Sustainable Multi Asset Universal Strategic Lifestyle Profile

Investment report 31 December 2021

(This report is intended for a professional audience only)

Standard Life
Part of Phoenix Group

Contents

01

Sustainable Multi Asset Universal Strategic Lifestyle Profile

Sustainable Multi Asset Universal Strategic Lifestyle Profile is Standard Life's investment default option.

It's an easy, growth-focused sustainable solution that aims to help give members the income they require in retirement. The solution launched in December 2020. It aims to deliver growth in the early stages of the retirement journey to improve members' pension pots over the medium to long term. It does this while investing responsibly.

One year on

We are delighted to bring you this first report on the performance of the solution now that it has a one-year live track record. As you will see on the coming pages, the last year has been a positive one, and we are continuing to work on enhancing the solution, providing members with a better standard of living in retirement by improving their pension pots.

Focus on growth	A focus on delivering returns in the growth phase
Manage risk	Outcome focused risk management when it matters most to members
Integrate ESG	Manage the financial risks and exploit the opportunities associated with sustainability using a blend of approaches
Future-proofed	Designed to be adaptable in the face of change

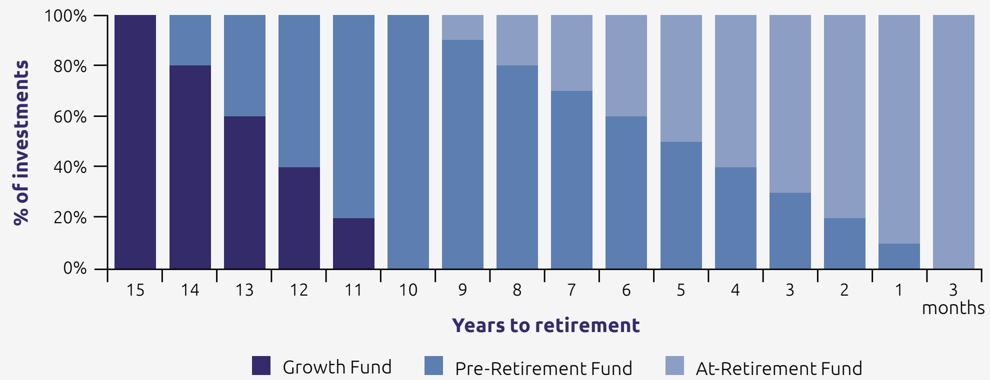
Focus on growth

Sustainable Multi Asset Universal Strategic Lifestyle Profile focuses on growing the value of member pension pots. The largest holding in the Growth Fund is therefore in equities. This type of investment has the potential to achieve higher growth, but with this potential for higher growth comes greater risk and the value of the investment may go down or up more frequently in the short term. Over the long term we believe this may help improve the amount of income members can expect in retirement.

Manage risk

When members are 15 years from retirement we start to move their money gradually out of the Growth fund to lower risk Pre Retirement and At Retirement funds. Giving members a long period to balance risk and return as they approach retirement.

Sustainable Multi Asset Universal Strategic Lifestyle Profile glidepath



Standard Life Sustainable Multi Asset Growth Pension Fund (LPNL)	Standard Life Sustainable Multi Asset Pre-Retirement Pension Fund (CEMH)	Standard Life Sustainable Multi Asset At-Retirement Pension Fund (PLND)
As members have many years before they retire, they can afford to take more risk and so invest in growth assets, such as equities, as there is normally sufficient time to recover from any market falls.	As members get closer to retirement, preserving their savings is their key priority. This is the point at which we start to move into more defensive, usually lower risk assets, such as bonds. However, with people living longer as the long-term trend is for people to live longer, there is still a need to build savings as investing too conservatively can increase the risk of an income shortfall once in retirement. Balancing risk and reward here is important.	To get members' pension savings where they need to be before they retire, money will be gradually moved into funds that are usually lower risk.

A selection of lifestyle profiles and flexibility to choose

Towards the end of 2021, we launched three additional lifestyle profiles. Members can now choose how they want to take their pension, or they can opt to stay with the Universal option - which allows them to decide later. The lifestyle profiles available with Sustainable Multi Asset are:

- **Universal** – offers flexibility in how and when a member takes their money
- **Lump-sum** – to take their money as one or more cash lump-sums
- **Drawdown** – taking a flexible income, including options for tax-free amounts
- **Annuity** – a guaranteed income for life for those who wish to purchase an annuity

Integrate ESG

We're focused on growing members' pensions, so we look at the areas of responsible investing that we believe can achieve this. We avoid investing in companies that could present a risk – like those in the tobacco industry, and we invest more in companies that could provide an opportunity - like those in green technology.

Mainly passive, index strategies are used. This is when an investment aims to track the performance of a market index, subject to charges. Using customised indices, it's possible to reduce sustainability risks and tap into opportunities while also helping to improve sustainable outcomes.

Our clear ESG targets mean you can see how we aim to manage the potential impact of sustainability risks and opportunities on pension growth:

Future-proofed

The investment environment is constantly evolving, and there is a fast pace of change - particularly when it comes to ESG investment. Sustainable Multi Asset Universal Strategic Lifestyle Profile aims to be future-proofed in that it gives us the flexibility to change the proposition in the future, adapting in the face of change so that we can continue to deliver for members.

Screening

Excludes companies with a significant sustainability risk

- Controversial weapons (including nuclear)
- Tobacco production and distribution
- Thermal coal and unconventional oil/gas
- UN Global compact failure and ESG Controversies

Positive tilts

Lifts the sustainability profile of the portfolio by tilting towards positive ESG outcomes

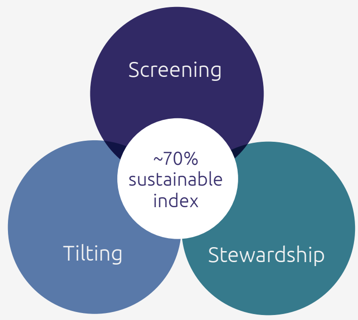
- 50% reduction in carbon emissions
- 50% increase in revenue percentage from clean technologies
- 10-20% improvement in ESG score compared to parent index

Stewardship

Using engagement and proxy voting to drive positive change

- 20+ central ESG stewardship team
- 30+ investment team ESG specialists

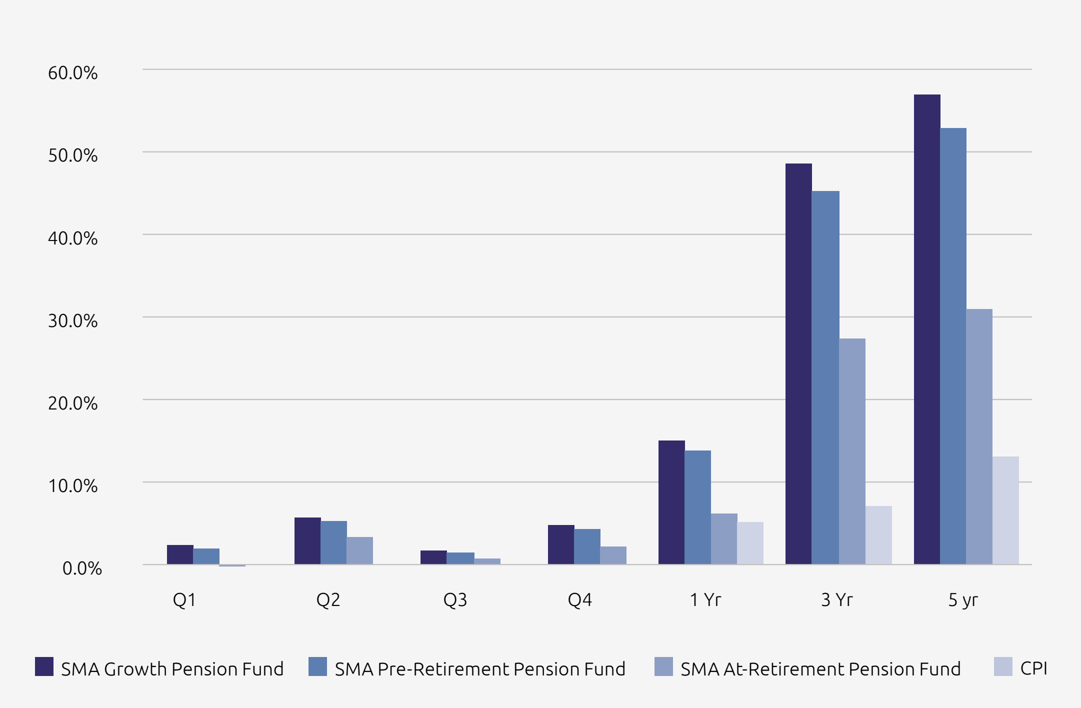
Delivered via sustainable index components throughout the journey



02 Investment performance

Fund performance charts

Sustainable Multi Asset Growth, Pre and At Retirement Pension funds



Fund/Index	Q1	Q2	Q3	Q4	1 year	3 year*	5 year*
	Cumulative Performance (%)						
Standard Life Sustainable Multi Asset Growth Pension Fund (LPNL)*	2.3%	5.7%	1.6%	4.7%	15.0%	48.5%	56.9%
Standard Life Sustainable Multi Asset Pre-Retirement Pension Fund (CEMH)*	2.0%	5.4%	1.5%	4.3%	13.8%	45.3%	53.0%
Standard Life Sustainable Multi Asset At-Retirement Pension Fund (PLND)*	-0.2%	3.4%	0.6%	2.2%	6.2%	27.3%	31.0%
CPI (Consumer Prices Index)	-	-	-	-	5.4%	7.5%	13.0%

Source: Financial Express, figures shown are on a net basis between the dates shown. The information shown relates to the past. Past performance is not a guide to the future. The value of investments can go down as well as up and may be worth less than paid in.

*Sustainable Multi Asset Growth launched on 14/12/2020. Prior to this date, underlying funds and index values have been used to simulate the performance.

Simulated performance is not a reliable indicator of future performance.

Performance commentary

Q4 2021

- The US stock market enjoyed a positive final quarter of 2021, while UK and European stocks also fared well. This helped the Growth, Pre and At Retirement Funds to all produce positive returns
- Asian equity markets underperformed, with the major markets of Japan and China both selling off, capping a difficult year overall for the broader Chinese market but a positive 12 months for Japanese stocks. The Funds hold Asian equities, but not enough to offset the positive returns from the US, UK and Europe
- Bonds issued by companies and governments did not make any significant gains or losses over the quarter
- Commercial property has produced gains for investors due to rising rents and prices of industrial properties, such as warehouses and logistics centres. This is due to consumers' increasing preference to shop online, a trend that was exacerbated during the pandemic

One year

- Sustainable Multi Asset Universal Growth's diversified portfolio provides exposure to a range of equity, bond and property assets from across the world
- During 2021 all major growth asset classes contributed a positive return, while diversifying assets helped to control volatility
- Sustainable Multi Asset's Universal Growth fund delivered 15% growth net of charges over the year to 31 December 2021
- During the period the fund held 72% in global equities aimed at driving growth in the early years of the retirement journey. Equity exposure has since increased to 79% effective from 31 January with the aim of accessing the potential growth from this asset class to deliver a better income in retirement

03

Market background

Global overview Q4 2021

Global equities make up the largest proportion of the Sustainable Multi Asset Growth Fund's portfolio. Share prices in most global markets rallied strongly despite worries over the threat posed by the Omicron variant.

Boosted by strong company profits, the US market led the charge, although UK and European stocks also enjoyed solid gains over the period. Investors overcame worries about the threat posed by the Omicron variant, increasing inflation pressures and expectations of rising interest rates in 2022. Share prices advanced significantly in the fourth quarter and concluded a strong year for many developed stock markets.

Asian equity markets underperformed, with the major markets of Japan and China both falling, capping a challenging year for the region's stock markets.

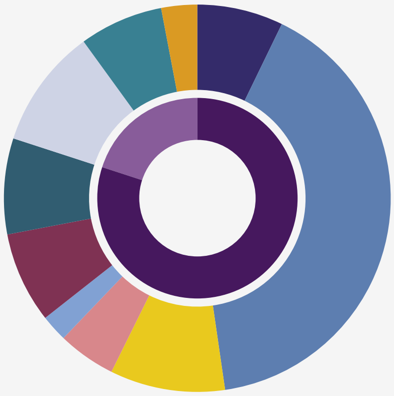
In the UK, share prices performed well over the quarter, with shares in the larger companies listed on the FTSE 100 index producing some of the best gains. The specter of inflation began to unnerve investors in December though. Soaring energy costs and rising prices of clothing and second-hand cars contributed to the headline-making inflation numbers. Issues in the global supply chain and a tight jobs market added to pressure on prices.

Returns from bonds were generally mixed over the quarter. Concerns about inflation and the end of central-bank stimulus measures in the form of bond purchases hurt sentiment. Investors are concerned about rising inflation, which reduces the real value of the fixed level of income provided by bonds. The Bank of England increased interest rates from 0.1% to 0.25% due to surging inflation. Rising interest rates also tend to be bad for bond prices, as holding cash becomes a more attractive, lower-risk alternative.

Commercial property produced gains, benefiting from growing demand for warehouses and logistics hubs.

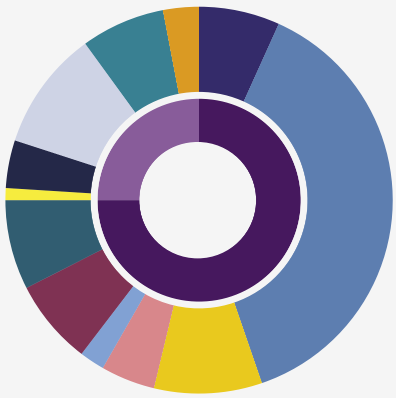
04 Asset allocation (as at 31/12/21)

Standard Life Sustainable Multi Asset Growth Pension Fund (LPNL)



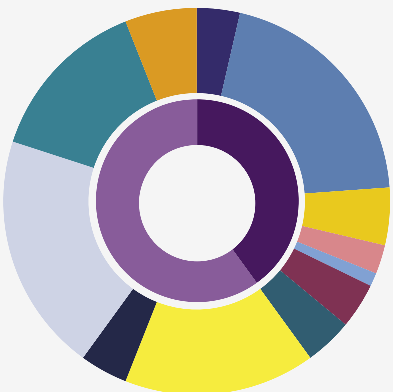
UK Equity	7.20%
US Equity	40.50%
European Equity	9.62%
Japanese Equity	4.84%
Asia Pacific Equity	2.24%
Emerging Markets	7.60%
Global REITs	8.00%
UK Corporate Bonds (All Maturities)	10.00%
Global Corporate Bonds (All maturities, GBP hedged)	7.00%
Global IL Bonds	3.00%
Growth	80.00%
Defensive	20.00%

Standard Life Sustainable Multi Asset Pre-Retirement Pension Fund (CEMH)



UK Equity	6.75%
US Equity	37.98%
European Equity	9.02%
Japanese Equity	4.53%
Asia Pacific Equity	2.10%
Emerging Markets	7.12%
Global REITs	7.50%
Money Market	1.00%
UK Short Term Corporate Bonds	4.00%
UK Corporate Bonds (All Maturities)	10.00%
Global Corporate Bonds (All maturities, GBP hedged)	7.00%
Global IL Bonds	3.00%
Growth	75.00%
Defensive	25.00%

Standard Life Sustainable Multi Asset At-Retirement Pension Fund (PLND)



UK Equity	3.60%
US Equity	20.25%
European Equity	4.81%
Japanese Equity	2.42%
Asia Pacific Equity	1.12%
Emerging Markets	3.80%
Global REITs	4.00%
Money Market	16.00%
UK Short Term Corporate Bonds	4.00%
UK Corporate Bonds (All Maturities)	20.00%
Global Corporate Bonds (All maturities, GBP hedged)	14.00%
Global IL Bonds	6.00%
Growth	40.00%
Defensive	60.00%

Source: Standard Life 31/12/21

Sustainability reporting

To achieve the asset allocations outlined on the previous page, the Sustainable Multi Asset solution uses both World and UK equity funds that incorporate sustainability criteria. This forms 64% of the Growth Fund.

Below we provide more details on the sustainability targets applied in practice within both these funds.

The SL ASI Sustainable Index World Equity Pension Fund is one of the main components of the Growth Fund. It targets a combination of financial return with sustainability enhancements.

As at 31 December 2021 it makes up 59.8% of the Growth Fund within the Sustainable Multi Asset Universal Lifestyle Profile.

The effects of tilting

The improvements in ESG scores are achieved by tilting towards the leaders and tilting away from the laggards in the index.

The higher green revenues are assessed by the improvement seen through an increase in the weighted average percentage of revenue derived from any of six clean technology themes. These include: alternative energy, energy efficiency, green building, pollution prevention, sustainable agriculture, and sustainable water.

The target reduction in the carbon emission intensity and the potential emissions per dollar of market capitalisation of the Fund relative to the parent Indexes is at least 50%.

As at 31/12/2021, the effects of tilting had the following effects on the Sustainable World Index World Equity Pension Fund compared to the its parent index.

18%
Higher
Fund ESG score relative to parent index

50%
Higher
Green Revenue relative to parent index

47%
Lower
Carbon Intensity relative to parent index

Screening – largest exclusions and rational

The key exclusions within the fund focus on risk management within portfolios, avoiding moral / ethical stances, without overtly constraining the breadth of the investment universe. The four sets of criteria for exclusions which are based on financial considerations are:

1. **UN Compact Failure/Severe controversies**
2. **Thermal coal and unconventional Oil & Gas**
3. **Controversial weapons**
4. **Nuclear Weapons**
5. **Tobacco production & distribution**

Name	Sector	Parent Index Weight	UN Compact Failure/Severe Controversies	Thermal Coal & Unconventional Oil & Gas	Controversial Weapons	Nuclear Weapons	Tobacco Production Distribution
Exxon Mobil Corporation	Energy	0.42					
Chevron Corporation	Energy	0.36					
Wells Fargo & Company	Financials	0.32					
Philip Morris International.	Consumer Staples	0.24					
Honeywell International Inc.	Industrials	0.23					
Raytheon Technologies	Industrials	0.21					
Boeing Company	Industrials	0.18					
ConocoPhillips	Energy	0.15					
Royal Dutch Shell	Energy	0.14					
BHP Group	Materials	0.14					

Source: abrdn December 2021

The SL ASI Sustainable Index UK Equity Pension Fund makes up 4.6% of the Growth Fund within the Sustainable Multi Asset Universal Strategic Lifestyle Profile. This is the other main equity component that is run on a sustainable basis.

Screening – largest exclusions and rational

10% Higher
Fund ESG score relative to parent index

52% Higher
Green Revenue relative to parent index

50% Lower
Carbon Intensity relative to parent index

Name	Sector	Parent Index Weight	UN Compact Failure/Severe Controversies	Thermal Coal & Unconventional Oil & Gas	Controversial Weapons	Nuclear Weapons	Tobacco Production Distribution
Royal Dutch Shell	Energy	2.91					
Royal Dutch Shell	Energy	2.61					
British American Tobacco.	Consumer Staples	2.61					
BHP Group	Materials	2.03					
Anglo American	Materials	1.70					
Tesco	Consumer Staples	0.98					
BAE Systems	Industrials	0.77					
Imperial Brands	Consumer Staples	0.67					
Clarkson	Industrials	0.05					
Essentra	Materials	0.05					

Source: abrdn December 2021

06 Strategic asset allocation update

Increasing equity exposure to access potential growth and increased ESG content.

The strategic asset allocation has been updated since the end of the reporting period, and from 31 January 2022 a series of regional funds were added to replace the current underlying equity investments.

These changes to the Growth fund have resulted in an increase in the proportion of equities, from 72% to 79%.

We conducted analysis of member outcomes and concluded this enhances the potential income replacement rate in retirement.

Taking more risk early in the investment time horizon means there is time to absorb potential short-term losses and ride out volatility in order to potentially generate higher long-term returns.

The introduction of the regional funds will increase the ESG content of the Growth Fund from 64% to around 70%

What's changing at a glance:

Asset	Increasing	Maintaining	Decreasing
Equities	– UK – Europe – Japan – US – Asia Pacific emerging markets	– Asia Pacific developed markets	– Latin America and emerging Europe, Middle East and Africa emerging markets
Bonds	– Emerging markets debt – Global Corporate bonds with less than five years to maturity		– UK Corporate Bonds – Index-Linked Gilts – Global Corporate bonds with over five years to maturity
Property	– UK Property		– Global real estate

Source: Phoenix Asset Management

Within equities, the biggest allocation increase is to the UK, both proportionally and absolutely. Based on 10-year forecasts, the UK market appears to offer the most favourable risk-adjusted returns.

A small increase has been made to the US. Bigger increases go to Europe and Japan.

Overall, emerging market equity exposure has been reduced by 1% and tilted towards Asia Pacific rather than Latin America, emerging Europe, Middle East and Africa. Developed market exposure in Asia Pacific is maintained.

The allocation to emerging market debt is increasing from zero to 4.6%. This is all issued by sovereign governments, but split between hard and local currency issues. The potential reward for sovereign debt in the emerging markets is currently more attractive than the equity of companies listed in those regions.

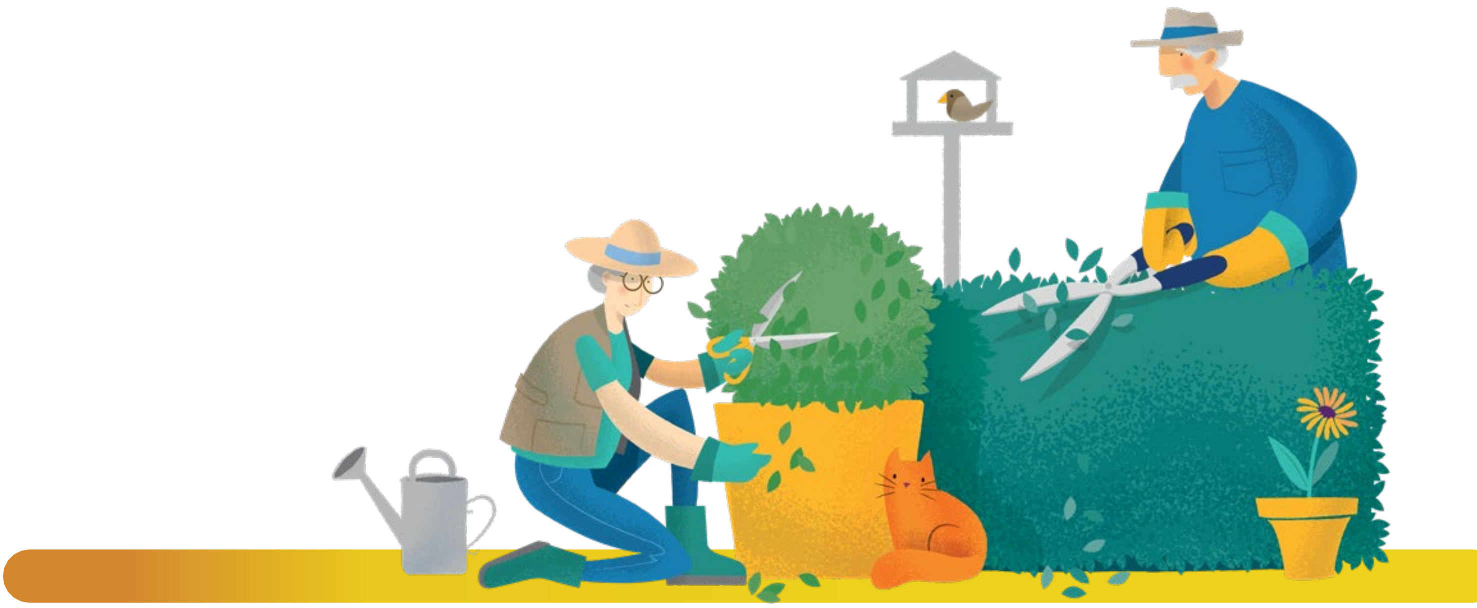
By contrast, UK corporate bonds do not appear to offer value given the yields currently on offer. The position in UK corporate bonds has been sold to fund many of the changes outlined above.

With investors highly conscious of the risks posed by inflation, the amount of index-linked gilts has been reduced. The very long-dated issues in the index make it more exposed than an index of conventional bonds to interest rate changes.

Global bonds appear to offer better risk-adjusted returns than the UK currently. However, interest rates are expected to rise from their crisis-driven lows. Rising interest rates are often negative for bond prices, so the amount invested in bonds issued by governments within developed markets has been reduced.

The overall amount invested in global corporate bonds has also been reduced. Again, this is due to concerns about rising interest rates.

In property the allocation to global real estate securities has been reduced. This has been offset with a new allocation to UK direct property. The UK Property fund has been well positioned by its manager to withstand the pressures of the last couple of years and this has started to show through in fund performance.



Standard Life Assurance Limited is registered in Scotland (SC286833) at Standard Life House,
30 Lothian Road, Edinburgh, EH1 2DH.

Standard Life Assurance Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. **www.standardlife.co.uk**

INVP57 0322
SCOZ0222311164-002