

UK Smoothed Managed With-Profits Fund Investment Report

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 and investment return details.



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

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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/investments/funds/with-profits-information#guides

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

- 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

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.

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.

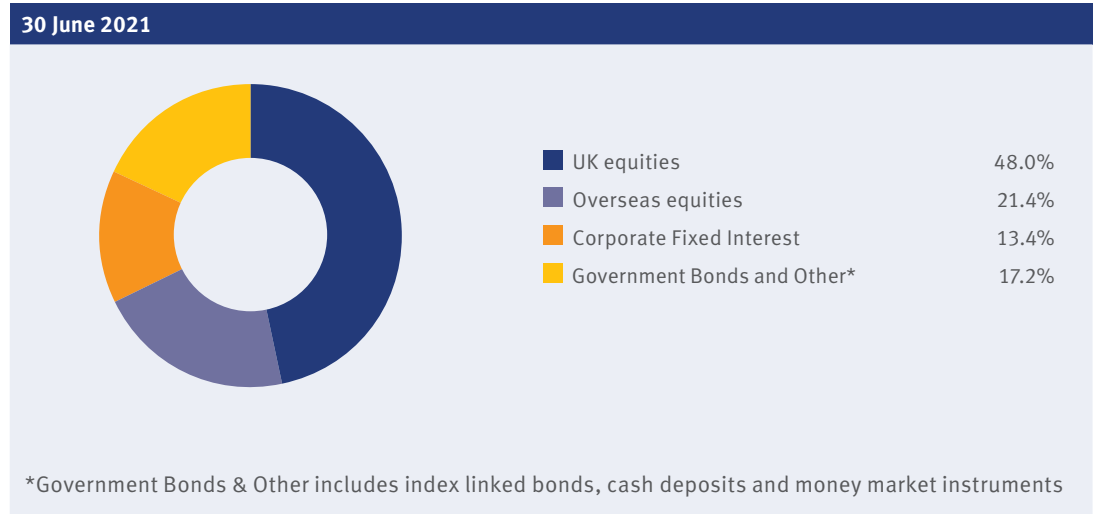
We regularly review the asset mix that backs our with-profits business, taking account of such things as:

- 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.

Asset Mix Details



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

Quarter year ending on:	30/09/20	31/12/20	31/03/21	30/06/21
Stakeholder With Profits 2006 Fund and Corporate Stakeholder With Profits 2006 Fund	-1.2%	7.6%	2.2%	4.0%

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 over the period.

Asset mix details for last five calendar years

Asset mix at 31 December	2016	2017	2018	2019	2020
UK Equities	44%	47%	45%	45%	44%
Overseas Equities	21%	22%	22%	22%	21%
Fixed Interest & Other*	35%	31%	33%	33%	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
16.5%	9.8%	-7.9%	15.8%	0.2%

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