

# Heritage With-Profits Fund Investment Report: UK Life Business

Q1 2024

## 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

## 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 [standardlife.co.uk/investments/funds/with-profits-information](https://standardlife.co.uk/investments/funds/with-profits-information)

## 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 equity markets ended the quarter notably higher, supported by reduced inflationary pressures in most developed economies after a prolonged period of monetary tightening.
- The improved backdrop means that major central banks are now expected to start cutting interest rates from the middle of 2024. Nevertheless, they remain determined to keep inflation under control for now.
- Meanwhile, economic data has generally been more robust than was feared, meaning that a 'soft landing' is now more likely. However, investors continued to be concerned about the outlook for the Chinese economy – especially the country's property sector – and the implications for global economic growth. The ongoing wars in Ukraine and the Middle East remain other key risks.
- Government bond markets ended lower. Concerns about the risk of a global economic recession lessened given robust economic data, particularly in the US. Also, with core inflation still elevated, central banks have maintained a data-dependent stance for now. However, spreads on both US investment-grade and high-yield corporate bonds tightened over the quarter, reflecting improved investor risk appetite.
- The UK real estate market had a lacklustre quarter, with a mixed performance across sectors.

## UK Equities

UK equities ended higher in both local-currency and euro terms but underperformed most other regional indices. The internationally focused FTSE 100 Index outperformed the domestically focused FTSE 250 Index. The UK economy entered a recession in the fourth quarter of 2023. Annual inflation fell from 4.0% in January to a lower-than-expected 3.4% in February but remained above the Bank of England (BoE)'s 2% target. Moreover, annual core inflation was also below expectations, falling from 5.1% to 4.5% over the same time frame. The BoE maintained its Bank Rate at a 15-year high of 5.25% over the quarter.



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](mailto:with_profits@standardlife.com)

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## Overseas Equities

US equities rose strongly in both dollar and euro terms. US annualised GDP grew by 3.4% in the fourth quarter of 2023. Inflationary pressures continued to ease. In particular, the US Federal Reserve (Fed)'s favoured measure of inflation, the core Personal Consumptions Expenditures Price Index, fell from an annual rate of 2.9% in January to 2.8% in February. The Fed kept the target range for the fed funds rate at a 42-year high of 5.25–5.50% over the period. However, it has signalled three rate cuts over the remainder of 2024, with more easing to come in 2025 and 2026.

European equities rose in local-currency terms over the quarter. Annual GDP in the eurozone grew by just 0.4% in 2023, with the region's economy stagnating in the fourth quarter of the year. According to a preliminary estimate, annual inflation fell from 2.6% in February to a lower-than-expected 2.4% in March (with the core rate declining from 3.1% to a lower-than-expected 2.9%) but 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.

Japanese equities rose notably in yen terms but by less in euro terms. Japan's economy only narrowly avoided a recession in the fourth quarter of 2023. Annual core inflation of 2.8% in February remained above the Bank of Japan (BoJ)'s 2% target.

Asia Pacific ex-Japan equities rose in both local-currency and euro terms over the quarter. Markets in the region generally ended higher given increased optimism about the global growth outlook as falling annual inflation rates led to central banks considering future interest-rate cuts.

## Fixed Interest

Global government bonds fell in local-currency terms but by less in sterling terms. As price pressures continued to ease in most major economies, investors began to look ahead to potential rate cuts in 2024. However, with core inflation still elevated, central banks have maintained a data-dependent stance. Meanwhile, concerns about the risk of a global economic recession lessened given robust economic data, particularly in the US.

Corporate bonds had a solid quarter. In the US, riskier high-yield bonds outperformed higher-quality investment-grade bonds, 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. Moreover, investor fears of a global recession diminished, particularly given the robust performance of the US economy.

## Property

UK commercial real estate returned -0.1% in sterling terms over the three months to the end of February (the latest data available), according to the MSCI UK monthly index. Industrials (+0.6%) outperformed, while offices (-2.1%) lagged. Investment activity over 2024 will likely remain subdued, but a significant improvement in UK real estate performance is expected from 2025, as the effects of initial rate cuts feed through. However, any surprise in inflation data or economic activity could deter confidence in the BoE's current monetary policy path and lead to further volatility in real estate pricing.

## 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 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

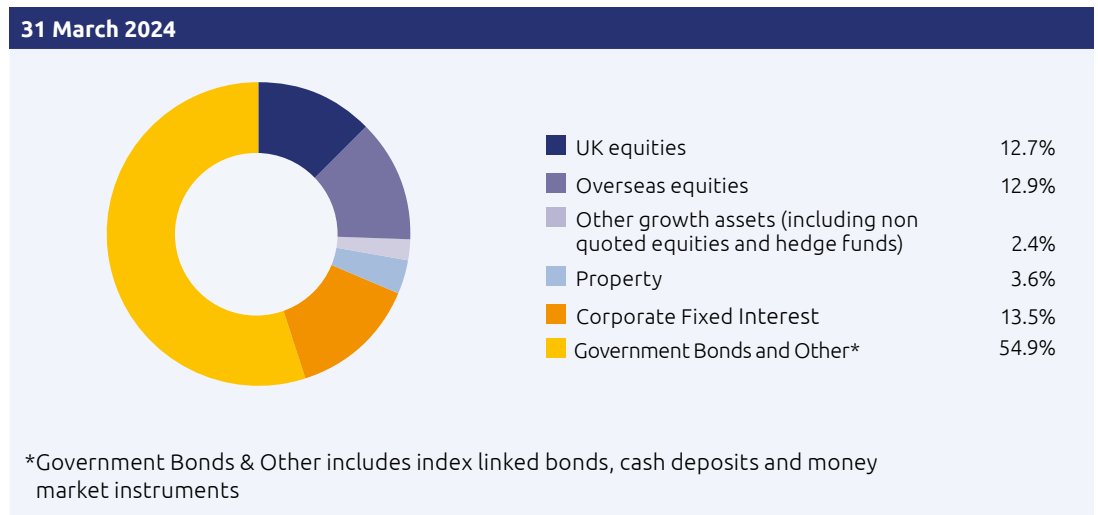
**Note:** the asset mix will also change as market values change.

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 [standardlife.co.uk/investments/funds/with-profits-information](http://standardlife.co.uk/investments/funds/with-profits-information)

## Asset Mix 1: With Profits Fund



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:	30/06/23	30/09/23	31/12/23	31/03/24
Asset Mix 1	-2.3%	1.6%	5.4%	1.5%

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 positive returns in most asset classes tempered to some extent by the negative returns in government bonds over the period.

## Asset mix details for last five calendar years

Asset mix as at 31 December	2019	2020	2021	2022	2023
UK Equities	15%	18%	19%	15%	13%
Overseas Equities	8%	8%	8%	10%	11%
Non quoted equities	1%	1%	1%	1%	2%
Property	3%	3%	4%	3%	3%
Fixed Interest & Other*	73%	70%	68%	71%	71%

\*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
7.1%	2.9%	3.1%	-11.4%	6.9%

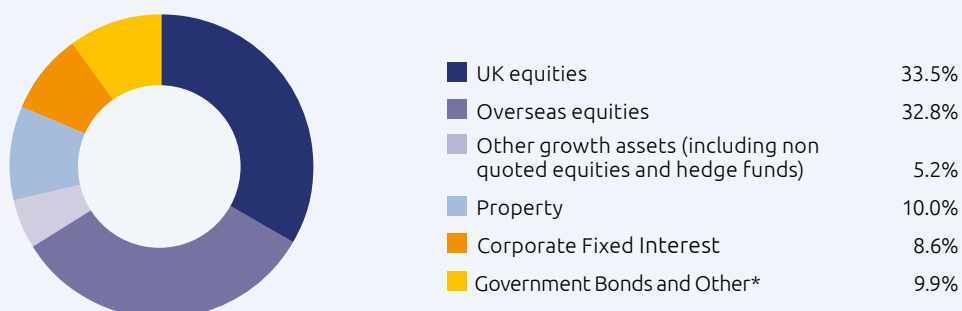
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## Asset Mix 2: With Profits Bond

31 March 2024



\*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:	30/06/23	30/09/23	31/12/23	31/03/24
Asset Mix 2	0.7%	1.5%	4.4%	4.7%

Asset Mix 2 is predominately invested in equities, in particular UK equities. The returns in Q1 reflect the positive returns in most asset classes tempered to some extent by the negative returns in government bonds over the period.

## Asset Mix details for last five calendar years

Asset Mix as at 31 December	2019	2020	2021	2022	2023
UK Equities	44%	48%	48%	41%	36%
Overseas Equities	20%	22%	22%	26%	30%
Non quoted equities	2%	2%	2%	2%	3%
Property	13%	9%	11%	10%	11%
Fixed Interest & Other*	21%	19%	17%	21%	20%

\*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
13.0%	-2.9%	15.7%	-6.5%	9.5%

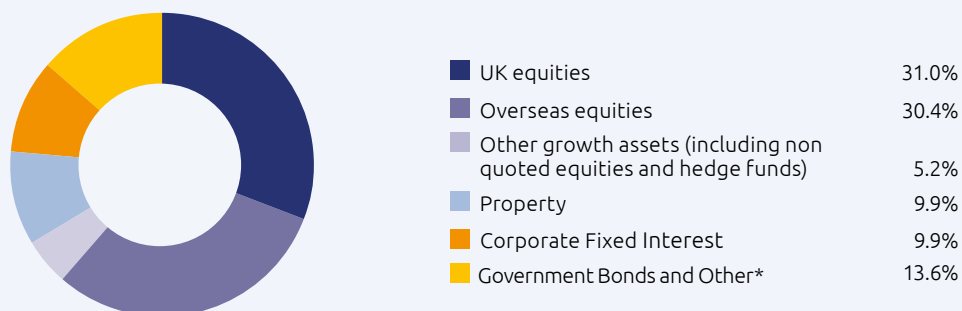
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## Asset Mix 3 – See Page 2 for list of funds applicable

31 March 2024



\*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:	30/06/23	30/09/23	31/12/23	31/03/24
Asset Mix 3	0.5%	1.5%	4.5%	4.4%

Asset Mix 3 is predominately invested in equities, in particular UK equities. The returns in Q1 reflect the positive returns in most asset classes tempered to some extent by the negative returns in government bonds over the period.

## Asset Mix details for last five calendar years

Asset mix as at 31 December	2019	2020	2021	2022	2023
UK Equities	40%	44%	44%	38%	33%
Overseas Equities	18%	20%	20%	24%	28%
Non quoted equities	2%	2%	2%	2%	3%
Property	12%	9%	11%	10%	10%
Fixed Interest & Other*	28%	25%	23%	26%	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

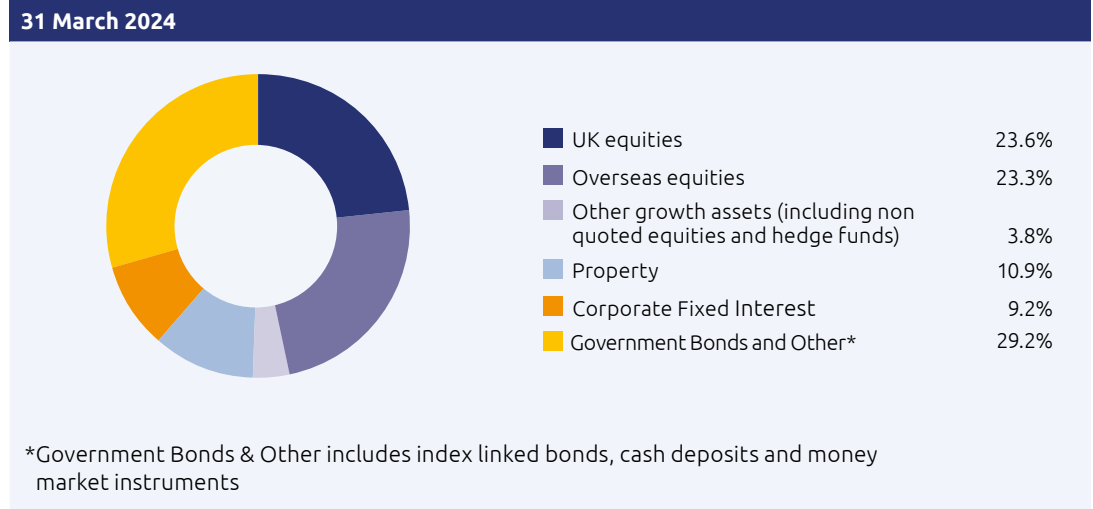
2019	2020	2021	2022	2023
11.7%	-2.7%	14.5%	-6.3%	9.4%

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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:	30/06/23	30/09/23	31/12/23	31/03/24
Asset Mix 5	-0.1%	1.6%	4.1%	3.3%

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

## Asset Mix details for last five calendar years

Asset Mix as at 31 December	2019	2020	2021	2022	2023
UK Equities	33%	36%	35%	29%	25%
Overseas Equities	16%	16%	15%	19%	21%
Non quoted equities	2%	1%	2%	1%	2%
Property	9%	7%	10%	10%	11%
Fixed Interest & Other*	40%	40%	38%	41%	41%

\*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
10.1%	-1.5%	10.8%	-7.0%	8.0%

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