

# Diversified Growth Fund

As at  
30<sup>th</sup> June 2018



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## Portfolio Overview

The portfolio gained over 2% in quarter two. April and May saw positive returns which were tempered by June's negative performance. All risk factors except Other finished the quarter with a positive return. The best performing risk factors were Equity and Rates. After the negative return in quarter one, the overall portfolio return after the first half of the year has been fairly flat.

## Fund Facts

**Fund Name:** NOW: Pensions Diversified Growth Fund

**Fund Size:** £687m

**Annual Management Charge:** 0.3%

**Base Currency:** GBP

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

**Fund Manager:** NOW: Pensions Investment A/S

**Fund Launch Date:** 18th December 2012

**Pricing Basis:** Single price

**Unit Price (27th June 2018):** 154.0535

**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, i.e. some go down and some go up in each economic cycle.

## Fund Objectives

Our investment objective is to achieve a return of 3 per cent 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 Factor**
- > **Interest Rate Factor**
- > **Other Factors**

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

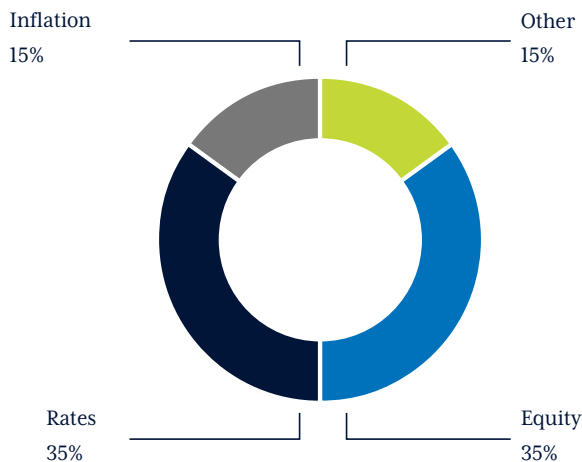
| Five Year Member Returns              | 01/01/2013<br>31/12/2013 | 01/01/2014<br>31/12/2014 | 01/01/2015<br>31/12/2015 | 01/01/2016<br>31/12/2016 | 01/01/2017<br>31/12/2017 |
|---------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| NOW: Pensions Diversified Growth Fund | 9.1%                     | 21.7%                    | -8.0%                    | 10.8%                    | 11.0%                    |
| 60% Equity / 40% Bond Portfolio       | 12.0%                    | 9.3%                     | 1.2%                     | 10.2%                    | 8.5%                     |
| Cash + 3%                             | 3.5%                     | 3.5%                     | 3.5%                     | 3.4%                     | 3.3%                     |

| Cumulative Returns                    | 3 months to<br>30/06/2018 | 1 year to<br>30/06/2018 | 3 years to<br>30/06/2018 | 5 years to<br>30/06/2018 | Launch to<br>30/06/2018 |
|---------------------------------------|---------------------------|-------------------------|--------------------------|--------------------------|-------------------------|
| NOW: Pensions Diversified Growth Fund | 2.24%                     | 5.82%                   | 10.79%                   | 58.02%                   | 48.89%                  |
| 60% Equity / 40% Bond Portfolio       | 3.49%                     | 5.00%                   | 19.59%                   | 43.45%                   | 46.65%                  |
| Cash + 3%                             | 0.87%                     | 3.43%                   | 10.6%                    | 18.45%                   | 20.62%                  |

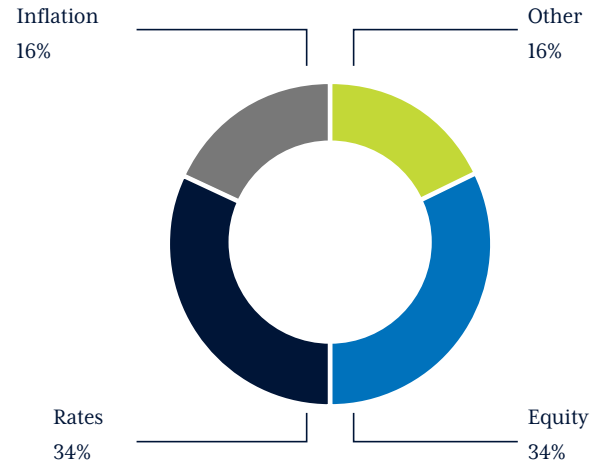
### Important information:

Member Returns for the NOW: Pensions DGF during Quarter 4 2013, and Quarter 1 2014 included extraordinary returns in respect of assets sold by the NOW: Pensions Trust during 2013.

## Target Risk Exposures



## Actual Risk Exposures



## Market review

The equity factor delivered a positive return over the quarter, largely due to a strong US earnings season and solid macroeconomic data during April. UK equities performed especially well during April, boosted by a significant decline in sterling against the US dollar. During May that sentiment started to shift with the increasing trade tensions between the US and China, as well as the political turmoil in Italy which played a bigger role with eurozone equities and credit exposures. Asian equities delivered a negative return leaving the overall return from Equities during May at close to zero. In June, trade tensions continued to impact Asian equities with Hong Kong and South Korea taking the biggest hit, and even though US and Australian equity markets delivered positive returns over the full month, the overall equity return for June was negative.

The Rates factor also produced a positive quarterly return, largely thanks to a very solid return in May - April and June both delivered negative returns. The negative return in April was caused by rising US yields with the 10Y yields briefly touching 3% for the first time in four years as inflationary pressures grew. In May the Rates factor performed strongly as the risk-off sentiment led to a sharp drop in yields, with Germany leading the way. June was much calmer with a slight negative return from Rates.

Gains from commodities and break-even inflation meant that the Inflation factor added further gains to the portfolio. The exposure to commodities delivered positive returns during April and May, with the focus being on the climb in oil prices, caused primarily by strong global demand, a supply reduction by OPEC and the prospect of sanctions on Iran. Break-even inflation exposures also delivered a positive return during April and May with Germany being the biggest contributor. During June, although oil prices drove still higher, metal prices dropped significantly, leading to an overall negative return. Break-even inflation delivered another positive return during June.

The Other factor was the only detracting risk factor, with negative returns over the quarter. Within that factor, the best performing strategies were the betting-against-beta equity strategy and the rates value strategy which benefited from primarily being long German bonds and short US bonds.

The overall risk of the portfolio was lower than target for most of April due to strategic portfolio changes. However, during May risk increased and at the end of the quarter, the total risk of the portfolio was 12.7% - slightly below the 13% target.