NOW:
Pensions

As at 29 September 2017

Diversified Growth Fund

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 Facts

Fund Name: NOW: Pensions Diversified Growth Fund

Fund Size: £484m

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 September 17): 148.036

Domicile: United Kingdom

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, Interest Rate Factor, Inflation Factor, and 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

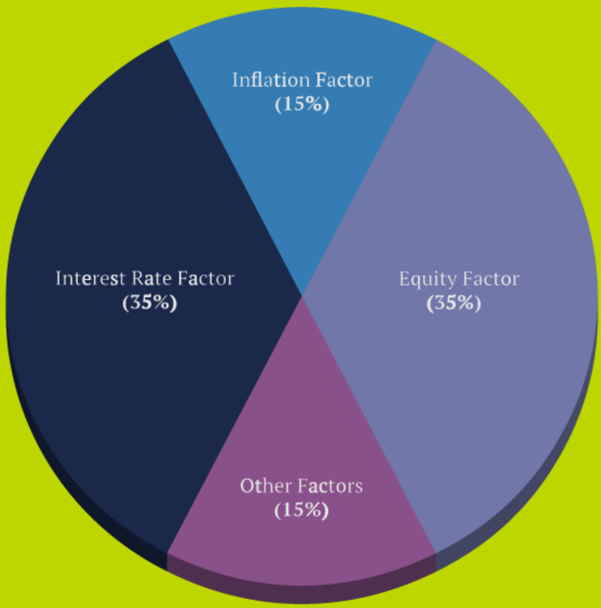
	01/01/2012 31/12/2012	01/01/2013 31/12/2013	01/01/2014 31/12/2014	01/01/2015 31/12/2015	01/01/2016 31/12/2016
NOW: Pensions Diversified Growth Fund	–	9.1%	21.7%	-8.0%	10.8%
60% Equity / 40% Bond Portfolio	10.6%	12.0%	9.3%	1.2%	10.2%
Cash + 3%	3.5%	3.5%	3.5%	3.5%	3.4%

Cumulative Returns

	3 months to 29/09/2017	1 year to 29/09/2017	3 years to 29/09/2017	5 years to 29/09/2017	Launch to 29/09/2017
NOW: Pensions Diversified Growth Fund	0.9%	5.7%	9.3%	–	45.40%
60% Equity / 40% Bond Portfolio	1.9%	8.2%	21.9%	44.8%	42.41%
Cash + 3%	0.8%	3.3%	10.7%	18.4%	17.4%

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



Top 10 Holdings

1. EUR SCHATZ FUTURE	14.6%
2. UK 1.75% TREASURY GILT 2019	13.7%
3. US 2YR FUTURE	11.9%
4. UK 1.75% TREASURY GILT 2022	5.7%
5. US 5YR FUTURE	5.1%
6. EURO BOBL FUTURE	5.0%
7. GERMAN INFLATION LINKED BOND	3.5%
8. EU CREDIT	3.4%
9. UK 0.125% INDEX LINKED GILT 2024	3.3%
10. RADAR COMMODITY INDEX	2.6%

Market Review

The portfolio delivered a positive return of 3.1% in Q3 of this year. Months of July and August produced solid returns while September was slightly more challenging and ended in negative territory.

All components in the equity factor performed well during the quarter. UK equity markets under performed, particularly during September, driven by strengthening sterling currency after a hawkish view from the Bank of England (BoE) increasing expectations of a rate hike at the November meeting.

The Rates factor had positive performance in July and August supported by modest inflation data and increased geopolitical tensions surrounding North Korea. The picture changed in September, however, when inflation data in the UK and the US surprised on the upside turning the BoE and Federal Reserve more hawkish. During September, we also started to build up green bonds as a small strategic part of the Rates factor.

The Inflation factor had a strong performance during the quarter driven by commodities for most of the period. OPEC members suggested stronger compliance with respect to production cuts and US crude stockpiles fell to the lowest level since January in July. Furthermore, base metals rallied fuelled by expectations of increasing demand in China.

The alternative strategies in the risk factor had a mixed performance during the quarter and ended with a return close to zero. The best performing strategy in proportion to risk was one of the commodity carry strategies. The directional and equity trend strategies that were long equity markets during this period, also showed strong performance. The worst performing strategy was the betting-against-beta strategy that suffered from a return of the reflation trade that hit defensive stocks.

At the end of the quarter, the total risk of the portfolio was 13%, which was exactly at target.