

## SOURCING APPROPRIATE EUROPEAN GOVERNMENT EXPOSURE

Using an indexed approach to gain exposure to high quality European government debt



Traditionally, investors have assumed a high correlation between risk and return factors in their European sovereign debt exposure and perceived little difference between country exposures. The current economic environment in Europe, however, has changed that. Investors seeking government bond exposure have a wider choice today, but also need to fully understand the risks posed by each individual investment and perform thorough due diligence. For investors seeking to gain this exposure through a passive strategy, Northern Trust's experience and tailored expertise, coupled with our pooled funds, can help provide exposure whilst minimising risk.

### A RANGE OF SOLUTIONS TO MEET YOUR NEEDS

For investors seeking index-based exposure to European government bonds, Northern Trust offers two distinct pooled funds:

- **NT High Quality Euro Government Bond Index Fund** – provides exposure to a select group of European sovereign bond issuers designed to help investors attain lower portfolio volatility through exposure to a 'higher quality' index for sovereign bonds.
- **NT Euro Government Inflation Linked Index Fund ex Italy ex Greece** – provides investors the opportunity to hedge their investments against movements in inflation, giving them a way to manage their long-term liabilities more effectively.

	The NT High Quality Euro Government Bond Index Fund as of 31 May 2013	The NT Euro Government Inflation Linked Index Fund as of 31 May 2013
<b>Index</b>	<b>Barcap High Quality Euro Sovereign</b>	<b>Markit iBoxx EUR Sovereigns EUR Inflation-Linked ex-Italy, ex-Greece Index</b>
<b>Index Yield</b>	1.14	1.49
<b>Duration</b>	6.68 years	8.24 years
<b>Number of Bond Issues</b>	91	13
<b>Management Philosophy</b>	Sampled	Sampled
<b>Eligible Investments</b>	Sovereign Bonds	Sovereign Bonds
<b>Current Composition</b>	Austria 7.40 France 41.62 Germany 36.73 Netherlands 11.38 Finland 2.67 Cash 0.11	France 66.11 Germany 33.82 Cash 0.07
<b>Average Index Credit Rating</b>	AA+	AA+
<b>Rebalance</b>	Monthly	Monthly

These funds not only offer diversification, thanks to their broad-based exposure across European sovereign bond issuers, they also provide the cost efficiency of a pooled fund vehicle.

### THE NT HIGH QUALITY EURO GOVERNMENT BOND INDEX FUND

This fund has been designed to meet the requirements of investors seeking exposure to the highest quality European governments, whilst recognising the potential for credit downgrades throughout the economic cycle. It seeks to capture issuers who have:

- Top-tier credit ratings; or
- Exposure to a significant proportion of eurozone gross domestic product.

The countries currently included in the index are Germany, France, Netherlands, Austria and Finland.\*

The NT High Quality Euro Government Bond Index Fund is managed to closely track the risk and returns of the Euro Sovereign High Quality Index, a customised benchmark created by Barclays Capital in conjunction with Northern Trust. The index has been specifically designed to offer investors exposure to higher quality European government bonds.

\*Countries included as of 31 May 2013.



## FIXED INCOME AT NORTHERN TRUST

- Four decades of fixed income market experience
- Global presence with partners in Chicago, London and Bangalore
- Focused research teams
- Risk management emphasis

Only countries with an index rating of AA1 are included within the NT High Quality Euro Government Bond Index Fund, and all index constituents must maintain a rating of AA3 to remain within the fund. This provides flexibility and allows the index make up to change as countries improve or decline. Using a process defined by the index provider, ratings from all three leading credit agencies are taken into account when determining index constituency. Either the median rating of the three credit agencies is used or, where two or fewer ratings are available, the lowest is used.

## THE NT EURO GOVERNMENT INFLATION LINKED INDEX FUND

The NT Euro Government Inflation Linked Index Fund aims to deliver performance closely replicating the risk and return characteristics of the Markit iBoxx EUR Sovereigns EUR Inflation-Linked ex-Italy, ex-Greece Index. The Fund invests in freely transferable euro-denominated euro-inflation linked fixed income securities issued by countries within the Index. All bonds must have a minimum time to maturity of at least one year at the date of the country's selection for the Index, and must have an investment grade rating by Fitch, Moody's or Standard & Poor's.

This fund is designed to allow large institutional investors, such as pension funds or charities, to manage their long-term liabilities more effectively by providing them a way to hedge their portfolios against inflation. Because of their low correlation to other bond asset classes, inflation linked bonds also can provide diversification to an institutional investor's broader portfolio.

## LEARN MORE

If you would like to learn more about Northern Trust's European Government Bond funds, or about our index management strategy, please contact your relationship manager or visit us at [www.northerntrust.com/pooledfunds](http://www.northerntrust.com/pooledfunds).

## INDEX MANAGEMENT: A CORE FOCUS

At Northern Trust, index management is a core focus, driven by senior management and implemented by our global team of portfolio managers. Northern Trust's experienced fixed income investment team, with an average industry tenure of 18 years, delivers a unique mix of product innovation and client focused solutions. The key to our success centres around:

1. Deep investment focus, using our proprietary intelligent indexing process.
2. Excellence in execution, in which local trade execution, portfolio management and trading are combined to ensure the most liquid securities are used in portfolio construction.
3. Research focus, including continuous transaction/cost and benchmark analysis.
4. Integrated risk management and compliance allows us to assess risk at all levels and at every stage of the portfolio management process, as well as making adjustments as needed to more closely track the index.

Northern Trust currently manages more than €60 billion in index fixed income assets, including €26 billion in global government bonds.

### Important Information

This material is directed to eligible counterparties and professional clients only and should not be distributed or relied on by retail investors. For Asia-Pacific markets, it is directed to institutional investors, expert investors and professional investors only and should not be relied upon by retail investors. Any opinions expressed herein are made and honestly held at the date of the production and publication of these materials and accordingly are subject to change at any time without notice.

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