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 similar to charges for investment-linked funds available to Stakeholder plans. These deductions will be no more than the maximum allowable under Stakeholder regulations.

The value of with profits investments can go down as well as up and you may get back less than you paid in. For more information on with profits please see our guides available on our website at www.standardlife.co.uk/withprofitsguides

Types of assets
We invest in a wide range of assets including equities, bonds and cash deposits. We expect that a higher proportion of equities 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
- The US-China trade spat dominated sentiment
- Central banks hinted at interest rate cuts
- Bond markets were up for the quarter

UK Equities
UK stocks were positive over the three-month period, thanks partly to a ‘ceasefire’ in the US-China trade war. The prospect of easier monetary policy around the world was also positive. However, Brexit uncertainty continued to affect investor sentiment. This came amid Theresa May’s resignation as prime minister and the ensuing Conservative leadership battle. The favourite, Boris Johnson, soon committed to a “do or die” exit from the European Union (EU) on 31 October. This greatly increased the likelihood of a ‘no-deal’ Brexit. The pound consequently fell against the euro. There were also further woes for the UK materials sectors, as British Steel collapsed in May.
Overseas Equities
The trade quarrel with China and the dovish language from the Fed influenced Wall Street over the quarter. Better-than-expected company profits pushed US shares higher in April. However, the resumption of tit-for-tat tariff hikes between Washington and Beijing meant they plunged in May. Later, hints that the Fed is considering an interest rate cut in the near future helped to push prices back up. At the end of the period, both sides of the trade dispute agreed to resume negotiations. Overall, the S&P 500 Index finished in positive territory.

European equities delivered positive returns over the quarter. Economic data beat forecasts in June, with GDP growth rising across the Eurozone. Hopes that the ECB would ease monetary policy also lifted sentiment. This followed a weaker May when intensifying global trade worries affected share prices. Renewed concerns about Italy’s budget deficit also emerged.

The safe-haven status of the yen hurt Japanese returns, as the intensifying US-China trade dispute unsettled investors. Domestic news was relatively subdued, if mixed. First-quarter economic growth surprised on the upside, but industrial and consumer confidence weakened.

Asia Pacific markets finished broadly flat for the review period – although the journey was far from smooth. As with the first quarter, China-US trade tensions dominated headlines. Initial hopes of a deal gave way to concerns in May. This was spurred by the US crackdown on Chinese telecoms giant Huawei. China responded, saying it would cancel all US soya bean purchases.

Fixed Interest
Amid continuing trade tensions and economic growth worries, government bonds benefited from supportive comments from global central banks. US Treasuries rallied strongly as markets priced-in up to three Fed interest rate cuts over the next year. The ECB is increasingly expected to cut interest rates too. It may also initiate a new asset-buying programme. This helped regional government bonds. German bunds performed well over the period. The 10-year yield plummeted to a new negative record-low (prices climbed). Meanwhile, UK government bonds rose, partly on the back of increased fears of a ‘no-deal’ Brexit.

Global corporate bonds continued to rally in the second quarter. While credit spreads tightened modestly, the more important driver was a sharp reduction in Treasury yields. In particular, the 10-year US Treasury yield fell by more than 40 basis points to 2%. This was in line with the futures market pricing in as many as three US interest rates cuts in the next 12 months. On the trade front, President Trump’s unexpected decision to increase China import tariffs again in early May hurt sentiment. However, in the final few days of June, the US and China announced a new ‘truce’ in the trade war at the G20 summit.

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 regularly review the asset mix that backs our with profits business, taking account of such things as:

• 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.
These investment returns do not allow for charges or any smoothing and have been rounded down. Customers should refer to their annual statement 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**

<table>
<thead>
<tr>
<th>Quarter year ending on:</th>
<th>30/09/18</th>
<th>31/12/18</th>
<th>31/03/19</th>
<th>30/06/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeholder With Profits 2006 Fund and Corporate Stakeholder With Profits 2006 Fund</td>
<td>0.4%</td>
<td>-9.3%</td>
<td>7.6%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

The Asset Mix for the Stakeholder Funds is predominately invested in equities, in particular UK equities. The returns in Q2 reflect the positive returns in all asset classes.

**Asset mix details for last five calendar years**

<table>
<thead>
<tr>
<th>Asset mix at 31 December</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Equities</td>
<td>42%</td>
<td>41%</td>
<td>44%</td>
<td>47%</td>
<td>45%</td>
</tr>
<tr>
<td>Overseas Equities</td>
<td>22%</td>
<td>20%</td>
<td>21%</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>Fixed Interest &amp; Other*</td>
<td>36%</td>
<td>39%</td>
<td>35%</td>
<td>31%</td>
<td>33%</td>
</tr>
</tbody>
</table>

*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**

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6.5%</td>
<td>0.9%</td>
<td>16.5%</td>
<td>9.8%</td>
<td>-7.9%</td>
</tr>
</tbody>
</table>

For more information on with profits please see our With Profits guides available on our website at [www.standardlife.co.uk/withprofitsguides](http://www.standardlife.co.uk/withprofitsguides)