

# Smart Pension Investment Report

As at 30th September 2018



[www.AutoEnrolment.co.uk](http://www.AutoEnrolment.co.uk)



# Smart Pension Investment Report

## Commentary

The default growth fund 'Smart Growth – Moderate' posted another quarter of positive performance and finished the third quarter of 2018 up by nearly 1.5% (net of fees). This was in line with management expectations.

## Global Equity Markets

Global equity markets extended their march upwards in the third quarter of this year despite continued volatility. The global trade war has transformed into a bilateral dispute between the US and China even with China reporting a record trade surplus with the US in September. Economists report that this is likely due to exporters benefiting from increased orders before US tariffs hit so the figures are unlikely to be sustained.

Mainland European stocks were broadly flat as investors focused on Italy's political risks. The Italian government agreed to a 2019 budget deficit target at 2.4% of GDP which, although celebrated by Italian leaders, could bring the heavily indebted country into conflict with the European Union.

Sentiment in the UK was dampened during the quarter. The EU's chief Brexit negotiator Michel Barnier reported that he was "strongly opposed" to Prime Minister Theresa May's Chequers proposals on future trade. Barnier took aim at the UK's customs proposals, under which the UK would control its own tariffs but pass on EU tariffs for goods passing through en route to the continent.

## Global Government Bonds

Global government 10-year bond yields edged up over the third quarter. The US Federal Reserve (the

Fed) chose to raise rates to 2.25% as expected. Consumer confidence and non-farm payrolls data were strong and supported the rise. A further rate rise is expected by the market in December.

In the EU, the market concluded that the European Central Bank (ECB) is unlikely to raise interest rates until late 2019 despite the positive assessment of economic growth from Mario Draghi.

In August, the Bank of England (BOE) performed in line with market expectations and raised the base rate to 0.75% in August. Brexit continues to be a significant consideration for the Monetary Policy Committee who stressed that the outcome of Brexit negotiations would influence further action taken to meet the bank's inflation target (2%).

## Global Currency Markets

The third quarter saw the pound remain broadly stable against the euro and the dollar. The prospect of a "no deal" Brexit and resignations from high-profile members of the cabinet dominated headlines and contributed to the subdued sentiment in the UK.

The US dollar continued its gains on the back of particularly strong domestic economic data and relative weakness in emerging markets. The Fed continued its hawkish messaging and dropped the phrase that the stance of monetary policy remains "accommodative" in the rate rise statement late in the quarter.

The relative US dollar strength and trade war rhetoric from the US led to emerging market currency weakness over the quarter. 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

## Q3 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%
<b>Total</b>		<b>100%</b>	<b>100%</b>	<b>100%</b>

\* For performance calculations, the below proxy funds have been used that mirror the underlying fund performance:

- Lyxor UCITS ETF FTSE 100 is the proxy for LGIM UK FTSE 100 Equity Index Fund
- Vanguard FTSE Developed World ex-UK Equity Index is the proxy for LGIM World (ex UK) Developed Equity Index Fund
- FTSE North America GBP is the proxy for the LGIM North America Equity Index Fund

### Performance Overview

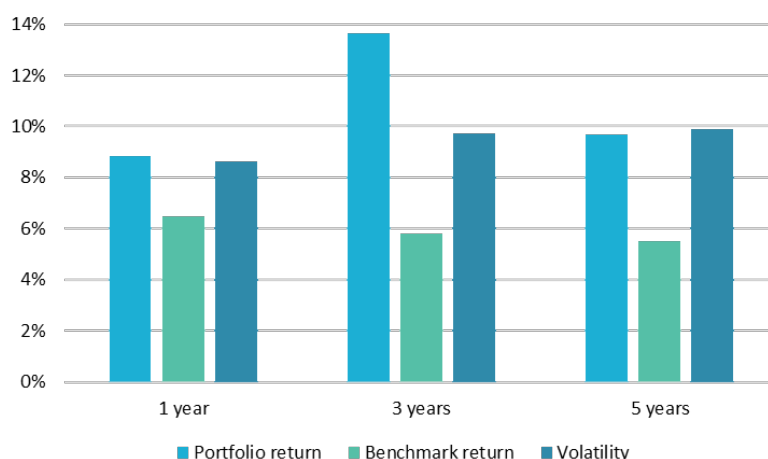
#### Smart Growth Moderate (Default) - Cumulative Returns

	3m	6m	1y	3y	5y
Fund	1.7	9.4	8.8	39.3	47.6
Benchmark (UK CPI 4%)			6.2		

#### Smart Growth Moderate (Default) - Annualised Returns

	1y	3y	5y
Fund	8.8	13.6	9.6
Benchmark (UK CPI 4%)	6.2		

#### Smart Growth Moderate - performance



## 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 Q3 2018

### Smart Growth Cautious – Cumulative returns

	3m	6m	1y	3y	5y
Fund	1.3	7.7	7.5	34.4	43.7
Benchmark (UK CPI 3%)			5.2		

### Smart Growth Speculative – Cumulative returns

	3m	6m	1y	3y	5y
Fund	2.2	10.3	9.6	41.7	50.4
Benchmark (UK CPI 5%)			7.2		

### 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>

### Smart De Risking

	3m	6m	1y	3y	5y
Fund	1.4	5.7	3.3	20.4	30.5
Benchmark (UK CPI +2%)			4.2		

### Smart Lower Risk

	3m	6m	1y	3y	5y
Fund	-0.0	0.5	0.8	3.4	5.1
Benchmark (UK CPI +1%)			3.2		

## Smart Pension Quarterly Investment Report Q3 2018

### Smart Cash

	3m	6m	1y	3y	5y
Fund	0.1	0.2	0.4	0.8	1.2
Benchmark (3m LIBOR)	0.8				

### Smart Pension Fund Overview

#### Smart Blended Funds

	3m	6m	1y	3y	5y
Smart Growth - Cautious	1.3	7.7	7.5	34.4	43.7
Smart Growth - Moderate	1.7	9.4	8.8	39.3	47.6
Smart Growth - Speculative	2.2	10.3	9.6	41.7	50.4
Smart De Risking	1.4	5.7	3.3	20.4	30.5
Smart Lower Risk	-0.0	0.5	0.8	3.4	5.1
Smart Income	0.7	1.8	4.9	8.1	16.7
Smart Cash	0.1	0.2	0.4	0.8	1.2
Smart Diversified	1.4	4.7	4.7	33.0	41.4

#### Self-Select Funds

	3m	6m	1y	3y	5y
LGIM UK FTSE 100 Equity Index Fund	-0.9	8.7	5.3	43.2	39.5
LGIM World (ex UK) Developed Equity Index Fund	6.6	14.9	12.8	77.3	97.2
LGIM All Stocks Index Linked Gilt Fund	-1.3	-1.0	-1.6	6.7	18.2
LGIM North America Equity Index Fund	8.3	19.0	17.3	85.1	119.8
LGIM Cash	0.1	0.3	0.4	0.8	1.2
LGIM Overseas Bond Index Fund - GBP Hedged	-1.9	-2.1	-1.7		
LGIM Retirement Income Multi Asset Fund	0.7	1.8	4.9	8.1	16.7
LGIM Diversified	1.4	4.8	2.6	39.1	48.5
LGIM World Emerging Markets Equity Index Fund	1.5	-1.3	-2.8	62.8	42.6
HSBC Amanah Global Equity	8.1	18.7	15.0	81.2	
LGIM Ethical Global Index Fund	-1.7	5.0	4.2	19.5	32.4

## 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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