

Heritage With-Profits Fund Investment Report: UK Pension Business

Q1 2022

This leaflet gives information on the following

- factors that affect with-profits plan values
- types of assets – how these affect investment returns
- investment market conditions
- asset mixes – the asset mix for different classes of with-profits pension business
- asset and investment return details for each asset mix



This leaflet is intended for individuals who are familiar with investment terminology. If you need an explanation of the terms used email us at with_profits@standardlife.com. Please note that there is no guarantee that any email sent will be received, or that the contents will remain private during internet transmission.

Factors that affect with-profits plan values

The return on the asset mix is only one of the factors that affect with-profits plan values. Other factors are the deductions we make, and any other discretionary adjustments that we may apply such as smoothing. The deductions are for example for costs of guarantees and our expenses.

When Standard Life demutualised on 10 July 2006 the Heritage With-Profits Fund was set up with an Inherited Estate. At least once a year we review whether it's appropriate to make distributions from the Inherited Estate. We use any distributions that we make to enhance with-profits payouts.

The value of with-profits investments can go down as well as up. Some with-profits plans guarantee a minimum payout, for example if it's used to buy an annuity at the retirement date selected at the start of the plan or on death. The payout will then be at least the guaranteed benefit, even if the investment returns have been poor.

For more information on with-profits please see our With-Profits guides available on our website at www.standardlife.co.uk/investments/funds/with-profits-information#guides

Types of assets

We invest in a wide range of assets including equities, property, bonds and cash deposits. We expect that a higher proportion of equities and property will produce returns that are higher over the long term, but more variable over the short term. We expect that a higher proportion of bonds and cash will result in returns that are more stable, but lower over the long term.

Investment market conditions

- Global equities suffered an uncomfortable opening quarter, with US, European and Chinese stock markets selling off heavily.
- Markets were initially spooked by higher inflation and rising interest rates before Russia's invasion of Ukraine created further uncertainty and sent energy prices soaring.
- The Federal Reserve (Fed) raised interest rates for the first time since 2018 and signalled as many as six more rate rises in 2022.
- Bond markets struggled, with US Treasuries recording their worst quarter in decades.
- UK property continued to perform well, led by industrials.

UK Equities

UK equities showed resilience in a volatile quarter, with the broad FTSE All-Share index finishing in modestly positive territory for the three-month period. This relative outperformance versus global markets owed much to the strength of the large-cap stocks of the FTSE 100 index: it is home to many energy, mining and banking stocks, which were boosted by surging commodity prices and rising interest rates respectively, and has a bias to more modestly priced 'value' stocks. In contrast, UK small and mid-cap stocks experienced a much tougher quarter, with the more domestic-focused FTSE 250 index falling almost 10%.

Overseas Equities

US equities fell sharply alongside global equity markets, with the tech-heavy Nasdaq worst affected – it entered bear market territory in mid-March but has subsequently partly recovered. Riskier small-cap stocks also struggled. US equities were rattled by the prospect of rising interest rates, tighter monetary policy and a more hawkish tone by the Fed. The central bank raised its key interest rate by 25 basis points at its March meeting and signalled there may be up to six more rate rises this year as it tackles surging inflation. US annual consumer price inflation hit a 40-year high of 7.9% in February.

European equities were buffeted by the same worries over inflation, interest rates and the Russia-Ukraine war that weighed heavily on global stock markets over the quarter, although Europe's dependency on Russian energy ensured the sell-off in the region's stock markets was even more pronounced. The German and Italian economies both significantly rely on Russian energy, which was reflected in the weak performance of both country's stock markets.

Japanese equities fell slightly over the quarter, faring better than their international peers, helped by an improving picture on Covid-19 infections. Setting aside Japan's position as a large oil importer, its lack of direct involvement and exposure to the Russia-Ukraine war also helped to insulate Japanese equities from the volatility affecting European markets.

Asia Pacific equities struggled alongside global equity markets. Chinese stock markets endured a particularly challenging quarter that saw a technical market correction and heavy foreign selling of Chinese equities. A flare-up of Covid-19 cases led to lockdowns in the major cities of Shanghai and Shenzhen, as the Chinese government stuck to its rigid 'zero-Covid' policy.

Fixed Interest

Global government bonds experienced a dismal quarter, with US Treasuries suffering their worst quarter in decades. Despite the asset class being regarded as a haven, bond yields rose sharply (and bond prices fell). Investors reacted negatively to the pronounced shift by the US Federal Reserve to a more hawkish stance on monetary policy. Faced with inflation at a 40-year high and a strong jobs market, the central bank increased its key interest rate by 25 basis points and signalled as many as six more rate increases in 2022. Elsewhere, the Bank of England (BoE) increased its base rate.

Corporate bonds suffered a poor quarter. Investment-grade and high-yield debt performed weakly, as investors worried about multi-decade high inflation levels in the US and Europe leading to higher interest rates (the US Fed and BoE both increased interest rates during the quarter). With the major Western central banks now adopting a much more aggressive tone on monetary policy, markets recalibrated to anticipate a higher interest rate environment. The Fed now foresees as many as six more rate hikes this year, as it seeks to ease inflationary pressures at a time when the US job market is booming.

Property

In UK property, commercial real estate returned 6.7% over the three months to the end of February (the latest data available), according to the MSCI UK monthly index. All sectors rose, with industrials the strongest at 11.4% and hotels the weakest at 1.6%, while retail continued to bounce back from the Omicron shock, returning 5.2%. UK real estate transaction volumes remained strong, with a total of £12.3 billion of transactions over the period. In global listed real estate, transaction activity continued to increase, despite concerns about the Omicron variant of Covid-19 and less-supportive policy from the Fed.

Asset Mix

Our aim when managing our with-profits business is to provide growth over the long term, while continuing to maintain an appropriate level of financial strength so that we can meet all contractual obligations to our customers. We currently have five different asset mixes that cover most of our pensions business.



For information on Stakeholder plans taken out from 10 July 2006 onwards, please see the investment Report for the UK Smoothed Managed With-Profits Fund

The information in this leaflet does not apply to the Pension Inflation Plus Fund. The asset mix for this fund is made up of index-linked bonds and money market instruments including cash.

Class of with-profits business	Fund Name (see your plan statement)	Asset Mix	Page
Unitised pensions for which a minimum unit price growth rate of 4% a year applies	Pension With Profits Fund	Asset Mix 1	3
Most other unitised pensions	Pension With Profits One Fund Pension 2 With Profits 2 Fund Pension Millennium With Profits Fund Pension With Profits One 2006 Fund Pension 2 With Profits 2 2006 Fund Pension Millennium With Profits 2006 Fund	Asset Mix 3	4
With Profits Pension Annuities	N/A	Asset Mix 4	5

Non unitised pensions	N/A	Asset Mix 5	6
Stakeholder plans taken out before 10 July 2006	Stakeholder With Profits Fund Corporate Stakeholder With Profits Fund	Stakeholder	7

We regularly review the asset mix that backs our with-profits business, taking account of such things as:

- the nature and size of the guarantees for each class of with-profits business
- the strength of the fund
- any changes in current and expected future market conditions

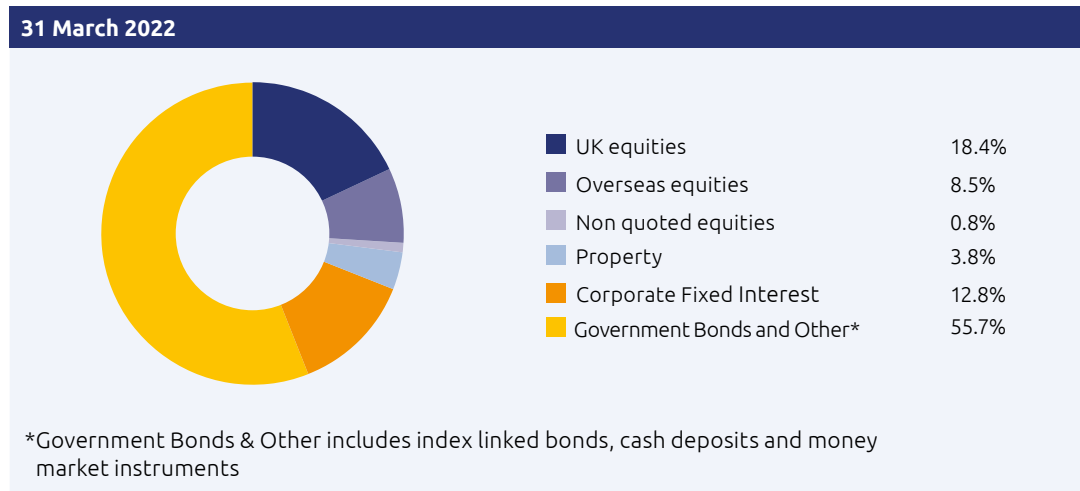
Note: the asset mix will also change as market values change.

Any change in the asset mix is likely to result in a change in future returns and plan payouts, see page 1 – Types of assets and Factors that affect with-profits plan values. But it will not affect existing guarantees.

Asset Mix 1: With Profits Fund



For information on our guaranteed growth and regular bonus rates, please see our Pensions bonus rates leaflet. You can get a copy at www.standardlife.co.uk/withprofitsguides



Recent investment returns are best estimates. These investment returns do not allow for tax, charges, expenses or the effects of any smoothing and have been rounded down.

Customers should refer to their annual statements to see how the value of their plan changes over time.

These figures refer to the past. Past Performance is not a reliable guide to future performance.

Investment returns: Last four quarter years

Quarter year ending on:	30/06/21	30/09/21	31/12/21	31/03/22
Asset Mix 1	2.3%	0.1%	1.9%	-3.5%

Asset Mix 1 is predominately invested in fixed interest and other bonds, in particular government bonds. This reflects the relatively higher guarantees provided by the classes of business backed by Asset Mix 1. The returns in Q1 reflect the negative returns in government and corporate bonds and overseas equities tempered to a small extent by the small positive returns in UK equities and property over the period.

Asset mix details for last five calendar years

Asset mix as at 31 December	2017	2018	2019	2020	2021
UK Equities	10%	11%	15%	18%	19%
Overseas Equities	6%	6%	8%	8%	8%
Non quoted equities	1%	1%	1%	1%	1%
Property	4%	4%	3%	3%	4%
Fixed Interest & Other*	79%	78%	73%	70%	68%

*Fixed Interest & Other includes Corporate fixed interest, Government bonds including index linked bonds, cash deposits and money market instruments.

Investment returns: last five calendar years

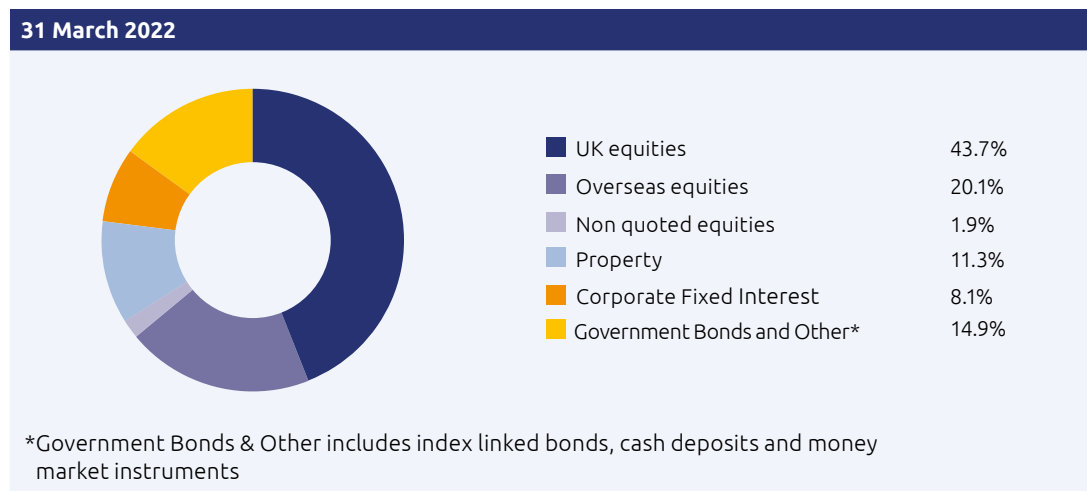
2017	2018	2019	2020	2021
3.4%	-1.6%	7.1%	2.9%	3.1%

For more information on with-profits please see our With-Profits guides available on our website at www.standardlife.co.uk/investments/funds/with-profits-information#guides



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Asset Mix 3 – See Page 2 for list of funds applicable



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Investment returns: Last four quarter years

Quarter year ending on:	30/06/21	30/09/21	31/12/21	31/03/22
Asset Mix 3	4.5%	2.0%	4.3%	-1.4%

Asset Mix 3 is predominately invested in equities, in particular UK equities. The returns in Q1 reflect the negative returns in overseas equities, government and corporate bonds tempered to a small extent by the small positive returns in UK equities and property over the period.

Asset Mix details for last five calendar years

Asset mix as at 31 December	2017	2018	2019	2020	2021
UK Equities	35%	36%	40%	44%	44%
Overseas Equities	16%	16%	18%	20%	20%
Non quoted equities	2%	2%	2%	2%	2%
Property	13%	13%	12%	9%	11%
Fixed Interest & Other*	34%	33%	28%	25%	23%

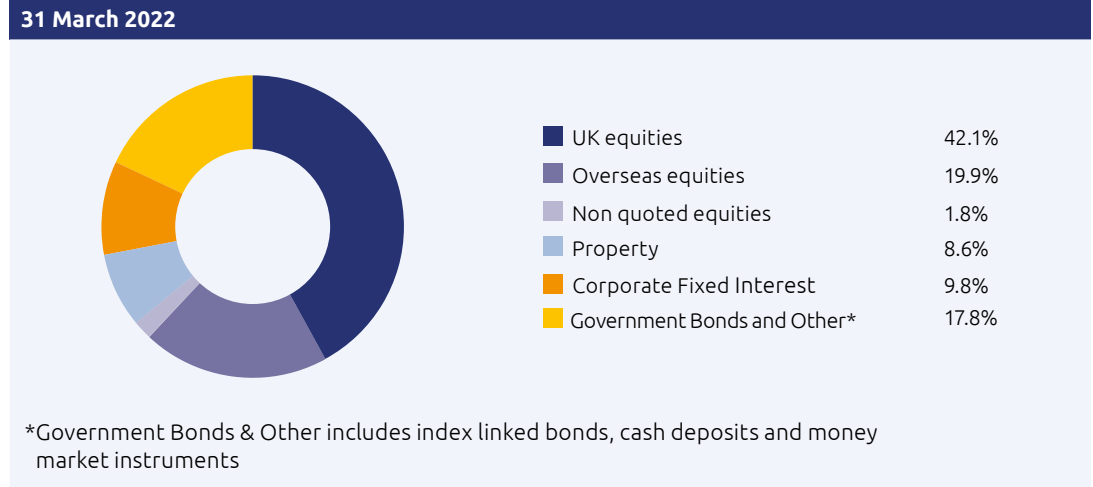
*Fixed Interest & Other includes Corporate fixed interest, Government bonds including index linked bonds, cash deposits and money market instruments.

Investment returns: last five calendar years

2017	2018	2019	2020	2021
7.9%	-5.1%	11.7%	-2.7%	14.5%

For more information on with-profits please see our With-Profits guides available on our website at www.standardlife.co.uk/investments/funds/with-profits-information#guides

Asset Mix 4: With Profits Pension Annuities



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Investment returns: Last four quarter years

Quarter year ending on:	30/06/21	30/09/21	31/12/21	31/03/22
Asset Mix 4	4.4%	1.8%	4.2%	-1.9%

Asset Mix 4 is predominately invested in equities, in particular UK equities. The returns in Q1 reflect the negative returns in overseas equities, government and corporate bonds tempered to a small extent by the small positive returns in UK equities and property over the period.

Asset mix details for last five calendar years

Asset mix at 31 December	2017	2018	2019	2020	2021
UK Equities	31%	34%	38%	41%	42%
Overseas Equities	15%	16%	17%	19%	20%
Non quoted equities	2%	2%	2%	1%	2%
Property	13%	10%	9%	8%	9%
Fixed Interest & Other*	39%	38%	34%	31%	27%

*Fixed Interest & Other includes Corporate fixed interest, Government bonds including index linked bonds, cash deposits and money market instruments.

Investment returns: last five calendar years

2017	2018	2019	2020	2021
7.6%	-5.0%	12.0%	-1.6%	13.0%

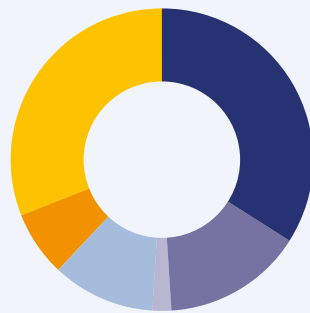
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Asset Mix 5: Non unitised pensions

31 March 2022



UK equities	33.8%
Overseas equities	15.4%
Non quoted equities	1.5%
Property	11.1%
Corporate Fixed Interest	7.3%
Government Bonds and Other*	30.9%

*Government Bonds & Other includes index linked bonds, cash deposits and money market instruments



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Investment returns: Last four quarter years

Quarter year ending on:	30/06/21	30/09/21	31/12/21	31/03/22
Asset Mix 5	3.6%	1.5%	3.4%	-1.7%

Asset Mix 5 is predominately invested in government bonds and UK equities. The returns in Q1 reflect the negative returns in government and corporate bonds and overseas equities tempered to a small extent by the small positive returns in UK equities and property over the period.

Asset Mix details for last five calendar years

Asset Mix as at 31 December	2017	2018	2019	2020	2021
UK Equities	27%	29%	33%	36%	35%
Overseas Equities	14%	14%	16%	16%	15%
Non quoted equities	2%	2%	2%	1%	2%
Property	12%	10%	9%	7%	10%
Fixed Interest & Other*	45%	45%	40%	40%	38%

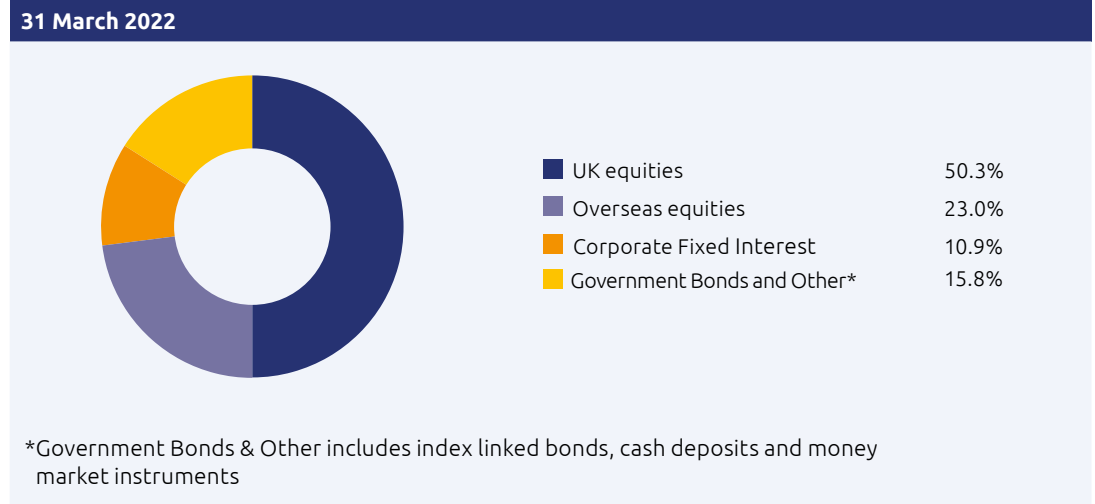
*Fixed Interest & Other includes Corporate fixed interest, Government bonds including index linked bonds, cash deposits and money market instruments.

Investment returns: last five calendar years

2017	2018	2019	2020	2021
6.1%	-4.1%	10.1%	-1.5%	10.8%

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Stakeholder Asset Mix Details



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Investment returns: Last four quarter years

Quarter year ending on:	30/06/21	30/09/21	31/12/21	31/03/22
Stakeholder With-Profits Fund and Corporate Stakeholder With-Profits Fund	4.0%	1.2%	3.3%	-2.1%

The Asset Mix for the Stakeholder Funds is predominately invested in equities, in particular UK equities. The returns in Q1 reflect the negative returns in overseas equities, government and corporate bonds tempered to some extent by the positive returns in UK equities over the period.

Asset mix details for last five calendar years

Asset mix at 31 December	2017	2018	2019	2020	2021
UK Equities	47%	45%	46%	44%	50%
Overseas Equities	22%	22%	22%	21%	22%
Fixed Interest & Other*	31%	33%	32%	35%	28%

*Fixed Interest & Other includes Corporate fixed interest, Government bonds including index linked bonds, cash deposits and money market instruments.

Investment returns: last five calendar years

2017	2018	2019	2020	2021
9.9%	-7.9%	15.9%	0.3%	11.3%

For more information on with-profits please see our With-Profits guides available on our website at www.standardlife.co.uk/investments/funds/with-profits-information#guides

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