



# Investment Report

**Standard Life**  
**Corporate Investment Proposition**  
**Passive Plus Funds 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](http://www.standardlifeworkplace.co.uk)

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# Corporate Investment Proposition Passive 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 Passive Plus Funds Report

## Changes to underlying funds

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

# Corporate Investment Proposition Passive Plus Funds Report

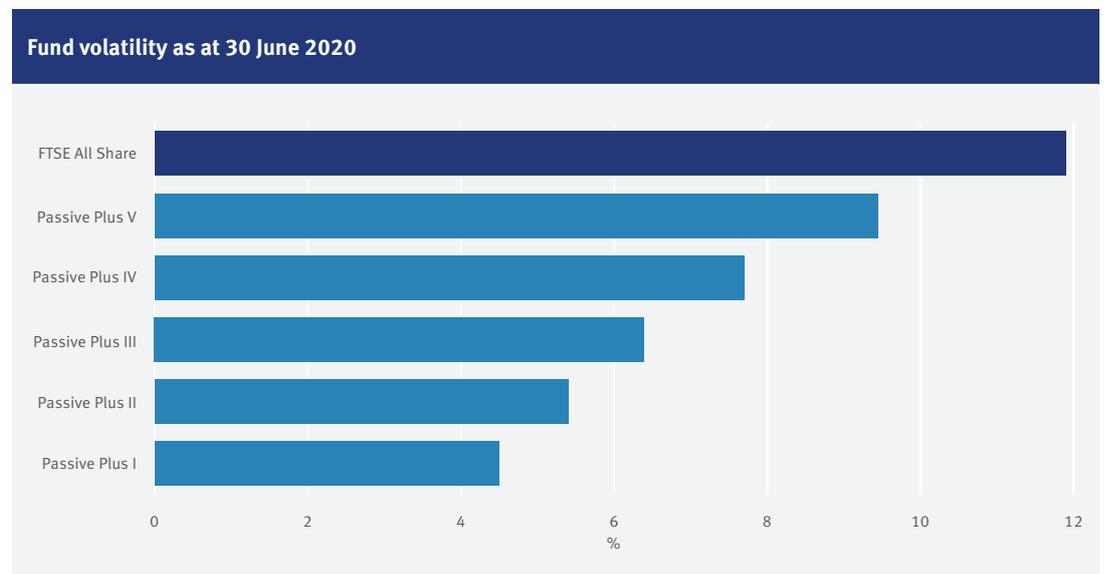
## Risk

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 Passive 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.

## Passive Plus Funds



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 Passive Plus Funds Report

## Risk and Return Characteristics

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

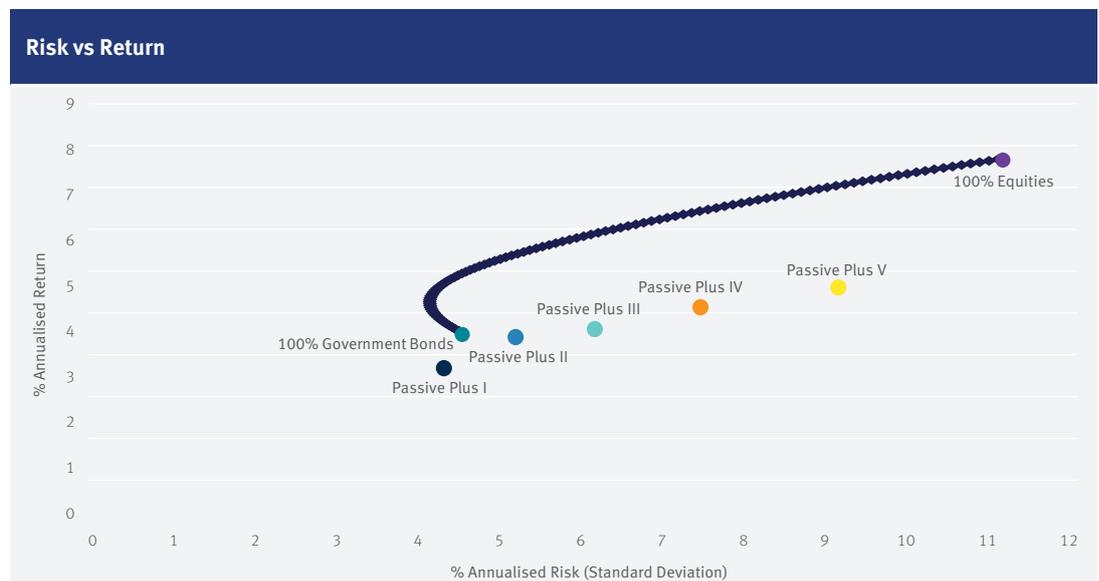
The graph below compares the difference between the risk and return of the Passive Plus funds to a range of simple portfolios constructed from four assets that would be traditionally used by UK investors; UK equities, global equities, UK government bonds and global government bonds. These portfolios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

## Passive 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 Bloomberg 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 Passive 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 Passive Plus Funds Report

## Performance

The commentary below represents performance across the range of Passive Plus funds (ratings I - V). As these funds are predominantly managed passively, the commentary refers to the active components of each fund, namely commercial property and high yield bonds.

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.

The passive components of the Passive Plus funds use tracker funds predominantly managed by Vanguard Asset Management. When analysing the individual performance of each component, it is worth bearing in mind that differences between the fund performance and the underlying index can occur because of timing differences and the inherent process of pricing external funds. Over short periods this can lead to what looks like increased tracking errors (the degree to which the funds deviate from their benchmark indices) but, over the medium term, these differences will even out.

Within the global high yield portfolio, the banking and technology sectors led the way, while energy continued to trade well, in sympathy with higher oil prices. With lockdowns easing significantly and economic and business activity resuming, this was supportive for sectors that have been most impacted by the pandemic. An example of this was General Motors. Conversely, defensive sectors such as wirelines, midstream and cable failed to keep pace during the quarter, reversing the trend that we had seen earlier in the year.

Turning to UK commercial property, our shopping centres continued to have the greatest negative impact on performance, mainly reflecting the continued and rapidly declining occupational market as more retailers fell into administration and closed stores. Our retail warehouses and indirect holdings also pulled down returns. Our industrial portfolio, where we are overweight, delivered only marginally negative total returns. In contrast to our rest of UK high street assets, our South East high street portfolio, which is almost five times the weight, outperformed the portfolio return. This was a result of our supermarket holdings. Total returns from our central London office and alternative portfolios remained in excess of the portfolio as a whole.

# Corporate Investment Proposition Passive Plus Funds Report

## Standard Life Passive Plus I Pension Fund

### Performance Comparison as at 30 June 2020



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.

### Composition by Fund Exposure

		Fund %*
Defensive Assets	SL Vanguard UK Short-Term Investment Grade Bond Index Pension Fund	22.30
	SL Vanguard UK Investment Grade Bond Index Pension Fund	21.60
	SL Vanguard Global Corporate Bond Index Pension Fund	19.30
	SL Vanguard Global Short-Term Corporate Bond Index Pension Fund	6.40
	SL Vanguard UK Government Bond Index Pension Fund	3.00
	Standard Life Money Market Pension Fund	1.00
Growth Assets	SL Vanguard FTSE UK All Share Index Pension Fund	10.20
	SL Vanguard US Equity Pension Fund	2.90
	Standard Life Property Pension Fund	2.80
	SL ASI Emerging Markets Local Currency Bond Tracker Pension Fund	2.60
	SL Vanguard Japan Stock Index Pension Fund	2.50
	SL Vanguard Pacific ex Japan Stock Index Pension Fund	1.20
	SL Vanguard Emerging Markets Stock Index Pension Fund	1.20
	SL Vanguard FTSE Developed Europe ex UK Pension Fund	1.00
	SL SLI Global High Yield Bond Pension Fund	1.00
	SL Global Property Securities Asset Fund	1.00

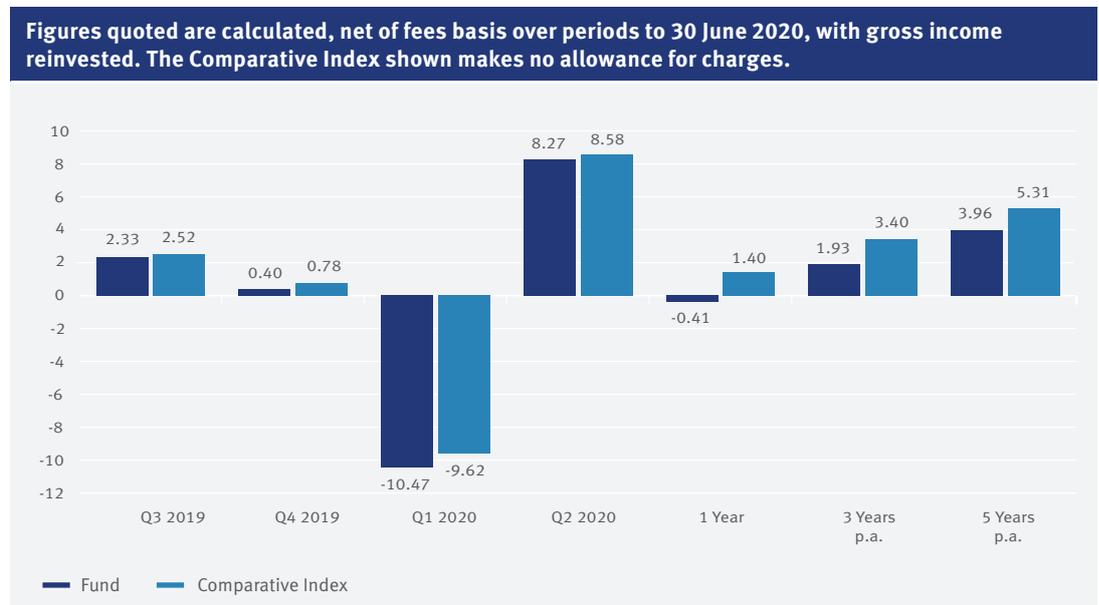
\* The data is rounded up and therefore small variances to totals may occur.

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# Corporate Investment Proposition Passive Plus Funds Report

## Standard Life Passive Plus II Pension Fund

### Performance Comparison as at 30 June 2020



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.

### Composition by Fund Exposure

	Fund *	
<b>Defensive Assets</b>	SL Vanguard Global Corporate Bond Index Pension Fund	19.30
	SL Vanguard UK Short-Term Investment Grade Bond Index Pension Fund	13.10
	SL Vanguard UK Investment Grade Bond Index Pension Fund	13.00
	SL Vanguard Global Short-Term Corporate Bond Index Pension Fund	7.00
	Standard Life Money Market Pension Fund	1.00
<b>Growth Assets</b>	SL Vanguard FTSE UK All Share Index Pension Fund	17.80
	Standard Life Property Pension Fund	5.20
	SL Vanguard US Equity Pension Fund	5.10
	SL ASI Emerging Markets Local Currency Bond Tracker Pension Fund	4.70
	SL Vanguard Japan Stock Index Pension Fund	3.60
	SL Vanguard Pacific ex Japan Stock Index Pension Fund	2.60
	SL Vanguard Emerging Markets Stock Index Pension Fund	2.60
	SL Vanguard FTSE Developed Europe ex UK Pension Fund	2.10
	SL Global Property Securities Asset Fund	1.70
	SL SLI Global High Yield Bond Pension Fund	1.20

\* The data is rounded up and therefore small variances to totals may occur.

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# Corporate Investment Proposition Passive Plus Funds Report

## Standard Life Passive Plus III Pension Fund

### Performance Comparison as at 30 June 2020



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.

### Composition by Fund Exposure

	Fund %*	
<b>Defensive Assets</b>	SL Vanguard Global Corporate Bond Index Pension Fund	10.40
	SL Vanguard UK Short-Term Investment Grade Bond Index Pension Fund	8.20
	SL Vanguard UK Investment Grade Bond Index Pension Fund	8.10
	SL Vanguard Global Short-Term Corporate Bond Index Pension Fund	4.40
	Standard Life Money Market Pension Fund	1.00
<b>Growth Assets</b>	SL Vanguard FTSE UK All Share Index Pension Fund	21.30
	SL Vanguard US Equity Pension Fund	9.00
	Standard Life Property Pension Fund	7.60
	SL ASI Emerging Markets Local Currency Bond Tracker Pension Fund	6.70
	SL Vanguard FTSE Developed Europe ex UK Pension Fund	6.10
	SL Vanguard Japan Stock Index Pension Fund	5.20
	SL Vanguard Pacific ex Japan Stock Index Pension Fund	3.90
	SL Vanguard Emerging Markets Stock Index Pension Fund	3.90
	SL Global Property Securities Asset Fund	2.50
	SL SLI Global High Yield Bond Pension Fund	1.70

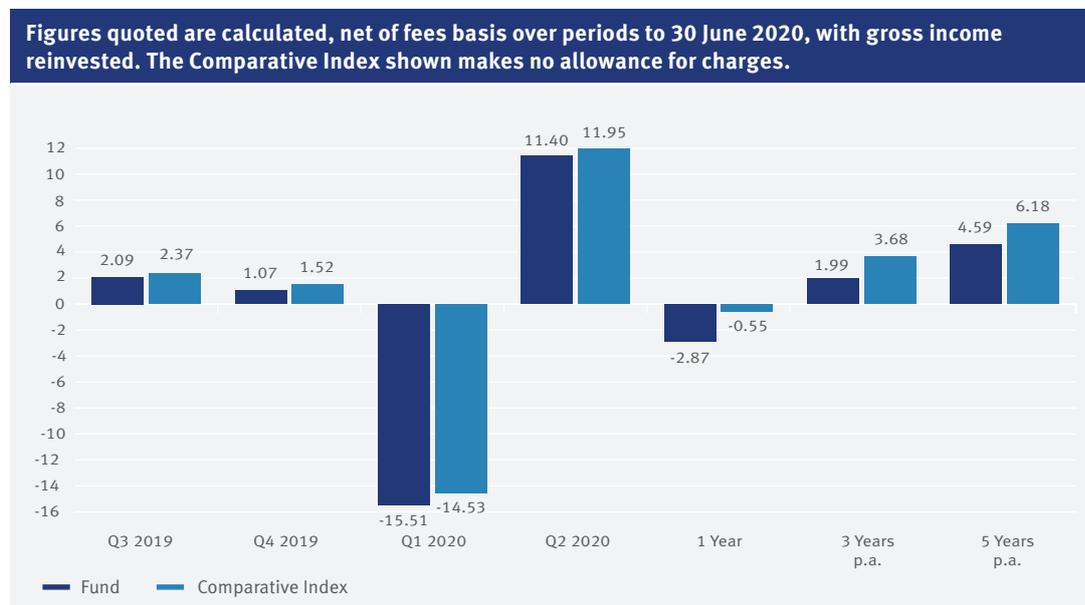
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# Corporate Investment Proposition Passive Plus Funds Report

## Standard Life Passive Plus IV Pension Fund

### Performance Comparison as at 30 June 2020



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.

### Composition by Fund Exposure

		Fund %*
<b>Defensive Assets</b>	SL Vanguard UK Investment Grade Bond Index Pension Fund	4.00
	SL Vanguard UK Short-Term Investment Grade Bond Index Pension Fund	3.90
	SL Vanguard Global Corporate Bond Index Pension Fund	1.80
	SL Vanguard Global Short-Term Corporate Bond Index Pension Fund	1.50
	Standard Life Money Market Pension Fund	1.00
<b>Growth Assets</b>	SL Vanguard FTSE UK All Share Index Pension Fund	25.90
	SL Vanguard US Equity Pension Fund	15.00
	Standard Life Property Pension Fund	8.80
	SL Vanguard FTSE Developed Europe ex UK Pension Fund	8.00
	SL Vanguard Japan Stock Index Pension Fund	7.20
	SL ASI Emerging Markets Local Currency Bond Tracker Pension Fund	6.80
	SL Vanguard Pacific ex Japan Stock Index Pension Fund	5.30
	SL Vanguard Emerging Markets Stock Index Pension Fund	5.30
	SL Global Property Securities Asset Fund	3.30
	SL SLI Global High Yield Bond Pension Fund	2.20

# Corporate Investment Proposition Passive Plus Funds Report

## Standard Life Passive Plus V Pension Fund

### Performance Comparison as at 30 June 2020



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.

### Composition by Fund Exposure

		Fund %*
Defensive Assets	SL Vanguard UK Short-Term Investment Grade Bond Index Pension Fund	2.00
	Standard Life Money Market Pension Fund	1.00
Growth Assets	SL Vanguard FTSE UK All Share Index Pension Fund	35.00
	SL Vanguard US Equity Pension Fund	22.40
	SL Vanguard Japan Stock Index Pension Fund	9.80
	SL Vanguard FTSE Developed Europe ex UK Pension Fund	9.40
	SL Vanguard Pacific ex Japan Stock Index Pension Fund	7.30
	SL Vanguard Emerging Markets Stock Index Pension Fund	7.10
	SL Global Property Securities Asset Fund	5.00
	SL ASI Emerging Markets Local Currency Bond Tracker Pension Fund	1.00

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