

# Diversified Growth Fund

As at  
31<sup>st</sup> March 2019



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## Portfolio Overview

The portfolio gained 8% in the first quarter of the year. The performance was very strong in all three months with the biggest returns realised in January and March. On a quarterly basis, Equity, Rates and Inflation Factors all posted positive returns, with Equity being the biggest contributor. All-in-all after a very negative last quarter in 2018, the beginning of 2019 started on very strong footing.

## Fund Facts

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

**Fund Size:** £1,011.4 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 (27th March 2019):** 156.3216

**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              | 01/01/2014<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 | 01/01/2018<br>31/12/2018 |
|---------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| NOW: Pensions Diversified Growth Fund | 21.7%                    | -8.0%                    | 10.8%                    | 11.0%                    | -6.2%                    |
| 60% Equity / 40% Bond Portfolio       | 9.3%                     | 1.2%                     | 10.2%                    | 8.5%                     | -3.9%                    |
| Cash + 3%                             | 3.5%                     | 3.5%                     | 3.4%                     | 3.3%                     | 3.6%                     |

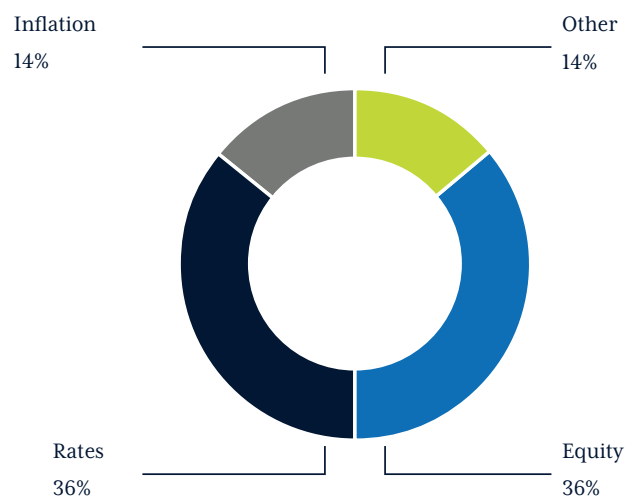
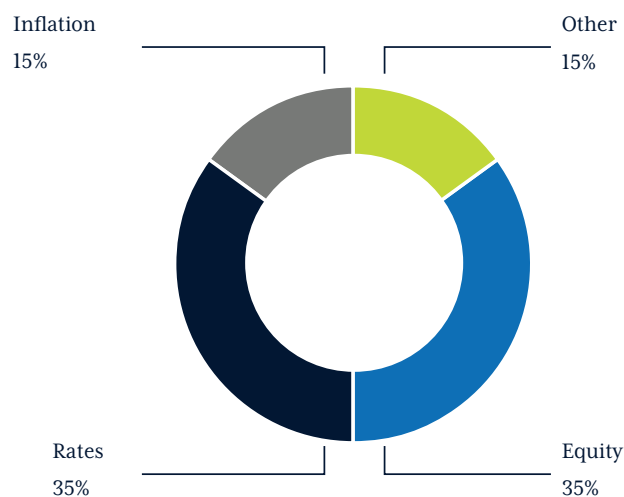
| Cumulative Returns                    | 3 months to<br>31/03/2019 | 1 year to<br>31/03/2019 | 3 years to<br>31/03/2019 | 5 years to<br>31/03/2019 | Launch to<br>31/03/2019 |
|---------------------------------------|---------------------------|-------------------------|--------------------------|--------------------------|-------------------------|
| NOW: Pensions Diversified Growth Fund | 7.98%                     | 4.15%                   | 22.56%                   | 26.64%                   | 51.76%                  |
| 60% Equity / 40% Bond Portfolio       | 8.19%                     | 6.77%                   | 23.65%                   | 35.19%                   | 51.29%                  |
| Cash + 3%                             | 0.92%                     | 3.68%                   | 10.77%                   | 18.67%                   | 24.00%                  |

### 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 of the Equity factor during the first quarter was broad-based. At a regional/country level Asia and UK underperformed US and EU. Equity markets were supported by easing concerns over the China/US trade dispute and by the fact that major central banks turned more dovish. In January the Federal Reserve (Fed) said it was prepared to adjust interest rate hikes to compensate for a weaker economic outlook. The Fed turned even more dovish as the quarter went on, as a number of indicators indicated slower growth. The ECB also expressed a more dovish view suggesting that rates would remain at their current level until at least the end of the year.

The Rates factor delivered positive returns in January and March. The exposure to German bonds contributed the most over the quarter, followed closely by the UK and US. The dovish shift from central banks and mounting growth concerns combined to allow both riskier assets and government bonds to perform well. That dovish pivot proved particularly significant as markets had grown nervous over the prospect of monetary tightening in the US. The heads of both the Fed and the ECB indicated rates would not rise in 2019, as growth and inflation forecasts were lowered.

The positive return in the Inflation factor came from commodities and the exposure to US break-even inflation. Within commodities, energy led the way as crude oil prices rebounded from a sell-off towards the end of 2018. Production cuts from OPEC and other oil producers, together with the implementation of US sanctions on Venezuela, resulted in a tightening of supply. The industrial metals component of the factor also moved higher amid the positive signs springing from US-China trade talks. Precious metals recorded a modest gain, supported by a small rise in gold prices.

The Other factor detracted from performance over the quarter. While the equity multi-style strategy contributed towards overall performance, the trend strategies in general had a hard time during quarter one.

The overall risk of the portfolio was close to the target level of 13% during the quarter. At the end of the quarter, the total risk of the portfolio was 14.4%.