

Portfolio overview

The NOW: Pensions portfolio has a balanced investment approach which is expected to help navigate through volatile markets over the long term.

In the first quarter of 2021, the portfolio delivered a negative return of -1.3%, behind the 60/40 portfolio which rose 2.6%. The portfolio struggled notably during February when rates sold off.

However, the portfolio recovered much of February's losses during March, when the portfolio delivered a good return of +2.8%. The Diversified Growth Fund's (DGF's) return was substantial over 12 months, up 17.3%, and has delivered an annual return of +4.8% over the past three years.

Fund facts

Fund Name: NOW: Pensions Diversified Growth Fund

Fund Size: £2,194 million

Annual Management Charge: 0.3%

Base Currency: GBP

Valuation and Dealing Frequency: Weekly, every Wednesday (excludes UK bank holidays)

Fund Manager: Cardano Risk Management Ltd.

Fund Launch Date: 18 December 2012

Pricing Basis: Single price

Unit Price: 171.9440 (31 March 2021)

Domicile: United Kingdom

Fund description

The NOW: Pensions DGF adopts a multi-asset diversified strategy to deliver good expected returns in most economic scenarios. The fund is different from traditional approaches to multi-asset investment in that our approach focuses on the risk characteristics of each asset class.

Traditional asset allocation approaches often have a high proportion of total risk allocated to equities, while we believe that our risk allocation approach enables us to maximise the benefits of diversification.

The investment strategy offers members exposure to global equity, fixed income, commodities, and credit markets. The core strategy is centred on the principle that over the long-term, diversification of assets provides higher risk adjusted returns.

This approach provides a very simple form of protection because in normal markets, assets with different return characteristics behave in different ways, ie some go down and some go up in each economic cycle.

Fund objectives

Our investment objective is to achieve a return of 3% over and above the return on Cash over a rolling five-year period. We use the Sterling Overnight Index Average (SONIA) measure for Cash.

The NOW: Pensions DGF is designed to achieve a risk exposure in line with a 60% equity / 40% bond portfolio, but in a more diversified way. In order to achieve this target, we utilise an approach to investing that is based on diversification of risk rather than traditional asset allocation.

Risk diversification is achieved by investing across four risk factors:

- > Equity Factor
- > Inflation Factors
- > Interest Rate Factor
- > Diversifying Strategies

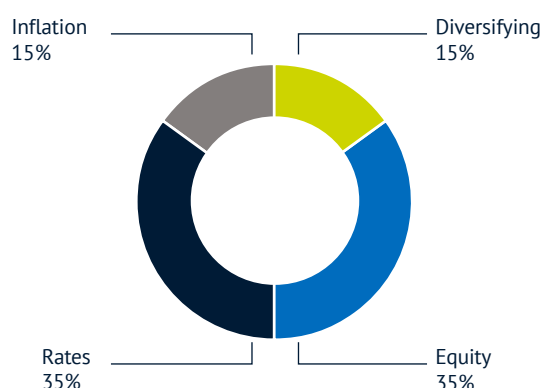
The risk management of the fund is based on a model where control of risk and diversification are the main tools.

Five-year member returns	01/01/2016 31/12/2016	01/01/2017 31/12/2017	01/01/2018 31/12/2018	01/01/2019 31/12/2019	01/01/2020 31/12/2020
NOW: Pensions Diversified Growth Fund	10.8%	11.0%	-6.2%	15.7%	4.4%
Cash + 3%	3.4%	3.3%	3.6%	3.7%	3.4%

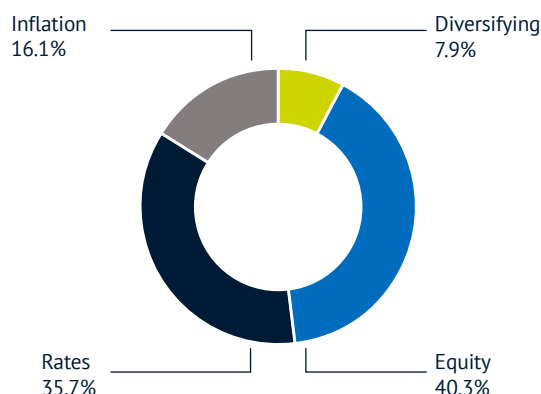
Cumulative returns	3 months to 31/03/2021	1 year to 31/03/2021	3 years to 31/03/2021	5 years to 31/03/2021	Since Inception*
NOW: Pensions Diversified Growth Fund	-1.3%	17.4%	15.0%	35.3%	69.5%
Cash + 3%	0.8%	3.1%	10.8%	18.2%	31.9%

*Since Inception figures presented since 31 December 2012.

Target risk exposures



Actual risk exposures



Note: round errors apply, as at 31 March 2021

Market review

What drove returns over the quarter?

Equity markets recorded further gains through the quarter although this was after a couple of false starts. While January started just as December had left off with equity markets recording new post-COVID highs, the month did take a turn for the eventful with the WallStreetBets-inspired 'short-squeeze' on US small cap stocks leading to a broader technical sell off around the exchanges.

Similarly too, in February, initial gains were reversed by market events. This time the change in direction was occasioned by ructions in global bond markets as they reacted to the risks of seeing an earlier-than-expected winding back of central bank monetary policy support. More significantly, and with longer lasting effects, it was the final passage of President Biden's fiscal stimulus package that calmed things down. The portfolio's gains from its equity positions therefore came largely in just the final two to three weeks of the quarter.

Inflation-sensitive investments contributed positively throughout the quarter, including better returns from positions in European and UK inflation markets.

Investments in government bond markets produced negative returns. Government bond yields rose, and prices fell consistently through February and early March, with this deterioration coming alongside the equity market weakness. However, unlike equity markets, government bond markets didn't recover and prices stayed much closer to mid-March's lower levels into the end of the quarter.

Economics

Economic data throughout the first quarter reflected a global economy that continues to slowly progress towards recovery.

As large parts of the global economy continue to see relaxations in lockdown and travel restrictions, activity indicators are picking up.

Both consumer and industrial confidence indices are higher and, even in Europe where restrictions remain tight and vaccine rollout has been slow, industrial survey results have moved sharply higher through the quarter.

Increased activity has been a factor too in higher inflation readings being recorded generally through the quarter. And, as the global economy moves into Q2, and year-over-year comparisons become affected by 2020's unusually low oil prices, inflation is poised to move higher still through the year.

Governments and central banks

Monetary policy settings remained steady. The low-rate environment is set to stay in place for some time to come with US Federal Reserve policymakers in particular signalling no change in direction in the next two years.

Fiscal policy settings also remain supportive although now that the latest US fiscal package is in place, impetus from further incremental expansion of fiscal policy is less likely.

Economic outlook

Our outlook has become more positive though the quarter. The global economy is navigating through the COVID 'winter-wave' in remarkably good shape and, indeed, as economies start to reopen, the potential for the present, accommodative, fiscal, and monetary policy settings to turbocharge the recovery is increasing.

Inflation and inflation expectations will continue to pick up. Base effects are supportive and, beyond that near term effect, as recovery continues, inflationary pressures will build from demand side influences.