



Investment Report

Standard Life
Corporate Investment Proposition
MyFolio Managed Pension 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

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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 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 third quarter of 2018.

- Added to our holding in UK equities (while remaining underweight versus the SAA)
- Reduced our Japanese equities position (while remaining overweight versus the SAA)
- Reduced our Asia-Pacific equities position to neutral
- Increased our global real estate investment trusts (REITs) position to overweight
- Reduced our cash position (while remaining modestly overweight versus the SAA)

Currency movements are currently driving returns for UK equities, particularly those companies that make the majority of their earnings overseas. Over coming months, sterling is likely to become even more volatile in reaction to news headlines about the feasibility of any deal made to leave the EU. We are therefore seeking to minimise exposure to sterling movements by bringing our UK equities position closer towards neutral as we near the Brexit deadline.

In Japan, we remain positive on the country's equity market but we are slightly more cautious because of the potential impact of a trade war with the US. Economic indicators are also weakening. As a result, we have reduced our overweight position in Japanese equities but we are still overweight versus the SAA. Similarly, we cut our holding in Asia-Pacific equities, preferring instead to invest in emerging Asian equities that are more geared towards the economic cycle through our emerging market equity position.

Corporate Investment Proposition MyFolio Managed Pension Funds Report

Environment and Activity

Finally, we added to our position in global REITs. In the US, stronger economic growth and an attractive dividend yield should prove supportive for REITs. Meanwhile, rental growth is strong across most European markets, with countries displaying robust economic growth, such as France and Spain, offering the most potential to add value through cash deployment and development.

Changes to underlying funds

In terms of the underlying funds, we bought the SLMT Global REIT Fund and sold the Standard Life Investments Global REIT Fund (please note transactions may not apply at all risk levels).

Market Outlook

While there are grounds to remain positive on certain equity markets and sectors, we are unlikely to enjoy the stellar returns seen in prior years. The Federal Reserve has started to raise interest rates, while the US/China trade dispute has intensified. The strength of the US dollar is also posing problems, notably in those emerging markets with high dollar-denominated debt. Meanwhile, the EU and UK are running out of time to strike a deal on Brexit. Nonetheless, the overall economic backdrop is broadly supportive and, while valuations in many areas of the market look stretched, there remain numerous opportunities for stock pickers.

We continue to see value in investment grade credit, given the sizeable market correction in the first half of 2018 and the strong fundamental backdrop for most corporates. However, the combination of trade tensions, continuing political uncertainty around Brexit and the US mid-term elections could increase near-term volatility. Meanwhile, the path and speed of interest rate changes will continue to determine the short-term outlook for government bond markets.

Although some progress has been made in Brexit negotiations, uncertainty around the ultimate economic impact 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 over the period, the degree of income risk – from potential tenant default or the ability to maintain income at lease events – will be key to asset performance.

Corporate Investment Proposition MyFolio Managed Pension Funds Report

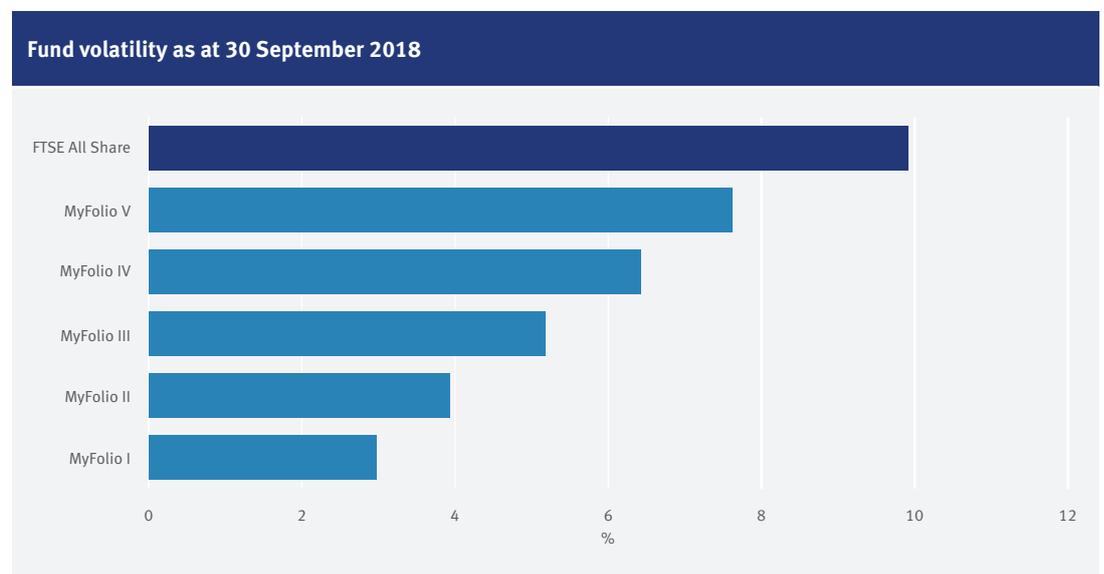
Risk

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 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 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 September 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 (teal dot; 50:50 split between global and UK government bonds) at the other, and all the possible combinations in between.

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

MyFolio Managed Pension Funds



Source: Aberdeen Standard Investments; FTSE All Share Index and 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; 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.54% equities/c.46% 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 September 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

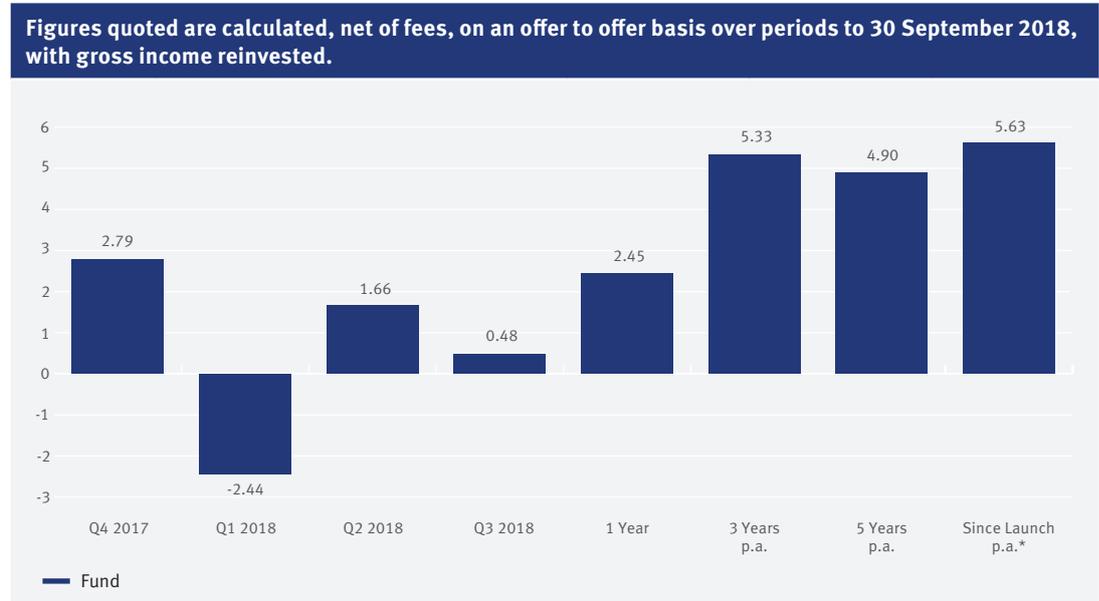
Asset Class		Underweight %	Strategic Asset Allocation %	Overweight %
Defensive Assets	Money Market including Cash	-1.75	5.80	-
	Global Index Linked Bonds	-	5.50	-
	Short Dated Global Index Linked Bonds	-1.50	5.50	-
	Sterling Corporate Bonds	-1.50	14.20	-
	Short Dated Sterling Corporate Bonds	-	14.20	-
	Global Corporate Bonds	-	9.00	-
	Short Dated Global Corporate Bonds	-	3.00	-
	Absolute Return Bonds	-	14.30	-
Growth Assets	UK Equities	-0.50	5.30	-
	US Equities	-	5.00	1.50
	European Equities	-	2.20	-
	Japanese Equities	-	1.60	1.00
	Asia Pacific Equities	-	1.30	-
	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	0.75
	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 September 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	0.25
	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	-0.50	10.20	-
	US Equities	-	9.10	1.50
	European Equities	-	4.00	-
	Japanese Equities	-	2.90	1.00
	Asia Pacific Equities	-	2.20	-
	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	0.75
	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 September 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	0.25
	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	-0.50	14.40	-
	US Equities	-	13.00	1.50
	European Equities	-	5.80	-
	Japanese Equities	-	4.20	1.00
	Asia Pacific Equities	-	3.30	-
	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	0.75
	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 September 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	0.25
	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	-0.50	19.50	-
	US Equities	-	17.40	1.50
	European Equities	-	7.60	-
	Japanese Equities	-	5.50	1.00
	Asia Pacific Equities	-	4.30	-
	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	0.75
	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 September 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	-1.25	25.40	-
	US Equities	-	23.00	1.50
	European Equities	-	10.20	-
	Japanese Equities	-	7.40	0.50
	Asia Pacific Equities	-	5.80	-
	Emerging Market Equities	-	5.80	0.50
	Emerging Market Local Currency Bonds	-	0.00	0.75
	Multi Asset Absolute Returns	-	19.40	-

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 UK sterling ↑
Light	UK	Japanese Euro-zone	Cash 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 is offset by policy tightening in China and worries about trade tensions.

Global Emerging Markets Equities – Heavy

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

UK Bonds – Neutral

- The economy is growing slowly and the Bank of England is still warning about future interest rate increases.

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 it will halt its quantitative easing in 2018 and start to raise interest rates in 2019.

Japanese Bonds – Light

- Yields on Japanese government bonds are very low compared with other markets.

Cash – Light

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

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

- 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. Brexit concerns remain a cause of short-term sterling volatility but valuations are broadly neutral.

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 the UK enter recession 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.

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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