

# Smart Pension Investment Report

As at 31st March 2019



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# Smart Pension Investment Report

## Commentary

The default growth fund 'Smart Growth – Moderate' posted strong gains in Q1 2019 (+9% gross of fees) with every month comfortably positive. Both the equity and bond components performed above expectations.

## Global Equity Markets

The first quarter of the year has seen global equities rebound from their sharp decline in the latter months of last year. The restored investor confidence has been underpinned by a combination of a more accommodative US Federal Reserve (US Central Bank) and optimism over US-China trade talks. However, it should be noted that the gains of Q1 2019 did not erase the losses of late 2018.

Despite signs of slowing economic growth in the US in the final quarter of 2018, the latest US GDP figures have exceeded expectations. In the UK, equities also posted strong gains during the quarter, albeit stunted by the continued uncertainty over Brexit.

Investor sentiment in emerging markets also benefited from the improving US-China trade negotiations, with an added lift from the prospect of additional infrastructure spendings. In reflection of Beijing continuing to open up its markets to foreign investors and a bolstering in demand for Chinese A-shares, MSCI has accelerated an increase in China's index weighting. Notwithstanding this, emerging markets lagged developed market performance.

## Global Government Bonds

The US Federal Reserve put further interest rates hikes on hold, and an overall similar response from other major central banks, provided support to the bond market, which performed strongly in the first quarter of 2019.

With a similar easing of its monetary policy the European Central Bank has deferred guidance on future rate rises until the end of 2019.

The UK extension of the Brexit deadline, to 31st October 2019, and a continued lack of clarity over how Britain will leave the European Union has hampered decisions on future Bank of England policies.

## Global Currency Markets

Overall the US dollar moved slightly lower and volatility in the currency market remained low. However, Sterling volatility was slightly higher, with GBP reacting positively to the news of an extension of Article 50 and falling with the final rejection of Theresa May's withdrawal agreement.

EUR remained weak, off the back of a conciliatory European Central Bank and disappointing regional economic data.

Unlike most emerging market currencies, the yuan strengthened modestly relative to the US dollar.

With widespread global growth concerns the yen maintained its safe haven status and is highly reflective of investors risk appetite.

# Smart Pension Quarterly Investment Report

## Q1 2019

### 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

|   | 3m   | 6m    | 1y    | 3y    | 5y    |
|---|------|-------|-------|-------|-------|
| <b>Smart Growth Moderate (default)</b>  |      |       |       |       |       |
| Fund (Returns beyond 1Y are annualised) | 9.0% | -0.3% | 9.9%  | 12.0% | 8.8%  |
| Fund (Cumulative returns)               | 9.0% | -0.3% | 9.9%  | 40.5% | 52.4% |
| Benchmark (UK CPI+4%)                   |      |       | 5.9%  |       |       |
| <b>Smart Growth Cautious</b>            |      |       |       |       |       |
| Fund (Returns beyond 1Y are annualised) | 8.4% | 1.3%  | 9.6%  | 11.6% | 9.6%  |
| Fund (Cumulative returns)               | 8.4% | 1.3%  | 9.6%  | 38.8% | 58.0% |
| Benchmark (UK CPI +3%)                  |      |       | 4.9%  |       |       |
| <b>Smart Growth Speculative</b>         |      |       |       |       |       |
| Fund (Returns beyond 1Y are annualised) | 9.3% | -0.9% | 10.3% | 12.3% | 9.7%  |
| Fund (Cumulative returns)               | 9.3% | -0.9% | 10.3% | 41.6% | 58.8% |
| Benchmark (UK CPI +5%)                  |      |       | 6.8%  |       |       |

## Smart Growth Moderate (Default) – Top 10 Holdings

| Holding                  | Sector           | % of portfolio      |
|--------------------------|------------------|---------------------|
| Royal Dutch Shell        | Energy           | 5.4                 |
| HSBC Holdings            | Financials       | 3.35                |
| BP plc                   | Energy           | 3.0                 |
| Astrazeneca plc          | Health care      | 2.3                 |
| GloxoSmithKline          | Health care      | 2.15                |
| Diageo plc               | Consumer staples | 2.05                |
| British American Tobacco | Consumer staples | 2.0                 |
| Rio Tinto plc            | Materials        | 1.35                |
| Unilever plc             | Consumer staples | 1.3                 |
| Lloyds Banking Group     | Financials       | 1.2                 |
|                          |                  | <b>Total: 24.1%</b> |

## 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%                        |             |
| <b>Total</b>                                   |              | <b>100%</b>      | <b>100%</b>                | <b>100%</b> |

## Performance Overview

|   | 3m   | 6m   | 1y   | 3y    | 5y    |
|---|------|------|------|-------|-------|
| <b>Smart De-Risking (default)</b>       |      |      |      |       |       |
| Fund (Returns beyond 1Y are annualised) | 5.8% | 0.8% | 6.7% | 8.0%  | 6.7%  |
| Fund (Cumulative returns)               | 5.8% | 0.8% | 6.7% | 25.5% | 38.4% |
| Benchmark (UK CPI+2%)                   |      |      | 3.9  |       |       |
| <b>Smart Lower Risk</b>                 |      |      |      |       |       |
| Fund (Returns beyond 1Y are annualised) | 1.1% | 1.1% | 1.6% | 1.8%  | 1.6%  |
| Fund (Cumulative returns)               | 1.1% | 1.1% | 1.6% | 5.4%  | 8.4%  |
| Benchmark (UK CPI +1%)                  |      |      | 2.9  |       |       |
| <b>Smart Cash</b>                       |      |      |      |       |       |
| Fund (Returns beyond 1Y are annualised) | 0.2% | 0.4% | 0.6% | 0.4%  | 0.4%  |
| Fund (Cumulative returns)               | 0.2% | 0.4% | 0.6% | 1.2%  | 2.1%  |
| Benchmark 3month LIBOR                  | 0.8  |      |      |       |       |

## 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](http://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

## Q1 2019

### Smart Pension Fund Overview

#### Smart Blended Funds - Annualised Returns (AR) and Cumulative Returns (CR)

|                            | 3m   | 6m    | 1y    | 3y (AR) | 5y (AR) | 3y (CR) | 5y (CR) |
|----------------------------|------|-------|-------|---------|---------|---------|---------|
| Smart Growth - Cautious    | 8.4% | 1.3%  | 9.6%  | 11.6%   | 9.6%    | 38.8%   | 58.0%   |
| Smart Growth - Moderate    | 9.0% | -0.3% | 9.9%  | 12.0%   | 8.8%    | 40.5%   | 52.4%   |
| Smart Growth - Speculative | 9.3% | -0.9% | 10.3% | 12.3%   | 9.7%    | 41.6%   | 58.8%   |
| Smart De Risking           | 5.8% | 0.8%  | 6.7%  | 7.9%    | 6.7%    | 25.5%   | 38.4%   |
| Smart Lower Risk           | 1.2% | 1.1%  | 1.6%  | 1.8%    | 1.6%    | 5.4%    | 8.4%    |
| Smart Income               | 5.5% | 1.9%  | 5.4%  | 7.1%    | n/a     | 22.9%   | n/a     |
| Smart Cash                 | 0.2% | 0.4%  | 0.6%  | 0.4%    | 0.4%    | 1.2%    | 2.1%    |
| Smart Diversified          | 6.3% | 1.6%  | 6.6%  | 9.2%    | 8.3%    | 30.2%   | 49.0%   |

#### Self-Select Funds - Annualised Returns (AR) and Cumulative Returns (CR)

|  | 3m    | 6m    | 1y    | 3y (AR) | 5y (AR) | 3y (CR) | 5y (CR) |
|--|-------|-------|-------|---------|---------|---------|---------|
| LGIM UK FTSE 100 Equity Index Fund             | 9.4%  | -1.1% | 7.3%  | 10.1%   | 6.0%    | 33.4%   | 34.1%   |
| LGIM World (ex UK) Developed Equity Index Fund | 9.6%  | -3.6% | 12.3% | 15.0%   | 13.2%   | 52.0%   | 85.5%   |
| LGIM All Stocks Index Linked Gilt Fund         | 5.4%  | 8.6%  | 6.7%  | 8.6%    | 9.1%    | 28.2%   | 54.9%   |
| LGIM North America Equity Index Fund           | 11.2% | -2.7% | 18.1% | 16.7%   | 15.7%   | 59.1%   | 107.6%  |
| LGIM Cash                                      | 0.2%  | 0.4%  | 0.6%  | 0.4%    | 0.4%    | 1.2%    | 2.1%    |
| LGIM Overseas Bond Index Fund - GBP Hedged     | 2.4%  | 4.3%  | 3.3%  | 1.1%    | 3.0%    | 3.5%    | 16.0%   |
| LGIM Retirement Income Multi Asset Fund        | 5.5%  | 1.9%  | 5.4%  | 7.1%    | n/a     | 22.9%   | n/a     |
| LGIM Diversified                               | 6.3%  | 1.6%  | 6.6%  | 9.2%    | 8.3%    | 30.2%   | 49.0%   |
| LGIM World Emerging Markets Equity Index Fund  | 7.0%  | 2.9%  | 1.4%  | 14.1%   | 9.5%    | 48.7%   | 57.5%   |
| HSBC Amanah Global Equity                      | 10.0% | -0.7% | 19.6% | 16.2%   | n/a     | 57.1%   | n/a     |
| LGIM Ethical Global Index Fund                 | 9.1%  | -3.1% | 12.3% | 14.5%   | 12.2%   | 50.0%   | 78.1%   |

## 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 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.

### 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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J.P.Morgan

