Investment Report

Standard Life
Good to Go Default Growth Fund
Active Plus III Report
Q1 2020

Standard Life
There's a lot to look forward to

Corporate Investment Proposition

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

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

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

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

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

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

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

Appropriate default strategy - Risk based lifestyle options

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

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

Choice of Investment Style

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

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

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

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

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

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Environment and Activity

Environment

After a positive start, global equities suffered a bruising quarter, with losses not seen since the 2008 financial crisis. As the coronavirus outbreak evolved into a global pandemic, the mood changed. Coinciding with this, the main oil-producing nations failed to agree supply cuts, sending oil prices plunging to 18-year lows. Alarmed investors dumped equities, corporate bonds and other riskier assets. Instead, they sought shelter in government bonds, pushing yields back to historic lows. With global growth projections for 2020 in virtual freefall, central banks cut interest rates. Governments also stepped into action with enormous stimulus packages, aiming to tide over individuals and businesses.

Global government bond yields fell sharply, and prices rose. This was caused primarily by the coronavirus outbreak, and fears over the resultant potential damage to global economic growth. Central banks across the world cut interest rates and initiated stimulus programmes to mitigate the economic effects of Covid-19, and yields moved to historic lows in major government bond markets. Like most other risk assets, global corporate bonds had a torrid time in the first quarter. While returns were still positive for most of the first two months, performance became markedly more negative from late-February onwards. This reflected the growing realisation of the hugely damaging economic consequences of the escalating coronavirus pandemic.

It was a slow start to the year for UK property, with transaction volumes quickly losing steam following the outcome of the December 2019 general election. According to the MSCI Monthly Index, total returns in January and February were 0.3%. That said, the performance figures are yet to reflect the significant impact of the covid-19 pandemic and the economic disruption from containment measures put in place by the government. Lending against real estate assets is slowing dramatically and the issuance of new debt is grinding to a halt.

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 review, we made no changes to the SAA model.

Corporate Investment Proposition Active Plus Funds Report

Environment and Activity

Activity

Tactical Asset Allocation

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

- Reduced our holding in global high yield bonds (remaining overweight versus the SAA)
- Reduced our holding in cash and money markets (moving to neutral versus the SAA)
- Increased our holding in global REITs (moving overweight versus the SAA)
- Increased our holding in UK equities (moving overweight versus the SAA)
- Increased our holding in US equities (moving overweight versus the SAA)

Changes to underlying funds

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

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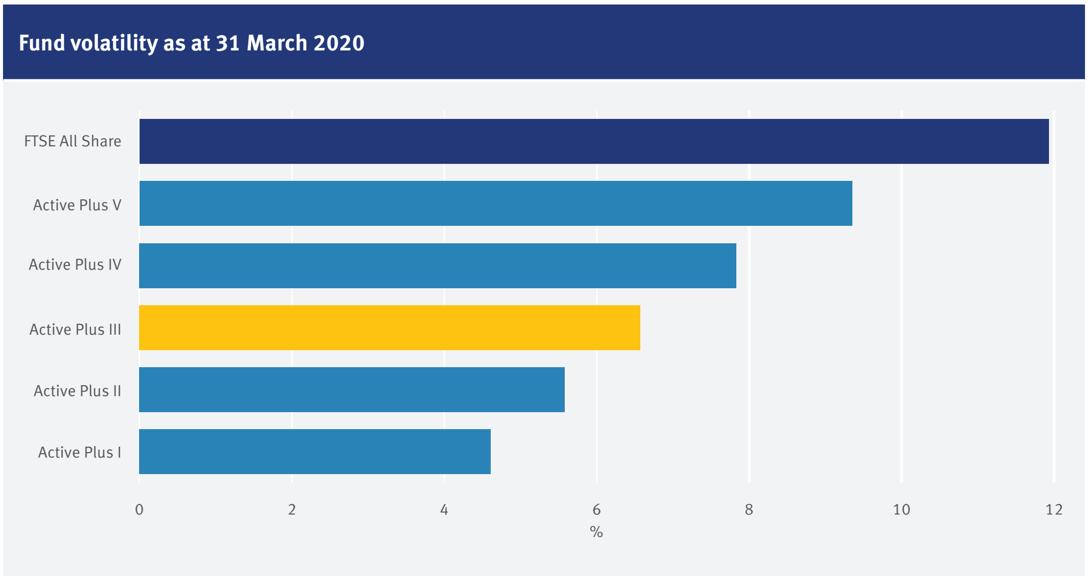
Risk

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

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

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

Active Plus Funds



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

Risk and Return Characteristics

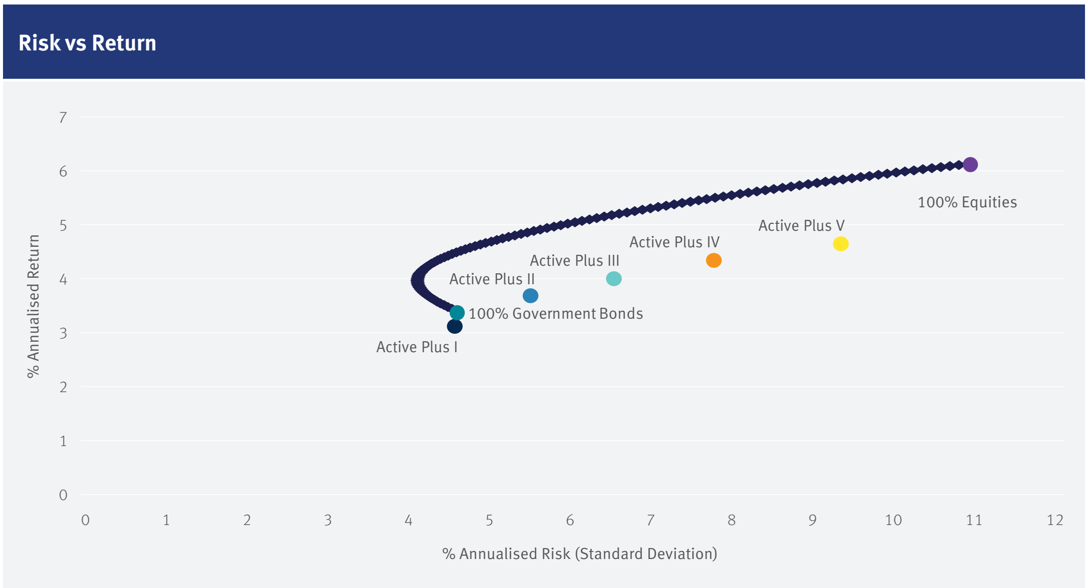
This section illustrates the risk and return characteristics of the Active Plus range from launch (March 2012) to end March 2020.

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

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

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

Active Plus Funds



Source: Aberdeen Standard Investments; FTSE All Share Index and FTSE WGBI World All Maturities: Total Return Hedged (£), MSCI All Countries World Index and BOFA ML Global Government Index monthly return data denominated in GBP was sourced from Datastream from 01/03/2012 to 31/03/2020; Active Plus annualised performance was based on monthly net of fees prices. The FTSE All-Share Index is calculated solely by FTSE International Limited ("FTSE"). FTSE does not sponsor, endorse or promote this fund. All copyright in the index values and constituent list vests in FTSE. "FTSE ®" is a trade mark jointly owned by the London Stock Exchange Plc and The Financial Times Limited and is used by FTSE under licence. "All Share" is a trade mark of FTSE. Passive charge assumed to be 0.75% p.a.

Corporate Investment Proposition Active Plus Funds Report

Risk and Return Characteristics (continued)

What does this mean?

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

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

Corporate Investment Proposition Active Plus Funds Report

Performance

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

After a positive start, global equities suffered a bruising quarter, with losses not seen since the 2008 financial crisis. As the coronavirus outbreak evolved into a global pandemic, the mood changed. Coinciding with this, the main oil-producing nations failed to agree supply cuts, sending oil prices plunging to 18-year lows. Alarmed investors dumped equities, corporate bonds and other riskier assets. Instead, they sought shelter in government bonds, pushing yields back to historic lows. With global growth projections for 2020 in virtual freefall, central banks cut interest rates. Governments also stepped into action with enormous stimulus packages, aiming to tide over individuals and businesses.

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

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

Within stock selection, European equities were the key positive contributor. However, UK equities, global corporate bonds and emerging market debt delivered a negative contribution.

In the European equities portfolio, our holdings in the consumer staples and healthcare sectors delivered strong performance. We also benefited from our underweight positions (versus the benchmark) in autos and banks. As such, Coloplast, which manufactures products for ostomy and wound care; Novo Nordisk, owner of the leading franchise in the treatment of diabetes; and Ambu, a supplier of single-use medical scopes, all added value. These firms produce essential medical products that have a limited lifespan and are experiencing sustained demand in the current environment. Elsewhere, our exposure to smoke-free tobacco- product specialist Swedish Match was also beneficial. Games manufacturer Ubisoft, which is benefiting from the stay-at-home lockdown conditions, provided a further boost.

Within UK equities, March saw the most rapid bear market in recent history, and a number of the Fund’s holdings experienced dramatic share-price falls, not all of which reflected the fundamental strength of their liquidity and balance-sheet positions. A number of these stocks recovered strongly in early April, as the market began to better differentiate between businesses. From a company-specific perspective, Wood Group declined when the steep fall in the oil price triggered concerns about the outlook for its oil services business, particularly given a relatively geared balance sheet. We believe that Wood Group is more resilient than the market thinks. Cineworld was forced to close all of its cinemas due to the Covid-19 outbreak. The firm is now generating no revenue and will breach covenants on its debt, with the balance sheet becoming an even greater cause for concern, especially if it is required to proceed with a planned Canadian acquisition. This was not a situation we had considered when stress testing the business.

Corporate Investment Proposition Active Plus Funds Report

Performance (continued)

For the global corporate bond portfolio, the falling oil price weighed intensely on the energy sector, including our overweight positions in Continental Resources, Noble Energy, Shell and Halliburton, which were among the size biggest individual detractors over the period. The strongly risk-off climate was also detrimental for the Fund's emerging markets holdings such as the South African integrated energy and chemical company Sasol and the Brazilian paper company Suzano.

Turning to emerging market equities, the biggest detractor was an underweight in Czech government bonds, which performed well as growth expectations fell. The negative contribution was increased by our concurrent overweight in the Czech currency, the koruna, which in keeping with all emerging market currencies sold off heavily, owing largely to the unexpected coronavirus shock. Underweight exposure to Poland bonds was also detrimental as its government bonds performed well as growth expectations plummeted, with a long position in Polish currency also detracting. The third biggest detractor over the period was the Fund's overweight position in Mexico, more specifically its riskier longer-dated bonds and those of its state-owned oil company Pemex.

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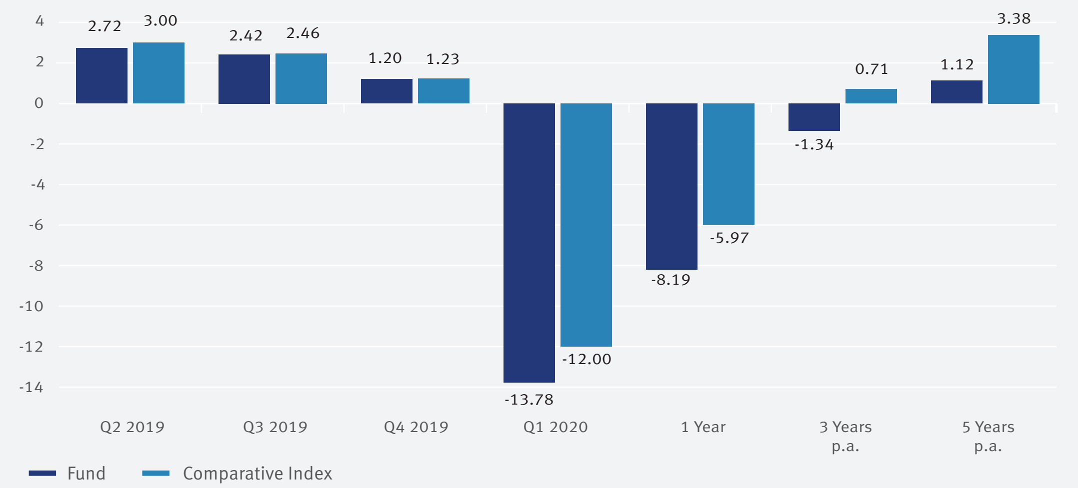
Standard Life Active Plus III Pension Fund

Performance Comparison as at 31 March 2020

Figures quoted are calculated, net of fees basis over periods to 31 March 2020, with gross income reinvested. The Comparative Index shown makes no allowance for charges.



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

Asset Allocation

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

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

Corporate Investment Proposition Active Plus Funds Report

House view

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

The following denotes a change: ▲ increase and ▼ decrease

UK Equities – Heavy

- The recent election result has removed some of the tail risk from the prospect of a hard-Brexit and Corbynism.

US Equities – Heavy

- We have moved from emerging market equity into US equity, keeping overall equity allocations but improving the quality of the holdings.

European ex-UK Equities – Neutral

- Better-then-expected earnings per share but continued currency appreciation and peripheral political risks warrant a neutral position.

Japanese Equities – Heavy

- Easy monetary policy and fiscal stimulus are helped by efforts to improve corporate governance, share buybacks and business investment.

Developed Asian Equities – Neutral

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

Global Emerging Markets Equities – Heavy

- Valuations remain low albeit the market is not as oversold as last year, and improving global sentiment and a weak US dollar are further catalysts.

UK Bonds – Light

- We are using gilts to fund our long UK investment grade credit position.

US Bonds – Light

- US Treasury yields have fallen significantly to near record lows. We are funding US dollar credit positions out of Treasuries.

Euro-zone Bonds – Light

- Eurozone rates remain exceptionally low; the European Central Bank has responded with policy easing that appears to be at its limits.

Japanese Bonds – Light

- Japanese government bond yields are very low, and the Bank of Japan is running out of unconventional monetary policy ‘ammunition’ to further ease.

Cash – Light

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

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

- We are short the euro versus the yen, to contribute to portfolio diversification.

European Real Estate – Neutral

- Stronger economic growth and low levels of new supply support European real estate. The cautious ECB policy stance helps valuations.

North American Real Estate - Heavy

- Due to good defensive qualities, strong real estate fundamentals and recent underperformance relative to equities, we find the market relatively attractive.

Find out more

For more information speak to your usual Standard Life contact.

www.standardlifeworkplace.co.uk

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