NOW: Pensions

Diversified Growth Fund

As at 31 December 2020

Portfolio Overview

The NOW: portfolio has a balanced investment approach which, during 2020, has helped it to navigate through volatile markets. In the fourth quarter, the portfolio delivered a strong return of +7.6%. The return was +4.4% over 12 months and an annual return of +4.3% over the past 3 years. Performance in the fourth quarter has contributed to the portfolio outperforming the Target over 12 months.

Fund Facts

Fund Name: NOW: Pensions Diversified Growth Fund

Fund Size: £1,830 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: 18 December 2012

Pricing Basis: Single price

Unit Price: 174.2691 (31 December 2020)

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**

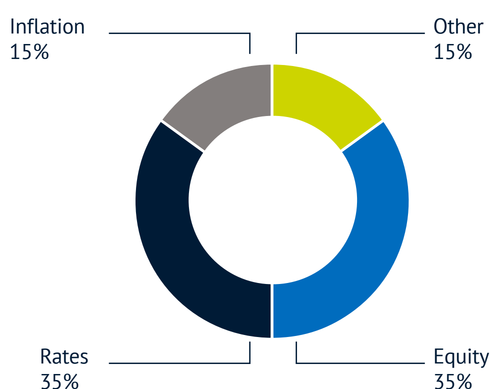
The risk management of the fund is based on a model where control of and diversification are the main tools.

Five Year Member Returns	01/01/2016 31/12/2016	01/01/2017 31/12/2017	01/01/2018 31/12/2018	01/01/2019 31/12/2019	01/01/2020 31/12/2020
NOW: Pensions Diversified Growth Fund	10.4%	11.0%	-6.2%	15.7%	4.4%
Cash + 3%	3.4%	3.3%	3.6%	3.7%	3.4%

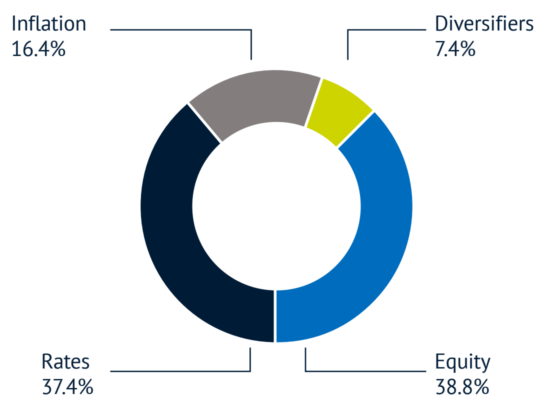
Cumulative Returns	3 months to 31/12/2020	1 year to 31/12/2020	3 years to 31/12/2020	5 years to 31/12/2020	Launch to 31/12/2020
NOW: Pensions Diversified Growth Fund	7.7%	4.4%	13.3%	38.7%	*
Cash + 3%	0.8%	3.2%	10.9%	18.4%	*

* Data unavailable

Target Risk Exposures



Actual Risk Exposures



Market Review

What drove returns over the quarter?

After a weak start during October, equity markets performed well for the remainder of the quarter and this made for a positive contribution to returns over the quarter as a whole. The turnaround in performance started during early November. Equity markets reacted well to Biden's win in the US Presidential election and this event was quickly followed by positive news on the development of the first COVID vaccines.

Inflation sensitive investments contributed positively as well towards the end of the quarter, particularly those within the commodities sector. Diversifying investments also added to performance, here too those diversifiers associated with commodity markets fared well.

Investments in Government bond markets produced negative returns. As equity markets recovered in November and towards the end of the year, Government bond yields rose. This was particularly a feature in US markets, but European markets performed better. However, the overall effect upon performance was relatively modest.

Economics

The flow of economic data throughout the fourth quarter continued to reflect a Global economy that was responding to the reopening of economic activity over the Summer.

Confidence indicators held up well. This was likely caused by optimism growing as vaccine roll-outs began on a Global basis. This optimism was of course despite the worsening news on COVID case counts around the Christmas and New Year period. Naturally, economic data that references consumer activity remained at depressed levels.

US labour market data continued to make gains albeit at a slower pace of recovery than that which was evident during the Summer and Autumn months.

Governments and central banks

Monetary Policy settings remained steady. The low-rate environment is set to stay in place for some time to come with US Federal Reserve Policymakers, in particular, signalling no change in direction until at least 2023.

However, in Europe, the ECB did scale down its full ambitions as to the extent that it would provide term lending support to Eurozone banks. Whether or not this signals a reticence to extend further monetary policy support into the longer term remains to be seen.

Fiscal policy settings also remain supportive (more so now in the US after December's stimulus agreement and on the back of the Georgia Senate run-off result favouring the Democrats).

Economic outlook

The Global economy is set for slow growth in coming quarter as the COVID 'winter wave' continues ahead of a vaccine roll-out. This weak period will likely be followed by a rapid recovery from the middle of 2021 onwards. Expectations are that Global economic activity will recover to previous highs only late in the second half of 2021.

Inflation and inflation expectations will begin to pick up. Base effects caused by very low prior year comparisons in 2020 will be an initial impetus for higher inflation to emerge. Beyond that near-term effect, as the recovery continues, inflationary pressures will gradually build.

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