

## Portfolio Overview

An attractive return of 8% over the second quarter of 2020 has gone a long way towards recovering the losses incurred at the end of the first quarter. Investment markets have continued to be extremely volatile which isn't surprising bearing in mind the uncertainty around the economic landscape, but by the end of the quarter, stock markets, bond markets and inflation all played their part in delivering the positive return for the DGF.

The balanced investment approach has helped to avoid the worst of the COVID-19 coronavirus impact. Although performance for the first six months of 2020 is negative at -5%, that compares against the FTSE 100 which is down by almost 17%.

From an investment perspective, this story is sure to have a lot more twists and turns before it plays out, but the DGF portfolio is well positioned to dampen any negative economic impact and benefit from any economic upturn.

## Fund Facts

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

**Fund Size:** £1,665 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:** 156.8413 (24 June 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**
- > **Inflation Factors**
- > **Interest Rate Factor**
- > **Diversifying Strategies**

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

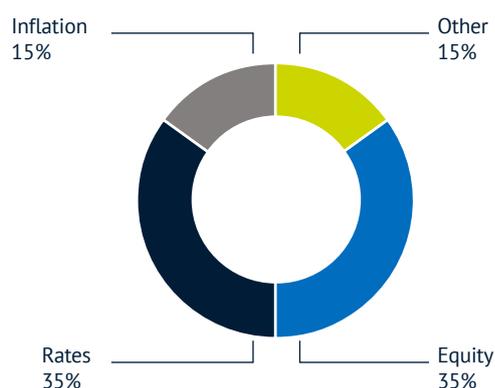
Five Year Member Returns	01/01/2015 31/12/2015	01/01/2016 31/12/2016	01/01/2017 31/12/2017	01/01/2018 31/12/2018	01/01/2019 31/12/2019
NOW: Pensions Diversified Growth Fund	-8.0%	10.8%	11.0%	-6.2%	15.7%
Cash + 3%	3.5%	3.4%	3.3%	3.6%	3.7%

Cumulative Returns	3 months to 30/06/2020	1 year to 30/06/2020	3 years to 30/06/2020	5 years to 30/06/2020	Launch to 30/06/2020
NOW: Pensions Diversified Growth Fund	8.07%	-2.19%	9.57%	14.72%	54.26%
Cash + 3%	0.76%	3.52%	10.96%	18.51%	29.32%

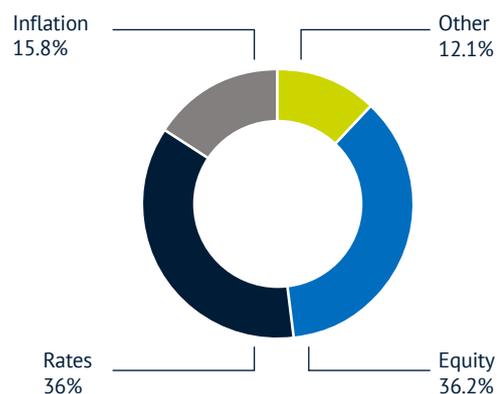
### Important information:

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

### What drove returns over the quarter?

As investor sentiment recovered from the COVID-19 induced stress of Q1, stock markets performed very strongly. Led by the US, the Equity factor was the principal source of returns during the quarter.

The Rates factor contributed positively too. Gains were not as marked as those seen earlier on in the year. Bond markets generally, and corporate credit markets particularly, remained well supported by Central Bank buying.

A positive contribution from the Inflation factor was also returned. Although much news on the inflation front during the quarter centered on the unusual and negative price movement in the oil market, by the end of the quarter production cuts had returned prices to some semblance of normality.

The Diversifiers were the only detractor from performance during the quarter.

### Economics

Economic data throughout the period has proven to be largely irrelevant and financial markets took their cues from policy initiatives on both the monetary and fiscal front. Nevertheless, there were some eye-catching highs in US unemployment data alongside fresh lows in consumer sentiment, industrial confidence and consumption indicators globally. For now, markets seem to have largely decoupled from the regular flow of negative news.

On a more positive front, sentiment in financial markets was helped at the end of the quarter when lockdown conditions began to be eased more widely around the world.

### Governments and central banks

Fiscal Policy remains overwhelmingly accommodative with the governments of all major economies breaking new ground in the level of support that they are providing. Generally, the quarter saw a continuation, or indeed augmentation, of schemes to support furloughed workers, small businesses and corporations that have had their income disrupted.

Central Banks too have again stepped up the pace of support provided by monetary policy with enlarged programmes expanding on those put in place during the first quarter.

### Economic outlook

The Global economy is presently in a severe recession, but fiscal and monetary policy support has staved off the worst effects and prevented what could otherwise have been the start of a depression.

Early evidence is that a recovery is underway, although we would characterise this as a 'snapback' phase as economies reopen and consumer activity resumes. We do not expect the pace of the recovery to be sustained at current levels or to develop evenly in forthcoming quarters.

Seeing a full return to economic activity at a level commensurate with late-2019 is not expected until the end of 2021.