

Diversified Growth Fund

As at
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Portfolio Overview

The portfolio lost around 6% in the fourth quarter. October and December produced significant negative returns while November delivered a slight positive performance. Over the quarter, it was only the Rates risk factor which ended with a positive return, the other three risk factors all ended with a negative return with Equity being the biggest detractor. All in all, with very negative developments in the fourth quarter, 2019 ended with a significant negative return.

Fund Facts

Fund Name: NOW: Pensions Diversified Growth Fund

Fund Size: £842.8 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 (19th Dec 2018): 147.7403

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.

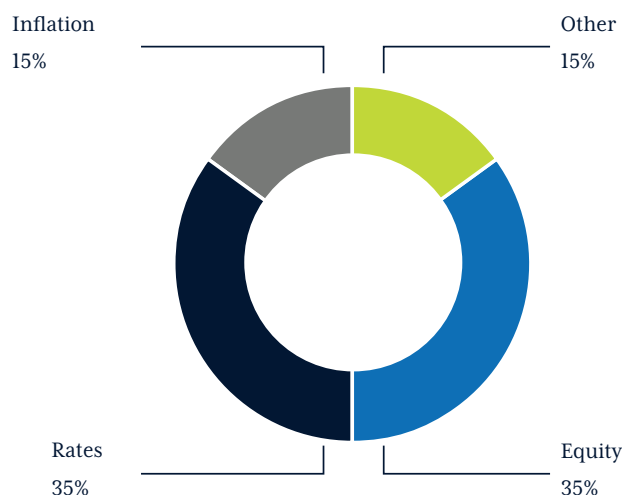
Five Year Member Returns	01/01/2014 31/12/2014	01/01/2015 31/12/2015	01/01/2016 31/12/2016	01/01/2017 31/12/2017	01/01/2018 31/12/2018
NOW: Pensions Diversified Growth Fund	21.7%	-8.0%	10.8%	11.0%	-6.2%
60% Equity / 40% Bond Portfolio	9.3%	1.2%	10.2%	8.5%	-3.9%
Cash + 3%	3.5%	3.5%	3.4%	3.3%	3.6%

Cumulative Returns	3 months to 31/12/2018	1 year to 31/12/2018	3 years to 31/12/2018	5 years to 31/12/2018	Launch to 31/12/2018
NOW: Pensions Diversified Growth Fund	-6.03%	-6.20%	14.85%	28.62%	40.46%
60% Equity / 40% Bond Portfolio	-5.81%	-3.95%	14.89%	27.05%	39.83%
Cash + 3%	0.94%	3.62%	10.71%	18.59%	22.88%

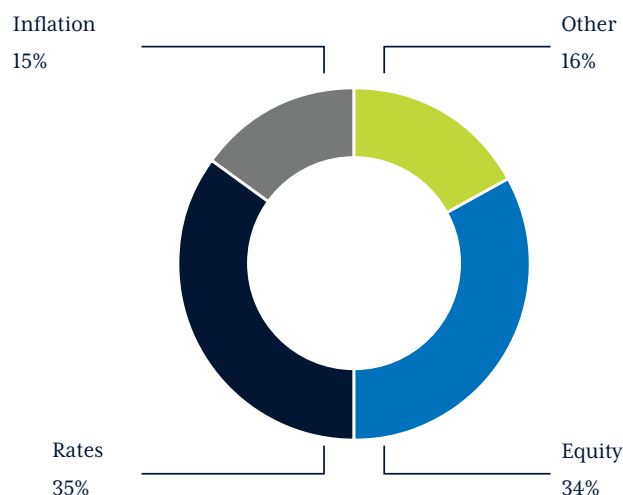
Important information:

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 negative return of the equity factor during the fourth quarter was broad based, with the US and Asia underperforming the UK and the EU. During the quarter investors had to contend with a deterioration in the outlook for global growth as well as rising geopolitical concerns including Brexit, Italian politics and the ongoing trade conflict between the US and China. On top of that, investors have begun to speculate how company profits will be impacted as monetary policy begins to tighten. Mix this all up, and you have a cocktail which investors found difficult to digest. Most markets delivered negative returns in all three months of the quarter. The exception was the slightly positive returns produced by Asian and US equities in November. During October, Asian equities was the laggard being negatively impacted by fears about China's slowing economic growth and trade tensions with the US, while in December it was US equities dropping significantly more than other markets.

The Rates risk factor posted a positive return with government bonds living up to their traditional role as the defensive part of a well-balanced portfolio. Core government bond yields fell between 0.2 and 0.4 percentage points due to the deteriorating growth outlook and the softening of tone from the Fed regarding further tightening of the monetary policy in US.

The market followed this softened tone by removing the previous assumption of three Fed price hikes over the next twelve months and replacing that assumption with none. The market also changed its attitude to ECB and BoE price hikes, and now expects these to be further out in the future.

The negative return in the Inflation factor came from both commodities and the exposure to inflation break-even. The exposure to commodities delivered negative returns during all three months with October and November being especially significant. Oil prices fell markedly amid ongoing concerns of oversupply and a deterioration in the outlook for demand. German and US break-even inflation exposures delivered negative returns, although the UK managed to produce a flat return.

The Other factor also failed to deliver a positive return with the best performing strategies being the commodity carry strategy and one of the commodity trend strategies. The equity multi-style strategy counter-acted these, and produced a significant negative return as the underlying risk premia strategies underperformed.

At 12.9%, the overall risk within the portfolio was very close to the target level of 13% at the end of the quarter.