Investment Report

Standard Life
Good to Go Default Growth Fund
Active Plus III Report
Q2 2020

Standard Life
There's a lot to look forward to

Corporate Investment Proposition

Our Corporate Investment Proposition is made up of a family of carefully constructed risk-based fund of fund portfolios, which offer clients a choice of active and passive investment strategies across five risk levels.

They are designed to help clients achieve the right balance between risk and reward by offering sufficient choice to meet different levels of risk appetite; and providing a risk based QWPS default solution.

Generally, higher risk equates to a greater potential return, whilst lower risk equates to a lower potential return. The strategic asset allocation is set using a 10 year view so the proportion of assets (for example equities or bonds) within each fund is not expected to significantly change in the short term

The funds are designed to help employers and their advisers demonstrate adherence to the IGG investment governance principles for DC schemes as shown below:

Clear roles and responsibilities - Solutions provided and governed by Standard Life and Aberdeen Standard Investments

Effective decision making - Robust strategic asset allocation, tactical asset allocation and fund selection processes

Appropriate investment options - Range of risk based options and investment styles to suit different risk attitudes

Appropriate default strategy - Risk based lifestyle options

Effective performance assessment - Performance reporting with clear investment objectives with ongoing review and governance at a fund and solution level

Clear and relevant communication - Factsheets (including performance) and customer fund guides

Choice of Investment Style

Standard Life Passive Plus Funds –a lower cost option investing mainly in tracker funds.

Designed to offer a lower-cost investment solution, the Passive Plus funds invest in a carefully-selected portfolio that is mainly made up of tracker funds from Vanguard. For more specialist areas, we have included actively managed commercial property and high yield bond funds.

Standard Life Active Plus Funds - an actively-managed and competitively priced option that invests in funds managed by Aberdeen Standard Investments. Designed to offer a competitively priced actively managed investment solution, the Active Plus funds are diversified, multi-asset portfolios investing in a range of funds actively managed by Aberdeen Standard Investments, one of Europe's leading investment managers, including commercial property and high yield bond funds. The investment process for the funds' strategic asset allocations is the same as for the Passive Plus range however has the additional benefit of Tactical Asset Allocation, which aims to take advantage of shorter-term investment opportunities. Tactical Asset Allocation is carried out by Multi-Asset Solutions.

Aberdeen Standard Investments MyFolio Managed Funds – an actively-managed, higher alpha option that invests mainly in funds managed by Aberdeen Standard Investments. Standard Life MyFolio Managed Funds mainly invest in Aberdeen Standard Investments funds, with the manager having the ability to select alternative investments from the rest of the market. The MyFolio Managed Fund suite includes allocations to diversifying funds which offer a different expected return profile to traditional asset classes and as such provide further diversification benefits to the Funds. 10% of the growth and 20% of defensive assets within each Fund have been replaced with these diversifying funds. The funds also benefit from Tactical Asset Allocation carried out by Multi-Asset Solutions.

You can find out more about our Corporate Investment Proposition, including our fund governance processes, at **www.standardlifeworkplace.co.uk**

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Corporate Investment Proposition Active Plus Funds Report

Environment and Activity

Environment

Global equities rallied in the second quarter as the announcement of massive central bank and government stimulus packages to combat the coronavirus epidemic reinvigorated risk appetite. After selling off steeply in March amid global economic shutdowns, stock markets around the world surged in April. The US Federal Reserve committed to unlimited purchases of government and corporate debt. It also slashed interest rates to near zero in March. This helped to support shares. Global shares continued to rise in May and June as businesses in Western countries began to reopen and hopes of a rapid economic recovery took hold. Investor optimism was tempered by fears of a potential second wave of infections and warnings that the road back to normality would be a long one.

Core government bond yields were largely flat over the quarter. Substantial fiscal stimulus and central-bank intervention propped up markets. As the coronavirus pandemic started to recede in many countries, and many major economies began to reopen, demand for riskier assets returned. This led to a fall in demand for government bonds in early June. However, fears of a second wave of infections anchored yields at relatively low levels thereafter. The UK, on the other hand, saw a drop in yields to record lows and a rise in prices. Global corporate bonds recovered sharply over the quarter, spurred on by increasingly supportive fiscal and central-bank policy. In particular, the Federal Reserve's expanded bond-purchasing programme, which included the buying of corporate bond exchange-traded funds, buoyed US corporate debt.

The effects of the Covid-19 pandemic dominated UK property in the second quarter. Capital values fell across all sectors as uncertainty rose and investor sentiment weakened. Retail, leisure and hotels suffered the most, as enforced closures saw many businesses grind to a halt. In many cases, landlords have also struggled with rent collection as financially distressed businesses have failed to pay rent. Retail rent collection is widely expected to be worse than the previous quarter, with retailers now having protection against forfeiture until the end of September.

Activity

Strategic Asset Allocation

We review the Strategic Asset Allocation (SAA) for each of the funds every quarter, with the aim of ensuring that we continue to meet investors' long-term investment expectations. At the most recent quarterly review, the SAA Committee confirmed the funds were performing in line with those expectations on both a risk and return basis and no action was required.

Corporate Investment Proposition Active Plus Funds Report

Environment and Activity

Activity

Tactical Asset Allocation

Within Tactical Asset Allocation (TAA), we made the following changes (where applicable within each risk level).

- Reduced our holding in Japanese equities (moving to neutral versus the SAA)
- Increased our holding in global high yield bonds (remaining overweight versus the SAA)
- Increased our holding in European equities (moving overweight versus the SAA)
- Reduced our holding in UK equities (remaining overweight versus the SAA).

Changes to underlying funds

There were no changes to the underlying funds over the quarter.

Corporate Investment Proposition Active Plus Funds Report

Risk

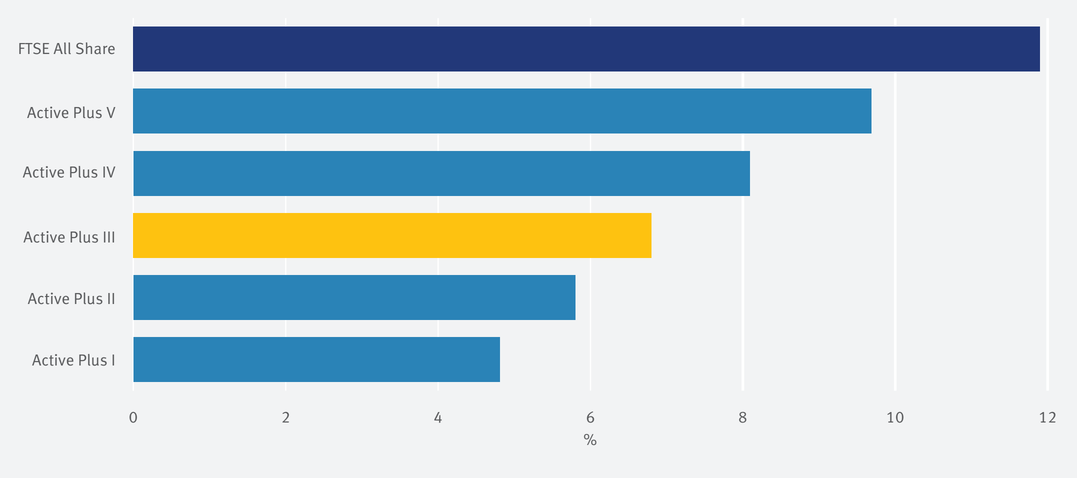
Unlike traditional managed funds, which aim to outperform the peer group, the risk based funds do not have a specific performance benchmark. Instead the strategic asset allocations aim to provide the maximum expected return for a given level of risk over the 10 year time horizon.

To ensure the funds continue to perform in line with customer expectations, we feel it is important to report on both the risk and return characteristics of the funds; not just for each fund in isolation, but as a range.

The chart below shows the volatility (standard deviation) of each of the five funds within the Active Plus range since their launch in March 2012. The volatility of the FTSE* All Share Index has been provided for reference only, this is not the benchmark for any of the funds.

Active Plus Funds

Fund volatility as at 30 June 2020



Source: Financial Express
All figures shown have been annualised using monthly data from March 2012 to June 2020.
Fund volatility figures are calculated using pension fund prices (net of charges) on a bid-bid basis, in pounds sterling (£), with income reinvested.
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Corporate Investment Proposition Active Plus Funds Report

Risk and Return Characteristics

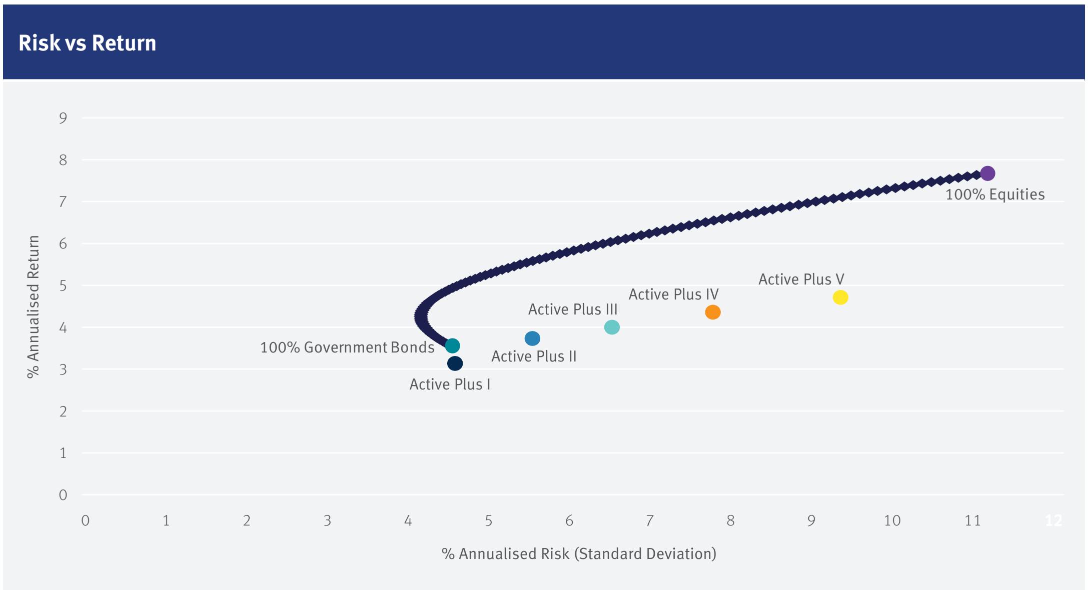
This section illustrates the risk and return characteristics of the Active Plus range from launch (March 2012) to end June 2020.

The graph below compares the difference between the risk and return of the Active Plus funds to a range of simple portfolios constructed from four assets that would be traditionally used by UK investors; UK equities, global equities, UK government bonds and global government bonds. These portfolios are represented by the blue line on the chart below.

The blue line displays the historic risk and return characteristics of over 100 sample portfolios, ranging from a 100% allocation to equities (split evenly 50:50 between global and UK equities) at one end (purple dot) to a 100% allocation to government bonds (teal dot; 50:50 split between global and UK government bonds) at the other, and all the possible combinations in between.

It is widely recognised that over the longer term, investment in equities should achieve a better return than a portfolio of bonds but this comes with a higher level of risk. In this example we can see that over the period under review, equities have outperformed bonds but with increased volatility and that the various combinations of the four assets delivered different risk/return outcomes.

Active Plus Funds



Source: Aberdeen Standard Investments; FTSE All Share Index and FTSE WGBI World All Maturities: Total Return Hedged (£), MSCI All Countries World Index and BOFA ML Global Government Index monthly return data denominated in GBP was sourced from Datastream from 01/03/2012 to 30/06/2020; Active Plus annualised performance was based on monthly net of fees prices. The FTSE All-Share Index is calculated solely by FTSE International Limited ("FTSE"). FTSE does not sponsor, endorse or promote this fund. All copyright in the index values and constituent list vests in FTSE. "FTSE ®" is a trade mark jointly owned by the London Stock Exchange Plc and The Financial Times Limited and is used by FTSE under licence. "All Share" is a trade mark of FTSE. Passive charge assumed to be 0.75% p.a.

Corporate Investment Proposition Active Plus Funds Report

Risk and Return Characteristics (continued)

What does this mean?

By applying our robust investment process, we aim to deliver outperformance on a risk-adjusted basis, i.e. the portfolios appearing to the left and above the theoretical efficient frontier. This frontier is constructed using a combination of equity/bond allocations ranging from 100% equities at one extreme to 100% bonds at the other. Within both the equity and bond allocations the split is 50/50 between UK and non-UK. It is worth highlighting that we recently changed the non-UK component of government bonds from unhedged to hedged, so as to mitigate large movements in Sterling. While the change deals with the sterling movement the change also better reflects the types of bond exposures uses in our solutions.

For a number of years the range of funds outperformed the efficient frontier, however due to an extreme upwards movement during Q2 and Q3 2016, this resulted in a number of funds falling below the efficient frontier. In addition, most recent performance has seen the funds fall further below the efficient frontier as a result of the weaker returns during Q1 2020. Since that period unfortunately the funds have not been able to close this gap, however we remain confident in our ability to deliver outperformance on a risk-adjusted basis over the longer term.

Corporate Investment Proposition Active Plus Funds Report

Performance

The commentary below represents performance across all the range of Active Plus funds, with positive and negative contributors common across all funds in the risk spectrum (ratings I to V).

Global equities rallied over the quarter as the announcement of massive central bank and government stimulus packages to combat the coronavirus epidemic reinvigorated risk appetite. Stock markets surged in April, as the Federal Reserve committed to unlimited purchases of government and corporate debt. Global shares continued to rise in May and June as businesses in Western countries began to reopen and hopes of a rapid economic recovery took hold.

Core government bond yields were largely flat. Substantial fiscal stimulus and central-bank intervention propped up markets. As the coronavirus pandemic started to recede in many countries, demand for riskier assets returned. This led to less demand for government bonds in early June. However, fears of a second wave of infections anchored yields at relatively low levels thereafter. Meanwhile, global corporate bonds recovered sharply over the quarter, spurred on by increasingly supportive fiscal and central-bank policy. Finally, the effects of the Covid-19 pandemic dominated UK property in the second quarter. Capital values fell across all sectors as uncertainty rose and investor sentiment weakened.

Unlike traditional balanced funds that aim to outperform their peer group, the Active Plus funds do not have a specific benchmark. Instead, their strategic asset allocation aims to provide the maximum expected return for a given level of risk over a 10-year time horizon. In order to allow investors to assess how the funds are performing, we have included a comparative index in the performance sections. We have used representative indices based on the strategic asset allocation of each fund and these are gross of charges.

Over the quarter, the majority of Active Plus funds outperformed their respective benchmarks. For multi-asset funds, such as the Active Plus range, both asset allocation and stock selection decisions affect relative performance (as does the annual management charge). During the second quarter, there were positive contributions from both asset allocation and stock selection. Disappointingly, over the last 12 months all the Active Plus fund have underperformed their benchmarks.

Within stock selection, Japanese equities and global corporate bonds were key positive contributors. However, US equities and emerging market debt delivered a negative contribution.

Within Japanese equities, the main positive contributors were drugmaker Chugai Pharmacautical, Nippon Paint and furniture retailer Nitori Holdings. Shares of Chugai Pharmaceutical surged, making it the country's biggest drugmaker by market value. It continued to execute well on its rich pipeline of drugs, improving clarity on its future earnings. Nippon Paint also performed well on expectations of lower input costs amid weaker oil prices, alongside hopes of more Chinese stimulus. Meanwhile, Nitori Holdings advanced after posting stellar results, driven by favourable foreign-currency effects, and increased demand for furniture and household goods as people sheltered at home and spent their cash handouts from the government.

For the global corporate bond portfolio, a surge in the oil price (Brent crude) was beneficial for the Fund's holdings in Continental Resources, Occidental Petroleum, Noble Energy, Plains All American Pipeline and Halliburton. In addition, the recovery in risk sentiment over the quarter was supportive for our emerging market holdings, including the South African integrated energy company Sasol.

Corporate Investment Proposition Active Plus Funds Report

Performance (continued)

In the US equities portfolio, food and beverage group Mondelez retreated amid concerns about its performance in emerging markets during the recent lockdowns. Also, the potential for recession weighed on its share price. The same was true for tobacco firm Philip Morris, which fell in tandem with Mondelez. First Energy and NextEra Energy both declined along with the broader utilities sector due to the market's rotation away from defensive stock in the latter stages of the quarter. That said, NextEra was the stronger of the two businesses given its more extensive residential customer base. Lastly, financial company Charles Schwab was hampered by worries about the flat interest- rate environment.

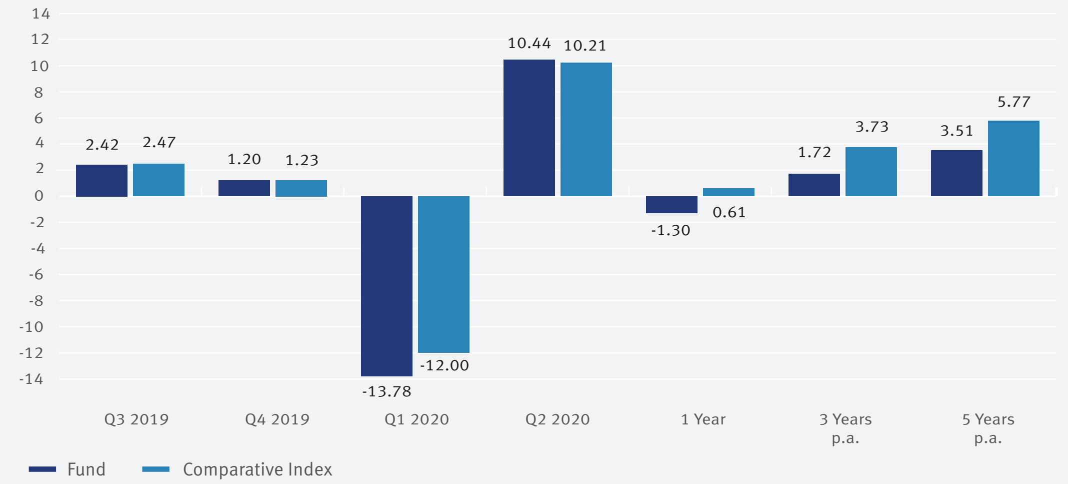
Turning to emerging market debt, there were negative contributions from being underweight (versus the benchmark) in Thailand, Dominican Republic, and Colombia. On the upside, an off-benchmark exposure to Ukraine, which benefited from the marked sentiment recovery that boosted all higher yielding assets over the period, proved positive.

Corporate Investment Proposition Active Plus Funds Report

Standard Life Active Plus III Pension Fund

Performance Comparison as at 30 June 2020

Figures quoted are calculated, net of fees basis over periods to 30 June 2020, with gross income reinvested. The Comparative Index shown makes no allowance for charges.



Source: Aberdeen Standard Investments (Fund) and Thomson Reuters Datastream (Comparative Index)
Note: Past performance is not a guide to future performance and the value of units can go down as well as up.
The Comparative index is made up of representative indices based on the strategic asset allocation of the fund and do not take into account any out-performance targets. Note - as a result 'Global Absolute Return Strategies' is currently represented by 6 month LIBOR.

Asset Allocation

	Asset Class	Underweight %	Strategic Asset Allocation %	Overweight %
Defensive Assets	Cash	-	1.00	-
	Sterling Corporate Bonds	-2.00	8.10	-
	Sterling Corp 1-5Yrs Bonds	-1.50	8.20	-
	Global Corporate Bonds	-	10.40	-
	Global Corp 1-5Yrs Bonds	-	4.40	-
Growth Assets	UK Equities	-	21.30	0.25
	US Equities	-	9.00	0.25
	European Equities	-	6.10	0.25
	Japanese Equities	-	5.20	-
	Asia-Pacific Equities	-	3.90	-
	Emerging Markets Equities	-	3.90	0.75
	Sterling Hedged High-Yield Bonds	-	1.70	1.50
	UK Direct Commercial Property	-	7.60	-
	Global REITS	-	2.50	0.50
	Emerging Market Debt	-	6.70	-

Portfolios not re-balanced daily. Due to market fluctuations the Fund Composition may vary from the Strategic Asset Allocation.

Corporate Investment Proposition Active Plus Funds Report

House view

	Equities	Bonds	Alternatives
Very Heavy			
Heavy	US European ex-UKs ▲		Japanese Yen NA Real Estates Euros ▲
Neutral	Developed Asian Japanese UK Global Emerging Market ▼	UK ▲	UK Sterling Euro Real Estate
Light		Japanese Eurozone US	Cash US$
Very Light			

The following denotes a change: ▲ increase and ▼ decrease

UK Equities – Neutral

- While oil prices have rebounded, the market still lags its peers. We prefer other markets with stronger profitability and less dividend cuts.

US Equities – Heavy

- We favour the profitability of the US market due to its large composition of highly cash generative technology firms.

European ex-UK Equities – Heavy

- The strong policy support package and easing of lockdown conditions can drive European equities higher.

Japanese Equities – Neutral

- Japanese profits remain weak and for the moment we expect the yen to remain firm, so we prefer other equity markets.

Developed Asian Equities – Neutral

- We continue to monitor any recurrence of the coronavirus outbreak in Hong Kong and Singapore closely.

Global Emerging Markets Equities – Neutral

- We cut the allocation to neutral due to the uncertainty over US-China relations.

UK Bonds – Neutral

- Yields remain near record lows. However, Brexit uncertainties remain for UK assets.

US Bonds – Light

- Yields remain near record lows. We are funding US dollar credit positions out of Treasuries.

Euro-zone Bonds – Light

- Eurozone rates remain exceptionally low; as such, we fund European investment grade credit from core bonds.

Japanese Bonds – Light

- With yield curve control firmly in place, we expect little movement in the market. We are therefore funding risk assets from here.

Cash – Light

- With global yields still extremely low, we see better opportunities in risk assets.

Foreign Exchange – Heavy ¥, € Neutral £, Light $

- The euro has been in a three-year down draft. Strong policy support warrants being long after years of being short.

European Real Estate – Neutral

- We prefer equities to REITs.

North American Real Estate - Heavy

- The market has recovered from its low but still represents good value.

Find out more

For more information speak to your usual Standard Life contact.

www.standardlifeworkplace.co.uk