



AAA-
11/2019

Nikko AM
Asia Credit Fund

Product Profile	
Fund Name	Nikko AM Asia Credit Fund
ISIN	Class A EUR: LU0851081314
Investment universe	Asia Credit
Benchmark	JACI Investment Grade Total Return Index
Base Currency	USD
Earnings	accumulating
Inception date	02/11/12
Fund Volume	EUR 12.84 m per 31/10/19
Management Fee	0.45% p.a.
TER	0.65% p.a.
Fund Manager	Nikko Asset Management
Company	Nikko Asset Management Co., Ltd.
Internet	http://en.nikkoam.com
Investor's Profile	
Investment horizon	middle to long term
Risk classification	3
Return expectations	0.55% Outperformance p.a.
Loss Tolerance	short term losses possible

TELOS Comment

The *Nikko AM Asia Credit Fund* is a very actively managed fixed income fund that invests mainly in USD-denominated bonds of Asian markets (China, Hong Kong, SAR, Indonesia, India, South Korea, Malaysia, Philippines, Pakistan, Singapore, Thailand, Taiwan, Vietnam and others). Currently, and in line with the benchmark, the focus is on the Chinese market with over 50%. However, significant benchmark deviations in allocations (duration, sectors, countries, etc.) are also quite intentional and are due to active management. Nevertheless, investment grade as the relevant credit rating universe is observed. Investments are mainly made in sovereigns, quasi-sovereigns, supranationals and corporate bonds. The fund is managed in a combination of top-down and bottom-up management. The criteria **Fundamental, Valuation and Technical Aspects** are considered from both perspectives - although according to different factors according to the different perspectives. This in-house **FVT**-framework with its stringent and multi-layered analysis and valuation approaches is to be emphasized as one of the fund's special features. The proprietary Internal Credit Rating (**ICR**) should also be mentioned. In addition to complex qualitative and quantitative evaluation criteria, ESG analyses are also included here. (*Nikko AM* placed Japan's first SRI fund and sees itself as a pioneer in ESG in Asia.)

Nikko AM has access to numerous international offices in addition to its headquarters in Tokyo. The team responsible for the fund has remarkably extensive relevant language skills, which positively influences the necessary exchange in the relevant markets. Overall, in addition to the approach itself, the qualitative competence of the team (in terms of experience, technical know-how, differentiation) and the interaction across a wide range of relevant areas must be emphasised when assessing the fund. In addition to the continuous daily exchange of information between the closer team of 3 portfolio managers and 5

credit analysts, various meetings/committees are also defined on a weekly, monthly and quarterly basis. Using proprietary analysis and evaluation tools that have been established over many years and are continuously adapted as required, this close interaction enables efficient monitoring of the success factors of alpha sources and risk reduction, which must be emphasised. The focus on China (~50%), which corresponds to the Asian market volume, is taken into account, among other things, by the fact that *Nikko AM* can take advantage of a cooperation with the Chinese asset manager Rongtong Fund Management (Rongtong). Additional insights and investment strategy ideas are gained through its model portfolios and regular exchange of ideas here too. The result is a "high-conviction" portfolio of the best investment ideas. With ~60 different positions, the fund is concentrated. Even if the investment objective tends to be long-term in nature, the design of the investment process also takes into account short-term market movements in the sense of a rapid response to changing risk circumstances.

A clear sales discipline is implemented for the fund at several levels (credit spreads, solvency risks, fundamentals, credit default trends, etc.). However, automatisms are not used. Instead, conspicuous indications trigger comprehensive further control mechanisms (feedback loops within the investment process), which enable the ultimately responsible portfolio manager *Jian Wei Loh* and the team to react quickly and effectively.

Since inception, the fund benefited from its active and focused approach and outperformed its benchmark. With a Sharpe ratio of 0.82% over 5 years, an attractive risk-adjusted performance was achieved.

The *Nikko AM Asia Credit Fund* receives the rating **AAA-**, in particular due to the well-structured investment process with regard to alpha sources, risk management and stability.

Investment Process

The *Nikko AM Asia Credit Fund* is managed by *Nikko Asset Management* (founded 1959), one of the largest Asian asset managers. *Nikko AM* is characterized by its Asian DNA. 30 nationalities work for the company. Over 200 investment professionals (in Singapore, Hong Kong, London, New York, etc.; over 100 portfolio managers and over 50 analysts) can be accessed. Through the exchange with the joint venture company *Rongtong Fund Management Co, Ltd.* (based in Shenzhen), *Nikko AM* finds additional research know-how for the Chinese market. *Nikko AM* lives a team approach in the investment process. A 13-member Asian Fixed Income Team is responsible for the fund and its investment process from Singapore. The three senior portfolio managers of the PM Credit unit, *Jian Wei Loh* and *Lionel Lee* as co-lead portfolio managers with the Head of Asia Credit *Wei Hoong Leong* as representative, are ultimately responsible for the fund.

For the fund it is assumed that the markets are inefficient. The combination of proprietary top-down macro and bottom-up credit research is considered a suitable approach. This allows the use of a wide variety of alpha sources. Capital preservation (risk mitigation through thorough and systematic due diligence and the research process), long-term investing (identification of medium and long-term fundamentally based trends) and value discipline (seeking long-term value potential also taking into account short and medium-term price opportunities) are the three principles of the investment philosophy. The targets are 0.55% p.a. outperformance and a TE of ~3% p.a. (risk target).

At the core of the investment process is an in-house

Quality Management

Quality management can be described as multidimensional. It is initially anchored in the analysis and research process itself. The market, environment, issuer and issue analyses, which take place at a wide variety of levels, are particularly noteworthy in terms of quality assurance. The **ICR** is of particular importance here as the first limit to credit risk. The fund risk is analysed, monitored and controlled at several levels by means of numerous risk assessments (key figures). A close exchange between different (risk management)-units of the company ensures

Team

The *Nikko AM Asia Credit Fund* is managed by the Co-lead senior portfolio managers *Jian Wei Loh* and *Lionel Lee*. The Head of Asia Credit *Wei Hoong Leong*, who completes the Portfolio Management Credit Team and who was and is of particular importance in the development of the ICR model, acts as a representative. In fact, the entire 13-strong Asian Fixed Income team (under Head of Fixed Income *Liang Choon Koh*) works as a team for the fund with the five portfolio managers (Local Rates)

FVT-framework that focuses on **F**undamental, **V**aluation and **T**echnical aspects in both top-down macro research and bottom-up credit research. The results of top-down macro research provide the basis for strategic decisions, e.g. on country/sector allocation, credit quality, duration curve positioning and the allocation of the respective segments (e.g. govies vs. corporates). The top-down FVT framework is used for this purpose, e.g. to take into consideration the economic cycle, interest rate developments, profit expectations, credit & default trends, spreads, and much more. Proprietary tools and models are an integral part of the process. For example, a valuation model for the relative valuation of interest and currency markets. For bottom-up credit research, an in-house Internal Credit Rating (**ICR**) is a central element at **F**-level. Numerous quantitative, qualitative and ESG aspects are condensed into an internal rating. Multi-dimensional relative value considerations (times, peers or via segments, spreads, etc.) take place at **V**-level. The **T**-level aims at detailed supply and demand analyses. **V**- and **T**-level complement the rating assessment of the **F**-level, especially with regard to final recommendation decisions. Mid-market meetings and numerous internal exchanges between the core team (PM and credit analysts) and other fixed income and multi-asset units of the bank enable the completion of the "360-degree view" of the markets and providers. Constant monitoring, especially of the credit level including currencies and the risk side, but also a clearly defined sell discipline across all relevant aspects ensure the dynamic and flexibility inherent in the approach.

that the most comprehensive analysis and evaluation capacities are made available. Portfolio managers, credit analysts, compliance, risk management and CIO (via regular meetings) together ensure the identification, evaluation and ultimately reduction of portfolio risk, also with the help of continuously stressed tools and models. Although the fund as an active vehicle can deliberately deviate significantly from the weightings and sizes of the benchmark market when using alpha sources, constant monitoring is also a matter of course here.

and five analysts from Credit Research. The average investment experience is very high at 15 years. With a quota of 100% university degrees and 11 CFA-holders, the academic background of the team is also strong and reflects the high quality requirements of the company for team members. The team also stands out due to the complementary professional skills (e.g. regional, sectoral) and language skills of its members.

Investment Characteristics

<i>Important external factors</i>	<i>Important control factors</i>
Economic environment	Credit-worthiness
Country risk	Country allocation
Long term interest rates (level)	Sector weighting
Credit spreads	Maturity allocation
Sector development	Cash holdings

Product History

Monthly Returns

	2012	2013	2014	2015	2016	2017	2018	2019
Jan	-	-1.9	2.2	9.6	2.0	-1.7	-4.3	1.0
Feb	-	3.7	-0.6	0.6	0.2	3.0	1.2	1.2
Mar	-	3.3	0.5	4.7	-3.1	-0.5	-0.9	3.4
Apr	-	-1.7	0.0	-4.0	0.1	-1.3	1.2	0.4
May	-	-0.5	3.6	2.1	3.1	-2.5	3.9	1.8
Jun	-	-4.5	-0.3	-2.8	1.8	-1.2	-0.2	-0.8
Jul	-	0.3	2.6	1.4	0.8	-2.7	0.1	2.9
Aug	-	0.0	2.7	-2.0	1.1	0.1	1.4	3.3
Sep	-	-1.5	2.8	0.6	-0.8	0.3	0.1	0.5
Oct	-	1.2	2.0	2.3	1.6	1.9	2.0	-2.0
Nov	-	-0.6	1.9	4.6	1.0	-2.7	0.5	-
Dec	-1.2	-1.9	2.8	-3.0	0.3	-0.5	0.2	-
Product	-1.2	-4.2	22.1	14.1	8.5	-7.7	5.2	12.1
Benchmark	-1.3	-6.7	24.1	13.8	7.6	-7.4	5.0	13.2

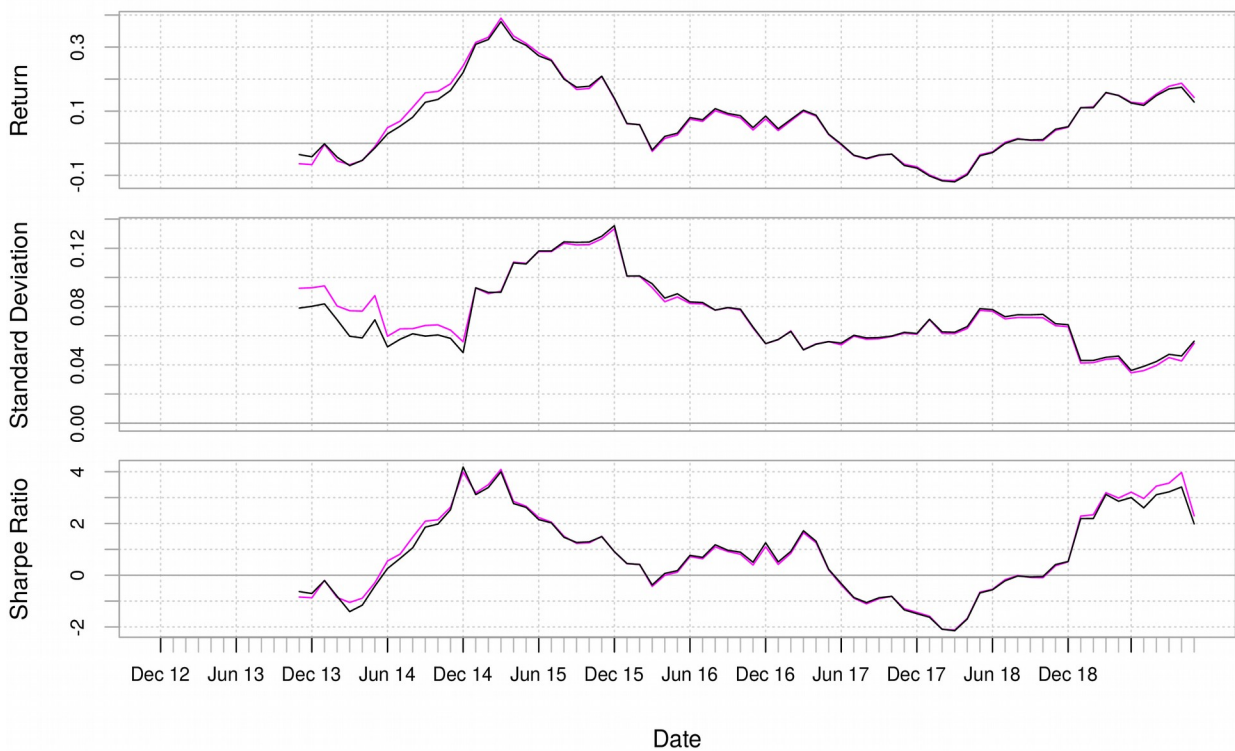
<i>Statistics per end of Oct 19</i>	<i>6 M</i>	<i>1 year</i>	<i>2 years</i>	<i>3 years</i>	<i>5 years</i>
<i>Performance (annualised)</i>	11.54%	12.85%	6.83%	3.30%	7.11%
<i>Volatility (annualised)</i>	7.25%	5.63%	6.66%	6.51%	8.23%
<i>Sharpe-Ratio</i>	1.54	2.22	0.97	0.46	0.82
<i>Best monthly result</i>	3.27%	3.39%	3.90%	3.90%	9.58%
<i>Worst monthly result</i>	-2.00%	-2.00%	-4.34%	-4.34%	-4.34%
<i>Median of monthly results</i>	1.15%	0.78%	0.49%	0.33%	0.55%
<i>Best 12-month result</i>		12.85%	17.47%	17.47%	20.92%
<i>Worst 12 month result</i>		12.85%	1.13%	-12.04%	-12.04%
<i>Median of 12-month results</i>		12.85%	12.54%	1.29%	5.16%
<i>Maximum loss period</i>	1	1	11	24	24
<i>Maximum loss</i>	-2.00%	-2.00%	-7.40%	-12.80%	-12.80%

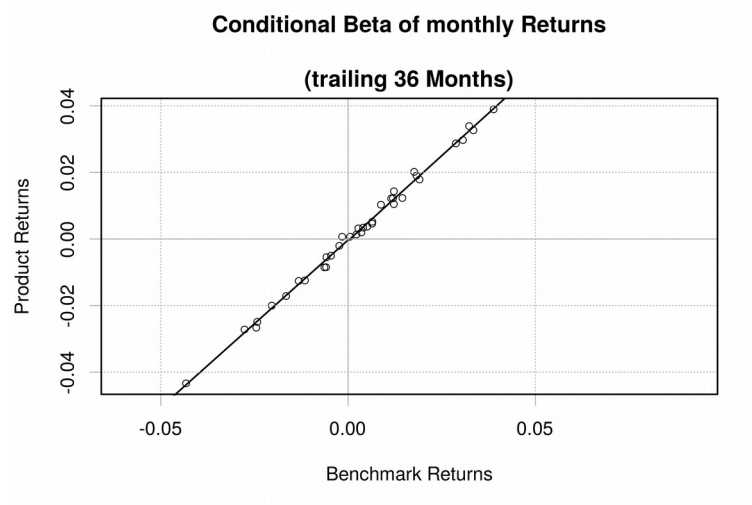
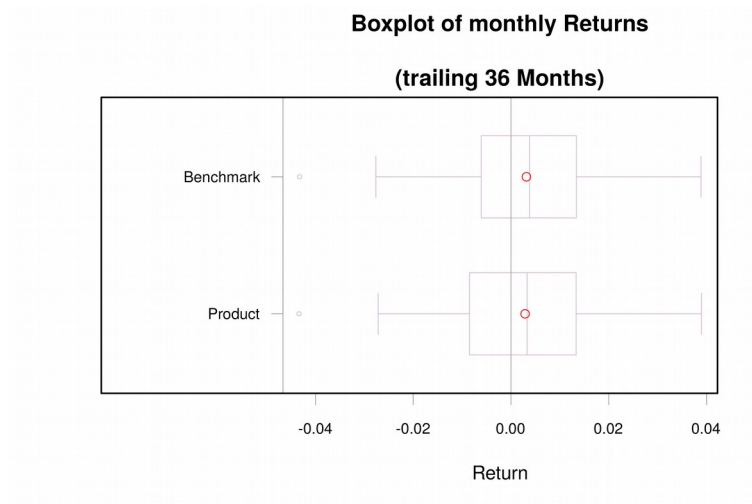
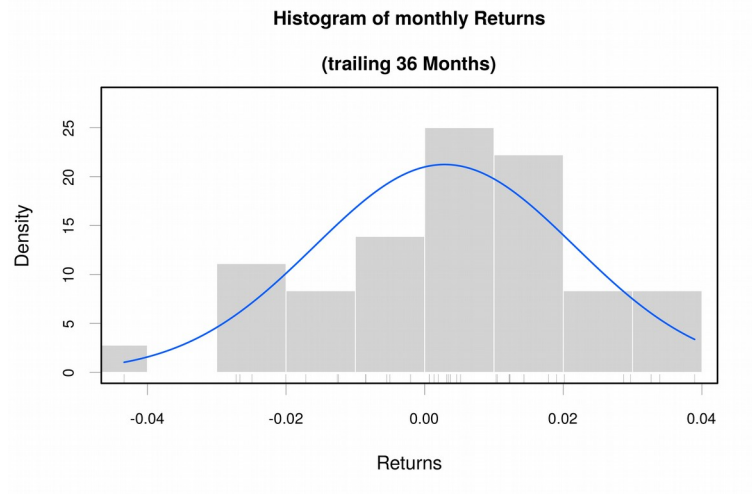
	Fund vs. Benchmark (trailing 36 Months)
Jensen Alpha	-0.00
Annualized Jensen Alpha	-0.00
Beta	1.01
R-squared	1.00
Correlation	1.00
Tracking Error	0.00
Active Premium	-0.00
Information Ratio	-0.75
Treynor Ratio	0.03

Performance



Rolling 12-month- Performance





Explanations

TELOS Rating Scale

AAA	The investment process complies with highest quality standards
AA	The investment process complies with very high quality standards
A	The investment process complies with high quality standards
+ / -	further differentiate within a rating level

The **Product Profile** contains general information on the fund, the investment firm, and the responsible fund manager.

The **Investor's Profile** enables the investor to quickly match his or her expectations with the "official" classification of the product by the investment firm.

The **TELOS Comment** section summarises the main insights of the rating and constitutes an important supplement to the rating grade. The subsequent sections contain descriptive information on the investment process, the quality management, and the responsible team.

The **Investment Characteristics** lists – from the point of view of the fund management – the most important external determinants influencing the performance of the fund, as well as the essential factors employed for its control.

The **Product History** presents – by means of graphs and tables – the development of the fund in comparison with the money market and a benchmark (where appropriate) in respect of performance and risk criteria. All calculations are based on month-end data. Fund data and benchmark data are provided by the investment firm.

The **performance** of the fund is calculated based on reinvested prices: profit distributions are being invested in new shares of the fund immediately. Thereby, the performance of distributing and nondistributing funds is mutually comparable. This approach corresponds to the "BVI method" of performance calculation, advocated by the association of the German investment fund industry. If the fund management is guided by a *benchmark*, the performance of the latter is shown as well. Otherwise, a suitable comparative index is chosen for illustration purposes – in agreement with the investment firm.

The **Sharpe Ratio** provides information about the "excess return" of the fund with regard to a risk free financial investment – here represented by the money market – as a proportion of the total risk taken. The risk free rate is from IMF and published on [FRED](#).

The **median of monthly results** is characterised by the fact that half of all monthly returns occurring in the observed period are either at least or at most as large as this value. As a result, this measure is less sensitive to "outlier

results" than, for instance, the mean (average) value of monthly returns. In an analogous way, the *median of 12-month results* should be interpreted. The *longest loss* period is the number of months needed by the fund in order to recover losses by reaching or exceeding a level that had been achieved previously in the period under consideration. If this level could not be reached again, the end of the period is used. Accordingly, the *maximum loss amount* is the largest loss which the fund suffered in the period under consideration – starting from the highest value reached earlier during this period.

Jensen Alpha measures the beta-risk-adjusted (cf. beta) outperformance of the fund versus the benchmark and is calculated using monthly returns. A positive value indicates the generation of added-value by the fund's management.

Beta is a measure of the fund's market risk exposure. A Beta larger (smaller) than one indicates that the fund will be more (less) volatile than the benchmark.

R² is the square of the correlation coefficient (cf. correlation). It is the measure of the quality of a linear fit on the fund's vs. the market's returns. It ranges between 0 (bad fit) and 1 (good fit).

Correlation is a measure of how the fund and the market move in relation to each other. Correlation ranges between -1 and +1. The extreme values i.e. -1/+1 indicate that the fund and the market always move in lockstep, for -1 in opposite directions, for +1 in the same direction. 0 indicates there is no clear relationship.

The **tracking error** is the standard deviation of differences between fund and benchmark returns. The lower the tracking error, the more closely the portfolio follows the index.

Active Premium or excess return measures the Out/Underperformance of a fund vs. its benchmark.

The **Information Ratio** is the active Premium divided by the tracking error. The higher the information ratio, the higher the active premium of the fund, given the same level of risk.

The **Treynor Ratio** is the return in excess of the risk-free rate, divided by beta. The Treynor ratio is a beta-risk-adjusted measure of outperformance vs the riskfree rate.

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