NOW: Pensions

As at 31 March 2018

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: £593m

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 (28th March 18): 148.981

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

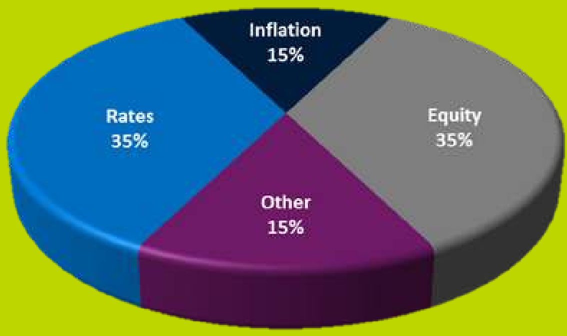
	01/01/2013 31/12/2013	01/01/2014 31/12/2014	01/01/2015 31/12/2015	01/01/2016 31/12/2016	01/01/2017 31/12/2017
NOW: Pensions Diversified Growth Fund	9.1%	21.7%	-8.0%	10.8%	11.0%
60% Equity / 40% Bond Portfolio	12.0%	9.3%	1.2%	10.2%	8.5%
Cash + 3%	3.5%	3.5%	3.5%	3.4%	3.3%

Cumulative Returns

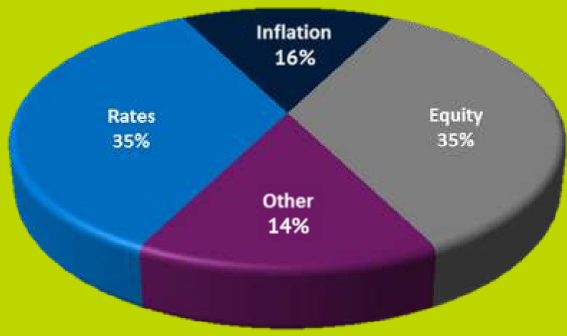
	3 months to 31/03/2018	1 year to 31/03/2018	3 years to 31/03/2018	5 years to 31/03/2018	Launch to 31/03/2018
NOW: Pensions Diversified Growth Fund	-2.8%	3.9%	6.3%	38.6%	45.7%
60% Equity / 40% Bond Portfolio	-2.8%	1.8%	11.9%	36.1%	41.7%
Cash + 3%	0.9%	3.4%	10.6%	18.4%	19.4%

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 portfolio lost almost 2.8% in the first quarter of the year. Although March ended with a positive return, both January and February delivered negative performance. Over the quarter, all risk factors except Other ended in negative territory with the worst performing risk factor being Equity.

Losses in the equity factor were fairly evenly spread over the period, although there were some regional differences. While January was a positive month for many equity markets, it was negative for the UK due to the sharp rise in the value of Sterling. In February and March, all equity markets posted negative returns. On 5th February, a dramatic sell-off was triggered by the jump in the average hourly earnings within January's US Labour Market Report. That in turn led to the market pricing in a faster pace of Federal Reserve tightening. In March, fears of a global trade war rocked the markets. Performance in the EU high-yield credit market, which was supported by more accommodative credit conditions in the Eurozone, provided the least negative return relative to the level of risk.

The Rates factor was the second worst performing risk factor over the quarter. However, regional differences were notable with the Eurozone contributing positive returns while the UK and the US delivered negative returns. Even though the ECB removed the QE flexibility in its forward guidance, Mario Draghi struck a subdued tone at his latest press conference, highlighting that it is too early to declare victory over inflation. While January and February were negative months for the Rates factor overall, March was positive as the risk-off sentiment following US President Donald Trump's announcement of trade restrictions led to falling global interest rates.

Losses in the Inflation factor came mainly from commodities. Positive US break-even inflation, alongside negative break-even inflation for the EU and UK resulted in an overall return close to zero. In the commodities sector, the biggest impact was the hit taken by base metals due to the concerns of a trade war between the US and China. The US announced duties on steel and aluminium leading to a counter-response from China which included duties on a long list of commodities. Benign inflation developments in the Eurozone and the UK are still plaguing performance in break-even inflation.

The Other factor was the only risk factor that contributed with positive returns over the quarter. The best performing strategy relative to risk was the Rates Value strategy which was positioned for Eurozone outperformance against the US. The worst performing strategy was the equity trend strategy which was long equity markets for most of the quarter.

At the end of the quarter the total risk in the portfolio was 12.6%, which is slightly below the target of 13%. For information on how we measure risk, please go to www2.nowpensions.com/sophisticated-approach-to-multi-asset-investing.