NOW: Pensions

Diversified Growth Fund

As at 31 March 2023

Overview

The Diversified Growth Fund (DGF) is a growth focussed fund where the member's assets are invested in a broad range of investments seeking to grow faster than inflation whilst at the same time managing the exposure to risk. It forms part of a member's Journey Path.

Over the quarter, the DGF delivered a return of 7.9% compared to the return objective of 2.3%. Over the 12 months a return of -13.7% was achieved compared to the return objective of 14.4% The return over a 5-year period was 17.7% compared to the return objective of 39.1%.

In keeping with the Trustee's Responsible Investment (RI) objectives, sustainability remained core to the Fund with an RI allocation of 82%.

Journey Path: The retirement Journey Path is in three phases, from growth, to pre-retirement, to retirement. During the pre-retirement phase the majority of member pension savings are gradually moved from the DGF to the Retirement Countdown Fund (RCF), over a 15-year period. The allocation then remains constant in the retirement phase.

Full details of Journey Path and Fund Objectives are set out in the Statement of Investment Principles, here.

Description

The DGF allocates investments between five groups, consisting of different asset classes, each of which has different risk and return characteristics. The balance across the asset classes is at the Investment Manager's discretion, subject to agreed guidelines.

The Investment Manager bases its decisions on its long-term risk and return assessment of different asset classes, anticipated levels of diversification, impact of changing economic conditions and the integration of responsible investment considerations.

The integration of responsible investment considerations seeks to manage investment risk with the aim of enhancing long-term portfolio returns, which is in the best interests of the members and beneficiaries of the Fund.

Key facts

Fund Size: £3,285 million

Fund Launch Date: 18 December 2012

Base Currency: GBP

Domicile: United Kingdom

Return Objective: CPI +4% p.a. (net of asset-based charge)

Annual Management Charge: 0.3%

Unit Price: 176.0596p

Valuation and Dealing Frequency: Weekly

Pricing Basis: Single price

Changes over the quarter

We have continued to closely monitor the Fund against its objectives and manage it within the agreed guidelines. Over the quarter we completed some rebalancing activity and made a number of small adjustments to the portfolio positioning.

In markets, the first quarter of 2023 was a period of two halves with increased uncertainty being brought by fears around the health of the banking sector. This followed the collapse of Silicon Valley Bank and the acquisition of Credit Suisse by UBS. However, global markets have managed to ride the wave of market volatility with gains coming from most asset classes.

Markets started the year with a strong January, the rally in equities and bonds being supported by signs that inflation was starting to ease and the prospect of interest rate rises coming to an end. February was a more difficult month with stronger than expected growth and inflation data, while investors considered their expectations of future interest rates. The regional banking crisis in March concerned financial markets, however, support from governments and regulators reduced concerns, helping global markets to maintain their recent strength.

Over the quarter central banks continued to increase interest rates. The Bank of England announced their 11th successive rise, hitting the highest level since 2008 with central bank commentary prompting investors to become more optimistic that central banks are approaching the finale of the planned interest rate hikes.

Objectives

Return objective
To deliver a return in excess of inflation, as measured using the Consumer Price Index (CPI) of 4% a year (CPI + 4% a year) or more over the long-term, net of the asset-based charge.

Risk objective
The expected risk, measured in terms of annual volatility, is 12.5% a year. The expected range is from 10% to 15%.

Responsible Investment objective

To achieve:

- Net Zero carbon emissions by 2050, consistent with the Paris Climate Agreement, and
- at least half of the portfolio's net asset value in investments which support the Trustee's RI beliefs.

Fund returns

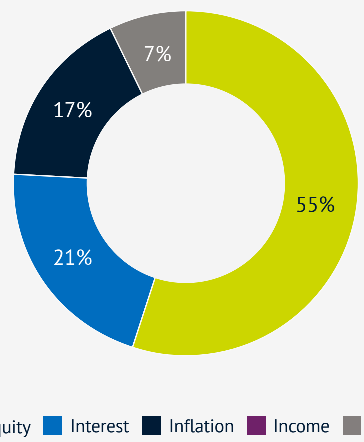
	Returns					Single-year member returns				
	3 months	12 months	3 years	5 years	Since Inception *	2022	2021	2020	2019	2018
Fund (cumulative)	7.9%	-13.7%	20.2%	17.7%	76.0%	-19.8%	16.7%	4.4%	15.7%	-6.2%
Return objective (cumulative)	2.3%	14.4%	29.4%	39.1%	65.8%	14.9%	7.6%	3.4%	3.7%	3.6%
Fund (annualised)		-13.7%	6.3%	3.3%	5.4%					
Return objective (annualised)		14.4%	9.0%	6.8%	5.1%					

Source: Cardano Risk Management Limited and BNY Mellon. **Fund returns figures shown relate to past performance and are presented net of investment fees. Past performance is not a reliable indicator of current or future performance**. Return Objective is calculated using a return objective of SONIA + 3% p.a. (net of asset-based charge) since inception to 31 May 2021, then CPI + 4% p.a. (net of asset-based charge) from 1 June 2021.

* Since Inception figures presented since 31 December 2012.

Fund Breakdown

Risk Allocation by investment group



Return contribution from each investment group