

Smart Pension Investment Report

As at 30th December 2018



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Smart Pension Investment Report

Commentary

The default growth fund 'Smart Growth – Moderate' posted a loss of 8.8% in the final quarter of the year. Although disappointing this is in line with the broad market trend in global equities (FTSE100 -10.4%, S&P500 -13.9%).

Global Equity Markets

Deepening worries over the economic outlook and the partial shutdown of the US government dragged global equities lower over the fourth quarter, particularly during December, tipping returns into the red for 2018.

Weakness amongst tech stocks contributed to the poor performance of US equities. This was coupled with evidence of economic headwinds in the US: the US Federal Reserve's (Fed) latest interest rate hike, concerns that President Trump could seek to remove the Chair of the Central Bank Jerome Powell and the risk of a protracted government shutdown all contributed to US equities leading the global slide.

UK equities suffered from Brexit woes and political upheaval as the likelihood of a 'no deal' exit from the European Union increased. Japanese equities also fell sharply despite their strong recovery in the third quarter after encouraging signs of Japanese economic growth.

Global Government Bonds

Softer economic growth indicators and easing inflationary expectations, as oil prices weakened further, underpinned US Treasuries, gilts and Eurozone government bonds. Against this backdrop, ten-year yields largely gave back their third-quarter gains. Although markets fear the US may now be in the late cycle stage, the Federal Reserve shrank its balance sheet further. However, it did temper its 2019 interest rate hike projections from three to two.

In Europe, the European Central Bank (ECB) left interest rates unchanged at its December meeting as expected and confirmed it had reached the

end of its €2.6 trillion monthly asset purchase programme, although it will continue reinvesting cash from maturing bonds. Policymakers also reiterated they expect interest rates to remain at record low levels at least until the end of summer 2019.

Mixed UK domestic economic data amid prolonged Brexit-related uncertainties lent further support to the gilt market, while index-linked gilts outperformed conventional bonds, helped by their typical longer duration profiles in a rising market. The annual inflation rate declined to 2.3% in November, the lowest inflation rate since March 2017.

Global Currency Markets

Among currencies, the US dollar weakened slightly against both the euro and the yen as the latter attracted safe-haven buying. The Fed raised interest rates for the fourth time in 2018, defying pressure from President Trump who was publicly lobbying for monetary policy to remain unchanged. However, Fed officials struck a more dovish tone in the central bank's post-meeting statement and now expect only two additional rate rises in 2019, down from three previously.

Sterling fell against the dollar on the back of Brexit uncertainty. The Bank of England's recent regional agents report highlighted weaker consumer demand and companies' reluctance to invest in new plant and equipment until they had more clarification as to the nature of the UK's trading relationship with the EU after Brexit.

Worries over rising US interest rates and political uncertainty in France and Italy weighed on the euro. Concerns about the future of Brexit and disappointing data indicators also contributed to investors' flight from the currency. The Turkish lira was particularly hit, falling 17% in one day off the back of its current account deficit and the US decision to increase tariffs on Turkish steel and aluminium imports.

Smart Pension Quarterly Investment Report

Q4 2018

Growth Phase

	Asset Class	Smart Growth Cautious	Smart Growth Moderate (Default)	Smart Growth Speculative
LGIM UK FTSE 100 Equity Index Fund	Equity	40%	50%	50%
LGIM World (ex UK) Developed Equity Index Fund	Equity	30%	25%	25%
LGIM All Stocks Index Linked Gilt Fund	Fixed Income	20%	15%	10%
LGIM North America Equity Index Fund	Equity	10%	10%	15%
Total		100%	100%	100%

Performance Overview

Smart Growth Moderate (Default) - Cumulative Returns

	3m	6m	1y	3y	5y
Fund	-8.8	-7.2	-5.3	27.1	38.1
Benchmark (UK CPI + 4%)			6.1		

Smart Growth Moderate (Default) – Top 10 Holdings

Holding	Sector	% of portfolio
HSBC Holdings	Financials	3.3
Royal Dutch Shell A Shares	Energy	3.1
BP plc	Energy	2.9
Royal Dutch Shell B Shares	Energy	2.6
Astrazeneca plc	Health care	2.2
GloxoSmithKline	Health care	2.1
British American Tobacco	Consumer staples	1.7
Diageo plc	Consumer staples	2.0
Unilever plc	Consumer staples	1.3
Rio Tinto plc	Materials	1.2
Vodafone	Communication Services	1.2

How we invest

Model strategies or do-it-yourself: We have built some model strategies designed with a mixture of investments that you can use or you can choose your own investments from our selection.

High quality investments: We use funds which are cost-effective and provide the purest form of index tracking.

Diversification: We split investments across different geographical locations and use investment funds holding large numbers of stocks and shares.

Funds

We invest your pension contributions into a Legal & General fund and offer a number of different funds which are tailored for you based on your age. There are currently sixteen 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 for members wishing their pension contributions to be compliant with Islamic law.

To learn more about fund selection, visit [autoenrolment.co.uk/fund-selection](https://www.autoenrolment.co.uk/fund-selection).

1. Smart Growth Fund - Higher risk

This fund carries a higher risk of fluctuation to your savings but has the potential for high growth, though this is not guaranteed.

2. Smart Growth Fund - Moderate risk

This fund has been created so that it will typically suit most of our members, it has the medium level of risk of these funds.

3. Smart Growth Fund - Lower risk

This fund carries the lowest risk of loss but also reduced likelihood of a high return, but it may be suitable if you are concerned about volatility.

4. Smart De-risking Fund

This fund has been created so that it will typically suit most of our members who are approaching their target retirement age and would like a lower level of volatility than the Smart growth.

5. Smart Lower Risk Fund

This fund has been created so that it will typically suit most of our members who are approaching their target retirement age and would like an even lower level of volatility than the Smart growth funds and the de-risking fund.

6. Smart UK FTSE 100 Equity Index Fund

Aims to track the return of the FTSE 100 Index, which

contains the largest listed companies on the UK stock market.

7. Smart World (ex UK) Developed Equity Index Fund

Aims to track the performance of the FTSE Developed (ex UK) Index, which provides broad exposure to large and mid-cap companies in the developed world, excluding the UK.

8. Smart North America Equity Index Fund

Aims to track the return of the FTSE USA Index, which provides broad exposure to companies in the North American equity market.

9. Smart World Emerging Markets Equity Index Fund

Aims to track the return of the FTSE All-World Emerging Index, which provides access to key emerging economies including Brazil, Russia, India and China.

10. Smart All Stocks Index - Linked Gilts Index Fund

Aims to track the return of the FTSE Actuaries British Government Index - Linked All Stocks Index, which features UK government bonds with returns linked to the Retail Price Index (RPI).

11. Smart Overseas Bond Index Fund - GBP Hedged

Aims to invest in different types of bonds, including corporate and government bonds both in the UK and overseas.

12. Smart Cash Fund

Aims to maintain capital and provide a return in-line with money market rates by investing in a range of money market securities denominated in sterling.

13. Smart Income Fund

Aims to provide long-term investment growth up to and during retirement, to facilitate the drawdown of retirement income.

14. Smart Annuity Fund

Aims to invest in a way which matches the broad characteristics of investments underlying the pricing of a typical non-inflation linked annuity.

15. Smart Sharia Fund

Aims to create long term appreciation of capital through investment in a diversified portfolio of securities which meets Islamic investment principles.

16. Smart Ethical Global Equity Index Fund

Aims to track a filtered index, which excludes companies that operate in industries that breach certain ethical criteria.

Smart Pension Quarterly Investment Report Q4 2018

Smart Growth Cautious – Cumulative returns

	3m	6m	1y	3y	5y
Fund	-7.1	-5.9	-4.2	19.5	27.6
Benchmark (UK CPI + 3%)			5.1		

Smart Growth Speculative – Cumulative returns

	3m	6m	1y	3y	5y
Fund	-9.5	-7.4	-5.3	29.0	41.2
Benchmark (UK CPI + 5%)			7.1		

De Risking Phase

	Asset Class	Smart Lower Risk	Smart De Risking (Default)	Smart Cash
LGIM UK FTSE 100 Equity Index Fund	Equity	5%	25%	
LGIM World (ex UK) Developed Equity Index Fund	Equity		25%	
LGIM All Stocks Index Linked Gilt Fund	Fixed Income	10%	15%	
LGIM North America Equity Index Fund	Equity			
LGIM Cash	Cash	85%	25%	100%
LGIM Overseas Bond Index Fund - GBP Hedged	Fixed Income		10%	
Total		100%	100%	100%

Smart De Risking

	3m	6m	1y	3y	5y
Fund	-5.0	-4.0	-2.8	17.4	25.6
Benchmark (UK CPI +2%)			4.1		

Smart Lower Risk

	3m	6m	1y	3y	5y
Fund	-0.2	-0.3	-0.1	2.8	4.1
Benchmark (UK CPI +1%)			3.1		

Smart Pension Quarterly Investment Report Q4 2018

Smart Cash

	3m	6m	1y	3y	5y
Fund	0.2	0.3	0.5	0.9	1.3
Benchmark (3m LIBOR)	0.9				

Smart Pension Fund Overview

Smart Blended Funds

	3m	6m	1y	3y	5y
Smart Growth - Cautious	-7.1	-5.9	-4.2	19.5	27.6
Smart Growth - Moderate	-8.8	-7.2	-5.3	27.1	38.1
Smart Growth - Speculative	-9.5	-7.4	-5.3	29.0	41.2
Smart De Risking	-5.0	-4.0	-2.8	17.4	25.6
Smart Lower Risk	-0.2	-0.3	-0.1	2.8	4.1
Smart Income	-3.3	-2.3	-2.7	6.4	5.2
Smart Cash	0.2	0.3	0.5	0.9	1.3
Smart Diversified	-4.5	-3.2	-3.4	28.3	40.1

Self-Select Funds

	3m	6m	1y	3y	5y
LGIM UK FTSE 100 Equity Index Fund	-9.6	-10.1	-8.7	22.8	22.3
LGIM World (ex UK) Developed Equity Index Fund	-11.3	-5.3	-2.5	40.6	59.4
LGIM All Stocks Index Linked Gilt Fund	1.9	0.6	-0.3	26.3	44.3
LGIM North America Equity Index Fund	-11.5	-4.0	0.9	46.3	71.3
LGIM Cash	0.2	0.3	0.6	1.2	2.1
LGIM Overseas Bond Index Fund - GBP Hedged	2.0	1.1	0.9	1.65	3.01
LGIM Retirement Income Multi Asset Fund	-3.3	-2.3	-2.7	6.4	5.2
LGIM Diversified	-4.3	-2.8	-2.9	8.7	7.5
LGIM World Emerging Markets Equity Index Fund	-3.9	-3.4	-7.8	14.7	7.8
HSBC Amanah Global Equity	-10.2	-2.9	1.5	43.3	n/a
LGIM Ethical Global Index Fund	-10.5	-4.6	-2.6	12	10.6

Meet the team



Fund managers

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 work place 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.



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.

Trustees



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

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.

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 Barnett Waddingham, the UK's largest independent provider of actuarial, administration, investment, workplace health and wealth and consultancy services to pension schemes and other clients.

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