Sustainable Multi Asset Universal Strategic Lifestyle Profile

Investment report Q4 2023

(This report is intended for an investment professional audience only).

Standard Life
Part of Phoenix Group

Contents

01 Executive summary

Quarter 4 2023 summary

- Global equity markets enjoyed a strong final quarter of the year. With inflationary pressures easing, major central banks have kept interest rates on hold until they were sure that price rises were under control. It was noticeable how their rhetoric changed towards the end of the year and markets moved to price in a faster pace of rate cuts in 2024.
- The US economy continues to be robust and, whilst the full year performance was dominated by the 'magnificent seven' tech and AI stocks, the rally broadened over the final quarter. Whilst most investors expect an economic slowing in 2024, there is increasing belief that a harsh recession can be avoided.
- It is worth remembering that recessionary worries persist. China's economy remains lackluster, weighed down by an indebted property sector and a cautious consumer. There are increased geopolitical tensions, with the ongoing war in Ukraine and recent hostilities in the Middle-East. Lastly, 2024 will be biggest election year in history with over 50 countries going to the polls; this will prompt further uncertainty.
- The Sustainable Multi Asset Growth Fund posted a return of 6.2% (net of charges*), primarily driven by the late rally in the global equity market.
- The Sustainable Multi Asset Pre and At Retirement Funds posted returns of 6.2% and 6.2% (net of charges*), respectively.

* net of the 0.98% AMC and any additional expenses, this does not allow for any scheme specific discounts.

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Sustainable Multi Asset Universal Strategic Lifestyle Profile

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

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

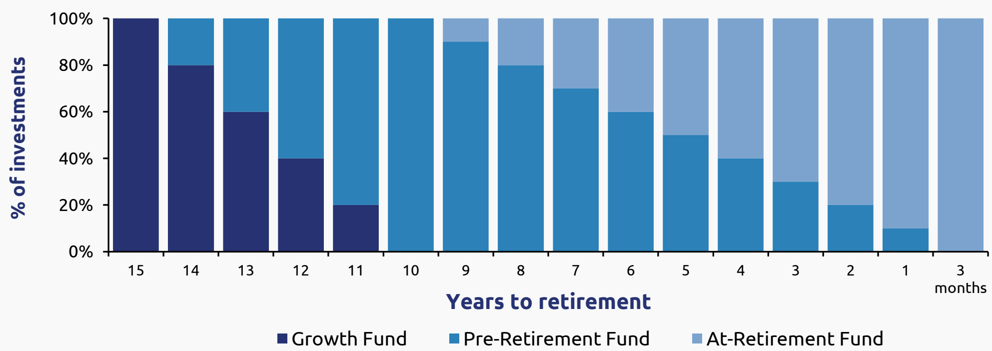
Focus on growth

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.

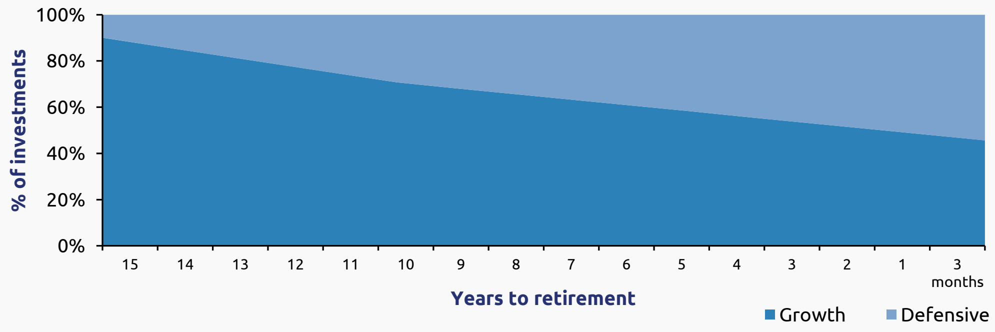
Manage risk

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

Sustainable Multi Asset Universal Strategic Lifestyle Profile glidepath



Sustainable Multi Asset Universal Strategic Lifestyle Profile glidepath: growth vs defensive assets



Growth stage	Pre-Retirement stage	At-Retirement stage
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, 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.

Integrate ESG

We're focused on growing members' pensions, so we look at the areas of responsible investing that we believe can achieve this.

Our responsible investment approach is delivered through the components of our blended funds – we select the best approach for each asset class. The asset classes that include a responsible investment approach are equity (79% of the growth fund) and REITs - listed property (4% of the growth fund).

Responsible investment approach in our equity exposure

We avoid investing in companies that could present a long-term financial 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:

Sustainable indexing

We deliver the approach for our equity exposure through passive investments in sustainable indexes

Avoiding the bad

Equity exposure excludes companies with a significant ESG risk

Improving the good

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

Driving change for the better

Using engagement and proxy voting to drive positive change

Exclusions

- Controversial weapons
- Tobacco production and distribution
- Thermal coal and unconventional oil/gas
- UN Global compact fail and ESG controversies

Tilts

- Stocks with better ESG scores
- Stocks with lower carbon intensity
- Stocks with greater green tech revenue

Stewardship

- Extensive engagement and voting
- Through our asset managers
- By our in-house team

Transparent, measurable targets for our equity exposure:

Reduce carbon intensity	Increase green tech revenues	Enhance ESG scores
50% Lower*	50% Higher*	By 10-20%*

*When compared to a broad market parent index.
We select the best ESG approach for each asset class. This is the approach we take for equity which represents 79% of the growth fund, 57% of the pre-retirement fund and 32% of the at-retirement fund. Other asset classes will take different approaches.

Future-proofed

The investment environment is constantly evolving, and there is a fast pace of change – particularly when it comes to ESG investment.

The 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.

A selection of lifestyle profiles and flexibility to choose

Members can 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 are:

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

03 Market background

Global overview Q4 2023

Global equity markets ended the quarter notably higher, supported by reduced inflationary pressures in most developed economies following a prolonged period of monetary tightening. Major central banks are likely at the end of their rate-hike cycle and are expected to start cutting them in 2024. Nevertheless, they remain determined to keep inflation under control. Also, while economic data has generally been more robust than feared, the risk of a global recession remains. In particular, investors continued to be concerned about the weak outlook for the Chinese economy. The ongoing wars in Ukraine and the Middle East are other key risks.

UK 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, while core inflation fell from 5.7% to 5.1%. Both remain well above the Bank of England (BoE)'s 2% target. The BoE maintained its Bank Rate at a 15-year high of 5.25% over the quarter, although increased belief surrounding rate cuts in 2024 saw UK gilts rally. The yield on 10-year Gilts ended the quarter about 110 basis points (bps) lower at around 3.5% (prices move in opposition to yields).

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. The HCOB Eurozone Composite Purchasing Managers Index remained below 50 over the quarter, translating into a contraction in business activity (led by weakness in the region's manufacturing sector). 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. Over the period, the BoJ kept its key short-term interest rate at -0.1% and the target for the 10-year government bond yield at around 0%, while slightly adjusting its yield-curve control policy. However, the yen appreciated over the quarter, weighing on exporters, on hopes that the BoJ could soon change its stance and start raising rates.

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 that global central banks (especially the US Fed) had ended their rate-hiking cycle. Indian equities outperformed as third-quarter GDP rose by 7.6% year on year, whilst stocks in Taiwan and South Korea were supported by these countries' relatively high weighting to the buoyant technology sector. However, Chinese equities declined due to worries about the country's economic outlook despite the Chinese authorities announcing fresh stimulus measures.

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. With core inflation still elevated, central banks maintain a data-dependent stance although the belief is for interest rate cuts in 2024. Meanwhile, investors became less concerned about the risk of a global economic recession given robust economic data, particularly in the US. While 10-year government bond yields in the US, Germany and the UK all notably declined over the quarter, those on Japanese government bonds only ended the period slightly lower.

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, global growth and corporate balance sheets remain robust. Investment-grade bonds benefited from their greater sensitivity to changes in interest rates. High-yield bonds were supported by their income attractions and a better outlook for issuers' credit quality.

UK commercial real estate fell 1.0% over the three months to the end of November (the latest data available), according to the MSCI UK monthly index. Industrial (+1.2%) was the strongest sector, while Offices (-4.4%) were the weakest. It has been the weakest year for UK real estate investment activity since 2009 given a significant gap between seller and buyer aspirations. Meanwhile, UK prime yields remained largely flat in December across the vast majority of sectors.

Source of commentary: abrdn

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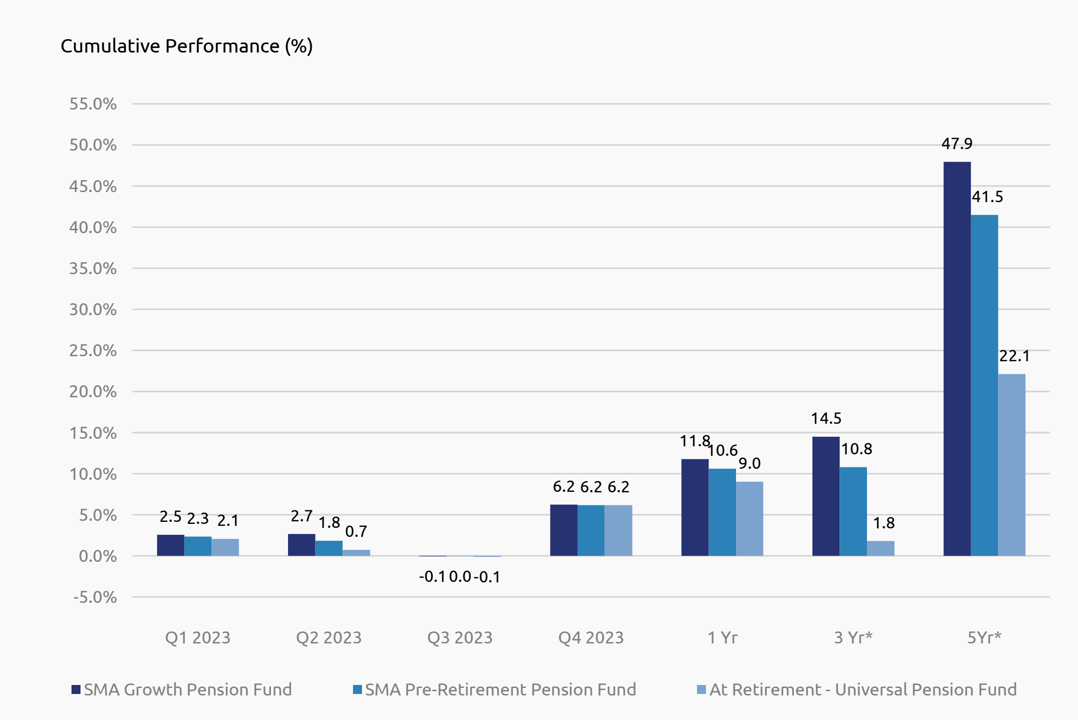
Investment performance

Fund performance charts

Sustainable Multi Asset Growth, Pre and At Retirement Pension funds



Fund/Index	31/12/22 31/12/23	31/12/21 31/12/22	31/12/20 31/12/21	31/12/19 31/12/20	31/12/18 31/12/19
	Discrete Yearly Performance (%)				
Standard Life Sustainable Multi Asset Growth Pension Fund (LPNL)*	11.8%	-10.9%	15.0%	8.9%	18.6%
Standard Life Sustainable Multi Asset Pre Retirement Pension Fund (CEMH)*	10.6%	-12.0%	13.8%	8.6%	17.6%
Standard Life At Retirement - Universal Pension Fund (PLND)*	9.0%	-12.0%	6.2%	7.0%	12.1%

Source: Financial Express, figures shown are on a net basis between the dates shown. Figures correct as at 31 December 2023. 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 Funds 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 2023

Global equity markets enjoyed a Santa rally in the final quarter, ending a positive year on a strong note. As inflationary pressures have eased, there was growing excitement that central banks will cut interest rates by a greater amount, and at a faster pace, than previously forecast. The much-expected recession of 2023 did not happen; this has now been pushed out to 2024. However, it is the flavour of said recession that has led much debate; a hard-landing or a soft-landing. With global growth remaining robust, and unemployment levels reasonably low, there is increased belief that a gradual slowing, (a soft landing), can be achieved.

There remain considerable obstacles to this view. Inflation remains above central bank targets with Services inflation notably sticky; may we see a secondary bout of inflation? Ongoing geopolitical tensions in Ukraine, the Middle East and Taiwan persist. The Chinese economy continues to be lacklustre, weighed down by high debt and low consumer confidence. Meanwhile, 2024 will be the biggest election year in history as over 50 countries go to the polls. The US election will be the most followed with another Trump v Biden race likely, but a UK election is also likely towards the end of the year.

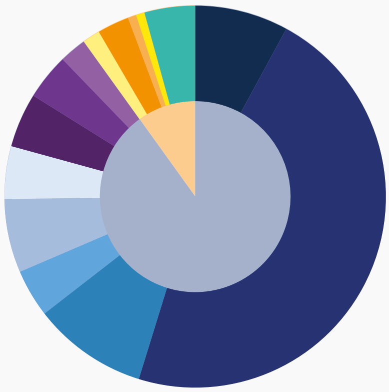
Overall, it was a spirited final quarter for investment performance, adding to an already positive year. This was reflected in the recent performance of Sustainable Multi Asset Universal, with the Sustainable Multi Asset Growth fund posting a return of 6.2% (net of charges) over the quarter.

This theme continued with the Pre and At Retirement funds, posting returns of 6.2% and 6.2% (net of charges) respectively. These funds have a larger diversifying allocation to global government bonds which, whilst positive, did not keep pace with the rise in equities.

Despite a challenging year, with the threat of recession seemingly never far away, the solution has seen encouraging performance during 2024 with the Growth, Pre-Retirement and At-retirement funds, returning 11.8%, 10.6% and 9.0% respectively.

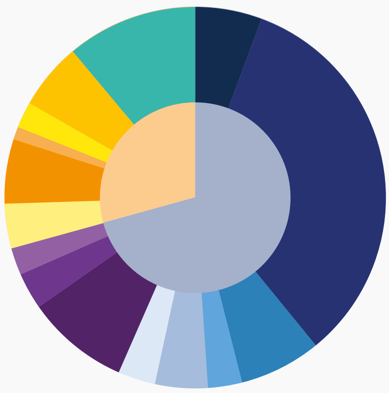
05 Strategic asset allocation

Standard Life Sustainable Multi Asset Growth Pension Fund (LPNL)



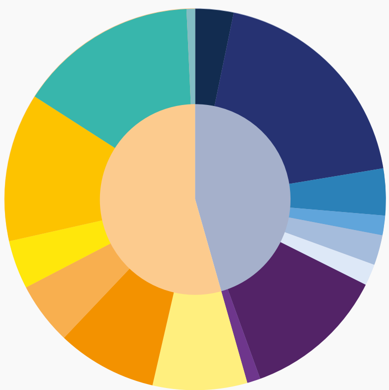
UK Equities	7.93%
US Equities	46.85%
European Equities	9.73%
Japanese Equities	4.05%
Asia Pacific Equities	6.24%
Emerging Market Equities	4.46%
Emerging Market Hard and Local Currency Bonds	4.61%
Global REITs	3.90%
UK Direct Property	2.30%
Sterling Corporate Bonds	1.50%
Global Corporate Bonds	2.70%
Global Government Bonds	0.72%
Global Index Linked Bonds	0.72%
Short Dated Global Corporate Bonds	4.29%
Growth	90.07%
Defensive	9.93%

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



UK Equities	5.66%
US Equities	33.44%
European Equities	6.94%
Japanese Equities	2.89%
Asia Pacific Equities	4.46%
Emerging Market Equities	3.18%
Emerging Market Hard and Local Currency Bonds	8.73%
Global REITs	3.11%
UK Direct Property	2.30%
Sterling Corporate Bonds	3.79%
Global Corporate Bonds	5.46%
Global Government Bonds	1.08%
Global Index Linked Bonds	2.21%
Short Dated Sterling Corporate Bonds	5.66%
Short Dated Global Corporate Bonds	11.09%
Growth	70.71%
Defensive	29.29%

Standard Life At Retirement - Universal Pension Fund (PLND)



UK Equities	3.24%
US Equities	19.14%
European Equities	3.97%
Japanese Equities	1.66%
Asia Pacific Equities	2.55%
Emerging Market Equities	1.82%
Emerging Market Hard and Local Currency Bonds	12.08%
Global REITs	1.13%
Sterling Corporate Bonds	8.01%
Global Corporate Bonds	8.48%
Global Government Bonds	5.29%
Global Index Linked Bonds	4.12%
Short Dated Sterling Corporate Bonds	12.59%
Short Dated Global Corporate Bonds	15.19%
Money Market	0.73%
Growth	45.59%
Defensive	54.41%

Source: Standard Life. Information shows Strategic Asset Allocation. For asset allocation please refer to the **fund factsheets.**
Figures may not add up to 100 due to rounding.

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Sustainability reporting

To achieve the asset allocations outlined on the previous page, the Sustainable Multi Asset solution uses regional equity funds that incorporate sustainability criteria.

These form circa 79% of the Growth Fund within the Sustainable Multi Asset Universal Lifestyle Profile.

The effects of tilting and exclusions in our equity exposure

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 indices is at least 50%.

As at 31 December 2023, tilting had the following effects on the sustainable constituents of the Growth Fund within the Sustainable Multi Asset Universal Strategic Lifestyle Profile. This was calculated by taking weighted average scores relative to their parent indices of the six Sustainable Index Equity Pension Funds.

Responsible investment outcomes

Responsible investment outcomes for equity exposure in the Standard Life Sustainable Multi Asset Growth Fund (79%).

Reduce carbon intensity
44.9% Lower
Carbon intensity relative to the parent indices against a target of 50%

Improve green revenue
50.8% Higher
Green revenue relative to the parent indices against a target of 50%

Improve ESG score
16.7% Higher
ESG score relative to the parent indices against a target of 10-20%

Carbon intensity: is a measure of carbon emissions which includes both direct and indirect emissions (known as Scope 1 and Scope 2 emissions)

Source: Figures calculated by Standard Life based on source data provided by abrdn as at 31 December 2023.

Screening – largest exclusions and rationale

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 sets of criteria for exclusions which are based on financially material 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
SL Sustainable Index US Equity Pension Fund - Largest Exclusions							
CHEVRON CORPORATION	Energy	0.64		■			
BOEING COMPANY	Industrials	0.35			■	■	
PHILIP MORRIS INTERNATIONAL INC.	Consumer Staples	0.35					■
SL Sustainable Index EM Equity Pension Fund - Largest Exclusions							
VALE S.A.	Materials	0.77	■				
LARSEN & TOUBRO LTD.	Industrials	0.40			■		
ITC LIMITED	Consumer Staples	0.24					■
SL Sustainable Index UK Equity Pension Fund - Largest Exclusions							
GLENCORE PLC	Materials	2.26	■	■			
BRITISH AMERICAN TOBACCO P.L.C.	Consumer Staples	2.23					■
BAE SYSTEMS PLC	Industrials	1.55				■	
SL Sustainable Index Asia Pacific Pension Fund - Largest Exclusions							
BHP GROUP LTD	Materials	2.37	■	■			
LARSEN & TOUBRO LTD.	Industrials	0.39			■		
ITC LIMITED	Consumer Staples	0.23					■
SL Sustainable Index European Eq Pension Fund - Largest Exclusions							
AIRBUS SE	Industrials	1.11				■	
SAFRAN SA	Industrials	0.73				■	
RWE AG	Utilities	0.35		■			
SL Sustainable Index Japan Equity Pension Fund - Largest Exclusions							
JAPAN TOBACCO INC.	Consumer Staples	0.85					■
SEVEN & I HOLDINGS CO., LTD.	Consumer Staples	0.82					■
KANSAI ELECTRIC POWER COMPANY,	Utilities	0.26		■			

Source: Data provided by Standard Life to 31 December 2023 using source data provided by abrdn

07 Strategic asset allocation update

The Strategic Asset Allocation (SAA) approach for our default is based on rigorous investment governance. The SAA is based on a long-term horizon which factors in views of global markets and is formally reviewed on an annual basis, with ongoing oversight.

Our latest SAA annual review has reaffirmed that the design of our default remains appropriate.

This process is aimed at ensuring our Sustainable Multi Asset solutions continue to be positioned appropriately to deliver good long-term outcomes for our members.

Basis of the review

The review considered risk, return and the interaction of asset classes within different market environments based on long-term forecasts.

Key results of the review

At a high-level, the solution's mix of growth (equities), defensive (bonds) and alternative (property and emerging market debt) assets remains broadly unchanged. For example, in the Growth fund the overall allocation remains at around 79%, 11% and 10% respectively.

Within equities, the blended funds held in the solution (Growth, Pre and At Retirement funds) saw an increase in allocation to US and Asia Pacific ex Japan regions. The Growth and Pre Retirement funds also saw an increase in allocation to Emerging Markets. The At Retirement fund saw a small reduction to Emerging Markets equities.

All three funds saw a reduction in allocation to UK, Europe ex-UK and Japanese equity regions. Based on long-term forecasts, the markets where equity allocations have increased appear to offer the most favourable risk- adjusted returns.

In Fixed Income, bond exposure has been re-positioned, with the Growth and At Retirement funds seeing a reduction in the allocation to short-dated global corporate bonds, while the Pre-Retirement fund's exposure remained unchanged.

The Pre and At Retirement funds saw a reduction in allocation to developed market global government bonds while the Growth fund's exposure to this asset class remained unchanged. All three funds increased their allocation to all maturity sterling corporate bonds.

We believe Fixed Income as an asset class now looks more attractive on a relative basis.

Positions in alternative asset classes, such as global REITs (listed property shares) reduced for the Growth, Pre and At Retirement funds.

The Pre and At Retirement funds saw an increase in exposure to emerging market debt, while the Growth fund's exposure in this asset class remained unchanged.

Implementation of SAA

Our latest SAA review has concluded and was implemented during July 2023.