

Diversified Growth Fund

As at
30th Sept 2018



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Portfolio Overview

The portfolio lost 0.9% over the third quarter of the year. July and August posted fairly flat returns, while September came in with a negative performance. While the Equity risk factor delivered a positive return over the quarter, the other three risk factors were in negative territory with Rates being the biggest detractor. Over the first nine months of 2018, the overall return for the DGF has been slightly negative.

Fund Facts

Fund Name: NOW: Pensions Diversified Growth Fund

Fund Size: £776 million

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 (28th Sept 2018): 153.5175

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.

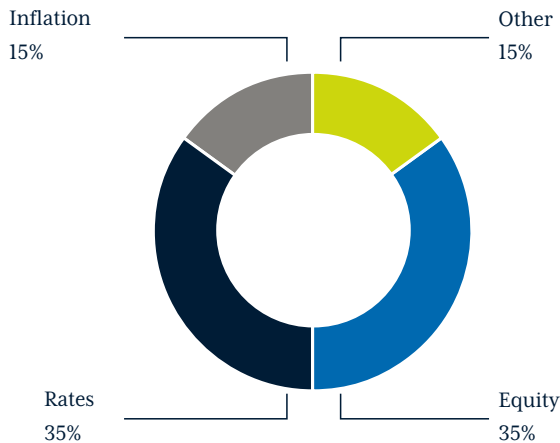
Five Year Member Returns	01/01/2013 31/12/2013	01/01/2014 31/12/2014	01/01/2015 31/12/2015	01/01/2016 31/12/2016	01/01/2017 31/12/2017
NOW: Pensions Diversified Growth Fund	9.1%	21.7%	-8.0%	10.8%	11.0%
60% Equity / 40% Bond Portfolio	12.0%	9.3%	1.2%	10.2%	8.5%
Cash + 3%	3.5%	3.5%	3.5%	3.4%	3.3%

Cumulative Returns	3 months to 30/09/2018	1 year to 30/09/2018	3 years to 30/09/2018	5 years to 30/09/2018	Launch to 30/09/2018
NOW: Pensions Diversified Growth Fund	0.40%	4.09%	18.75%	56.05%	49.48%
60% Equity / 40% Bond Portfolio	1.16%	4.34%	25.24%	40.08%	48.46%
Cash + 3%	0.91%	3.54%	10.64%	18.51%	21.73%

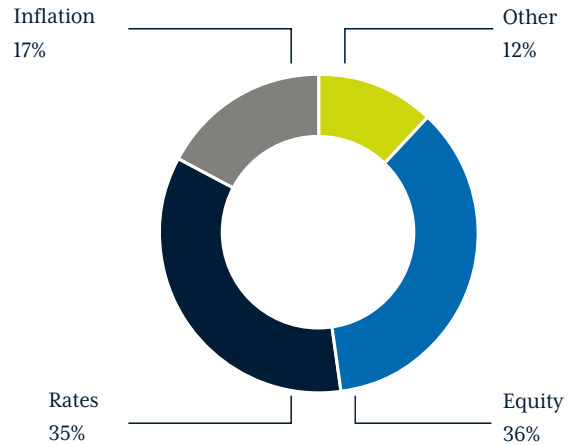
Important information:

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 positive return from the equity factor during the third quarter was driven mainly by US equities which outperformed other major regions and delivered positive returns in all of three months. They even posted positively in August when European equities were hit by the turmoil in Emerging markets and the rising concerns around the budget proposal from the Italian government. Economic growth and corporate earnings remained generally solid and, in the end, this outweighed concerns regarding the escalating US-China trade war. The laggard during the quarter was UK equities which delivered a negative contribution to the portfolio's performance.

The Rates factor delivered a negative return over the quarter. Positive macroeconomic data, especially from the US, led to core government bond yields rising by 0.15% - 0.20%. This outweighed a period in August when investors' concerns about emerging market instability, trade tensions and political issues in Europe saw them looking for safe havens. As expected by the market, the Fed implemented its third rate hike this year, removed references to "accommodative" policy and in general sounded an optimistic outlook.

The Bank of England hiked rates to 0.75% blaming the weather for a weak first quarter.

The downward direction of commodity prices led to an overall negative return in the Inflation factor, despite the positive contribution from break-even inflation. Overall, industrial metals were weaker on global trade uncertainty, while the energy segment posted a positive return on the back of increasing spot prices for oil and natural gas.

The Other factor contributed with a negative return over the quarter. The best performing strategies were the Rates Value strategy, which in general was short US rates versus long German yields, and the Emerging Market FX trend strategy which benefited from being short Emerging Market currencies during the August turmoil. However, these positives were counterbalanced by a significantly negative return from the equity multi-style strategy.

The overall risk of the portfolio at the end of the quarter sat at 13.2%, very close to the target level of 13%.