



# Investment Report

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

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# Corporate Investment Proposition Passive Plus 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 Passive Plus 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.

#### Changes to underlying funds

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

# Corporate Investment Proposition Passive Plus Funds Report

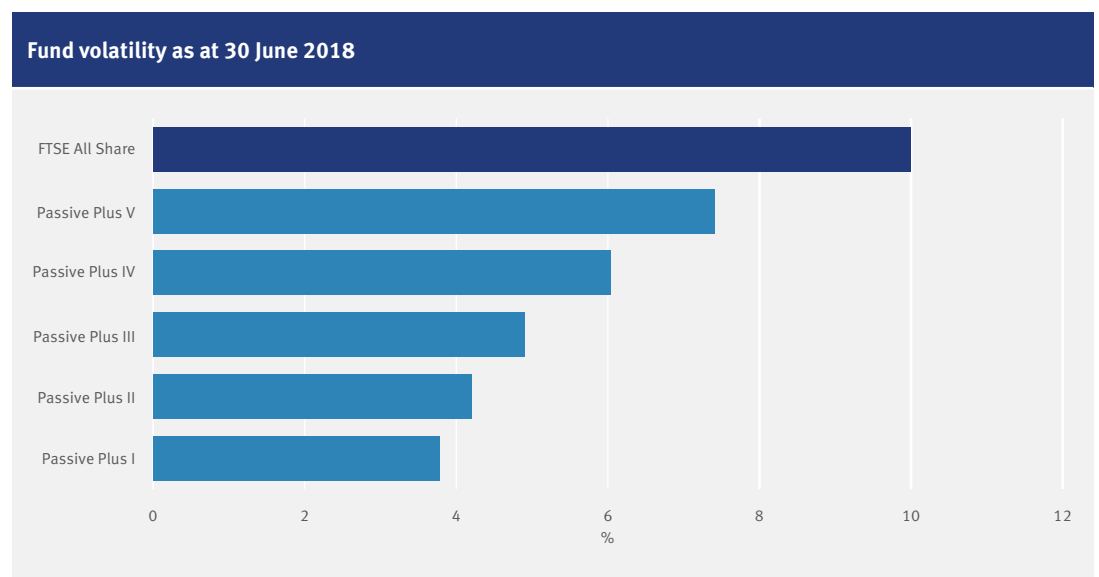
## Risk

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 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 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 2018.

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 (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.

## Passive Plus 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; Passive 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 appear to the left and above the theoretical efficient frontier. Historically, this has been the case for most funds, but due to an extreme upwards movement in the efficient frontier in Q2 and Q3 2016, Passive Plus V sits on the efficient frontier. The significant upwards movement was largely due to the impact of the sterling returns of both overseas equities and bonds.

While we have been impacted by the exceptional market circumstances we witnessed during this period, 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 absolute return, commercial property and high yield bonds.

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 initially 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.

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.

For the global high yield portfolio, oil services company Weatherford made a positive contribution to performance. The firm has undergone a transformation process under what is a fairly new management team. In addition, the energy sector benefited as a whole after OPEC moved to offset the rampant decline in crude oil production in Venezuela. An off-benchmark position in Intelsat's bonds detracted from performance due to a rally spurred by comments made by the Chairman of the US Federal Communications Commission in support of potential C-Band spectrum monetisation schemes. Improving sentiment facilitated a timely equity and convertible security raising in June.

Within the Global Absolute Return Strategies component, our European banks versus European equities strategy contributed negatively. Banks posted significant losses as the uncertain Italian political environment weighed on the long-term outlook for interest rates and economic growth. Meanwhile, the environment of continuing robust US economic growth and strong corporate earnings rewarded our global REITs (Real Estate Investment Trusts) strategy. This environment was also supportive of US equities, particularly the typically domestic-facing small-cap stocks, which outperformed the large-cap sector. As a result, our US equity large-cap versus small-cap strategy dragged on returns.

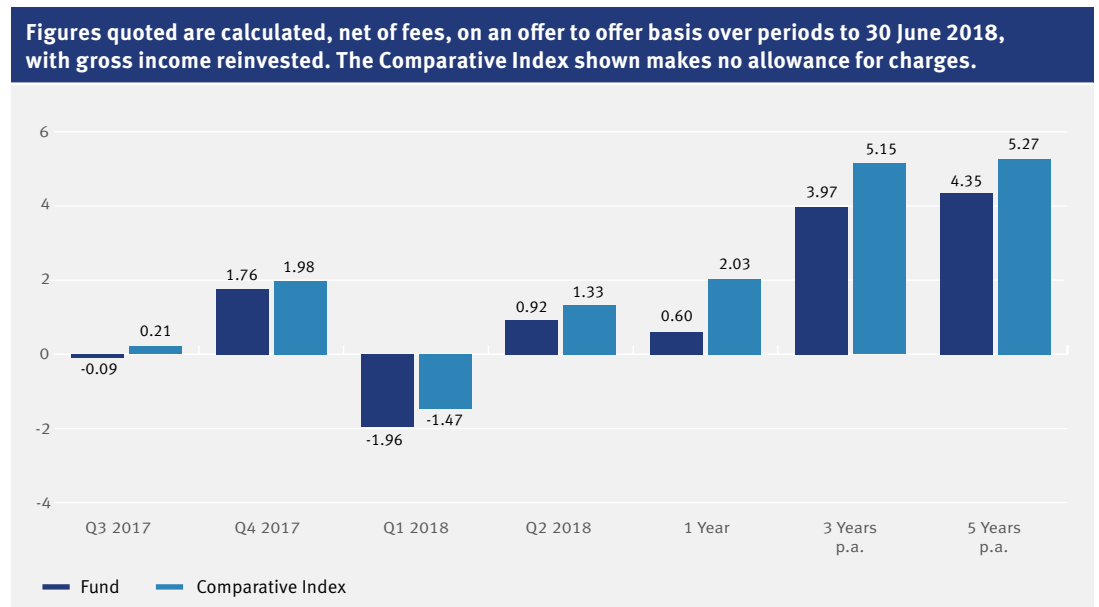
In our property portfolio, negative sentiment towards the retail sector weighed on returns, with our shopping centre holdings experiencing the most significant fall, followed by retail warehouses. Our high-street portfolio held up relatively well, reflecting the defensive qualities of our long-income supermarkets. Our South-East office portfolio fell, largely due to the absence of lettings and imminent lease expiries at Weybridge, as well as agreeing terms to sell Communications House in Staines below valuation. Marginally negative capital value growth within our Central London office portfolio, as well as our higher cash position, also dragged down relative performance. The industrial portfolio was, however, more positive.



# Corporate Investment Proposition Passive Plus Funds Report

## Standard Life Passive Plus I Pension Fund

### Performance Comparison as at 30 June 2018



Source: Standard Life 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

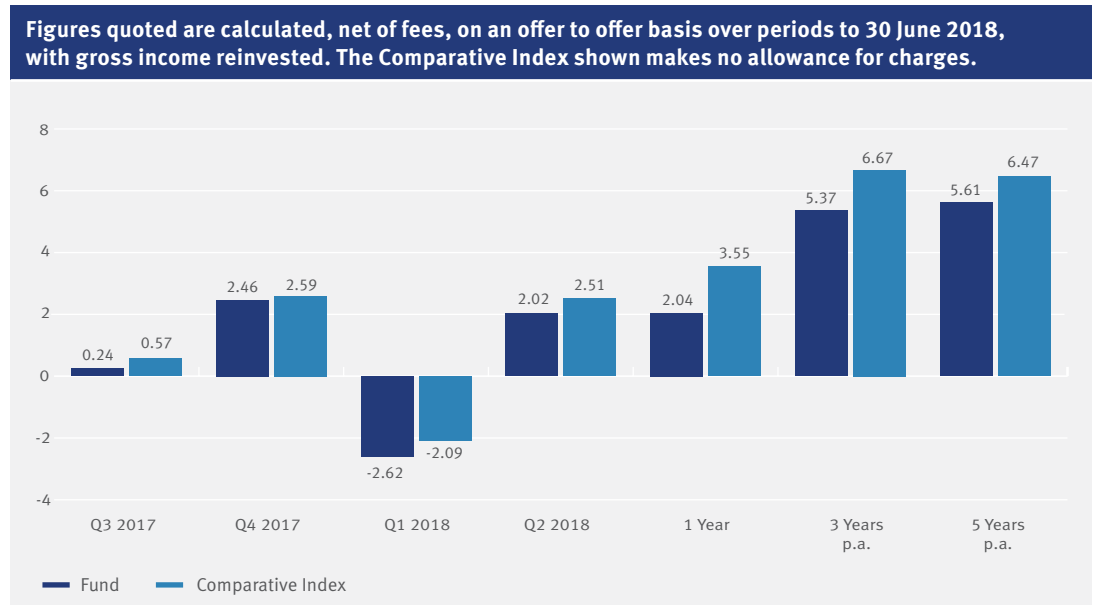
		Fund %
Defensive Assets	SL Vanguard Global Corporate Bond Index Pension Fund	17.84
	SL Vanguard UK Government Bond Index Pension Fund	14.31
	SL Vanguard UK Investment Grade Bond Index Pension Fund	11.94
	SL Vanguard UK Short-Term Investment Grade Bond Index Pension Fund	11.92
	Standard Life Money Market Pension Fund	10.82
	SL Vanguard Global Short-Term Corporate Bond Index Pension Fund	5.91
Growth Assets	SL SLI Global Absolute Return Strategies (Passive Plus) Pension Fund	5.68
	SL Vanguard FTSE UK All Share Index Pension Fund	5.67
	SL Vanguard US Equity Pension Fund	4.96
	Standard Life Property Pension Fund	2.61
	SL Vanguard FTSE Developed Europe ex UK Pension Fund	2.16
	SL Vanguard Japan Stock Index Pension Fund	1.58
	SL Vanguard Pacific ex Japan Stock Index Pension Fund	1.31
	SL Vanguard Emerging Markets Stock Index Pension Fund	1.26
	SL SLI Global High Yield Bond Pension Fund	1.10
	SL Global Property Securities Asset Fund	0.93

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# Corporate Investment Proposition Passive Plus Funds Report

## Standard Life Passive Plus II Pension Fund

### Performance Comparison as at 30 June 2018



Source: Standard Life 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

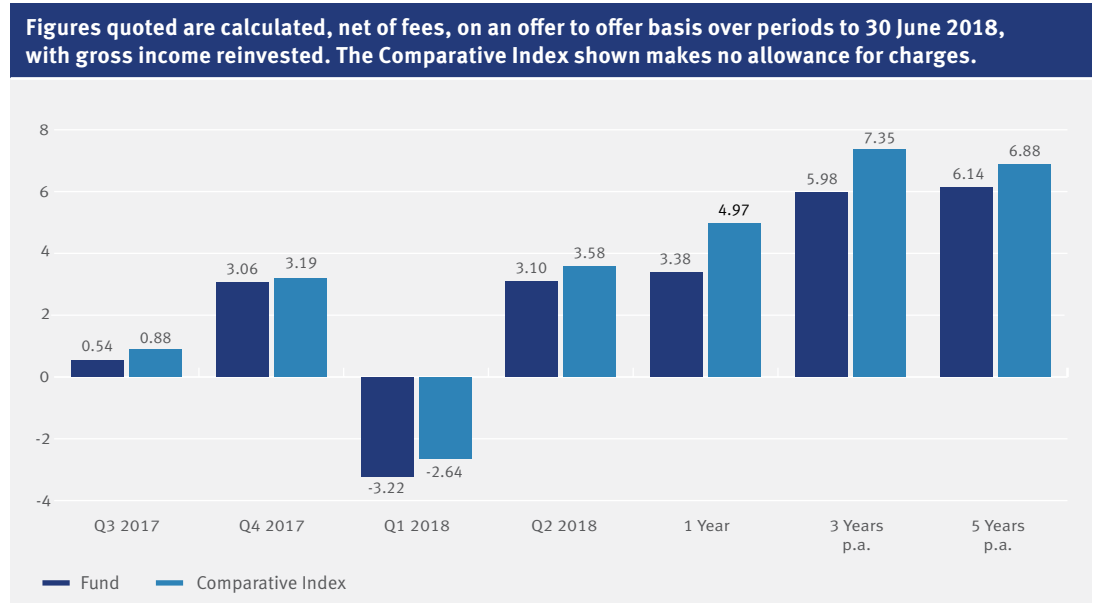
		Fund %
<b>Defensive Assets</b>	SL Vanguard Global Corporate Bond Index Pension Fund	13.20
	SL Vanguard UK Government Bond Index Pension Fund	10.10
	SL Vanguard UK Investment Grade Bond Index Pension Fund	8.80
	SL Vanguard UK Short-Term Investment Grade Bond Index Pension Fund	8.80
	Standard Life Money Market Pension Fund	5.60
	SL Vanguard Global Short-Term Corporate Bond Index Pension Fund	4.40
<b>Growth Assets</b>	SL Vanguard FTSE UK All Share Index Pension Fund	10.28
	SL SLI Global Absolute Return Strategies (Passive Plus) Pension Fund	9.90
	SL Vanguard US Equity Pension Fund	9.20
	Standard Life Property Pension Fund	4.50
	SL Vanguard FTSE Developed Europe ex UK Pension Fund	4.10
	SL Vanguard Japan Stock Index Pension Fund	3.00
	SL Vanguard Pacific ex Japan Stock Index Pension Fund	2.30
	SL Vanguard Emerging Markets Stock Index Pension Fund	2.30
	SL SLI Global High Yield Bond Pension Fund	2.00
	SL Global Property Securities Asset Fund	1.52

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# Corporate Investment Proposition Passive Plus Funds Report

## Standard Life Passive Plus III Pension Fund

### Performance Comparison as at 30 June 2018



Source: Standard Life 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

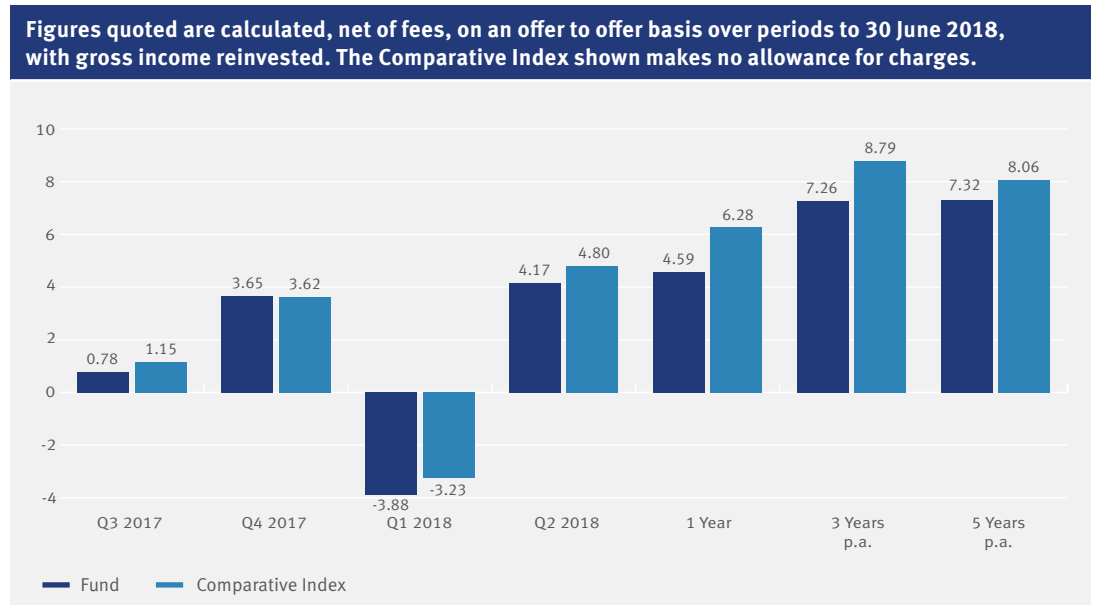
	Fund %	
<b>Defensive Assets</b>	SL Vanguard Global Corporate Bond Index Pension Fund	7.90
	SL Vanguard UK Government Bond Index Pension Fund	7.30
	SL Vanguard UK Investment Grade Bond Index Pension Fund	5.30
	SL Vanguard UK Short-Term Investment Grade Bond Index Pension Fund	5.30
	SL Vanguard Global Short-Term Corporate Bond Index Pension Fund	2.60
	Standard Life Money Market Pension Fund	2.50
<b>Growth Assets</b>	SL Vanguard FTSE UK All Share Index Pension Fund	14.70
	SL SLI Global Absolute Return Strategies (Passive Plus) Pension Fund	14.00
	SL Vanguard US Equity Pension Fund	13.3
	Standard Life Property Pension Fund	6.20
	SL Vanguard FTSE Developed Europe ex UK Pension Fund	5.80
	SL Vanguard Japan Stock Index Pension Fund	4.20
	SL Vanguard Pacific ex Japan Stock Index Pension Fund	3.30
	SL Vanguard Emerging Markets Stock Index Pension Fund	3.30
	SL SLI Global High Yield Bond Pension Fund	2.20
	SL Global Property Securities Asset Fund	2.10

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# Corporate Investment Proposition Passive Plus Funds Report

## Standard Life Passive Plus IV Pension Fund

### Performance Comparison as at 30 June 2018



Source: Standard Life 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 Global Corporate Bond Index Pension Fund	2.80
	SL Vanguard UK Government Bond Index Pension Fund	2.12
	Standard Life Money Market Pension Fund	1.98
	SL Vanguard UK Investment Grade Bond Index Pension Fund	1.81
	SL Vanguard UK Short-Term Investment Grade Bond Index Pension Fund	1.79
	SL Vanguard Global Short-Term Corporate Bond Index Pension Fund	0.89
Growth Assets	SL Vanguard FTSE UK All Share Index Pension Fund	19.19
	SL SLI Global Absolute Return Strategies (Passive Plus) Pension Fund	17.91
	SL Vanguard US Equity Pension Fund	17.17
	Standard Life Property Pension Fund	8.12
	SL Vanguard FTSE Developed Europe ex UK Pension Fund	7.57
	SL Vanguard Japan Stock Index Pension Fund	5.50
	SL Vanguard Pacific ex Japan Stock Index Pension Fund	4.33
	SL Vanguard Emerging Markets Stock Index Pension Fund	4.27
	SL Global Property Securities Asset Fund	2.77
	SL SLI Global High Yield Bond Pension Fund	1.78

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# Corporate Investment Proposition Passive Plus Funds Report

## Standard Life Passive Plus V Pension Fund

### Performance Comparison as at 30 June 2018



Source: Standard Life 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 Global Corporate Bond Index Pension Fund	2.01
	Standard Life Money Market Pension Fund	1.01
Growth Assets	SL Vanguard FTSE UK All Share Index Pension Fund	25.39
	SL Vanguard US Equity Pension Fund	22.99
	SL SLI Global Absolute Return Strategies (Passive Plus) Pension Fund	19.39
	SL Vanguard FTSE Developed Europe ex UK Pension Fund	10.19
	SL Vanguard Japan Stock Index Pension Fund	7.39
	SL Vanguard Pacific ex Japan Stock Index Pension Fund	5.84
	SL Vanguard Emerging Markets Stock Index Pension Fund	5.79

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