NOW: Pensions

# Diversified Growth Fund

As at 31 December 2019

## Portfolio Overview

The portfolio lost 1.39% in the final quarter of the year. While equities delivered positive returns, government bonds detracted from performance as markets priced in higher growth and inflation after the US and China made progress in their trade talks. Even with the negative final quarter, the portfolio delivered a very healthy 15.66% over the full year 2019.

## Fund Facts

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

**Fund Size**: £1,490 million

**Annual Management Charge**: 0.3%

**Base Currency**: GBP

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

**Fund Manager**: Cardano Risk Management Ltd.

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

**Pricing Basis**: Single price

**Unit Price**: 167.9852 (27 Dec 2019)

**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**
- **Interest Rate Factor**
- **Inflation Factors**
- **Diversifying Strategies**

The risk management of the fund is based on a model where control of and diversification are the main tools.

## Five Year Member Returns

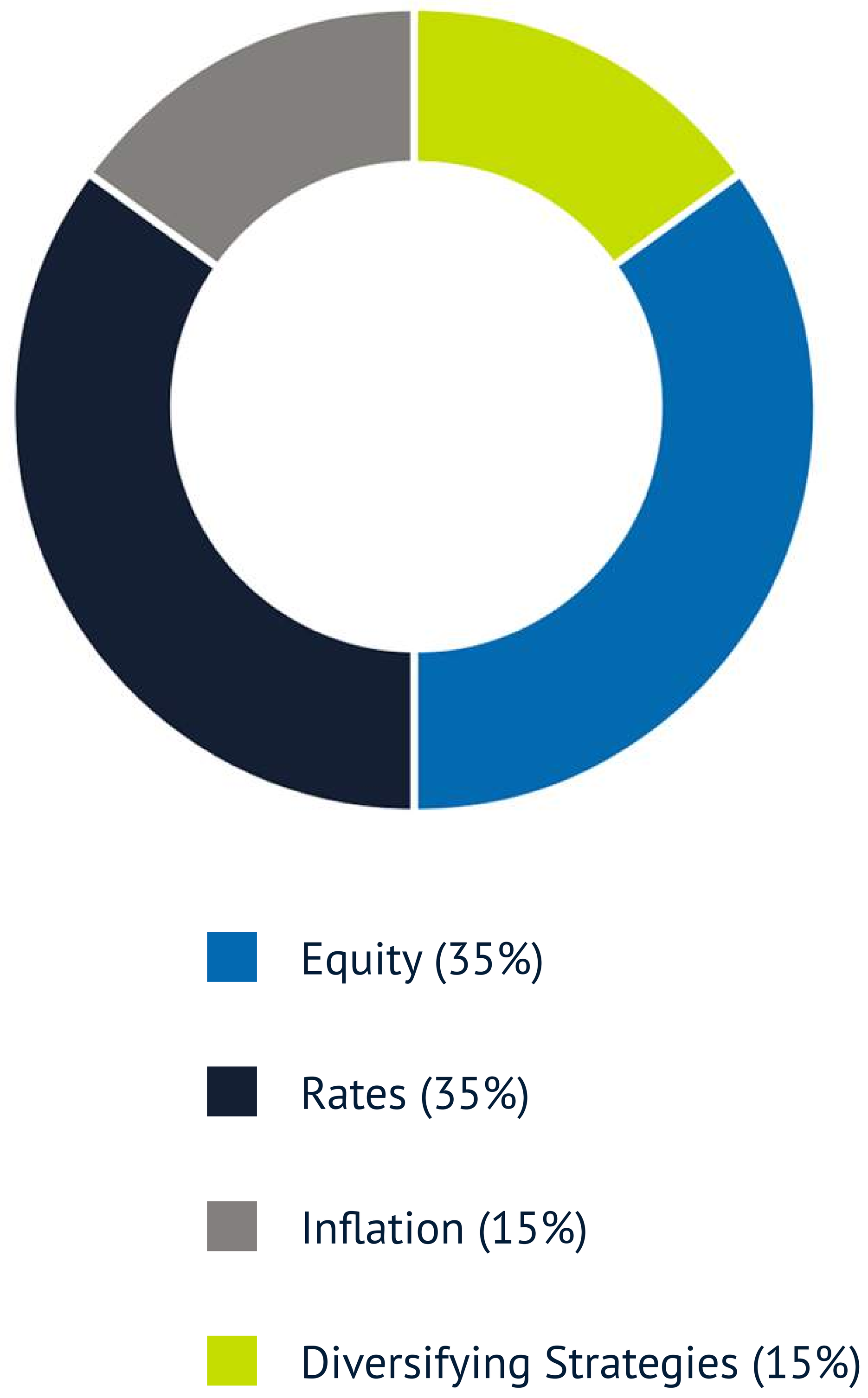
| | 01/01/15 31/12/15 | 01/01/16 31/12/16 | 01/01/17 31/12/17 | 01/01/18 31/12/18 | 01/01/19 31/12/19 |
|---|---|---|---|---|---|
| NOW: Pensions Diversified Growth Fund | -8.0% | 10.8% | 11.0% | -6.2% | 15.7% |
| Cash + 3% | 3.5% | 3.4% | 3.3% | 3.6% | 3.7% |

## Cumulative Returns

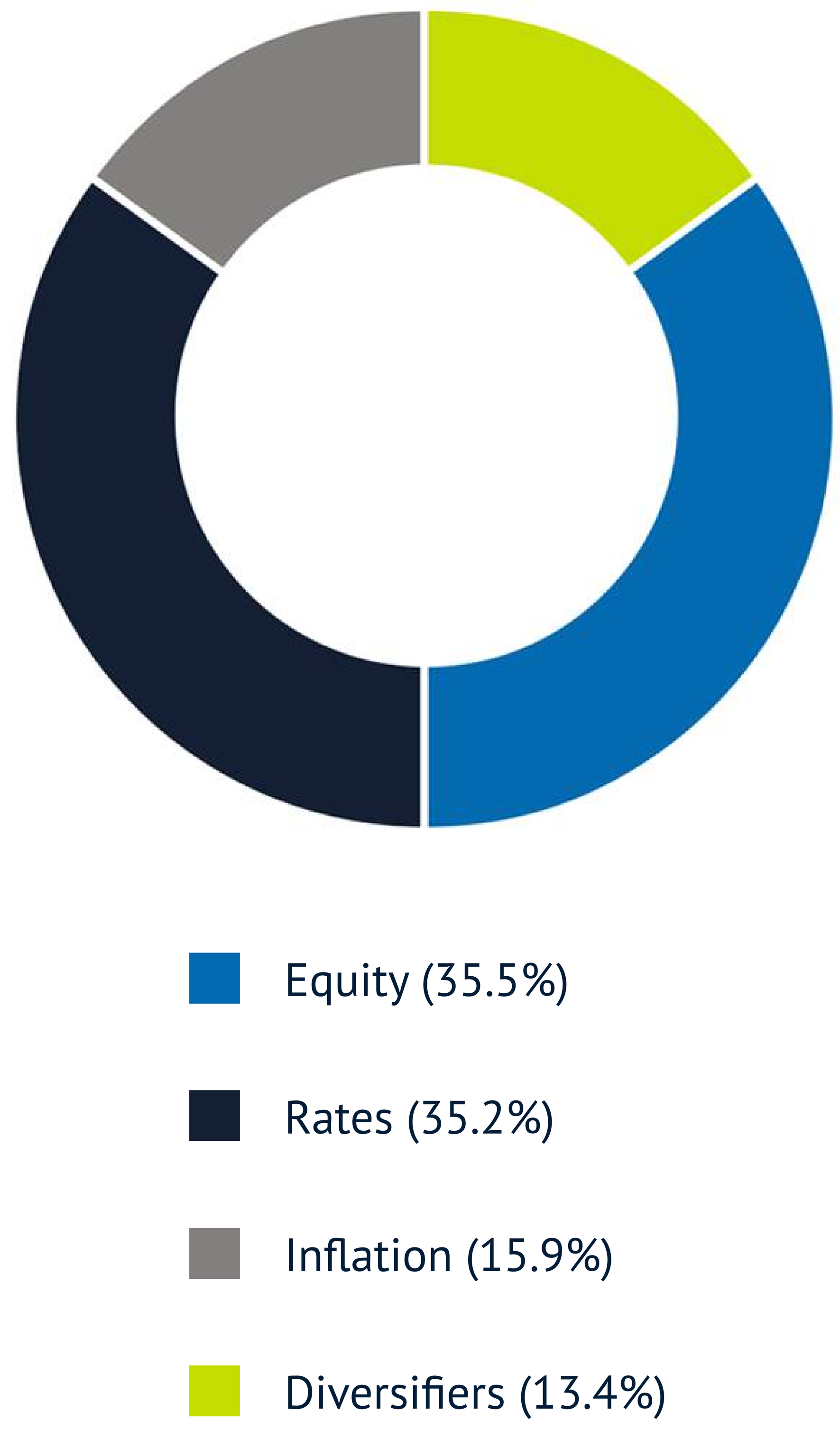
| | 3 months to 31/12/2019 | 1 year to 31/12/2019 | 3 years to 31/12/2019 | 5 years to 31/12/2019 | Launch to 31/12/2019 |
|---|---|---|---|---|---|
| NOW: Pensions Diversified Growth Fund | -1.39% | 15.66% | 20.37% | 22.24% | 62.56% |
| Cash + 3% | 0.90% | 3.71% | 10.90% | 18.58% | 27.20% |

*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

A negative return over the final quarter couldn't detract from a very positive full year return of 15.7%.

As we approached the end of 2019, an improving mood within investment markets meant that equities in general had a positive quarter. At the same time, that rosier outlook meant that government bond yields rose, which resulted in a fall in prices.

### Geopolitics

- Fears that dominated markets for most of 2019 began to fade and once again, it was developments in the US-China trade war that drove market returns and sentiment.
  - Expectations of an initial 'phase 1' trade deal rose
  - President Trump announced that an agreement had been reached on 13 December, just ahead of the deadline when further tariffs were to come into effect

### Governments & Central Banks

- In October, the US Federal Reserve cut interest rates by a further 0.25% having already cut them twice in 2019. They also decided it would be a good idea to restart asset purchases.
  - Chairman Jerome Powell indicated that this would be the last cut for the time being
- In the UK, the Conservatives came through the general elevation with a strong majority that provided some certainty that Brexit would happen after all, and also rasied expectations for future fiscal stimulus
- Authorities in Japan increased the VAT rate, but announced fiscal measures to offset any negative impact on growth

### Economics

- Leading indicators of global activity improved
- US economic data remained decent
  - Manufacturing worsened, but the economy remains underpinned by a strong consumer on the back of healthy labour market
  - Unemployment fell to its lowest level since 1969 with better than expected wage inflation
- There were also signs of stabilisation outside the US, especially in Asia

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 level was 13.2%.

NOW: Pensions

The future is now



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