



# Investment Report

**Standard Life**  
**Corporate Investment Proposition**  
**MyFolio Managed Pension 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 MyFolio Managed Pension 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.

### 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).

Towards the end of April, we decided to trim our allocation to equities by reducing our holding in Japan. Global equities had recouped some of their recent losses and we expected increased volatility as the impact of the coronavirus on the global economy became clearer. Instead, we kept the proceeds in cash. This gave us the opportunity to reinvest in growth assets should an opportunity arise.

At the end of June, we used some cash to invest further in global high yield bonds. We believe they are an attractive investment given active support from central banks for corporate bond markets. In some cases, they are directly supporting high yield bonds. We also switched some of our UK equities exposure into European equities. We believe that improving economic prospects in Europe, following unprecedented policy support and success in containing the spread of Covid-19, will support European equities.

# Corporate Investment Proposition MyFolio Managed Pension Funds Report

## Environment and Activity

### Changes to underlying funds

In terms of the underlying holdings, we sold the Standard Life Investments Emerging Markets Equity Fund. Instead, we bought the ASI Emerging Markets Equity Fund, which is a high-conviction, in-house portfolio that takes a long-term quality approach. We also sold our remaining holding in the Standard Life North American Trust (please note transactions may not apply at all risk levels).

### Market Outlook

Within global equities, market action indicates that investors are taking the view that there will be a V-shaped economic recovery. A typical pattern seen during recovery phases is unfolding: strong gains for equities, the US dollar weakening and the US starting to underperform other regions. Investors will continue to react to newsflow. They are likely to receive data supporting a recovery well. Any setback will lead to another leg down in the markets.

Political and economic factors will continue to dominate fixed income markets. The US elections are looming, and tensions between China and the rest of the world are escalating. Central banks and governments have mitigated the effects of the pandemic on financial markets. However, there will not be a sustained recovery until the virus is contained, allowing the easing of lockdown measures. Market uncertainty should continue to be favourable for global government bonds. Meanwhile, US Federal Reserve purchases of investment-grade credit will continue to provide some support for corporate bonds.

Turning to UK commercial real estate, we forecast a total return fall of -9.5% in 2020. This would be the second weakest total return in the 40-year history of MSCI data. Only 2008 surpassed the decline in capital values that we expect this year. The retail sector is likely to drive the size of the decline. Leisure and hotels are also bearing the full brunt of measures to contain the Covid-19 outbreak.

# Corporate Investment Proposition MyFolio Managed Pension Funds Report

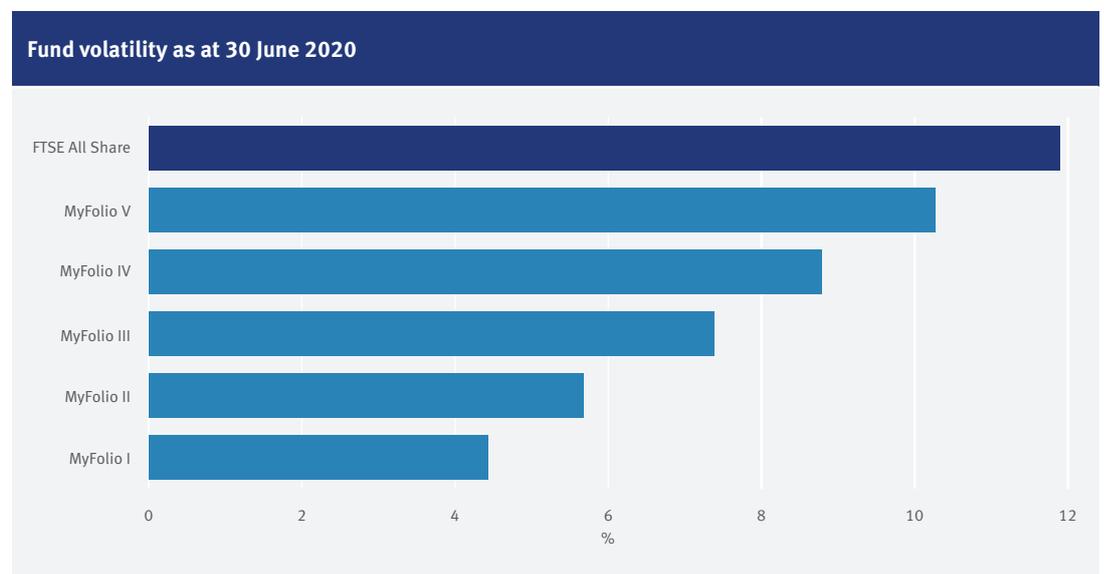
## Risk

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 MyFolio Managed 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.

## MyFolio Managed Pension 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 MyFolio Managed Pension Funds Report

## Risk and Return Characteristics

This section illustrates the risk and return characteristics of the MyFolio Managed range from March 2012 to the end of June 2020.

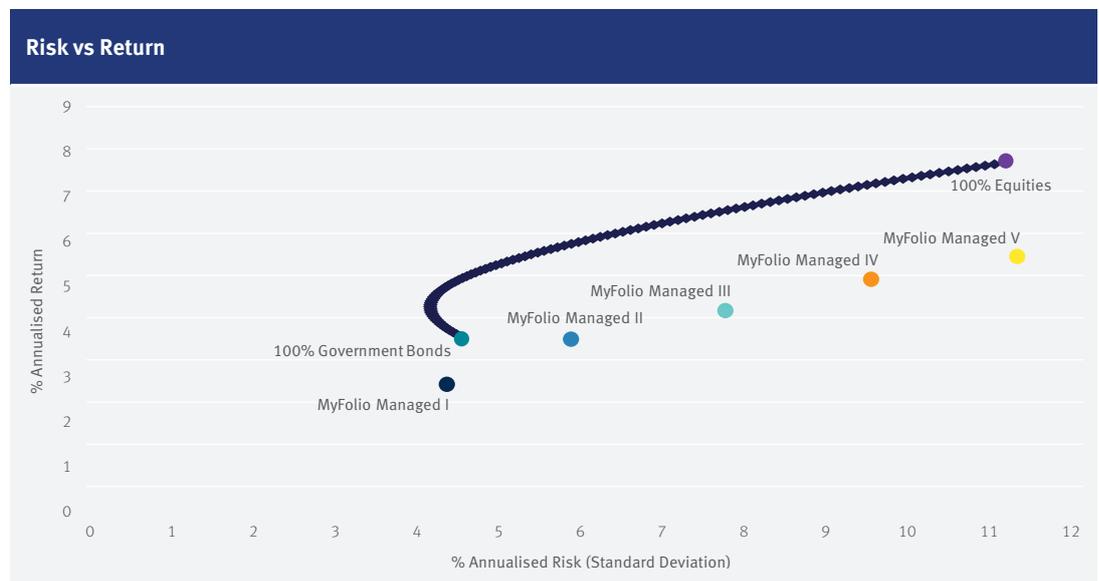
The graph below compares the difference between the risk and return of the MyFolio Managed funds to a range of simple portfolios constructed from four assets that would be traditionally used by UK investors; UK equities, global equities, UK government bonds and global government bonds. These portfolios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

## MyFolio Managed Pension 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 MyFolio Managed Pension Funds Report

## Risk and Return Characteristics (continued)

### What does this mean?

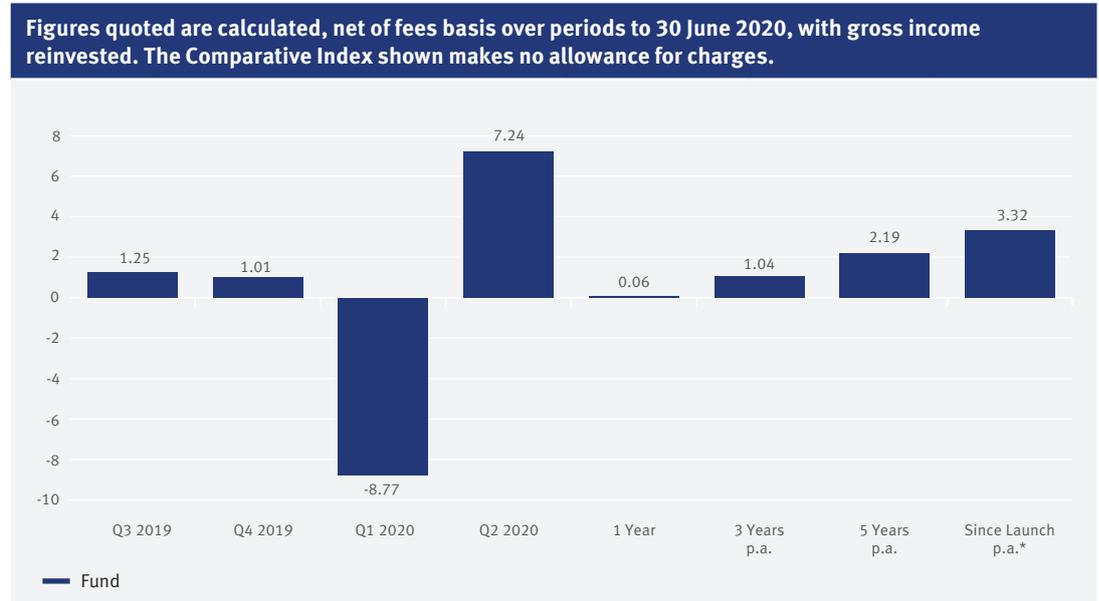
By applying our robust investment process, we aim to deliver outperformance on a risk-adjusted basis, i.e. the portfolios appearing to the left and above the theoretical efficient frontier. This frontier is constructed using a combination of equity/bond allocations ranging from 100% equities at one extreme 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 this quarter we have changed the non-UK component of government bonds from unhedged to hedged, so as to mitigate the large movement in Sterling over recent periods. While the change deals with the sterling movement the change also better reflects the types of bond exposures used in our solutions.

For a number of years the range of funds outperformed the efficient frontier, however due to an extreme upwards movement during Q3 2016 and Q4 2018, this resulted in a number of funds falling below the efficient frontier. 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 MyFolio Managed Pension Funds Report

## Standard Life MyFolio Managed I Pension Fund

### Performance Comparison as at 30 June 2020



\* 28/09/2010

Source: Aberdeen Standard Investments

Note: Past performance is not a guide to future performance and the value of units can go down as well as up.

### Asset Allocation

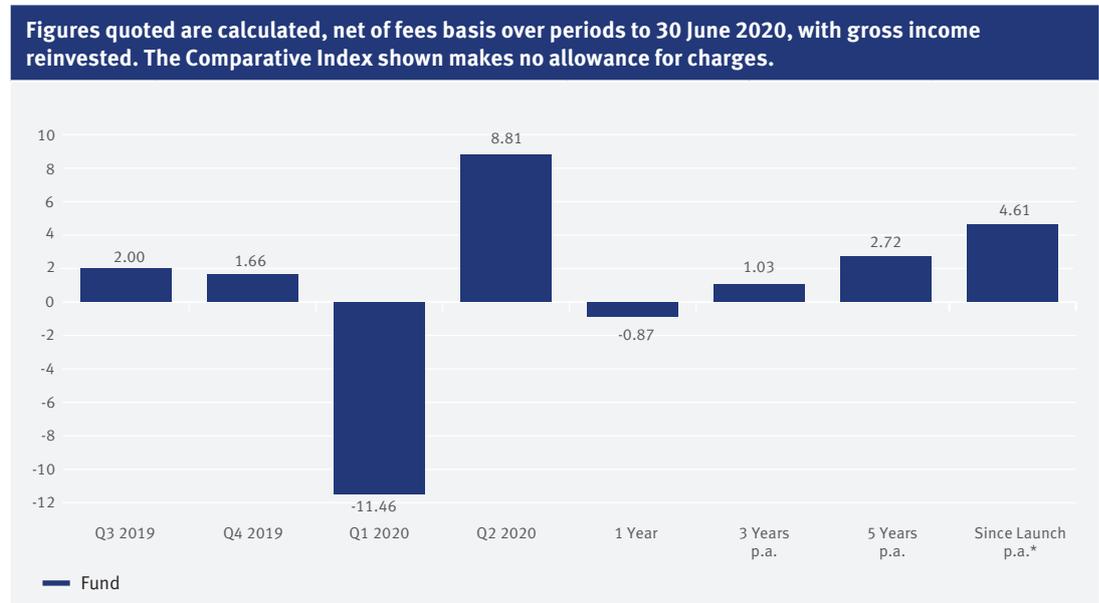
Asset Class		Underweight %	Strategic Asset Allocation %	Overweight %
Defensive Assets	Money Market including Cash	-0.75	5.80	-
	Global Index Linked Bonds	-	1.50	-
	Short Dated Global Index Linked Bonds	-0.75	5.60	-
	Sterling Corporate Bonds	-2.00	14.10	-
	Short Dated Sterling Corporate Bonds	-	16.60	-
	Global Corporate Bonds	-	9.00	-
	Short Dated Global Corporate Bonds	-	3.00	-
	Diversifying Defensive Assets	-	13.90	-
Growth Assets	UK Equities	-	9.70	0.25
	US Equities	-	2.80	0.25
	European Equities	-	1.00	0.25
	Japanese Equities	-	1.80	-
	Asia Pacific Equities	-	1.40	-
	Emerging Market Equities	-	1.40	0.75
	Global High Yield Bonds	-	2.30	1.50
	Emerging Market Local Currency Bonds	-	2.70	-
	UK Real Estate	-	2.90	-
	Global REITs	-	1.40	0.50
	Diversifying Growth Assets	-	3.10	-

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

# Corporate Investment Proposition MyFolio Managed Pension Funds Report

## Standard Life MyFolio Managed II Pension Fund

### Performance Comparison as at 30 June 2020



\* 28/09/2010

Source: Aberdeen Standard Investments

Note: Past performance is not a guide to future performance and the value of units can go down as well as up.

### Asset Allocation

Asset Class		Underweight %	Strategic Asset Allocation %	Overweight %
Defensive Assets	Money Market including Cash	-	1.00	-
	Global Index Linked Bonds	-	4.20	-
	Short Dated Global Index Linked Bonds	-1.00	5.70	-
	Sterling Corporate Bonds	-1.75	9.00	-
	Short Dated Sterling Corporate Bonds	-1.00	9.90	-
	Global Corporate Bonds	-	7.60	-
	Short Dated Global Corporate Bonds	-	2.60	-
	Diversifying Defensive Assets	-	10.00	-
Growth Assets	UK Equities	-	15.10	0.25
	US Equities	-	4.80	0.25
	European Equities	-	2.70	0.25
	Japanese Equities	-	4.30	-
	Asia Pacific Equities	-	2.50	-
	Emerging Market Equities	-	2.50	0.75
	Global High Yield Bonds	-	2.30	1.50
	Emerging Market Local Currency Bonds	-	4.10	-
	UK Real Estate	-	4.50	-
	Global REITs	-	2.20	0.50
	Diversifying Growth Assets	-	5.00	-

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

# Corporate Investment Proposition MyFolio Managed Pension Funds Report

## Standard Life MyFolio Managed III Pension Fund

### Performance Comparison as at 30 June 2020



\* 29/09/2010

Source: Aberdeen Standard Investments

Note: Past performance is not a guide to future performance and the value of units can go down as well as up.

### Asset Allocation

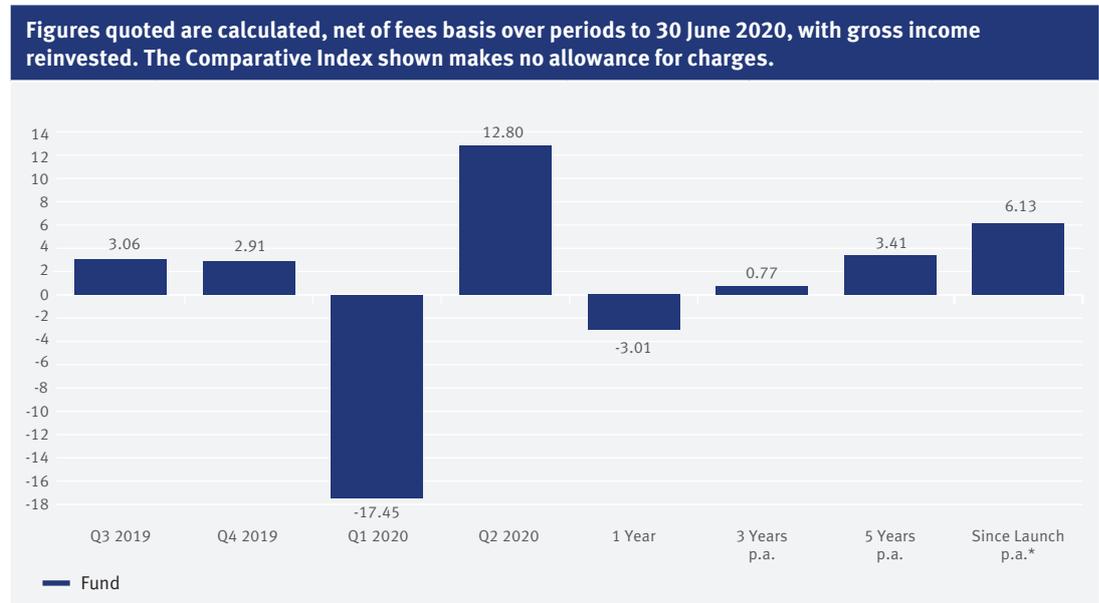
Asset Class		Underweight %	Strategic Asset Allocation %	Overweight %
Defensive Assets	Money Market including Cash	-	1.00	0.25
	Short Dated Global Index Linked Bonds	-1.00	3.10	-
	Sterling Corporate Bonds	-1.75	4.10	-
	Short Dated Sterling Corporate Bonds	-1.00	4.10	-
	Global Corporate Bonds	-	5.90	-
	Short Dated Global Corporate Bonds	-	1.80	-
	Diversifying Defensive Assets	-	5.00	-
Growth Assets	UK Equities	-	19.60	0.25
	US Equities	-	9.40	0.25
	European Equities	-	6.50	0.25
	Japanese Equities	-	4.90	-
	Asia Pacific Equities	-	3.70	-
	Emerging Market Equities	-	3.70	0.75
	Global High Yield Bonds	-	3.30	1.50
	Emerging Market Local Currency Bonds	-	6.80	-
	UK Real Estate	-	6.40	-
	Global REITs	-	3.20	0.50
	Diversifying Growth Assets	-	7.50	-

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

# Corporate Investment Proposition MyFolio Managed Pension Funds Report

## Standard Life MyFolio Managed IV Pension Fund

### Performance Comparison as at 30 June 2020



\* 29/09/2010

Source: Aberdeen Standard Investments

Note: Past performance is not a guide to future performance and the value of units can go down as well as up.

### Asset Allocation

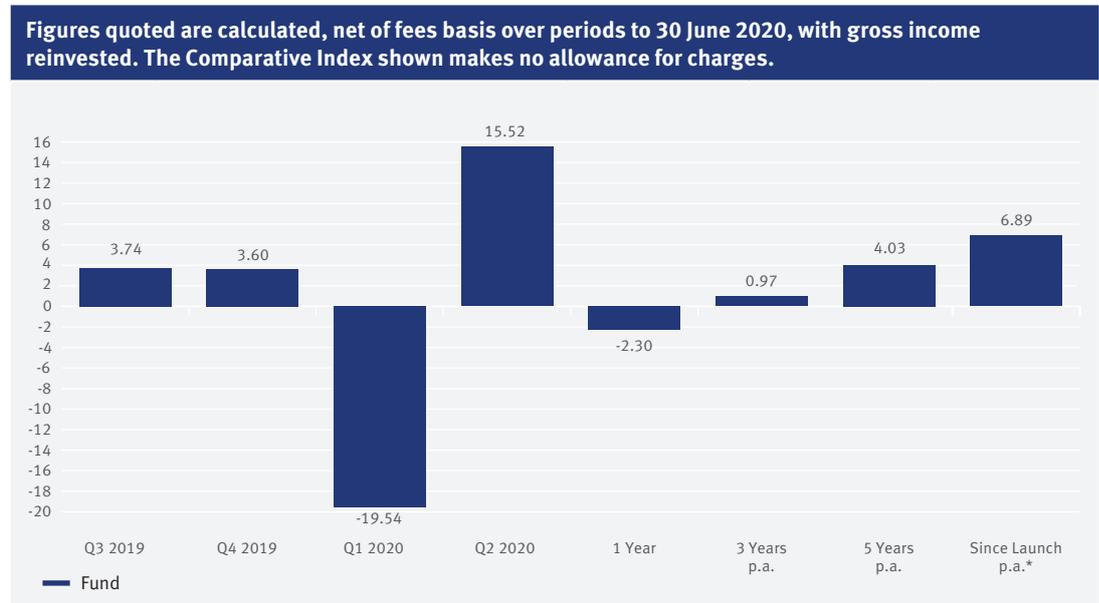
Asset Class		Underweight %	Strategic Asset Allocation %	Overweight %
Defensive Assets	Money Market including Cash	-	1.00	0.25
	Sterling Corporate Bonds	-1.05	1.30	-
	Short Dated Sterling Corporate Bonds	-2.00	2.80	-
	Global Corporate Bonds	-0.70	1.90	-
	Short Dated Global Corporate Bonds	-	1.00	-
	Diversifying Defensive Assets	-	2.00	-
Growth Assets	UK Equities	-	25.40	0.25
	US Equities	-	14.10	0.25
	European Equities	-	6.80	0.25
	Japanese Equities	-	7.40	-
	Asia Pacific Equities	-	4.90	-
	Emerging Market Equities	-	4.90	0.75
	Global High Yield Bonds	-	4.10	1.50
	Emerging Market Local Currency Bonds	-	4.30	-
	UK Real Estate	-	6.10	-
	Global REITs	-	3.00	0.50
	Diversifying Growth Assets	-	9.00	-

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

# Corporate Investment Proposition MyFolio Managed Pension Funds Report

## Standard Life MyFolio Managed V Pension Fund

### Performance Comparison as at 30 June 2020



\* 30/09/2010

Source: Aberdeen Standard Investments

Note: Past performance is not a guide to future performance and the value of units can go down as well as up.

### Asset Allocation

Asset Class		Underweight %	Strategic Asset Allocation %	Overweight %
Defensive Assets	Money Market including Cash	-0.25	1.00	-
	Short Dated Sterling Corporate Bonds	-2.00	2.00	-
Growth Assets	UK Equities	-	32.60	0.25
	US Equities	-	20.70	0.25
	European Equities	-	9.20	-
	Japanese Equities	-	9.50	-
	Asia Pacific Equities	-	6.50	-
	Emerging Market Equities	-	6.50	0.75
	Global High Yield Bonds	-	0.00	1.00
	Emerging Market Local Currency Bonds	-	2.30	-
	Diversifying Growth Assets	-	9.70	-

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

# Corporate Investment Proposition MyFolio Managed Pension 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](http://www.standardlifeworkplace.co.uk)

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