



# BlackRock NVIT Managed Global Allocation Fund

## Quarterly Commentary

Nationwide VIT

Commentary

Q2 2018

**Asset class:** Allocation  
**Objective:** Seeks high total investment return consistent with preservation of capital over the long term

**Morningstar category:**  
Allocation—50% to 70% Equity  
Class II

## Strategy Overview

*The BlackRock NVIT Managed Global Allocation Fund is an actively managed fund that seeks high total return consistent with capital preservation strategies. The Fund provides shareholders with exposure to traditional and difficult to access asset classes, regions, countries and securities. The BlackRock NVIT Managed Global Allocation Fund provides broad diversification by combining the BlackRock Global Allocation Fund core sleeve with an overlay sleeve to manage volatility.*

## MARKET REVIEW

Equity markets recovered following a choppy first quarter, as the tug-of-war between the strong fundamental backdrop and the uncertainty of a trade war swung to a more optimistic view. The first quarter saw the first decline in two-and-a-half years, with the second quarter more than making up for the loss. Investors remained nervous on a variety of issues, including inflation, interest rates, geopolitical stress and trade disagreements, though the volatility experienced earlier in the year subsided materially in the quarter. The economic environment accelerated, with strength seen in manufacturing, small business and consumer confidence, with GDP growth estimated at 3.6% for the second quarter, compared with 2.0% in the first quarter. The S&P 500® Index (S&P) showed a positive return in each month of the quarter, led by 2.4% in May. The S&P has now delivered a positive return in 18 of the past 20 months, and 20 of the past 22 quarters.

For the second quarter, the S&P, Dow Jones Industrial Average and NASDAQ Composite Index returned +3.4%, +1.3% and +6.6% respectively. Growth stocks substantially outperformed value and small-caps dramatically outperformed large. Leading sectors for the quarter included Energy, Consumer Discretionary and Technology, while Industrials, Financials and Consumer Staples lagged. During the quarter, the Federal Open Market Committee (FOMC) raised their Federal Funds target rate by 0.25%, with an expectation for two additional hikes for 2018. The views posted in the Fed's "dot plot" closely match the market's outlook for hikes this year, though the market remains below the Fed expectations for 2019 and 2020. Interest rates were higher for the quarter, with the 10-year Treasury yield rising 0.11% and the 2-year yield rising 0.26%, resulting in a continued flattening of the yield curve. Credit spreads were little changed for the quarter, resulting in mixed performance for bond indexes for the quarter. The Bloomberg Barclays U.S. Aggregate Bond Index returned -0.2% for the quarter. International stocks were low for the quarter on trade tensions, with the MSCI EAFE® Index returning -0.8% and the MSCI Emerging Markets® Index showing particular weakness, returning -7.7% in the quarter.

## Portfolio management



### Nationwide Fund Advisors (NFA)



**Christopher C. Graham**  
Chief Investment Officer  
Fund tenure since 2016



**Keith P. Robinette, CFA**  
Senior Director of Asset Strategies  
Fund tenure since 2017



**Andrew Urban, CFA**  
Senior Director of Asset Strategies  
Fund tenure since 2017

### Nationwide Asset Management, LLC



**Frederick N. Gwin**  
Senior Investment Professional  
Fund tenure since 2015



**Chad W. Finefrock, CFA**  
Senior Investment Professional  
Fund tenure since 2015

## PERFORMANCE REVIEW

The BlackRock NVIT Managed Global Allocation Fund (Class II Shares) returned -1.82%, underperforming both its benchmark and Morningstar category - US Insurance Allocation 50% - 70% Equity.

Within the core sleeve, the fund was overweight equities (+1%), underweight fixed income (-12%), and overweight commodity-related holdings (+3%) and cash equivalents (+8%). Within equities, the fund was overweight in Japan, and underweight in the United States. The fund was overweight in Health Care, Energy, Information Technology, and Consumer Discretionary, and underweight in Industrials, Financials, and Consumer Staples. Within fixed income, the fund was underweight in developed market government bonds, and overweight in credit and select emerging market sovereign bonds. The fund was overweight the U.S. dollar and Indian rupee, and underweight the Euro, Australian dollar, Japanese yen and Canadian dollar.

The volatility overlay reduced equity exposure during the period, but hindered performance as we saw increased equity volatility during the quarter and negative returns from most equity asset classes.

## CONTRIBUTORS

Within the core sleeve, equity overweight exposures to the Netherlands and India contributed to performance. From a sector perspective, stock selection in Health Care and IT, along with an underweight exposure to Financials and an overweight position in Energy, was beneficial. An underweight exposure to fixed income contributed too.

## DETRACTORS

Within the core sleeve, an equity overweight exposure to Japan detracted from performance. Exposure to European financials was also detrimental. From a sector perspective, stock selection in Consumer Discretionary, Materials and Real Estate negatively impacted returns. Exposure to interest rate derivatives and an overweight exposure to emerging market government bonds weighed on performance. Exposure to commodity-related areas (notably gold) detracted.

The volatility overlay was a detractor from performance as it began the quarter short equity exposure when stocks began to rally and had switched to be long equity exposure as equities sold off to end the quarter. In quick transition periods from an environment of lower volatility to relatively higher volatility, the overlay tends to detract from performance.

## CURRENT PORTFOLIO POSITIONING

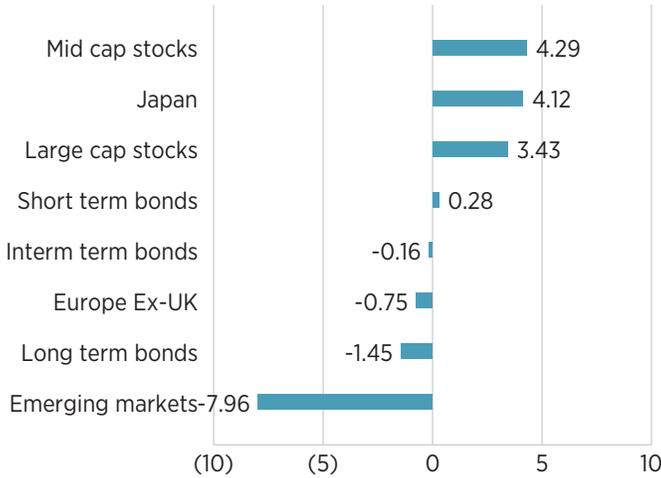
Following a volatile first quarter for equities, the Fund entered the second quarter with equity exposure around 45%. As volatility dropped throughout the quarter, the Fund steadily increased its equity exposure to its maximum 80%. As expected, the volatility overlay increased equity exposure as equity markets climbed higher with declining volatility. As equity markets rebounded early in the quarter, the lower equity exposure marginally hindered performance, but was incrementally additive during May before detracting again the latter half of June. The volatility overlay sleeve functioned in-line with expectations to reduce the Funds' volatility in the backdrop of increased market volatility. Nationwide Fund

Advisers expects the trend for increased equity volatility to continue going forward as we approach the late phases of the business cycle.

#### **OUTLOOK**

Looking ahead, economic evidence suggests that global growth should remain solid, with increased divergence in the second half of 2018. From an asset class perspective, BlackRock continues to favor equities over fixed income, preferring equities in Asia given more attractive relative valuations and other market-specific factors. In the United States, BlackRock favors quality stocks that feature some combination of high profitability, low debt-to-equity and earnings consistency. BlackRock is mindful that a continued rise in interest rates or a stronger dollar, coupled with elevated geopolitical risk, could lead to an increase in market volatility. BlackRock believes it is increasingly important to diversify equity risks more broadly, and hold exposure to cash, gold and U.S. Treasuries to help manage volatility.

## Quarterly asset class returns (%)\*

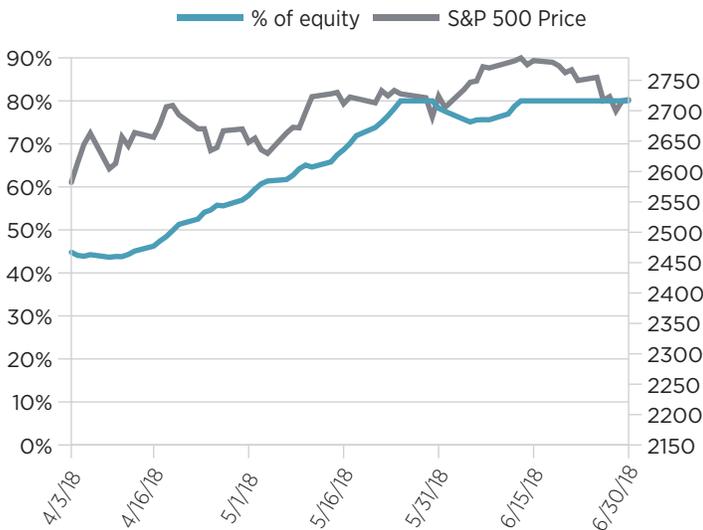


Source: Morningstar, 06/30/18.

The results shown represent past performance; past performance does not guarantee future results. Current performance may be lower or higher than the past performance shown.

\* Asset class returns stated above are based on the returns of the following indexes: S&P 500 Index (Large Cap Stocks); S&P MidCap 400 Index (Mid Cap Stocks); MSCI Emerging Markets Index (Emerging Markets); MSCI Europe ex UK Index (Europe Ex-UK); Nikkei 225 Average Index (Japan); Bloomberg Barclays US Aggregate Bond Index (Interm Term Bonds); Bloomberg Barclays US Govt/Credit 1-3 Yr Index (Short Term Bonds); and Bloomberg Barclays US Long Government/ Credit Index (Long Term Bonds).

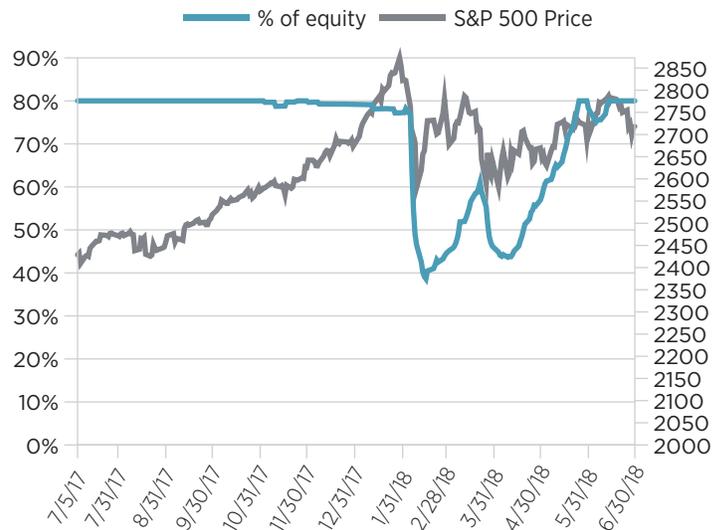
## Rolling managed fund effective equity exposure (Trailing 3 months)



Left axis: Percentage of equity exposure; Right axis: S&P 500 price

Source: Nationwide Managed Volatility Web App, 06/30/18

## Rolling managed fund effective equity exposure (Trailing 12 months)



Left axis: Percentage of equity exposure; Right axis: S&P 500 price

Source: Nationwide Managed Volatility Web App, 06/30/18

## Average annual total returns (%)

| Share class                           | QTD   | YTD   | 1-year | 3-year | 5-year | Since inception |
|---------------------------------------|-------|-------|--------|--------|--------|-----------------|
| Class II                              | -1.82 | -3.06 | 4.26   | —      | —      | 3.68            |
| FTSE World Index                      | 0.86  | -0.05 | 11.14  | 8.94   | 10.13  | —               |
| Blended Benchmark*                    | -0.17 | -0.22 | 6.98   | 6.39   | 6.83   | —               |
| Allocation—50% to 70% Equity Category | 1.02  | 0.13  | 7.22   | 5.94   | 7.32   | —               |

\*Blended Benchmark: 36% S&P 500 Index; 24% FTSE World Ex US Index; 24% BofAML Current 5-Yr US Treasury Index; 16% Citigroup Non-USD World Govt Bond Index

Performance returns assume the reinvestment of all distributions. Returns for periods less than one year are not annualized. Total returns reflect a contractual expense limitation for direct annual Fund expenses for all classes for certain periods since inception, without which returns would have been lower. Performance numbers do not reflect and would be reduced by the insurance-related fees and charges of the variable product. Please consult the variable product prospectus for information about these fees and charges. To obtain the most recent standardized performance, go to <https://www.nationwide.com/variable-annuity-prospectus-and-performance.jsp> or <https://www.nationwide.com/variable-life-products.jsp>.

**The results shown represent past performance; past performance does not guarantee future results. Current performance may be lower or higher than the past performance shown, which does not guarantee future results. Share price, principal value, and return will vary, and you may have a gain or a loss when you sell your shares.**

NVIT Funds are not sold to individual investors. These investment options are underlying subaccounts and cannot be purchased directly by the public. They are only available through variable products issued by life insurance companies.

When evaluating the purchase of a variable annuity product, your clients should be aware that variable annuity products are long-term investment vehicles designed for retirement purposes and will fluctuate in value; and investing involves market risk, including possible loss of principal.

## Portfolio characteristics

|                                |          |
|--------------------------------|----------|
| Total Net Assets (all classes) | \$233.0M |
| Total Number of holdings       | 1        |

Portfolio characteristics are based on Class II shares.

| Share class | Expense ratios |         | Inception date |
|-------------|----------------|---------|----------------|
|             | Gross (%)      | Net (%) |                |
| Class II    | 2.03           | 1.19    | 07/07/2015     |

The expense ratios are as shown in the most recent prospectus. Expenses include underlying fund expenses. The difference between gross and net operating expenses reflects contractual fee waivers in place through 04/30/2019. Please see the Fund's prospectus for more details.

## Top Holdings

|                                     | % of portfolio |
|-------------------------------------|----------------|
| BlackRock Global Allocation VI Fund | 100.0          |

Holdings are provided for informational purposes and should not be deemed as a recommendation to buy or sell the securities.

• Not a deposit • Not FDIC or NCUSIF insured • Not guaranteed by the institution • Not insured by any federal government agency • May lose value

## Important Disclosures

This material is not a recommendation to buy, sell, hold, or roll over any asset, adopt an investment strategy, retain a specific investment manager or use a particular account type. It does not take into account the specific investment objectives, tax and financial condition or particular needs of any specific person. Investors should work with their financial professional to discuss their specific situation.

**Investors should carefully consider a fund's investment objectives, risks, fees, charges and expenses before investing any money. To obtain this and other information on Nationwide Funds, please call 1-800-848-0920 to request a summary prospectus and/or a prospectus, or download a summary prospectus and/or a prospectus at [nationwide.com/mutualfunds](http://nationwide.com/mutualfunds). Please read it carefully before investing.**

**Variable products are sold by prospectus. Both the product and underlying fund prospectuses can be obtained by visiting [Nationwide.com/prospectus](http://Nationwide.com/prospectus) or by calling 1-800-848-6331. Before investing, carefully read and consider the fund's investment objectives, risks, charges, expenses, and other important information contained in this and the underlying funds' prospectuses.**

**DEFINITIONS:** **Average annual total returns** are the annual compounded returns that would have produced the cumulative total return if fund performance had been constant during the given period. **Sharpe ratio** measures excess return per unit of risk (standard deviation). A higher Sharpe ratio suggests better risk-adjusted performance. **Standard deviation** measures performance fluctuation, may not be indicative of future risk and is not a predictor of returns. **Alpha** represents the excess returns of a fund relative to its benchmark. A positive alpha is the added value an active manager has contributed over the benchmark returns. **Beta** measures volatility in relation to the fund's benchmark. A beta of less than 1.0 indicates lower volatility, while a beta of more than 1.0 indicates higher volatility relative to the benchmark. **R-Squared** measures the percentage of a fund's movements that can be explained by movements in a benchmark.

**Principal Risks:** Investing in mutual funds involves risk, including the possible loss of principal. Share price, principal value, and return will vary, and you may have a gain or a loss when you sell your shares. There is no assurance that the investment objective of any fund will be achieved. The Fund, through its Core Sleeve, is subject to the risks of its underlying funds, including but not limited to: the risks of investing in equity securities; fixed-income securities (default risk and interest rate risk); international securities and cash position risk (the Fund may miss investment opportunities). Through its Volatility Overlay, the Fund may invest in more-aggressive investments such as derivatives (which create investment leverage and are highly volatile). The Volatility Overlay may not be successful and may result in losses greater than if the Fund did not implement the Volatility Overlay. Please refer to the most recent prospectus for more detailed information.

Nationwide Fund Advisors (NFA), the Fund's investment adviser, makes both the asset allocation and underlying fund selection decisions for the Fund. Nationwide Asset Management, LLC (NWAM) provides asset allocation consulting services to NFA. NWAM also manages the Volatility Overlay using stock index futures according to Nationwide Funds' quantitative process for evaluating volatility. In addition, NWAM serves as the subadviser to certain other Nationwide Funds. NWAM is a registered investment adviser and wholly owned subsidiary of Nationwide Mutual Insurance Company, and therefore is affiliated with NFA.

Asset allocation is the process of spreading assets across several different investment styles and asset classes. The purpose is to potentially reduce long-term risk and capture potential profits across various asset classes.

There is no assurance that the investment objective of any fund (or that of any underlying fund) will be achieved or that a diversified portfolio will produce better results than a non-diversified portfolio. Diversification does not guarantee returns or insulate an investor from potential losses, including the possible loss of principal.

**Market Indexes:** Market index performance is provided by a third-party source Nationwide Funds Group deems to be reliable. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses have been reflected. Individuals cannot invest directly in an index. **FTSE World Index:** An unmanaged, broad-based, free float-adjusted, market capitalization-weighted index that measures the performance of large-cap and mid-cap stocks in developed and advanced emerging countries, including the United States. **Bloomberg Barclays US Aggregate Bond Index:** An unmanaged, market value-weighted index of U.S. dollar-denominated, investment-grade, fixed-rate, taxable debt issues, which includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities and commercial mortgage-backed securities (agency and non-agency). **Bloomberg Barclays U.S. Government/Credit 1-3 Year Index:** An unmanaged index that measures the performance of non-securitized component of the U.S. Aggregate Index with maturities of 1-3 years, including Treasuries, government-related issues and corporates. **Bloomberg Barclays US Long Government/ Credit Index:** The index measures the performance of non-securitized component of the U.S. Aggregate Index with maturities of 10 years and greater, including Treasuries, government-related issues and corporates. It is a subset of the U.S. Aggregate Index. **MSCI EAFE Index:** An unmanaged, free float-adjusted, market capitalization-weighted index that is designed to measure the performance of large-cap and mid-cap stocks in developed markets as determined by MSCI; excludes the United States and Canada. **MSCI Europe ex UK Index:** MSCI Europe ex UK Index captures large and mid-cap representation across 14 Developed Markets (DM) countries in Europe. With 335 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets, excluding the UK. The index is based on the MSCI Global Investable Market Indexes (GIMI) Methodology. **MSCI Emerging Markets Index:** An unmanaged, free float-adjusted, market capitalization-weighted index that is designed to measure the performance of large-cap and mid-cap stocks in emerging-country markets as determined by MSCI. **Nikkei 225 Average Index:** A price-weighted equity index consisting of 225 stocks in the 1st section of the Tokyo Stock Exchange. **S&P 500® Index:** An unmanaged, market capitalization-weighted index of 500 stocks of leading large-cap U.S. companies in leading industries; gives a broad look at the U.S. equities market and those companies' stock price performance. **S&P Mid-Cap 400 Index:** An unmanaged index that measures the performance of 400 stocks of medium-sized U.S. companies (those with a market capitalization of \$1.4 billion to \$5.9 billion). **BofA Merrill Lynch (BofAML) Current 5-Year US Treasury Index:** An unmanaged, one-security index, rebalanced monthly, that measures the performance of the most recently issued 5-year U.S. Treasury note; a qualifying note is one auctioned on or before the third business day prior to the final business day of the month. **Citigroup Non-US Dollar World Government Bond Index (Citigroup WGBI Non-US):** An unmanaged, market capitalization-weighted index that reflects the performance of fixed-rate investment-grade sovereign bonds with remaining maturities of one year or more issued outside the United States; generally considered to be representative of the world bond market.

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