

# Diversified Growth Fund

As at  
30th September 2019



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## Portfolio Overview

The strong returns of the first two quarters of 2019 have continued as the portfolio has delivered a third quarter return of 4.5% after charges. The three quarters combine to create a very healthy year to date return of 16.7%. However, there are many risks to future growth, for instance the US/China trade war; the potential spread of the manufacturing slowdown; Brexit; and a US presidential impeachment. Controlling the impact of these risks will depend on governments and central banks taking the appropriate course of action.

## Fund Facts

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

**Fund Size:** £1,369 million

**Annual Management Charge:** 0.3%

**Base Currency:** GBP

**Valuation and Dealing Frequency:** Weekly, every Wednesday (excludes UK bank holiday)

**Fund Manager:** Cardano Risk Management Ltd

**Fund Launch Date:** 18th December 2012

**Pricing Basis:** Single price

**Unit Price:** ( 25th Sep 2019 ): 168.6589

**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% 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 Factors
- > Interest Rate Factor
- > Diversifying Strategies

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%
Cash + 3%	3.5%	3.5%	3.4%	3.3%	3.6%

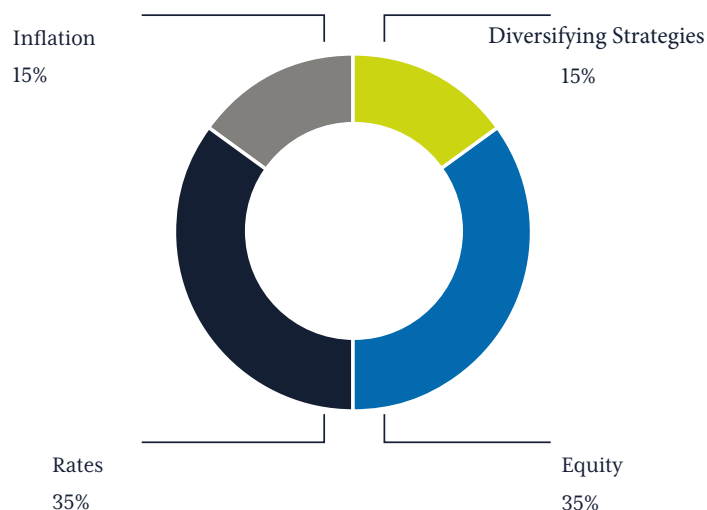
  

Cumulative Returns	3 months to 30/09/2019	1 year to 30/09/2019	3 years to 30/09/2019	5 years to 30/09/2019	Launch to 30/09/2019
NOW: Pensions Diversified Growth Fund	4.53%	10.22 %	20.95%	26.06%	64.85 %
Cash + 3%	0.91%	3.71%	10.76%	18.51%	26.06%

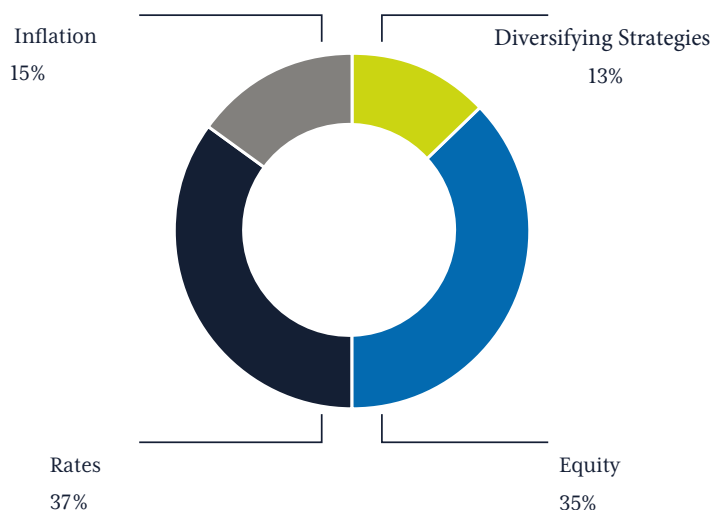
### Important information:

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 commentary

### What drove returns over the quarter?

The Rates Factor was again the largest contributor to performance, with the UK and Europe leading the way. The Diversifying Strategies Factor, which incorporates investment styles such as momentum and low volatility, also produced positive returns.

Equities had a mixed quarter with Western Developed Markets providing positive returns, while Asian positions continued to lag and detracted from performance.

### Economics

We continued to see an overall weakening:

- Global manufacturing continued to slow.
- Services activity remained expansionary, but slower growth suggested some spill over weakness from manufacturing.
- Consumer strength was one area which continued to defy weakness elsewhere.

### Governments & Central Banks

In July, the Fed cut interest rates for the first time in 11 years, although investors were disappointed that they didn't cut by more.

The ECB also cut rates in September, and controversially re-started its quantitative easing programme. A number of European politicians were critical of the ECB's actions,

### Geopolitics

The US-China trade war was the main driver of markets, initially with weakness in August:

- The US announced a 10% tariff on US\$300 billion remaining un-tariffed Chinese imports.
- China retaliated by weakening its own currency and announcing new tariffs of its own.

But, there was relief in September as trade negotiations were scheduled for October.

### Economic outlook

While growth continues to slow, the consumer and services parts of the economy continue to grow. We expect authorities to step in to support their economies, but any actions taken will take time to take effect. However, there are a number of risks that could lead to further slowing of growth, which the authorities may find hard to address.

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