Standard Life
Part of Phoenix Group

UK Smoothed Managed With-Profits Fund Investment Report

Q4 2023

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 and investment return details

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 similar to charges for investment-linked funds available to Stakeholder plans. These deductions will be no more than the maximum allowable under Stakeholder regulations.

The value of with-profits investments can go down as well as up and you may get back less than you paid in. For more information on with-profits please see our guides available on our website at **standardlife.co.uk/investments/funds/with-profits-information**

Types of assets

We invest in a wide range of assets including equities, bonds and cash deposits. We expect that a higher proportion of equities 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 equity markets had a strong quarter. With inflationary pressures declining, major central banks kept interest rates on hold as they adopted a data-dependent approach to monetary policy for the time being, before they looked to start easing. Also, fears of a global recession fell, particularly given the robust performance of the US economy. However, investors remained concerned about the outlook for China, particularly the country's highly indebted property sector, as well as the ongoing wars in Central Europe and the Middle East.
- Investors remained focused on the extent to which central banks would have to tighten monetary policy to combat above-target inflation.
- Headline annual inflation in most developed economies continued to ease, indicating that interest rates are now likely to be cut in the years ahead.
- Government bond markets ended higher, as major central banks refrained from further raising interest rates and contemplated future cuts, in response to easing price pressures in most major economies. Spreads on both US investment-grade and high-yield corporate bonds tightened over the quarter, reflecting improved investor risk appetite.

UK Equities

UK equities equities ended higher but underperformed most other regional indices. Given improved investor risk appetite, the domestically focused FTSE 250 Index outperformed the internationally focused FTSE 100 Index. Annual inflation fell from 4.6% in October to 3.9% in November but remained well above the Bank of England (BoE)'s 2% target. Moreover, annual core inflation was also below expectations, falling from 5.7% to 5.1% over the same time frame. The BoE maintained its Bank Rate at a 15-year high of 5.25% over the quarter. The yield on 10-year Gilts ended the quarter about 110 basis points (bps) lower at around 3.5%.

Overseas Equities

US equities rose strongly in dollar terms but by less in sterling terms over the quarter. Inflationary pressures eased following multiple interest-rate increases from the US Federal Reserve (Fed) since early 2022. The annual core Personal Consumptions Expenditures Price Index fell from 3.4% in October to 3.2% in November but remained above the 2% target. The Fed kept the target range for the fed funds rate at a 42-year high of 5.25–5.50% over the period but signalled three rate cuts in 2024. The yield on 10-year Treasuries ended the quarter about 80 bps lower at around 3.9%.

European equities advanced in both euro and sterling terms over the quarter. Annual inflation rose from 2.4% in November to a lower-than-expected 2.9% in December and remained above the European Central Bank (ECB)'s 2% target. Therefore, the ECB kept its main refinancing operations rate at a 22-year high of 4.5% over the quarter. Meanwhile, the yield on 10-year German Bunds ended the quarter about 90 bps lower at around 2.0%.

Japanese equities rose slightly in both yen and sterling terms. Despite annual core inflation of 2.5% in November remaining above the Bank of Japan (BoJ)'s 2% target, the BoJ still has a relatively dovish monetary policy stance compared with other major central banks.

Asia Pacific ex-Japan equities rose in local-currency terms but by less in sterling terms. Markets in the region generally ended higher given increased optimism about the global growth outlook as central banks' monetary tightening showed signs of coming to an end. However, Chinese equities declined due to worries about the country's economic outlook.

Fixed Interest

Global government bonds rose in local-currency terms but by less in sterling terms. Major central banks refrained from further raising interest rates over the quarter as price pressures continued to ease in most major economies. However, with core inflation still elevated, central banks have maintained a data-dependent stance. Meanwhile, investors became less concerned about the risk of a global economic recession given robust economic data, particularly in the US.

Corporate bonds had a strong quarter as investor risk appetite improved. In the US, higher-quality investment-grade and riskier high-yield bonds performed well, with the spreads on both instruments tightening. This was against a backdrop of reduced inflationary pressures, which led to central banks maintaining interest rates and flagging potential easing ahead in 2024. Moreover, investor fears of a global recession diminished, particularly given the robust performance of the US economy.

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

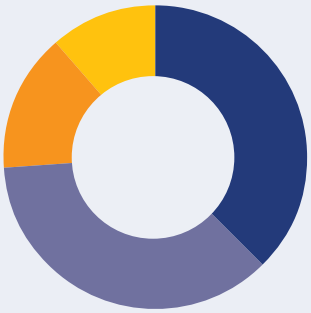
- the strength of the fund
- any changes in current and expected future market conditions

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.

Asset Mix Details

31 December 2023



UK equities	37.6%
Overseas equities	36.5%
Corporate Fixed Interest	14.6%
Government Bonds and Other*	11.3%

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

Investment returns: Last four quarter years

Quarter year ending on:	31/03/23	30/06/23	30/09/23	31/12/23
Stakeholder With Profits 2006 Fund and Corporate Stakeholder With Profits 2006 Fund	3.3%	0.1%	1.3%	5.2%

Recent investment returns are best estimates. These investment returns do not allow for charges or any smoothing and have been rounded down.

Customers should refer to their annual statement 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.

The Asset Mix for the Stakeholder Funds is predominately invested in equities, in particular UK equities. The returns in Q4 reflect the positive returns in all asset classes over the period.

Asset mix details for last five calendar years

Asset mix at 31 December	2019	2020	2021	2022	2023
UK Equities	45%	44%	49%	44%	38%
Overseas Equities	22%	21%	23%	28%	36%
Fixed Interest & Other*	33%	35%	28%	28%	26%

*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

2019	2020	2021	2022	2023
15.8%	0.2%	11.2%	-7.0%	10.4%

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

www.standardlife.co.uk

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