



# Investment Report

**Standard Life**  
**Corporate Investment Proposition**  
**Passive Plus Funds Report**  
**Q3 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 invest 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)

## **Contents**

- 1 Environment and Activity**
- 2 Risk**
- 3 Risk and Return Characteristics**
- 5 Performance**
- 6 Standard Life Passive Plus I Pension Fund**
- 7 Standard Life Passive Plus II Pension Fund**
- 8 Standard Life Passive Plus III Pension Fund**
- 9 Standard Life Passive Plus IV Pension Fund**
- 10 Standard Life Passive Plus V Pension Fund**

# Corporate Investment Proposition Passive Plus Funds Report

## Environment and Activity

### Environment

Global equity markets delivered robust returns over the third quarter, albeit with marked regional variations. The US was the standout market, with the S&P 500 Index hitting an all-time high, driven by a buoyant economy and robust corporate profits. Several emerging and Asian equity markets declined, with investor sentiment dampened by an escalation in the protracted US/China trade war. The strong US dollar also adversely affected many in the region. By contrast, Japan had a strong quarter as a weak yen boosted exports. Rounding off, Brent crude oil hit a four-year high at the close of the review period.

Risk aversion was a primary influence on global government bonds during the period, which was largely rooted in an escalation of the trade spat between the US and China. Against that, a slew of encouraging US economic data caused the market to price in two interest rate rises before the end of 2018, pushing the 10-year Treasury yield decisively above the 3% mark. Meanwhile, it was a challenging but positive quarter for corporate bonds, with fears of faster-than-expected US interest rate rises and escalating global trade tensions fuelling volatility.

UK commercial property remained stable, although there were some indications during the quarter that the market is moderating. Total returns have been marginally weaker in recent months, with the return for August (the latest data available) the lowest since September 2016. Although capital growth is weaker, rents have held up fairly well – particularly for industrial and office property. Market trends continue to see industrial and retail property move in opposite directions. Industrials are still outperforming all the other commercial sectors as the relentless demand for all types of storage and distribution facilities drives the sector higher.

### 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

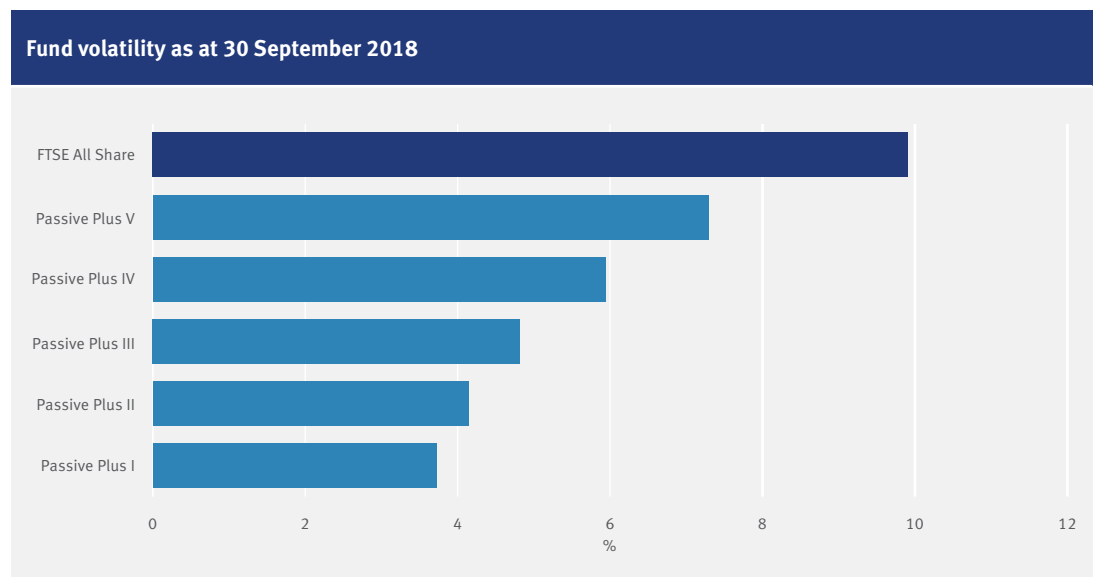
## Risk

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 September 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 September 2018.

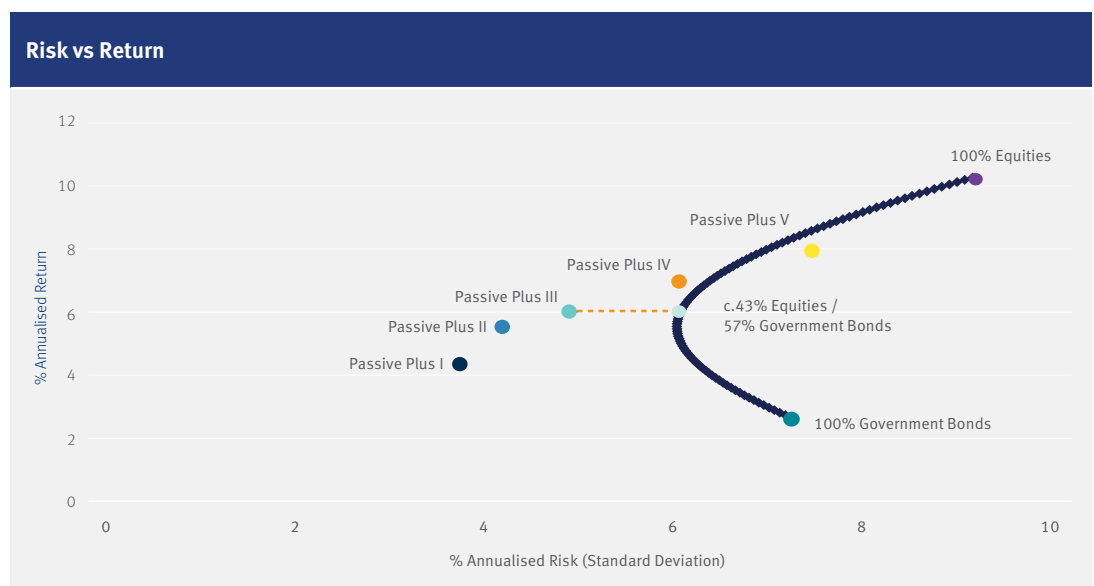
The graph below compares the difference between the risk and return of the Passive Plus funds to a range of simple portfolios constructed from four assets that would be traditionally used by UK investors; UK equities, global equities, UK government bonds and global government bonds. These portfolios 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 (teal dot; 50:50 split between global and UK government bonds) at the other, and all the possible combinations in between.

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

## Passive Plus Funds



Source: Aberdeen Standard Investments; FTSE All Share Index and 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 30/09/2018; 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 below 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.

Global equity markets delivered robust returns over the third quarter, albeit with marked regional variations. The US was the standout market, with the S&P 500 Index hitting an all-time high, driven by a buoyant economy and robust corporate profits. Several emerging and Asian equity markets declined, with investor sentiment dampened by an escalation in the protracted US/China trade war. The strong US dollar also adversely affected many in the region. By contrast, Japan had a strong quarter as a weak yen boosted exports. Rounding off, Brent crude oil hit a four-year high at the close of the review period.

Risk aversion was a primary influence on global government bonds during the period, which was largely rooted in an escalation of the trade spat between the US and China. Against that, a slew of encouraging US economic data caused the market to price in two interest rate rises before the end of 2018, pushing the 10-year Treasury yield decisively above the 3% mark. Meanwhile, it was a challenging but positive quarter for corporate bonds, with fears of faster-than-expected US interest rate rises and escalating global trade tensions fuelling volatility. Finally, UK commercial property remained stable, although there were some indications during the quarter that the market is moderating.

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.

Over the course of the third quarter the actively managed components delivered mixed relative performance; the absolute return component outperformed, the Commercial Property

component underperformed, and the high yield component performed in lines with its benchmark.

For the global high yield portfolio, there were positive contributions from our positioning in banking, diversified manufacturing and retail. Among individual holdings, exposure to Israeli pharmaceutical company Teva added value. The company raised its full year earnings guidance after stronger-than-expected second-quarter results. HCA Healthcare's bonds also outperformed and in ratings terms still look undervalued. On the downside, an underweight (lower than benchmark) position in CCC rated securities, as well as a negative impact from credit selection among single B rated securities, detracted from returns. The Fund's holding in Sanchez Energy, an independent producer of oil and natural gas, was also negative. We still have confidence in the quality of the company's acreage and we expect production levels to recover.

Within the absolute return component, the US equity market climbed steadily over the review period, boosted by upbeat economic newsflow, share buy-backs and tax cuts. Consequently, our US equity strategy delivered positive returns. Within this, US large-cap stocks moved higher, bolstered by the consumer and industrial sectors, while small-cap stocks lagged. This led to gains from our US equity large-cap versus small-cap strategy.

In Canada, stronger-than-expected economic data boosted expectations that the central bank would raise policy interest rates in October. This hurt the Canadian interest rates position we introduced earlier in the quarter. Finally, our emerging markets versus Brazilian equity position also dragged on performance, as Brazilian equities outperformed on the back of strong commodity prices.

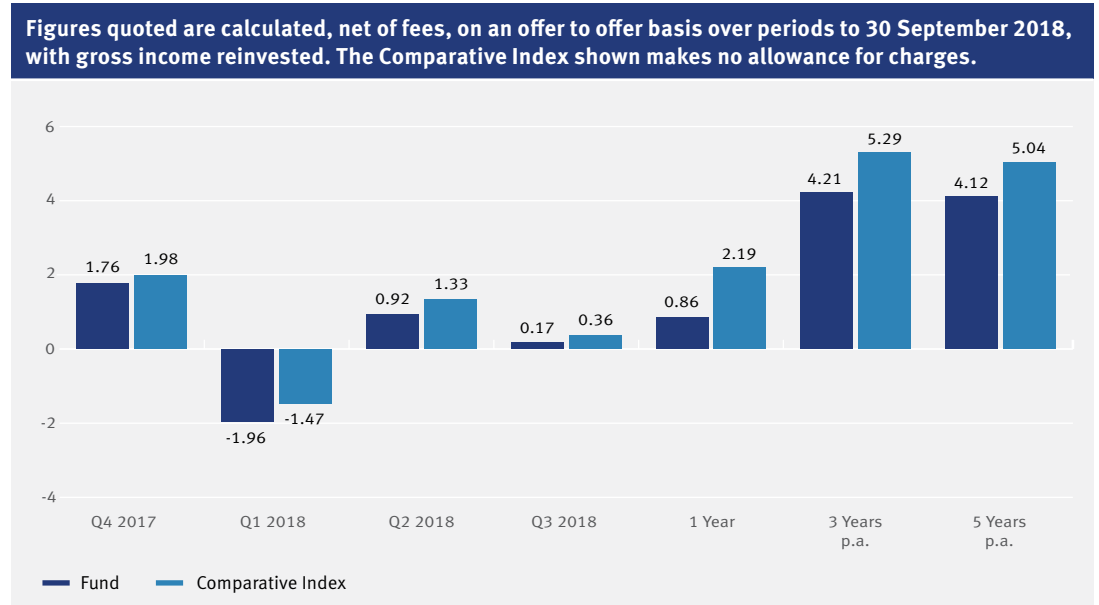
Turning to our property portfolio where the City office sector was the standout performer, delivering a 15.1% total return, driven by the pre-letting of the Farmiloe building to Live Nation. The industrial portfolio continued to perform well with total returns of 3.5% (South East) and 4.8% (rest of UK). On the downside, the continuing negative sentiment towards the retail property sector affected returns, with all the retail sub-sectors within the portfolio experiencing negative capital growth over the quarter. Our shopping centre holdings were the worst affected with a capital value fall of 5.9%.



# Corporate Investment Proposition Passive Plus Funds Report

## Standard Life Passive Plus I Pension Fund

### Performance Comparison as at 30 September 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	17.77
	SL Vanguard UK Government Bond Index Pension Fund	14.57
	SL Vanguard UK Investment Grade Bond Index Pension Fund	11.96
	SL Vanguard UK Short-Term Investment Grade Bond Index Pension Fund	11.87
	Standard Life Money Market Pension Fund	10.77
	SL Vanguard Global Short-Term Corporate Bond Index Pension Fund	5.87
<b>Growth Assets</b>	SL Vanguard FTSE UK All Share Index Pension Fund	5.68
	SL SLI Global Absolute Return Strategies (Passive Plus) Pension Fund	5.67
	SL Vanguard US Equity Pension Fund	4.97
	Standard Life Property Pension Fund	2.58
	SL Vanguard FTSE Developed Europe ex UK Pension Fund	2.18
	SL Vanguard Japan Stock Index Pension Fund	1.57
	SL Vanguard Pacific ex Japan Stock Index Pension Fund	1.28
	SL Vanguard Emerging Markets Stock Index Pension Fund	1.27
	SL SLI Global High Yield Bond Pension Fund	1.09
	SL Global Property Securities Asset Fund	0.91

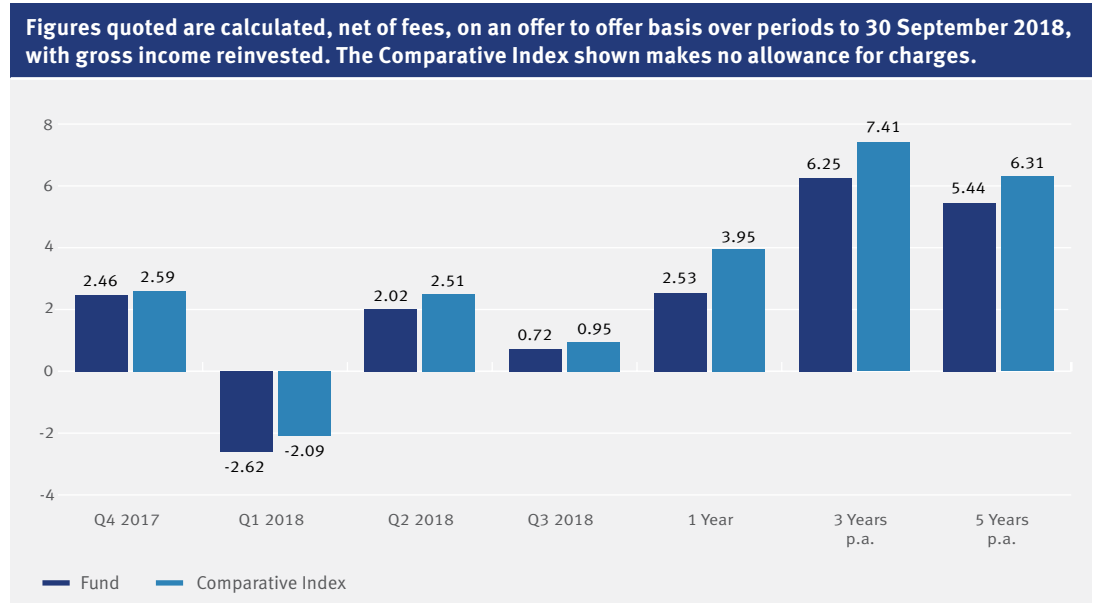
\* The data is rounded to 2dp and small variances to totals may occur.

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# Corporate Investment Proposition Passive Plus Funds Report

## Standard Life Passive Plus II Pension Fund

### Performance Comparison as at 30 September 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	13.17
	SL Vanguard UK Government Bond Index Pension Fund	10.27
	SL Vanguard UK Investment Grade Bond Index Pension Fund	8.90
	SL Vanguard UK Short-Term Investment Grade Bond Index Pension Fund	8.86
	Standard Life Money Market Pension Fund	5.64
	SL Vanguard Global Short-Term Corporate Bond Index Pension Fund	4.43
Growth Assets	SL Vanguard FTSE UK All Share Index Pension Fund	10.28
	SL SLI Global Absolute Return Strategies (Passive Plus) Pension Fund	9.83
	SL Vanguard US Equity Pension Fund	9.13
	Standard Life Property Pension Fund	4.54
	SL Vanguard FTSE Developed Europe ex UK Pension Fund	4.05
	SL Vanguard Japan Stock Index Pension Fund	2.93
	SL Vanguard Pacific ex Japan Stock Index Pension Fund	2.23
	SL Vanguard Emerging Markets Stock Index Pension Fund	2.23
	SL SLI Global High Yield Bond Pension Fund	1.99
	SL Global Property Securities Asset Fund	1.50

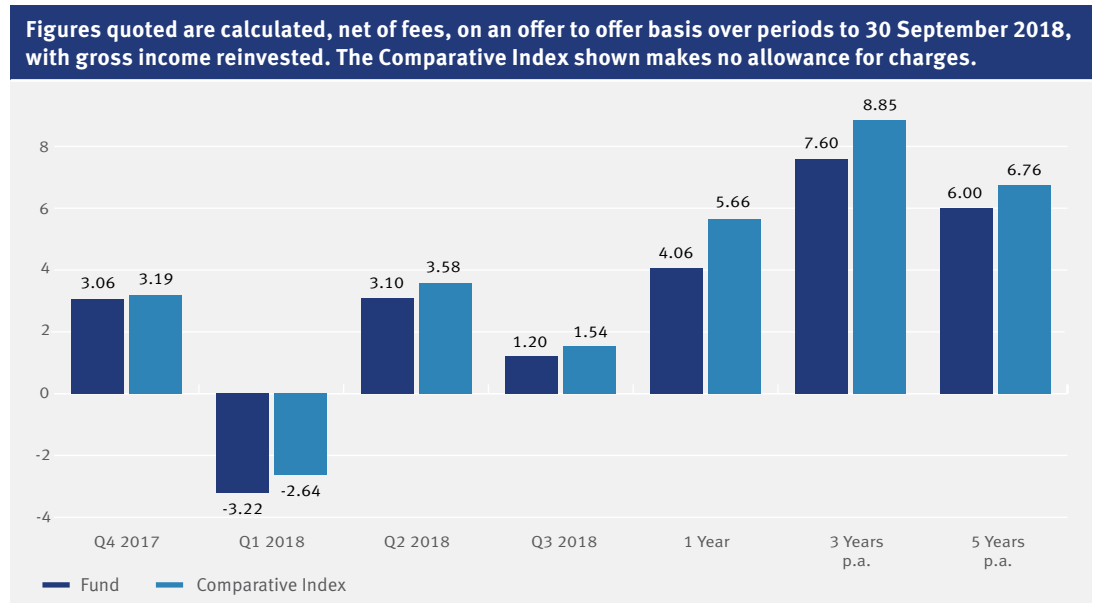
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# Corporate Investment Proposition Passive Plus Funds Report

## Standard Life Passive Plus III Pension Fund

### Performance Comparison as at 30 September 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	8.05
	SL Vanguard UK Government Bond Index Pension Fund	7.53
	SL Vanguard UK Investment Grade Bond Index Pension Fund	5.50
	SL Vanguard UK Short-Term Investment Grade Bond Index Pension Fund	5.47
	SL Vanguard Global Short-Term Corporate Bond Index Pension Fund	2.67
	Standard Life Money Market Pension Fund	2.57
<b>Growth Assets</b>	SL Vanguard FTSE UK All Share Index Pension Fund	14.55
	SL SLI Global Absolute Return Strategies (Passive Plus) Pension Fund	14.05
	SL Vanguard US Equity Pension Fund	13.05
	Standard Life Property Pension Fund	6.38
	SL Vanguard FTSE Developed Europe ex UK Pension Fund	5.62
	SL Vanguard Japan Stock Index Pension Fund	3.95
	SL Vanguard Pacific ex Japan Stock Index Pension Fund	3.15
	SL Vanguard Emerging Markets Stock Index Pension Fund	3.10
	SL SLI Global High Yield Bond Pension Fund	2.23
	SL Global Property Securities Asset Fund	2.14

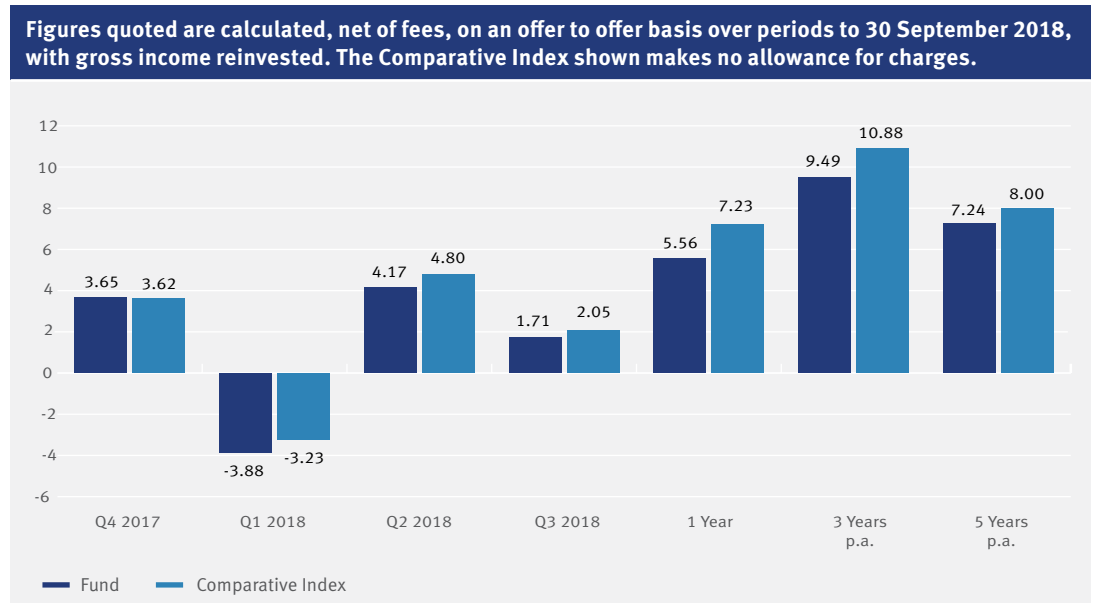
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# Corporate Investment Proposition Passive Plus Funds Report

## Standard Life Passive Plus IV Pension Fund

### Performance Comparison as at 30 September 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	2.84
	SL Vanguard UK Government Bond Index Pension Fund	2.16
	Standard Life Money Market Pension Fund	2.04
	SL Vanguard UK Investment Grade Bond Index Pension Fund	1.85
	SL Vanguard UK Short-Term Investment Grade Bond Index Pension Fund	1.84
	SL Vanguard Global Short-Term Corporate Bond Index Pension Fund	0.91
<b>Growth Assets</b>	SL Vanguard FTSE UK All Share Index Pension Fund	19.13
	SL SLI Global Absolute Return Strategies (Passive Plus) Pension Fund	17.94
	SL Vanguard US Equity Pension Fund	17.12
	Standard Life Property Pension Fund	8.17
	SL Vanguard FTSE Developed Europe ex UK Pension Fund	7.56
	SL Vanguard Japan Stock Index Pension Fund	5.42
	SL Vanguard Pacific ex Japan Stock Index Pension Fund	4.23
	SL Vanguard Emerging Markets Stock Index Pension Fund	4.22
	SL Global Property Securities Asset Fund	2.75
	SL SLI Global High Yield Bond Pension Fund	1.81

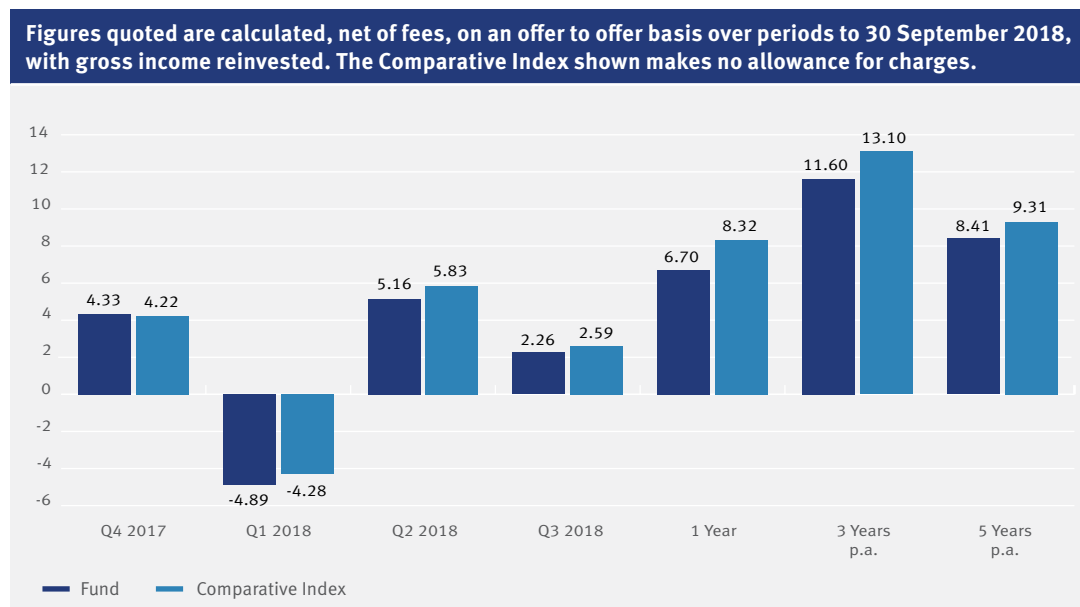
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# Corporate Investment Proposition Passive Plus Funds Report

## Standard Life Passive Plus V Pension Fund

### Performance Comparison as at 30 September 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	2.05
	Standard Life Money Market Pension Fund	1.05
Growth Assets	SL Vanguard FTSE UK All Share Index Pension Fund	25.53
	SL Vanguard US Equity Pension Fund	22.90
	SL SLI Global Absolute Return Strategies (Passive Plus) Pension Fund	19.46
	SL Vanguard FTSE Developed Europe ex UK Pension Fund	10.21
	SL Vanguard Japan Stock Index Pension Fund	7.30
	SL Vanguard Pacific ex Japan Stock Index Pension Fund	5.76
	SL Vanguard Emerging Markets Stock Index Pension Fund	5.74

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For more information speak to your usual Standard Life contact.

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