

Heritage With-Profits Fund Investment Report: UK Life Business

Q2 2021

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 life 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 wpreport@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 when you die or when your plan reaches its maturity date, as long as all payments have been made when due. 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

- All major world equity indices rise
- US shares are particularly strong, driven by technology stocks
- Government and corporate bonds rise, despite increasing inflation
- Major developed central banks keep interest rates unchanged
- Industrials continue to lead UK property market growth

UK Equities

UK equities rose, helped by the success of the domestic vaccine rollout and the easing of lockdown restrictions. By the end of June, nearly 45 million people in the UK had received their first vaccine dose, with around 33 million being fully vaccinated. Supportive policy from the Government and positive earnings also benefited UK equities. In May, the Bank of England raised its 2021 GDP growth forecast to 7.25% and noted that rising inflation numbers were likely temporary. In June, the UK Government delayed 'freedom day' by at least four weeks, due to an uptick in Covid-19 infections.

Overseas Equities

US equities grew over the quarter. Recent inflation concerns were offset by positive economic figures and corporate earnings. Meanwhile, President Biden unveiled a US\$6 trillion 2022 federal budget, on top of already-generous fiscal stimulus. Vaccination progress in the US has been stellar, with over 326 million doses administered by the end of June. Elsewhere, technology heavyweights, including Facebook and Google owner Alphabet, reported strong first-quarter results towards the end of April. Later, US equities hit record highs. Technology companies led the way, including hardware manufacturers who have benefited from rising demand to deal with a global shortage of semiconductor chips.

European equities performed well, despite ongoing lockdowns and rising Covid-19 cases. The Eurozone underwent a quarterly contraction for the first quarter of 2021, due to vaccination delays and extended lockdowns. However, the European Commission upgraded its 2021 growth forecast from 3.7% to 4.2% as vaccination campaigns gained momentum. Many European countries continued to relax restrictions, although the prevalence of the delta variant has risen.

Japanese equities underperformed most major world indices over the second quarter. They fell in April, amid fears over rising coronavirus infections and the slow domestic vaccination programme. Performance improved thereafter, as infection rates started falling and Japan's vaccine rollout gained momentum (but remained lacklustre). Fears about Covid-19's impact on economic growth remained.

Asia Pacific equities rose over the quarter, despite renewed Covid-19 outbreaks within the region and generally sluggish vaccine rollouts. Stabilising bond prices and higher economic optimism meant that the region generally posted positive returns into the end of the period. Furthermore, reassurances from the US Federal Reserve (Fed) that higher inflation should be short lived calmed markets.

Fixed Interest

Global government bonds had mixed performance but rose, in aggregate, over the period. In sharp contrast to the previous quarter, UK government bonds (gilts) were among the top performers. Bond markets stabilised in April, although European government bonds fell. They later rose, but still underperformed their global peers over the quarter. Investors continued to seek out government bonds towards the end of the period, pushing prices higher and yields lower, despite rising inflation. In this environment, investors favoured emerging-market debt and inflation-linked bonds. Furthermore, the major developed central banks all maintained interest rates throughout the period.

Corporate bonds rose, in aggregate, over the quarter, with both investment-grade and high-yield debt generally seeing positive performance. Amazon made headlines in May when it issued bonds at the lowest spread to US Treasuries in US corporate bond history. The Fed later announced plans to start selling its holdings of corporate bonds, previously bought as part of its emergency purchase programme. Elsewhere, in economic news, business activity also points to a strong global economy. In particular, flash composite purchasing managers' index data in June showed strong growth for both the UK and the Eurozone.

Property

In UK property, according to the MSCI Monthly Index, total returns for the three months to the end of May (the latest data available) were 3.1%. All sectors rose, with industrials the strongest at 6.8%, and offices the weakest at 0.3%. May was the seventh consecutive month of capital growth, with industrials, once again, leading the way. Overall, retail capital values are now starting to rise but are fully driven by retail warehousing and supermarkets. Meanwhile, offices are continuing their downward trend for the time being, amid low visibility around the impact of Covid-19 on future occupation.

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 four different asset mixes for our life business.



Asset mix 4 is for With-Profits Pension Annuities and this, together with Stakeholder With Profits, is covered in our Heritage With-Profits Fund investment report for pension business.

Class of with-profits business	Fund Name (see your plan statement)	Asset Mix	Page
Unitised life plans for which a minimum unit price growth rate of 3% a year applies	With Profits Fund	Asset Mix 1	3
With Profits Bond	Life With Profits Fund Life With Profits 2 Fund Life With Profits 2006 Fund Life With Profits 2 2006 Fund	Asset Mix 2	4
Homeplan and other unitised life plans not included above	Life With Profits Fund S2 Life With Profits Fund S2 Life With Profits 2006 Fund	Asset Mix 3	5
Mortgage endowments and other conventional life with-profits plans	N/A	Asset Mix 5	6

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

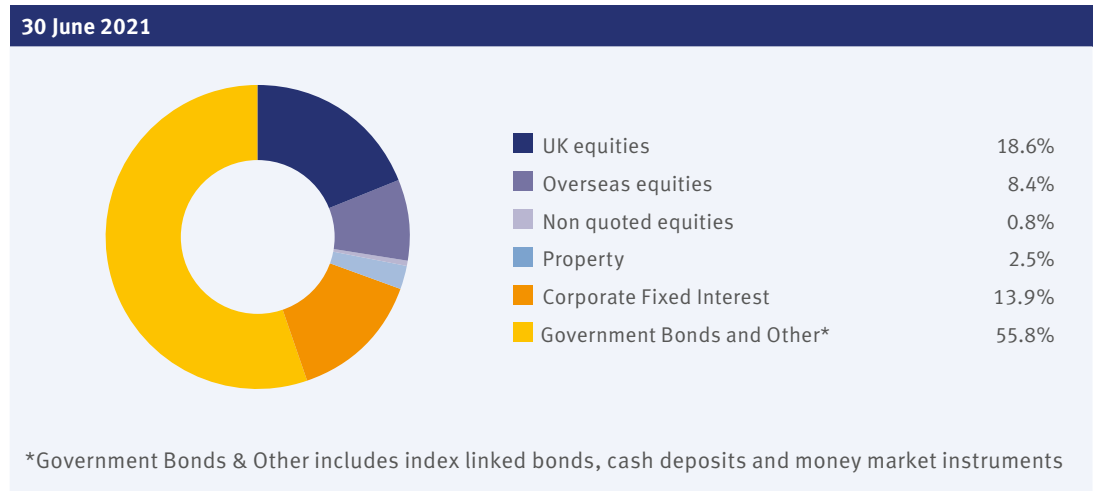
Note: the asset mix will also change as market values change.

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.



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

Asset Mix 1: With Profits Fund



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:	30/09/20	31/12/20	31/03/21	30/06/21
Asset Mix 1	-0.7%	2.6%	-1.3%	2.3%

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 Q2 reflect the positive returns in all asset classes over the period.

Asset mix details for last five calendar years

Asset mix as at 31 December	2016	2017	2018	2019	2020
UK Equities	8%	10%	11%	15%	18%
Overseas Equities	3%	6%	6%	8%	8%
Emerging Market / non quoted equities	3%	1%	1%	1%	1%
Property	5%	4%	4%	3%	3%
Fixed Interest & Other*	81%	79%	78%	73%	70%

*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

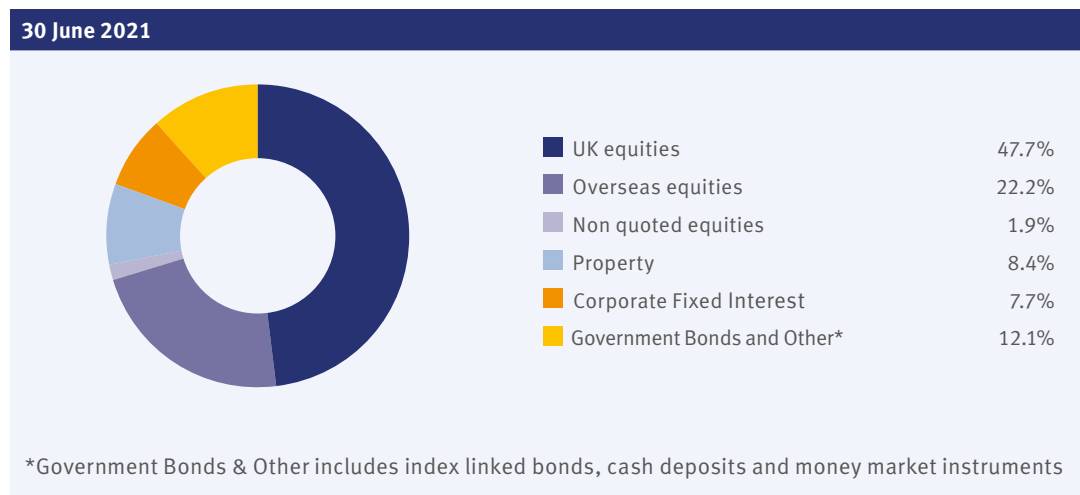
2016	2017	2018	2019	2020
8.8%	3.4%	-1.6%	7.1%	2.9%

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 2: With Profits Bond



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Investment returns: Last four quarter years

Quarter year ending on:	30/09/20	31/12/20	31/03/21	30/06/21
Asset Mix 2	-1.7%	6.8%	3.0%	4.8%

Asset Mix 2 is predominately invested in equities, in particular UK equities. The returns in Q2 reflect the positive returns in all asset classes over the period.

Asset Mix details for last five calendar years

Asset Mix as at 31 December	2016	2017	2018	2019	2020
UK Equities	36%	39%	40%	44%	48%
Overseas Equities	15%	18%	18%	20%	22%
Emerging Market/ non quoted equities	3%	2%	3%	2%	2%
Property	17%	15%	14%	13%	9%
Fixed Interest & Other*	29%	26%	25%	21%	19%

*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

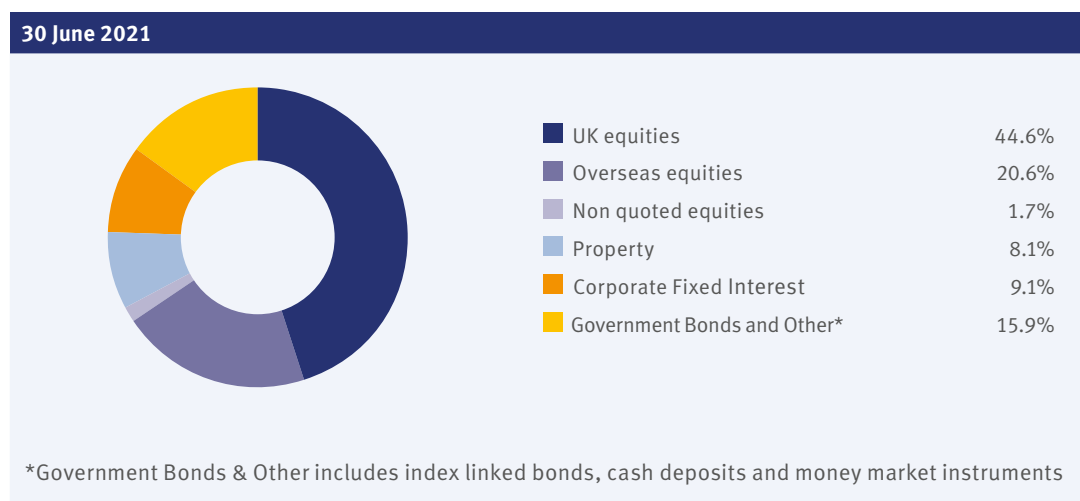
2016	2017	2018	2019	2020
12.4%	8.7%	-5.8%	13.0%	-2.9%

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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:	30/09/20	31/12/20	31/03/21	30/06/21
Asset Mix 3	-1.4%	6.0%	2.8%	4.5%

Asset Mix 3 is predominately invested in equities, in particular UK equities. The returns in Q2 reflect the positive returns in all asset classes over the period.

Asset Mix details for last five calendar years

Asset mix as at 31 December	2016	2017	2018	2019	2020
UK Equities	32%	35%	36%	40%	44%
Overseas Equities	14%	16%	16%	18%	20%
Emerging Market/ non quoted equities	2%	2%	2%	2%	2%
Property	15%	13%	13%	12%	9%
Fixed Interest & Other*	37%	34%	33%	28%	25%

*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

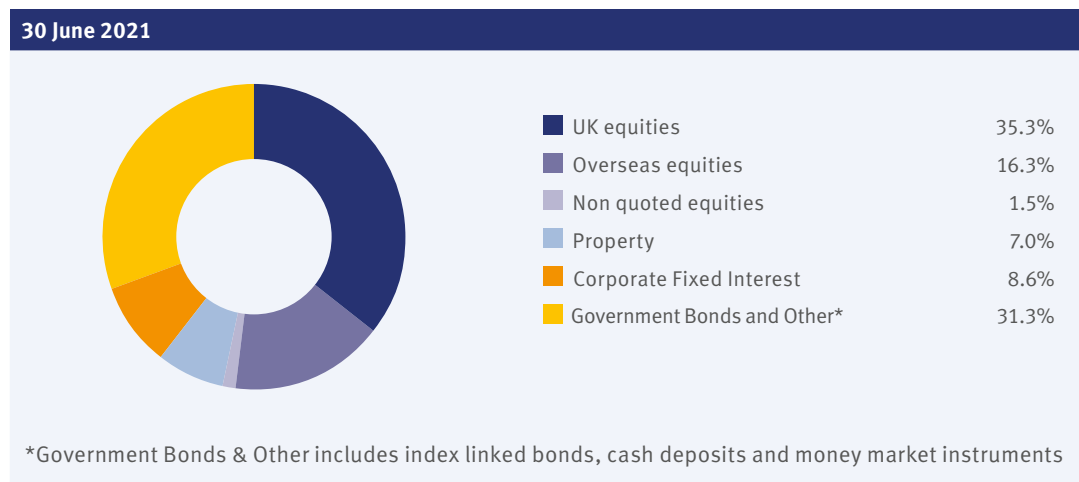
2016	2017	2018	2019	2020
12.2%	7.9%	-5.1%	11.7%	-2.7%

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Asset Mix 5: Conventional life with-profits plans



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Investment returns: Last four quarter years

Quarter year ending on:	30/09/20	31/12/20	31/03/21	30/06/21
Asset Mix 5	-1.2%	5.2%	1.8%	3.6%

Asset Mix 5 is predominately invested in government bonds and UK equities. The returns in Q2 reflect the positive returns in all asset classes over the period.

Asset Mix details for last five calendar years

Asset Mix as at 31 December	2016	2017	2018	2019	2020
UK Equities	21%	27%	29%	33%	36%
Overseas Equities	9%	14%	14%	16%	16%
Emerging Market/ non quoted equities	2%	2%	2%	2%	1%
Property	19%	12%	10%	9%	7%
Fixed Interest & Other*	49%	45%	45%	40%	40%

*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

2016	2017	2018	2019	2020
8.2%	6.1%	-4.1%	10.1%	-1.5%

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