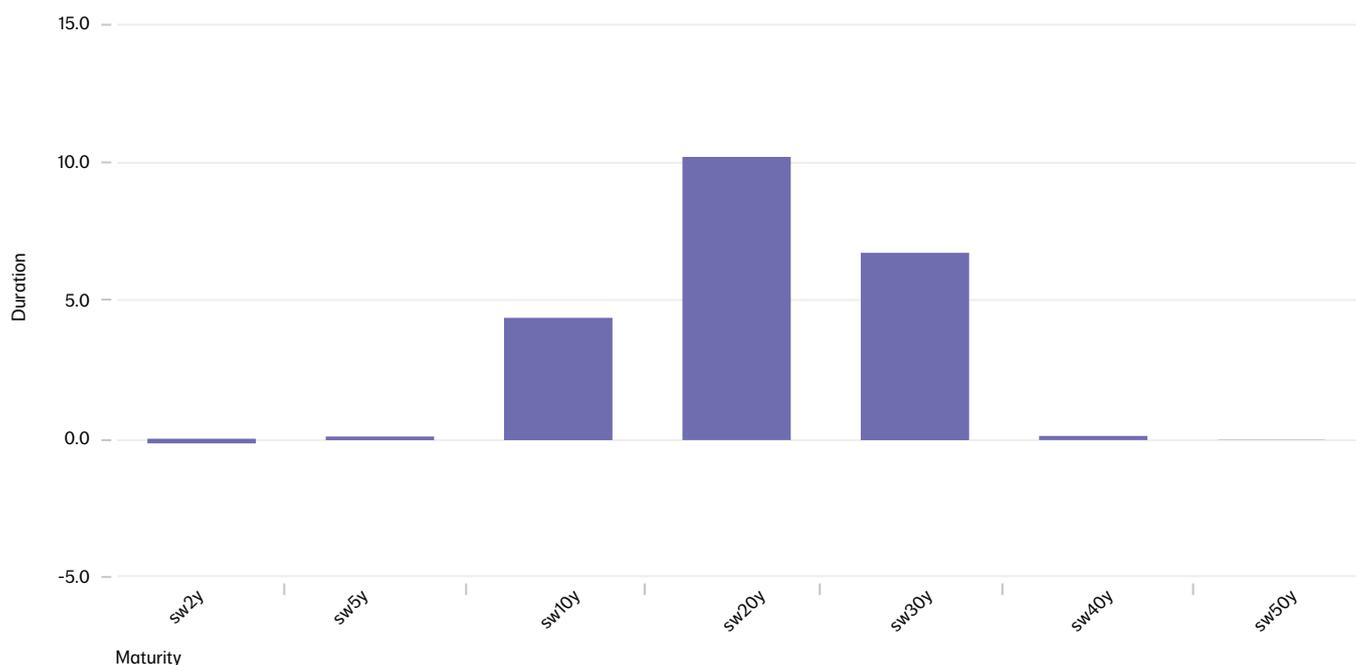
raise the duration by interest rate swaps and bond futures.

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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