

# Smart Pension investment report

As at 28 June 2019



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# Smart Pension investment report Q2 2019



Global equities performed well despite volatility



Central banks signal interest rate cuts



US - China trade tensions remain



Sterling under pressure

## The default fund: performance overview Quarter 2 2019

The default fund, 'Smart Growth - Moderate' (one of our model strategies), performed well in quarter two of 2019, returning 4.8% and enhancing the growth seen in the first quarter. Smart Growth - Moderate is now showing gains of 14.3% for 2019, comfortably erasing the losses of late 2018. Most of the gains came from the equity part of the portfolio, although the bond component also provided income.

### Performance of global equities

After the strong gains of the previous quarter, global equities have seen periods of both gains and losses over the last three months but remained on an upward trajectory.

The US-China trade talks continue to drive the performance of equity markets. Equities performed strongly in April, especially in the US and Japan. Discussion around trade talks was largely seen as positive, boosting investor confidence. In general, when investors are confident equities perform better.

However, a worsening of these talks in May saw a reversal in equity gains and an increase in volatility (as investors lost some confidence, equity markets took a hit).

In yet another turn of events, June saw an improvement in the US-China relationship. This was on the back of the agreement of President Trump and President Xi to stop any further tariff hikes during their meeting at the G20 summit. Equity markets therefore finished the quarter on a strong note.

Economic data was mixed throughout the quarter, but interest rate expectations also helped support the equity market. Both the US Federal Reserve (Fed) and European Central Bank (ECB) are suggesting possible interest rate cuts. For the Fed, any such action is most likely to happen at its July meeting. Possible cuts to interest rates tend to make equities more popular in comparison to investments like bonds.

## A look at global government bonds

At the start of the quarter, UK economic data was better than expected and the flexible extension of Brexit until 31 October made a no-deal Brexit seem less likely. This gave investors more confidence in UK markets. When investors are more confident, they tend to sell off government bonds in favour of more risky investments, such as equities. This is what happened in the first part of Q2 with UK government bonds (gilts). When bonds are sold off, their prices fall and performance goes down.

This was also seen with other global government bonds, with a poor performance undoing the gains of previous months.

However, the drop in investor confidence in May (due to trade wars and economic data) meant that bonds recovered.

In June, the suggestion by both the Fed and ECB that they might cut interest rates, combined with poor global economic data, meant bond yields continued to fall. As yields fall, bond prices go up. The quarter finished with a positive performance for most global government bonds.

## Changes in the currency markets

Sterling (GBP) started the quarter steady against the Euro and the US Dollar. However, it fared badly in May and underperformed in June.

In this quarter, Theresa May faced pressure to step down from her role as the UK Prime Minister and in the end resigned. Combined with renewed worries over a no-deal Brexit in May and June, this caused uncertainties about the future stability of the UK economy. In turn, this made Sterling a less attractive currency to hold and caused it to go down in value ('depreciate') relative to other currencies.

In June, the expectation that the Fed would lower interest rates resulted in the Dollar weakening slightly. Lower interest rates make a country less attractive for overseas investors and cause its currency to weaken. This meant that the Euro strengthened against the Dollar.

The Swiss Franc was one of the strongest performers in the second part of this quarter. It is seen as a safe haven currency. Safe haven currencies tend to go up and down less in response to market events than other currencies. During periods of market uncertainty this makes them more attractive to investors and they often outperform other currencies.

## Our model strategies

We offer a number of different Legal & General funds which are tailored for you based on your age. There are currently seventeen different funds you can choose from. You can choose to manage your investment yourself or opt for one of our model strategies. We also offer a Sharia fund managed by HSBC, for members wishing their pension contributions to be compliant with Islamic law.

### Smart Growth Fund - Higher risk



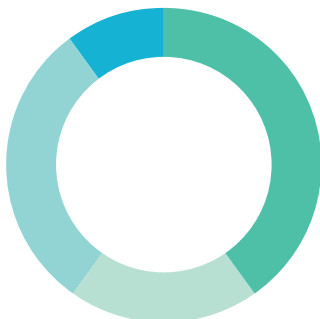
- UK FTSE 100 Equity Index Fund
- World (ex UK) Developed Equity Index Fund
- All Stocks Index-Linked Gilts Index Fund
- North America Equity Index Fund

### Smart Growth Fund - Moderate risk (Default Fund)



- UK FTSE 100 Equity Index Fund
- World (ex UK) Developed Equity Index Fund
- All Stocks Index-Linked Gilts Index Fund
- North America Equity Index Fund

### Smart Growth Fund - Lower risk



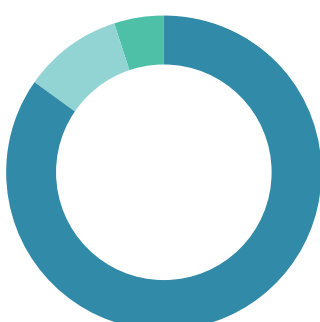
- UK FTSE 100 Equity Index Fund
- World (ex UK) Developed Equity Index Fund
- All Stocks Index-Linked Gilts Index Fund
- North America Equity Index Fund

### Smart De-risking Fund



- UK FTSE 100 Equity Index Fund
- World (ex UK) Developed Equity Index Fund
- All Stocks Index-Linked Gilts Index Fund
- Overseas Bond Index Fund - GBP Hedged
- Cash Fund

### Smart Lower Risk Fund



- Cash Fund
- All Stocks Index-Linked Gilts Index Fund
- UK FTSE 100 Equity Index Fund

## This quarter's performance tables

These tables show you the returns for each fund over different time periods. All values are as of 28 June 2019 (Q2).

All values are shown before costs are deducted. These costs are the Annual Management Charges (AMC). You can learn more about the charges applicable to you from your tailored investment guide within our secure member portal.

The performance tables show both annualised and cumulative returns.

Cumulative return (CR) is the total return on your investment over that period. Annualised return is the equivalent annual return you would have received for each year in the period.

For example, a 30% cumulative return over 3 years is equivalent to a 9.1% annualised return.

## Model strategies

"Growth" phase	3m	6m	1y	3y	5y
<b>Smart Growth Lower Risk</b>					
<b>Fund</b> (Returns beyond 1Y are annualised)	4.5%	13.3%	7.2%	10.8%	9.9%
<b>Fund</b> (Cumulative returns)	4.5%	13.3%	7.2%	35.9%	60.6%
Benchmark (UK CPI +3%)			5.1%		
<b>Smart Growth Moderate (default)</b>					
<b>Fund</b> (Returns beyond 1Y are annualised)	4.8%	14.3%	6.2%	11.8%	9.2%
<b>Fund</b> (Cumulative returns)	4.8%	14.3%	6.2%	39.8%	55.6%
Benchmark (UK CPI+3.5%)			5.6%		
<b>Smart Growth Higher Risk</b>					
<b>Fund</b> (Returns beyond 1Y are annualised)	5.1%	14.9%	6.4%	12.0%	10.1%
<b>Fund</b> (Cumulative returns)	5.1%	14.9%	6.4%	40.4%	61.9%
Benchmark (UK CPI +5%)			7.1%		

<b>"De-risking" phase</b>	<b>3m</b>	<b>6m</b>	<b>1y</b>	<b>3y</b>	<b>5y</b>
<b>Smart De-Risking (default)</b>					
<b>Fund</b> (Returns beyond 1Y are annualised)	3.5%	9.5%	5.4%	7.5%	7.0%
<b>Fund</b> (Cumulative returns)	3.5%	9.5%	5.4%	24.3%	40.3%
Benchmark (UK CPI+2%)			4.1%		
<b>Smart Lower Risk</b>					
<b>Fund</b> (Returns beyond 1Y are annualised)	0.6%	1.7%	1.7%	1.5%	1.6%
<b>Fund</b> (Cumulative returns)	0.6%	1.7%	1.7%	4.6%	8.5%
Benchmark (UK CPI+1%)			3.1%		
<b>Smart Cash</b>					
<b>Fund</b> (Returns beyond 1Y are annualised)	0.2%	0.3%	0.7%	0.4%	0.4%
<b>Fund</b> (Cumulative returns)	0.2%	0.3%	0.7%	1.3%	2.2%
Benchmark 3month LIBOR	0.77%				

<b>Self-Select Funds</b>	<b>3m</b>	<b>6m</b>	<b>1y</b>	<b>3y (AR)</b>	<b>5y (AR)</b>	<b>3y (CR)</b>	<b>5y (CR)</b>
Smart UK FTSE100 Equity Index Fund	3.5%	13.3%	1.2%	9.8%	6.1%	32.4%	34.6%
Smart World (ex UK) Developed Equity Index Fund	7.7%	18.0%	10.4%	15.2%	14.2%	52.9%	94.0%
Smart All Stocks Index Linked Gilt Fund	2.0%	7.5%	9.8%	6.3%	9.2%	20.0%	55.2%
Smart North America Equity Index Fund	7.9%	19.9%	13.5%	16.7%	16.6%	58.8%	115.5%
Smart Cash Fund	0.2%	0.3%	0.7%	0.4%	0.4%	1.3%	2.2%
Smart Overseas Bond Index Fund – GBP Hedged	2.6%	5.0%	6.2%	1.1%	3.2%	3.3%	16.9%
Smart World Emerging Markets Equity Index Fund	5.0%	12.3%	8.3%	12.9%	9.4%	43.9%	56.5%
Smart Income Fund	3.6%	9.3%	6.7%	7.0%	n/a	22.5%	n/a
Smart Annuity Fund	2.6%	8.2%	7.6%	4.5%	7.5%	14.2%	43.6%
Smart Diversified Fund	4.2%	11.0%	8.0%	8.4%	8.6%	27.4%	51.3%
Smart Sharia Fund	7.6%	18.4%	14.8%	16.4%	n/a	57.7%	n/a
Smart Ethical Index Fund	7.9%	17.7%	11.2%	15.4%	13.4%	53.6%	87.3%
Smart Future Fund	5.4%	14.8%	6.6%	n/a	n/a	n/a	n/a

## Top ten holdings of our default fund

Holding	Sector	% of portfolio
Royal Dutch Shell	Energy	5.6
HSBC Holdings	Financials	3.6
BP plc	Energy	3.0
Diageo plc	Consumer staples	2.2
Astrazeneca plc	Health care	2.1
GlaxoSmithKline	Health care	2.1
British American Tobacco	Consumer staples	1.8
Unilever plc	Consumer staples	1.5
Rio Tinto plc	Materials	1.4
Prudential plc	Financials	1.1
		Total 24.4%

### Legal Disclaimer

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## Meet the team: Fund managers and trustees



Investment funds are managed by a team at Legal and General Investment Management with average industry experience of 15 years, of which ten years has been at LGIM. The team is focused on achieving the equally important objectives of close tracking and maximising returns. Professional, experienced trustees oversee your workplace pension. We've ensured that a team of experienced, professional trustees with decades of experience between them in overseeing large pension schemes is in place to serve our clients and their employees. The trustees ensure pension legislation is followed, act in the best interests of members (now and in the future), and invest the scheme's assets in line with the trust deed. Our Sharia fund complies with the principles of Islamic finance and is managed by HSBC Global Asset Management .



### **Andy Cheseldine, Chair of the Board of Trustees**

Andy is renowned for his deep knowledge and wealth of expertise in the pensions industry and has accrued more than 35 years of experience in consulting on defined benefit and defined contributions arrangements. His inclusion in the Top 50 People in Pensions Awards in 2015 and the Top 25 most influential investment consultants in the last five years is a testament to his reputation. Andy is an award-winning former partner at financial services firm Lane Clark & Peacock, a previous senior consultant at human resources firm Aon Hewitt and at Sedgewick Noble Lowndes, and has also served on the Pensions and Lifetime Savings Association Defined Contributions Council for more than 13 years.



### **Anna Eagles, Trustee Director**

Anna is a pensions actuary by background and a Fellow of the Institute and Faculty of Actuaries, with 22 years' experience advising trustees and corporate sponsors across DC, DB and hybrid schemes. Before joining Law Debenture, she was with Willis Towers Watson Ltd. Anna's experience includes handling the winding-up of a DC arrangement with many investment options including with-profits funds; feasibility analyses of wind-ups of legacy DC arrangements with unit-linked and with-profits investments, and bulk transfers of DC to Master Trusts.



### **Kate Jones, Trustee Director**

Kate joined the board in August 2018. She has many years' experience within the investment market having headed up teams at both Schroders and Blackrock. She is currently a non-executive director of the Pension Protection Fund which acts as the 'lifeboat' for final salary pension schemes. She was appointed as Chair of the Board of Trustees for the charity RedSTART in 2016 which aims to give access to quality financial education to young people. She is also an executive coach.



### **David Brown, Trustee Director**

David joined the Trust Board in October 2018. He has 30 years experience in the pension and investment industry in the UK and internationally working as an operator and consultant. During this period David has worked for two of the Big Four consulting firms and more recently at Tesco where he was the UK and ROI Pensions and Payroll Manager. His broad experience includes DB and DC pensions, risk management and internal controls, change management including IT system migrations, member engagement, data privacy and governance. David is an Associate of the Pensions Management Institute and Chartered Insurance Institute.



### **Darren Agombar, Chief Investment Officer**

Darren has worked within the financial markets for over 25 years and has a wealth of experience in investing in a wide spectrum of asset classes. He has studied behavioural finance, and has gained a high level of expertise in the application of behavioural finance to investing and understanding investor behaviour. Darren is the Chief Investment Officer of a privately owned, independent investment management firm as well as the founder of Claradan, a company that provides behavioural analysis and strategies to businesses specialising in financial markets and services.

## **Our investment management strategy**

The trustees are responsible for the investment strategy of our Master Trust. We understand that financial expertise in balancing performance, risk and cost is key here and are delighted to be leveraging the deep expertise of our trustees with investment advice from Hymans Robertson. Hymans Robertson provide investments, benefits and risk consulting services, as well as data and technology solutions, to employers, trustees and financial services institutions.





Smart Pension Limited is registered in England and Wales, Company Number 09026697.  
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J.P.Morgan

