

Heritage With-Profits Fund Investment Report: UK Pension Business

Q4 2020

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 pension 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 if it's used to buy an annuity at the retirement date selected at the start of the plan or on death. 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/withprofitsguides

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

- Coronavirus news continues to dictate global equity performance
- Last-minute Brexit deal boosts returns
- Economic stimulus supports markets
- Government bonds underperform corporate bonds and equities
- Consumer sectors in real estate face challenging conditions

UK Equities

UK equities made gains in the fourth quarter. They fell throughout October, as coronavirus-related fears and restrictions affected travel and hospitality stocks. The US election results, Covid-19 vaccine developments and the recovery of energy stocks led to a rebound in November. In December, the UK was the first country to approve a coronavirus vaccine. However, concerns about a no-deal Brexit and the discovery of a new Covid-19 strain stunted returns. Retail stocks suffered as a result. But the unexpected Brexit trade deal, along with the coronavirus vaccine rollout, contributed to a rise in share prices at the end of December.

Overseas Equities

US equities produced robust returns over the quarter. Uncertainty concerning the presidential election and the Covid-19 crisis pushed stocks down in October. They recovered in November, following the outcome of the US election – despite the contested result – and the Covid-19 vaccine trials. However, US stocks underperformed most major indices. December was a positive month, with the S&P and Nasdaq indices reaching record highs. The vaccine rollout began and, later in the month, Congress approved the long-awaited Covid-19 relief package, which boosted share prices.

European stocks climbed higher over the fourth quarter. Although Europe was the worst-performing region in October, Italy and Spain led a strong rebound in November as new Covid-19 cases fell. In December, EU leaders approved a €750 billion coronavirus recovery fund, as well as a €1.1 trillion seven-year EU budget, driving stocks higher. A last-minute Brexit trade deal and the start of the European vaccination programme led to a positive end to the period for European equities.

Japanese equities grew over the quarter. Like most major indices – but unlike other Asian stocks – Japanese equities fell in October, affected by Covid-19 concerns and the upcoming US elections. As investor sentiment improved throughout November, share prices in Japan rose strongly. In December, the market was able to withstand rising domestic cases of coronavirus infections.

Asia Pacific stocks performed well over the fourth quarter, on the back of increased investor optimism and a weaker US dollar. The Asia Pacific market made positive returns in October, a month that saw nearly all equity markets lose value. China, aided by strong corporate earnings and positive economic data, was a good performer, as was Indonesia. Asia Pacific also gained in November, as investors viewed the US presidential election as favourable for the region. December was another positive month.

Fixed Interest

Government bonds fell over the quarter, underperforming corporate bonds and equities. Government bonds started the period well, as equities fell out of favour. Notably, demand for the Eurozone's coronavirus-related bonds exceeded the supply, by far. However, government bonds flattened in November, as the US election results and coronavirus vaccine developments drove risk-on behaviour. Despite fears concerning the new Covid-19 strain, government bonds mainly fell in December, as vaccine rollouts generated positive market sentiment and drove yields higher (pushing prices down).

Corporate bonds generally performed well in the fourth quarter. They outperformed government bonds over the period, with both global investment-grade and high-yield bonds rising. Positive news flow from the US presidential results and Covid-19 vaccine trials supported corporate bonds in November. Late in the period, the Brexit trade deal and the signing of the US fiscal stimulus package drove corporate bonds upwards. Central bank policy has also strengthened markets, with major central banks committing to purchasing corporate debt.

Property

The total return for UK commercial real estate was 1.4% over the three months to the end of November, according to the MSCI UK monthly index. As the second Covid-19 wave gathered pace, all UK nations introduced tighter restrictions during the period. This meant consumer-facing sectors – such as retail, leisure and hotels – continued to face challenging trading conditions. The lower real estate returns reflect these difficulties. Elsewhere, the supermarket and industrial sectors continued to show relative resilience during this period of uncertainty. Industrial values rose from September as valuers reflected downward pressure on yields in the investment market.

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 five different asset mixes that cover most of our pensions business.



For information on Stakeholder plans taken out from 10 July 2006 onwards, please see the investment Report for the UK Smoothed Managed With-Profits Fund

Class of with-profits business	Fund Name (see your plan statement)	Asset Mix	Page
Unitised pensions for which a minimum unit price growth rate of 4% a year applies	Pension With Profits Fund	Asset Mix 1	3
Most other unitised pensions	Pension With Profits One Fund Pension 2 With Profits 2 Fund Pension Millennium With Profits Fund Pension With Profits One 2006 Fund Pension 2 With Profits 2 2006 Fund Pension Millennium With Profits 2006 Fund	Asset Mix 3	4
With Profits Pension Annuities	N/A	Asset Mix 4	5
Non unitised pensions	N/A	Asset Mix 5	6
Stakeholder plans taken out before 10 July 2006	Stakeholder With Profits Fund Corporate Stakeholder With Profits Fund	Stakeholder	7

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.

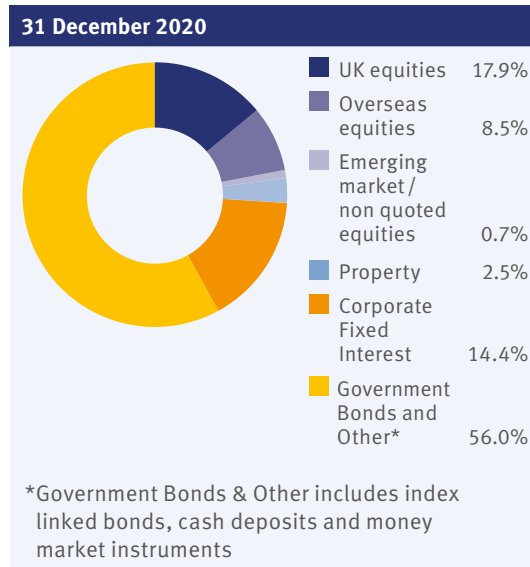
Note: the asset mix will also change as market values change.

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



Top 5 Bond Holdings

1. UK Govt 0.625% 2025
2. UK Govt 2.75% 2024
3. UK Govt 4% 2022
4. UK Govt 4.75% 2030
5. UK Govt 0.125% 2023

Corporate Bond portfolio

- 94% rated investment grade bonds of which
- 8% AAA rated as measured by a composite rating structure, derived from Standard & Poor's and Moody's ratings.



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:	31/03/20	30/06/20	30/09/20	31/12/20
Asset Mix 1	-3.4%	4.3%	-0.7%	2.7%

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 Q4 reflect the positive returns in most asset classes tempered to an extent by the flat returns in government bonds and a fall in property.

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

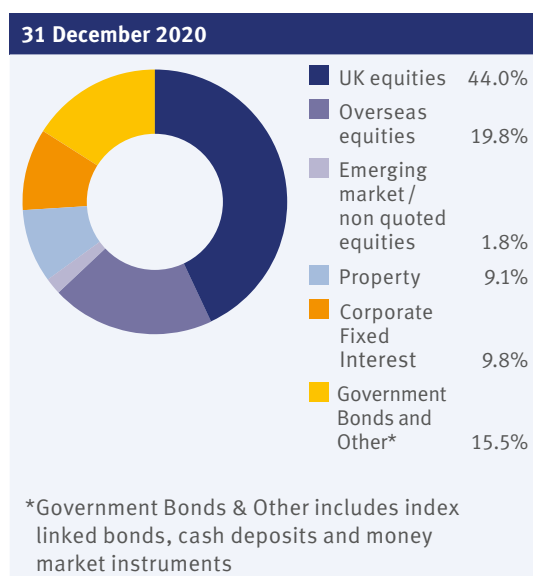
2016	2017	2018	2019	2020
8.8%	3.4%	-1.6%	7.1%	3.0%

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Asset Mix 3 - See Page 2 for list of funds applicable



Top 5 Bond Holdings

1. UK Govt 0.625% 2025
2. UK Govt 2.75% 2024
3. UK Govt 4% 2022
4. UK Govt 2.25% 2023
5. UK Govt 0.75% 2023

Corporate Bond portfolio

- 94% rated investment grade bonds of which
- 8% AAA rated as measured by a composite rating structure, derived from Standard & Poor's and Moody's ratings.



These investment returns do not allow for tax, charges, expenses or the effects of any smoothing and have been rounded down.

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Investment returns: Last four quarter years

Quarter year ending on:	31/03/20	30/06/20	30/09/20	31/12/20
Asset Mix 3	-13.9%	7.9%	-1.4%	6.3%

Asset Mix 3 is predominately invested in equities, in particular UK equities. The returns in Q4 reflect the positive returns in most asset classes tempered to an extent by the flat returns in government bonds and a fall in property.

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%

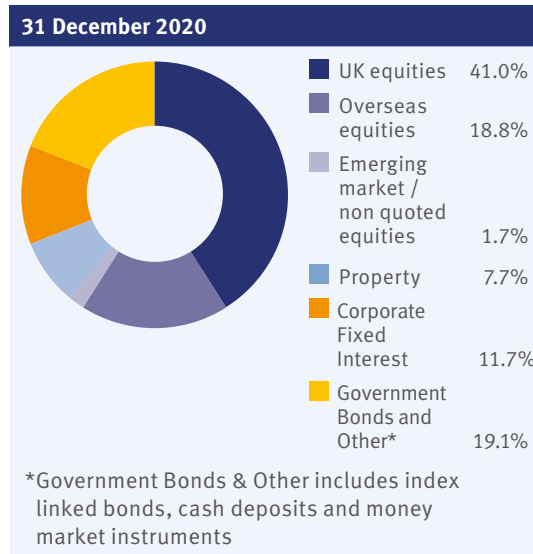
*Fixed Interest & Other includes Corporate fixed interest, Government bonds including index linked bonds, cash deposits and money market instruments.

Investment returns: last five calendar years

2016	2017	2018	2019	2020
12.2%	7.9%	-5.1%	11.7%	-2.5%

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

Asset Mix 4: With Profits Pension Annuities



Top 5 Bond Holdings

1. UK Govt 4.75% 2030
2. UK Govt 1.25% 2027
3. UK Govt 1.25% 2041
4. UK Govt 0.125% 2023
5. UK Govt 1.75% 2057

Corporate Bond portfolio

- 94% rated investment grade bonds of which
- 8% AAA rated as measured by a composite rating structure, derived from Standard & Poor's and Moody's ratings.



These investment returns do not allow for 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:	31/03/20	30/06/20	30/09/20	31/12/20
Asset Mix 4	-12.7%	7.9%	-1.4%	6.2%

Asset Mix 4 is predominately invested in equities, in particular UK equities. The returns in Q4 reflect the positive returns in most asset classes tempered to an extent by the flat returns in government bonds and a fall in property.

Asset mix details for last five calendar years

Asset mix at 31 December	2016	2017	2018	2019	2020
UK Equities	30%	31%	34%	38%	41%
Overseas Equities	13%	15%	16%	17%	19%
Emerging Market / non quoted equities	2%	2%	2%	2%	1%
Property	13%	13%	10%	9%	8%
Fixed Interest & Other*	42%	39%	38%	34%	31%

*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

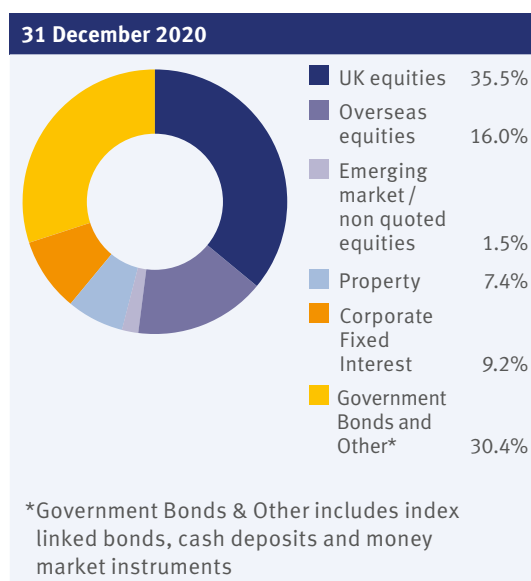
2016	2017	2018	2019	2020
12.4%	7.6%	-5.0%	12.0%	-1.3%

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Asset Mix 5: Conventional life with-profits plans



Top 5 Bond Holdings

1. UK Govt 0.625% 2025
2. UK Govt 2.75% 2024
3. UK Govt 4% 2022
4. UK Govt 2.25% 2023
5. UK Govt 0.75% 2023

Corporate Bond portfolio

- 94% rated investment grade bonds of which
- 8% AAA rated as measured by a composite rating structure, derived from Standard & Poor's and Moody's ratings.



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Investment returns: Last four quarter years

Quarter year ending on:	31/03/20	30/06/20	30/09/20	31/12/20
Asset Mix 5	-11.3%	6.7%	-1.2%	5.4%

Asset Mix 5 is predominately invested in government bonds and UK equities. The returns in Q4 reflect the positive returns in most asset classes tempered to an extent by the flat returns in government bonds and a fall in property.

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%

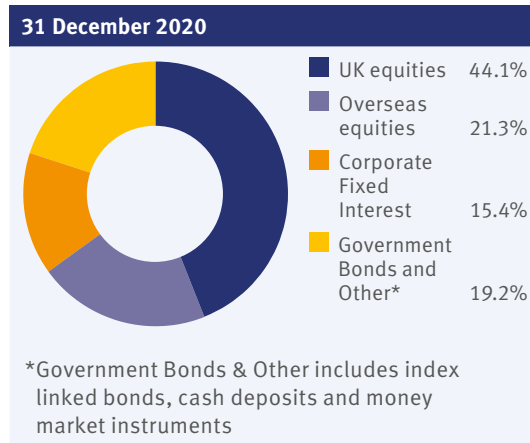
*Fixed Interest & Other includes Corporate fixed interest, Government bonds including index linked bonds, cash deposits and money market instruments.

Investment returns: last five calendar years

2016	2017	2018	2019	2020
8.2%	6.1%	-4.1%	10.1%	-1.3%

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Stakeholder Asset Mix Details



Top 5 Bond Holdings

1. UK Govt 4.75% 2030
2. UK Govt 1.25% 2041
3. UK Govt 1.25% 2027
4. UK Govt 1.75% 2057
5. UK Govt 0.125% 2023

Corporate Bond portfolio

- 98% rated investment grade bonds of which
- 6% AAA rated as measured by a composite rating structure, derived from Standard & Poor's and Moody's ratings.



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Customers should refer to their annual statements to see how the value of their plan changes over time.

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Investment returns: Last four quarter years

Quarter year ending on:	31/03/20	30/06/20	30/09/20	31/12/20
Stakeholder With-Profits Fund and Corporate Stakeholder With-Profits Fund	-14.8%	10.5%	-1.2%	8.0%

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 most asset classes tempered to an extent by the flat returns in government bonds.

Asset mix details for last five calendar years

Asset mix at 31 December	2016	2017	2018	2019	2020
UK Equities	44%	47%	45%	46%	44%
Overseas Equities	21%	22%	22%	22%	21%
Fixed Interest & Other*	35%	31%	33%	32%	35%

*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
16.6%	9.9%	-7.9%	15.9%	0.6%

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

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