NOW: Pensions

Diversified Growth Fund

As at 30 September 2020

Portfolio Overview

The DGF has a balanced investment approach which has helped navigate through the continued market and uncertainty. In the third quarter the return was a positive 2.2%. Although the 12 month return remains in negative territory at -4.3%, the cumulative return over the past three years now stands at 9.8% which is 3.2% annualised.

Performance in the third quarter was volatile at points, however by the end of the quarter the return was in positive territory and continued to recover losses experienced in the first quarter.

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: 161.8852 (30 September 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**

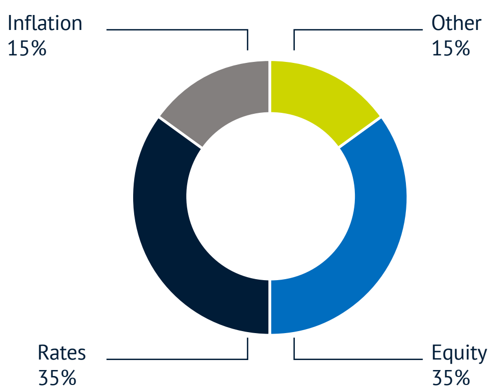
The risk management of the fund is based on a model where control of and diversification are the main tools.

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%

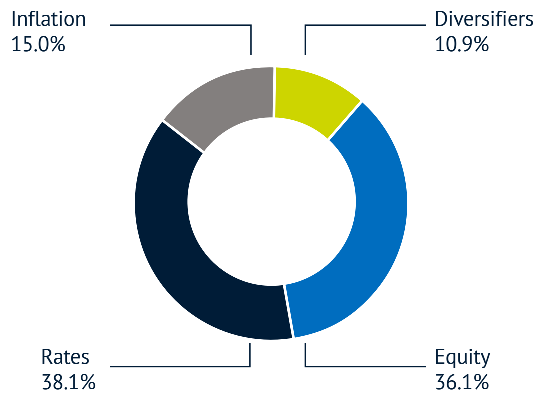
Cumulative Returns	3 months to 30/09/2020	1 year to 30/09/2020	3 years to 30/09/2020	5 years to 30/09/2020	Launch to 30/09/2020
NOW: Pensions Diversified Growth Fund	2.24%	-4.33%	9.77%	25.23%	57.72%
Cash + 3%	0.75%	3.35%	10.91%	18.39%	30.29%

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?

Equity markets rose on-the-whole, making a positive contribution to returns over the quarter. There were significant regional divergences: US equities were boosted by signs of an economic recovery and monetary policy, while resurging COVID infections had a dampening effect on markets in Europe.

Inflation expectations rose over the quarter as the US Fed indicated they would be more willing to allow for temporary overruns in inflation. The commodity positions were also a significant driver of returns over the quarter, assisted by a weaker US Dollar.

While investor sentiment over the quarter was primarily 'risk-on', the Rates factor was broadly flat. As in equity markets, there were significant regional divergences. A more dovish inflation targeting regime from the Fed and concerns over a contested US presidential election weighted on yields, despite the improving economic picture.

The Diversifiers detracted from performance.

Economics

The flow of economic data throughout the quarter reflected a Global economy that was slowly responding to the reopening of activity after the widescale lockdowns that were ubiquitous through much of the second quarter of the year.

US employment data rebounded sharply to provide a substantial, but not complete, recovery from its eye-catching prior falls and this was accompanied by stronger readings in consumer and industrial confidence indicators.

In Europe too, confidence indicators were generally higher through the quarter. However, September's readings did start to indicate that the pace of improvement was stalling.

Governments and central banks

The big news of the quarter was the announcement by Fed Chair Jay Powell that the Federal Reserve will operate a new policy of Average Inflation Targeting. This marks a major shift by the central bank and indicates a willingness to allow for periods of higher inflation without pressure to raise interest rates.

On the fiscal front, the EU agreed a €750m recovery fund to support EU member nations reeling from the virus induced recession. However, expectations that a further US stimulus bill would be passed before the presidential elections in November dwindled.

Economic outlook

A second wave of COVID-19 infections spread across the US, Europe and parts of Asia over the quarter, indicating that it may be some time before 'normality' resumes. A sharp bounce back in activity is unlikely to take place in the absence of a vaccine materialising.

A more likely scenario is one in which growth returns toward the end of next year, as economies and health systems adapt and the virus abates. In the meantime, considerable fiscal and monetary support will need to be maintained to stave off a depression. The development of a vaccine could accelerate the recovery depending on how quickly it could be distributed.

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