



Investment Report

Standard Life
Corporate Investment Proposition
MyFolio Managed Pension Funds Report
Q2 2018



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 Standard Life 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 Standard Life Investments funds: the Global Absolute Return Strategies Fund (GARS), as well as 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 Standard Life 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 Standard Life Investments, one of Europe's leading investment managers, including Global Absolute Return Strategies Fund (GARS), as well as 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 the Multi-Asset Investing Team.

Standard Life Investments MyFolio Managed Funds – an actively-managed, higher alpha option that invests mainly in funds managed by Standard Life Investments. Standard Life MyFolio Managed Funds mainly invests in Standard Life 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 Absolute Return Funds which offer a different expected return profile to traditional asset classes and as such provide further diversification benefits to the Funds. 20% of the growth and 20% of defensive assets within each Fund have been replaced with the Absolute Return Funds. The funds also benefit from Tactical Asset Allocation carried out by the Multi-Asset Investing Team.

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 MyFolio Managed Pension Funds Report

Environment and Activity

Environment

Following a challenging first quarter, most global equity markets rebounded in Q2, driven by robust US economic data and a raft of better-than-expected corporate earnings results. The former allowed the US Federal Reserve (Fed) to raise rates in June, with two more hikes likely this year. Meanwhile, the oil price surpassed a four-year high in May on supply concerns.

Perhaps the biggest talking point, though, was the deterioration in trade relations between the US and China, after each announced a series of new tariffs. Along with the rising US dollar, this meant emerging markets returns were down for the quarter.

It was a bumpy period for global government bonds, with prices in the US, Germany and the UK falling on indications that US interest rates could rise more quickly than previously expected. Thereafter, political uncertainty in Italy and Spain fuelled demand for core government bonds, driving prices higher. Corporate bonds began well but struggled to make headway as the quarter progressed, with volatility in financial markets picking up as the spectre of global trade wars returned.

UK commercial real estate delivered modest capital growth during the quarter, but there was further divergence in sector performance. While industrials continued to outperform the wider UK real estate market, there was further distress on the high street. Mothercare and House of Fraser were the latest retailers to resort to company voluntary arrangements (CVAs), while others like M&S looked to rationalise their physical portfolios. In this environment, real estate investors remained focused on assets in good locations, offering resilient income.

Activity

Strategic Asset Allocation

We review the Strategic Asset Allocation (SAA) for each of the MyFolio funds every quarter, with the aim of ensuring that we continue to meet investors' long-term interests. At the most recent review, we made no changes to the SAA model.

Tactical Asset Allocation

Within Tactical Asset Allocation (TAA), we made the following changes (where applicable within each risk level) during the second quarter of 2018.

- Reduced our European equities position to neutral (versus the SAA)
- Added to our holding in UK equities (while remaining underweight versus the SAA)
- Reduced our high yield bonds position to neutral
- Added to emerging market local currency debt
- Increased our cash position to a small overweight

The political situation in Italy reignites memories of prior Eurozone crises; we think this will be an overhang to sentiment in Europe at least, but at worst risks contagion into other countries. Conversely, with the euro already considerably weaker versus the US dollar, an improving situation in Europe may lead to a stronger recovery. This would act as a headwind for European equities. Overall, we believe other markets offer better risk-adjusted returns at this point. This includes US equities, where domestic economic growth has been strong and Q1 data leads us to believe it will remain higher than in other countries. Alongside the euro, sterling has also been weak versus the US dollar. We therefore decided to add to our UK equities position to modify our sterling exposure.

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Environment and Activity

High yield bonds have performed well over the year-to-date relative to other asset classes. Two factors have mainly driven this: the rise in oil prices and the slowdown in issuance. Defaults among high yield bonds are currently running at a fairly low 3% but the asset class remains susceptible to higher US interest rates given greater debt levels. While we still expect positive returns, the risks are now more balanced. We therefore prefer to invest in emerging market debt, which gives us exposure to the growth dynamics within emerging markets. Finally, we increased our cash position, which gives us greater flexibility in volatile markets.

Changes to underlying funds

There were no changes made to the underlying holdings over the review period.

Market Outlook

The story of the equity market this year has been the reintroduction of risk and volatility. Higher interest rates and the removal of monetary policy are causing a slow tightening of liquidity conditions, which is creating stress in some emerging market currencies and bond yields. In addition, populist politics are challenging the status quo, threatening global free trade and the euro. However, the most important drivers for stocks – economic data and corporate earnings – remain solid, providing reasons to remain supportive. As we move through 2018, stock prices will have to be justified by the merits of the underlying company cashflows, rather than by interest-rate-driven valuation.

The path and speed of interest rate changes will continue to determine the short-term outlook for bond markets. Central banks have made it clear they believe economic growth and employment levels now argue for an unwinding of emergency monetary policies, despite consistently low inflation. As a result, they are steering towards a tighter monetary policy stance. Meanwhile, the fundamental picture for corporate bonds remains sound, which was reflected in the first quarter earnings season.

Uncertainty around the ultimate economic impact of Brexit continues to affect sentiment towards UK commercial real estate. We envisage a period of low returns over the next five years, with the forecast annual total return being slightly below the market income return. With income expected to be the main driver of returns, the degree of income risk – from potential tenant default or the ability to maintain income at lease events – will be key to performance.

Corporate Investment Proposition MyFolio Managed Pension Funds Report

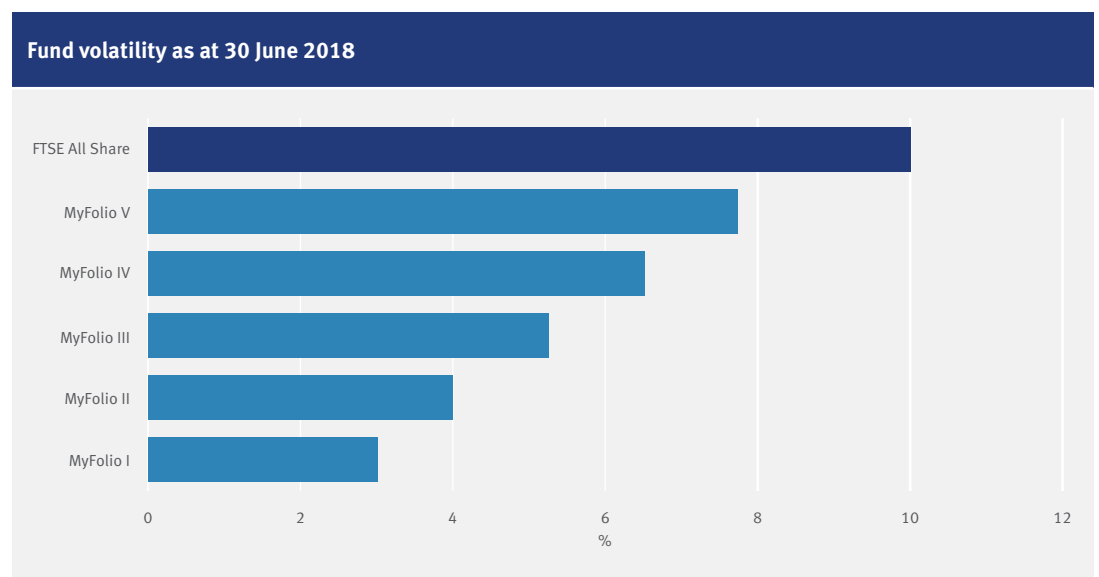
Risk

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 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.

MyFolio Managed Pension Funds



Source: Financial Express

All figures shown have been annualised using monthly data from March 2012 to June 2018.

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 2018.

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 (green 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 BofAML UK Gilts All Maturities Index, 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 30/06/2018; MyFolio Managed 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?

The purpose of this comparison is to illustrate how the funds have performed relative to a range of theoretical alternatives, which when shown in this format, could be considered as basic risk/return comparisons.

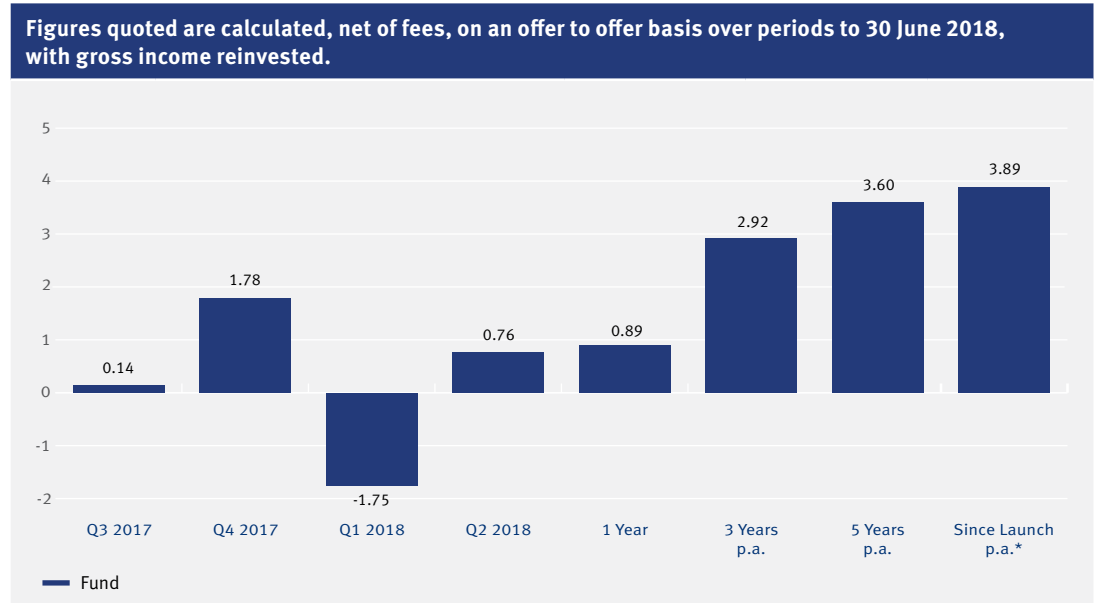
Any portfolios which lie above and to the left of the blue line can be referred to as more risk efficient portfolios as they are delivering a better level of return for the risk taken. For example the MyFolio Managed III fund offered broadly the same level of return with lower risk than c.53% equities/c.47% bonds portfolio.

By applying our robust investment process, we aim to deliver outperformance on a risk adjusted basis i.e. the portfolios appearing in the top left hand quadrant. As shown over the period, the combination of longer-term asset selection, short-term asset allocation and security selection has resulted in outperformance of a sample of equity/government bond portfolios, demonstrating that investors would have achieved better risk-adjusted returns by allocating to these funds over this time period.

Corporate Investment Proposition MyFolio Managed Pension Funds Report

Standard Life MyFolio Managed I Pension Fund

Performance Comparison as at 30 June 2018



* 28/09/2010

Source: Standard Life 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	-1.50	5.80	-
	Global Index Linked Bonds	-	5.50	-
	Short Dated Global Index Linked Bonds	-1.50	5.50	-
	Sterling Corporate Bonds	-1.50	14.20	-
	Short Dated Sterling Corporate Bonds	-	14.20	-
	Global Corporate Bonds	-	9.00	-
	Short Dated Global Corporate Bonds	-	3.00	-
	Absolute Return Bonds	-	14.30	-
Growth Assets	UK Equities	-1.00	5.30	-
	US Equities	-	5.00	1.50
	European Equities	-	2.20	-
	Japanese Equities	-	1.60	1.50
	Asia Pacific Equities	-	1.30	0.50
	Emerging Market Equities	-	1.30	1.00
	Global High Yield Bonds	-	2.00	-
	Emerging Market Local Currency Bonds	-	0.60	1.00
	UK Real Estate	-	2.60	-
	Global REITs	-	0.90	-
	Multi Asset Absolute Returns	-	5.70	-

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

Standard Life MyFolio Managed II Pension Fund

Performance Comparison as at 30 June 2018



* 28/09/2010

Source: Standard Life 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

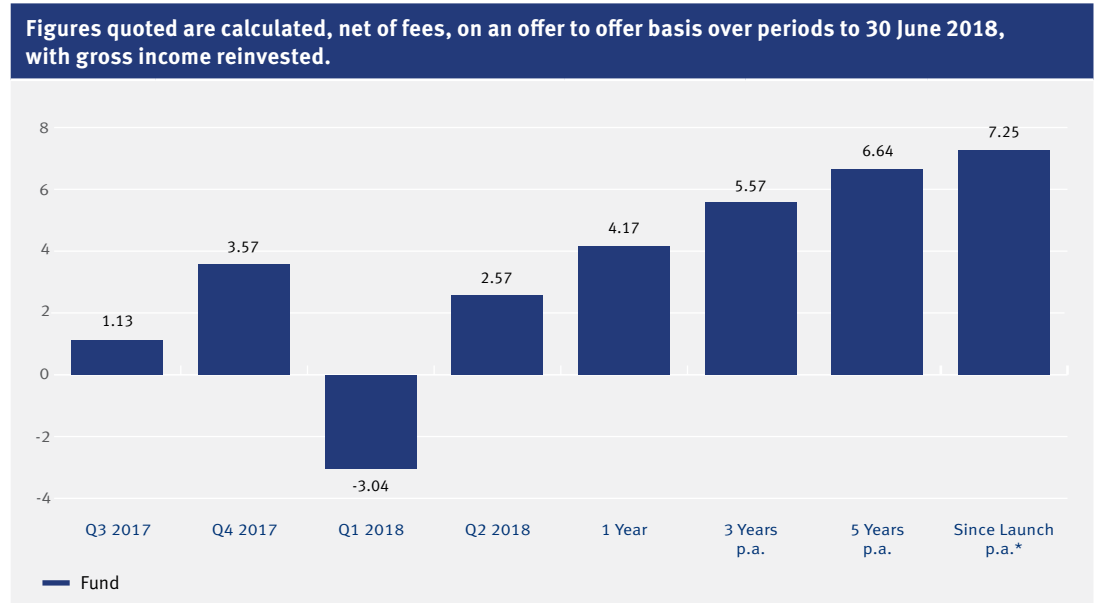
Asset Class		Underweight %	Strategic Asset Allocation %	Overweight %
Defensive Assets	Money Market including Cash	-	1.00	0.50
	Global Index Linked Bonds	-	5.60	-
	Short Dated Global Index Linked Bonds	-1.50	5.60	-
	Sterling Corporate Bonds	-1.50	9.00	-
	Short Dated Sterling Corporate Bonds	-2.00	9.00	-
	Global Corporate Bonds	-	7.60	-
	Short Dated Global Corporate Bonds	-	2.60	-
	Absolute Return Bonds	-	10.10	-
Growth Assets	UK Equities	-1.00	10.20	-
	US Equities	-	9.10	1.50
	European Equities	-	4.00	-
	Japanese Equities	-	2.90	1.50
	Asia Pacific Equities	-	2.20	0.50
	Emerging Market Equities	-	2.20	1.00
	Global High Yield Bonds	-	2.00	-
	Emerging Market Local Currency Bonds	-	1.00	1.00
	UK Real Estate	-	4.50	-
	Global REITs	-	1.50	-
	Multi Asset Absolute Returns	-	9.90	-

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 2018



* 28/09/2010

Source: Standard Life 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

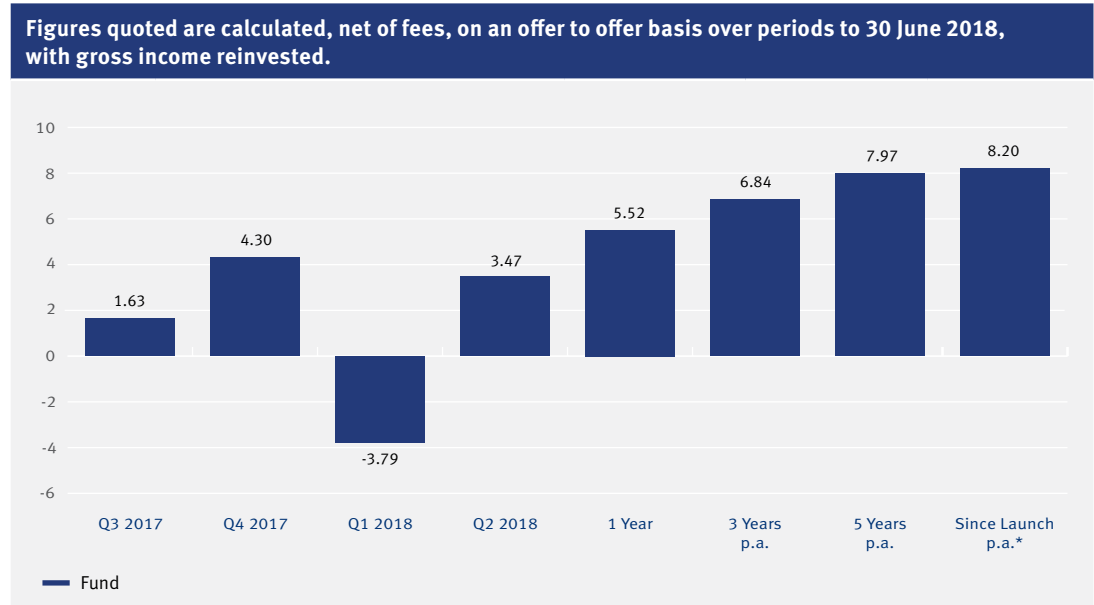
Asset Class		Underweight %	Strategic Asset Allocation %	Overweight %
Defensive Assets	Money Market including Cash	-	1.00	0.50
	Global Index Linked Bonds	-	3.00	-
	Short Dated Global Index Linked Bonds	-1.50	3.00	-
	Sterling Corporate Bonds	-1.50	4.10	-
	Short Dated Sterling Corporate Bonds	-2.00	4.10	-
	Global Corporate Bonds	-	6.00	-
	Short Dated Global Corporate Bonds	-	2.00	-
	Absolute Return Bonds	-	5.80	-
Growth Assets	UK Equities	-1.00	14.40	-
	US Equities	-	13.00	1.50
	European Equities	-	5.80	-
	Japanese Equities	-	4.20	1.50
	Asia Pacific Equities	-	3.30	0.50
	Emerging Market Equities	-	3.30	1.00
	Global High Yield Bonds	-	2.80	-
	Emerging Market Local Currency Bonds	-	1.40	1.00
	UK Real Estate	-	6.40	-
	Global REITs	-	2.20	-
	Multi Asset Absolute Returns	-	14.20	-

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 2018



* 28/09/2010

Source: Standard Life 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

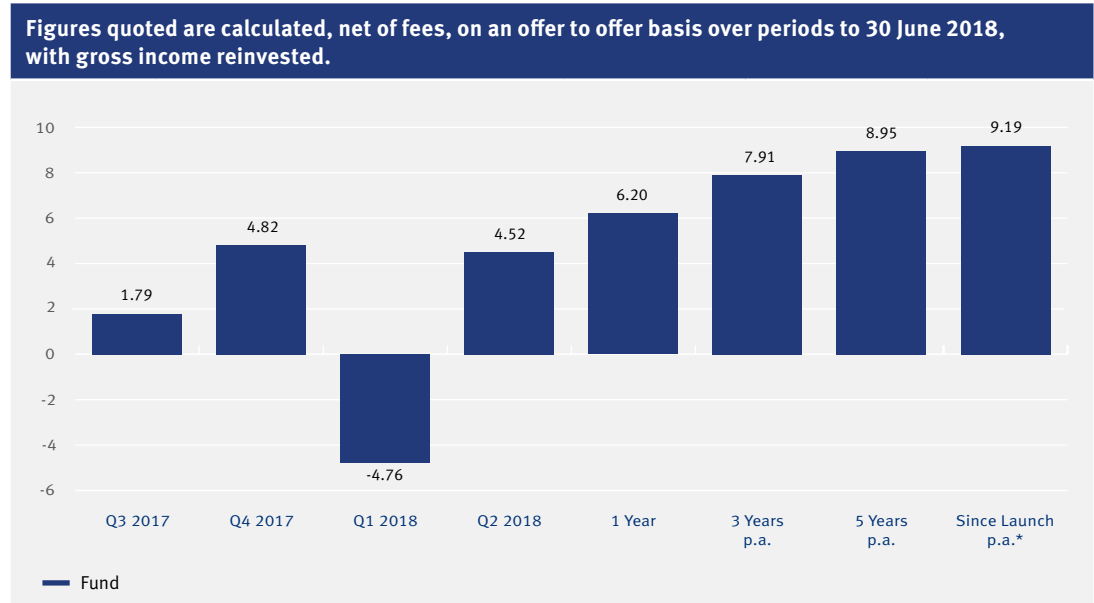
Asset Class		Underweight %	Strategic Asset Allocation %	Overweight %
Defensive Assets	Money Market including Cash	-	1.00	0.50%
	Global Index Linked Bonds	-0.70	0.70	-
	Short Dated Global Index Linked Bonds	-0.70	0.70	-
	Sterling Corporate Bonds	-1.40	1.40	-
	Short Dated Sterling Corporate Bonds	-1.40	1.40	-
	Global Corporate Bonds	-0.80	2.00	-
	Short Dated Global Corporate Bonds	-	0.70	-
	Absolute Return Bonds	-	2.00	-
Growth Assets	UK Equities	-1.00	19.50	-
	US Equities	-	17.40	1.50
	European Equities	-	7.60	-
	Japanese Equities	-	5.50	1.50
	Asia Pacific Equities	-	4.30	0.50
	Emerging Market Equities	-	4.30	1.00
	Global High Yield Bonds	-	3.60	-
	Emerging Market Local Currency Bonds	-	1.80	1.00
	UK Real Estate	-	6.10	-
	Global REITs	-	2.00	-
	Multi Asset Absolute Returns	-	18.00	-

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 2018



* 28/09/2010

Source: Standard Life 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 Corporate Bonds	-2.00	2.00	-
Growth Assets	UK Equities	-2.00	25.40	-
	US Equities	-	23.00	1.50
	European Equities	-	10.20	-
	Japanese Equities	-	7.40	1.25
	Asia Pacific Equities	-	5.80	-
	Emerging Market Equities	-	5.80	0.50
	Multi Asset Absolute Returns	-	19.40	-
	Emerging Market Local Currency Bonds	-	0.00	0.75

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	Global Emerging Markets Japanese European ex-UK US		European real estate Japanese yen
Neutral	Developed Asian Equities	UK US ↑	North American real estate UK real estate Global commodities Asia Pacific real estate
Light	UK	Japanese Euro-zone ↓	Cash UK sterling US dollar, Euro ↓
Very Light			

The following denotes a change: ↑ increase and ↓ decrease

UK Equities – Light

- UK economic growth expectations are weakening and Brexit remains a longer-term threat.

US Equities – Heavy

- Supportive economic conditions and tax cuts support the market, which will continue to boost company profits.

European ex-UK Equities – Heavy

- Broad economic expansion and stronger trade flows are supportive for corporate profits.

Japanese Equities – Heavy

- The market looks attractive, as easy monetary policy and fiscal stimulus are helped by efforts to improve corporate governance, share buybacks and business investment.

Developed Asian Equities – Neutral

- The improvement in the global economy provides support but Chinese policy-tightening risks are curbing fixed-asset investment and property demand.

Global Emerging Markets Equities – Heavy

- Global growth improvements support the asset class, especially key sectors such as Asian technology.

UK Bonds – Neutral

- The interest rate outlook remains uncertain as the Bank of England is concerned with weaker economic data.

US Bonds – Neutral

- Bonds have priced in most but not all the expected interest rate increases.

Euro-zone Bonds – Light

- While the economy is expanding steadily, the ECB has signalled a slow approach to tapering bond purchases against a backdrop of muted inflation.

Japanese Bonds – Light

- Within our portfolios, we are using Japanese bonds to fund other risk positions.

Cash – Light

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

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

- The major currencies are within normal valuation ranges. The yen can act as a diversifier against the risk of a decline in global activity. Long-term factors support the euro but technical factors are a headwind.

UK Real Estate – Neutral

- The UK real estate cycle is at a mature stage and there is limited expected capital growth. Income remains attractive, although risks are elevated should conditions turn recessionary or political uncertainty grows.

North American Real Estate - Neutral

- The US market has low vacancies across most sectors and markets, although the sizeable retail sector is coming under more pressure.

European Real Estate - Heavy

- Stronger economic growth and low levels of new supply support European real estate.

Asia Pacific Real Estate - Neutral

- An attractive yield margin remains, but yields have bottomed in most markets.

Global Commodities – Neutral

- While the improvement in global growth supports commodities, they are very sensitive to Chinese policy tightening.

Find out more

For more information speak to your usual Standard Life contact.

www.standardlifeworkplace.co.uk

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