

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: £545m

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 (29th December 17): 153.8063

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.

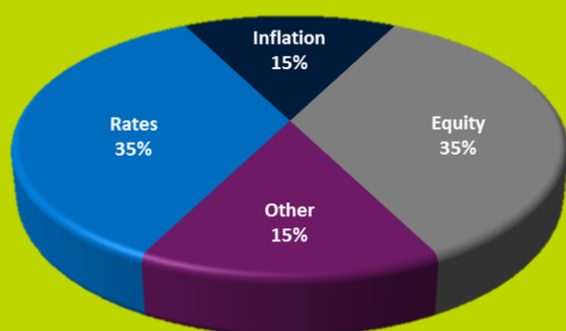
+ Five Year Member Returns

| | 01/01/2013 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% |

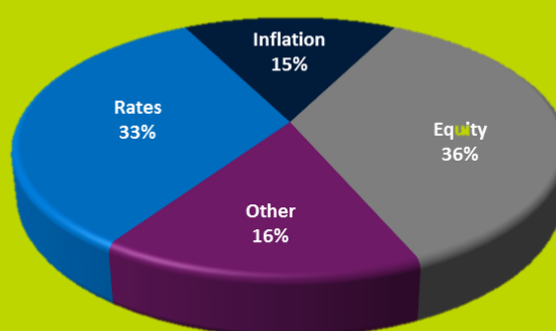
+ Cumulative Returns

| | 3 months to 31/12/2017 | 1 year to 31/12/2017 | 3 years to 31/12/2017 | 5 years to 31/12/2017 | Launch to 31/12/2017 |
|---------------------------------------|---------------------------|-------------------------|--------------------------|--------------------------|-------------------------|
| NOW: Pensions Diversified Growth Fund | 4.2% | 11.0% | 12.7% | 49.6% | 49.8% |
| 60% Equity / 40% Bond Portfolio | 2.3% | 8.5% | 21.0% | 45.6% | 45.6% |
| Cash + 3% | 0.8% | 3.3% | 10.6% | 18.4% | 18.4% |

Target Risk Exposures



Actual Risk Exposures



Market Review

The portfolio generated a strong return during the last quarter, with a negative return in November sandwiched between two positive months. All risk factors contributed positively with the exception of Rates.

With the exception of mainland European equities, all components within the Equity factor delivered positive returns.

Despite a good quarter for the European economy, companies didn't get the boost from US tax cuts, and with the Catalan independence referendum, a degree of political uncertainty returned to the agenda. Asian equity markets had a very good quarter, and in Japan PM Shinzo Abe's victory in the elections implied a broad continuity of economic policies. In China, pessimists were left disappointed after the 19th National Congress laid out a plan for reducing financial risks while focusing on delivering slightly lower, but nevertheless substantial, GDP growth.

The Rates factor was fairly flat during all three months, although performance from the different regions was mixed. The UK posted positive returns, driven by weaker growth projections in the budget, dovish rhetoric from the Bank of England and strengthening sterling following market expectations that a transitional Brexit deal was beginning to look more likely.

The tax cuts and discounting for more rate hikes from the Fed meant that the US market was the major detractor over the quarter.

The Inflation factor had a good quarter, coming in at second place. Commodities delivered most of the return, with Brent crude oil surging by 18%, primarily driven by an agreement among Opec and other countries to extend production cuts to the end of 2018. Base metals also performed well, as Chinese demand remained firm. On a positive note from an environmental perspective, there was upward pressure on prices as a result of measures aimed at lowering environmental emissions, which led to more stringent discipline on the supply side.

The majority of the alternative strategies within the Other factor had a positive performance during the quarter. The best performing strategy in relation to its risk was the Emerging Markets Foreign Exchange Trend strategy which benefited from long positions in the Turkish Lira, South African Rand and South Korean Won, among others. The worst performing strategy was the betting-against-beta strategy, as cyclical stocks outperformed defensive stocks.

At the end of the quarter, the total risk within the portfolio sat at 13.9% - slightly above the target of 13%.