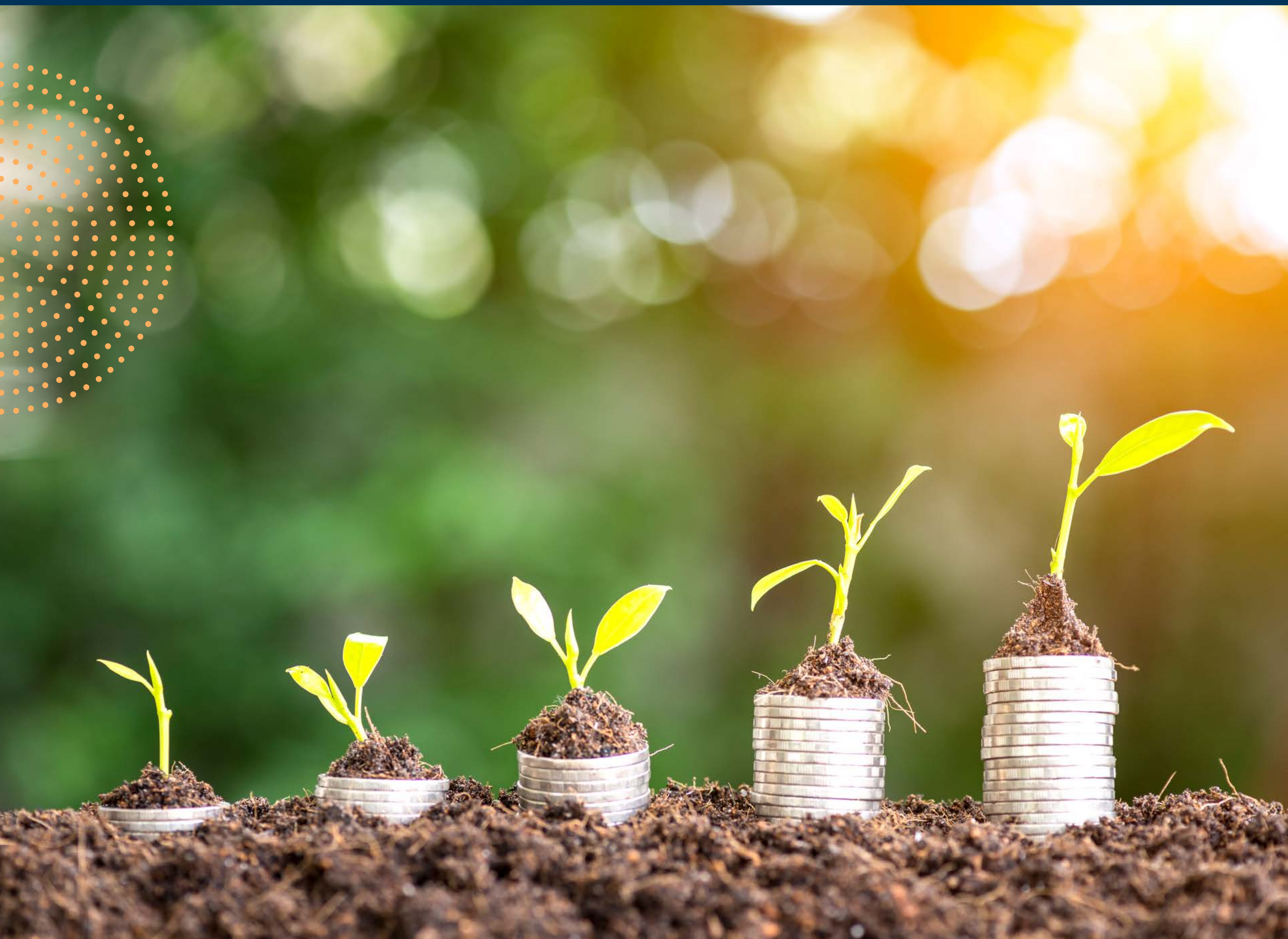
Smart Pension

Investment Report Quarter 3 2020

For Smart Pension (former Tesco MPS) members

smartpension.co.uk



Welcome to your investment report

This report is for former members of the Tesco Money Purchase Scheme (Tesco MPS). Following the transfer of your accumulated Tesco MPS retirement savings to the Smart Pension Master Trust in April 2020, your money is invested in one, or a combination, of our funds. If you did not make an active choice, your money is invested in the default strategy, the Smart Pension (former Tesco MPS) Lifestyle Investment Option. This has been designed to be suitable for most members and uses a combination of investment funds depending on how close you are to your target retirement age (set as 65 unless you have selected a different age):

Years from target retirement age	Investment funds used
20+	Smart Pension (former Tesco MPS) Growth Fund
20-4	Smart Pension (former Tesco MPS) Equity Fund Smart Pension (former Tesco MPS) Diversified Fund Smart Pension (former Tesco MPS) Corporate Bond Fund
4-0	Smart Pension (former Tesco MPS) Equity Fund Smart Pension (former Tesco MPS) Diversified Fund Smart Pension (former Tesco MPS) Corporate Bond Fund Smart Pension (former Tesco MPS) Cash Fund Smart Pension (former Tesco MPS) Nearly There Bond Fund

Pensions are an investment. As a pension saver, your savings will be affected by a whole host of factors that influence the returns of, for example, stocks and shares over the lifetime of your savings. The first section of this report outlines what has generally been happening in financial markets and the economy over the last three months, and why you may have seen your pension savings grow or shrink.

Remember, markets can go up and down quite a lot over the short term. Pensions are a long-term investment and, as our funds are invested for the long term, this report should not be used to make investment decisions. It also gives a generalised view and is not specifically focused on any single fund.

Our model strategies are made up of multiple different funds that react differently to market events.

That's why, in the second section of this report, we have included the most recent performance data for all our funds. This shows you how they have been performing over the past three months, six months, one year and three years. How your own savings are doing will relate to these performance figures.

We have included a glossary at the end to help you with any jargon that may be unfamiliar to you.

Contents

What's been happening in the markets?

The default fund: performance overview

The default fund's performance was positive for the third quarter of the year, with the Smart Pension (former Tesco MPS) Growth Fund posting gains of 2.6% for Q3 2020.

Overall, financial markets have settled following the sharp rebound seen in Q2 2020.

The default strategy relies primarily on global equities (stocks and shares) to generate returns over the long run. As explained further in this report, global equities remained steady throughout the quarter, having partially recovered from the lows seen in March 2020.

The remaining portion of the portfolio is invested in fixed-income products such as UK government bonds. Overall, this portion of the portfolio produced small negative returns for the quarter.

The big events

COVID-19 pandemic still dominating news headlines

Global equities remained steady

Financial markets calmer than in Q1/Q2 2020

Some uncertainty about future events

COVID-19 pandemic and its impact on the economy

The COVID-19 pandemic continued to dominate news headlines throughout Q3 2020. The number of confirmed new cases worldwide continued to grow daily and the number of deaths attributed to COVID-19 reached one million globally.

Whereas Q2 saw a wave of optimism with regards to how the pandemic's growth may have been slowing, the third quarter witnessed a shift in attitude, especially in Europe. Following a loosening of lockdown measures, many European countries saw a rise in cases over the summer (starting with Spain and France, but soon spreading to all of Europe). This brought fresh measures to try to contain the virus, including:

- an increase in quarantine requirements for international travellers
- the tightening of confinement measures
- further increases in virus testing capacity

However, it should be noted that most governments have said they do not intend to re-impose national lockdowns, similar to those seen in March and April this year. Instead, preference is being given to localised measures based on the risk assessment of each region.

This reflects the fact that national lockdowns are now seen as too damaging to countries' economies. There is a realisation that COVID-19 is something that will be with us for a long time and cannot be contained as was hoped at the beginning of the pandemic. Imposing a national lockdown would therefore be too much of a drag on any country's economy, whilst producing only mixed benefits compared to local restrictions.

Economies around the world may have recovered somewhat from the lows of March 2020, but they remain fragile. For example, unemployment remains a major concern for sectors that have been badly hit by the pandemic (such as transport and hospitality). Governments across the globe continue to support their economies through direct subsidies and tax cuts. However, there has been a significant increase in concerns about how those will be paid for in the long run.

Fear and worry were the dominant sentiments for financial markets in the first quarter of the year. The second quarter saw a recovery, as hope and rationalisation dominated. The third quarter can be characterised by a consolidation of previous sentiments. Financial markets became calmer during the quarter and reacted less abruptly than before to pandemic news, as market participants became more and more accustomed to the "new normal".

How have global equities performed?

Overall, equity markets performed reasonably well during the third quarter of the year. However, not all sectors and geographies performed to the same extent.

In America, equity markets continued to outperform, being supported by signs of economic recovery and loose monetary policy. The US Federal Reserve (US Central Bank, or 'Fed') announced a change in the way it will monitor inflation in the future – its focus will be on long-term average inflation, allowing for periods of overshoot. This was well-received by equity markets in the USA.

Technology stocks also gained in Q3 2020, despite a sell-off at the beginning of September.

Whilst emerging markets also performed well, equity markets in Europe were virtually flat during the third quarter, as rises in COVID-19 infection rates and associated containment measures brought fresh concerns to financial markets.

In the UK, equity markets continue to underperform. The FTSE 100, the index representing the 100 biggest UK companies, was down just over 4% for the quarter, making it one of the worst-performing international indices for Q3 2020. In addition to COVID-19 concerns, worries over Brexit came back to the agenda as we approach the end of the transition period (set for 31 December 2020).

It should be noted that equity markets, just like most financial markets, have been calmer in Q3 2020 than they were during the first two quarters of the year.

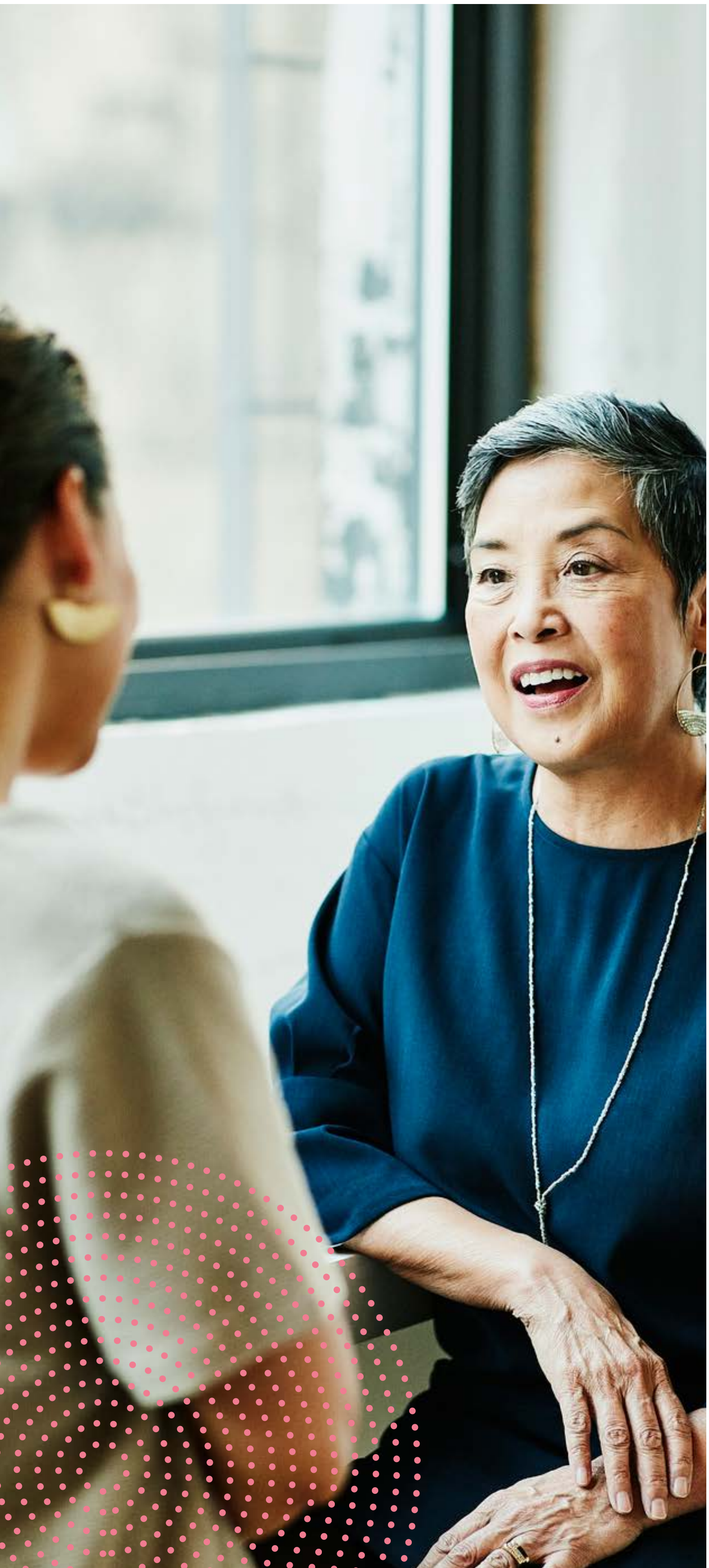
Looking ahead, it is clear that financial and equity markets face three major issues, each of which could bring uncertainty and potential large moves in prices:

- further development in the **COVID-19 pandemic**, especially as we prepare to enter winter in the northern hemisphere
- the **US election**, due to be held on 3 November 2020
- the **Brexit situation**, as we approach the end of the transition period

A look at government and corporate bonds

Just as for equities, markets have settled down somewhat compared to what happened in Q1 and Q2 2020. Interest rates are still projected to remain low for an extended period of time, as central banks have indicated that they will do everything they can to support their national economies.

Government bond yields changed little over the quarter.



On the other hand, corporate bonds enjoyed a positive quarter. Confidence is slowly returning and market participants are slowly adjusting to the new normal, meaning that corporate bonds (loans to private companies) are in slightly higher demand.

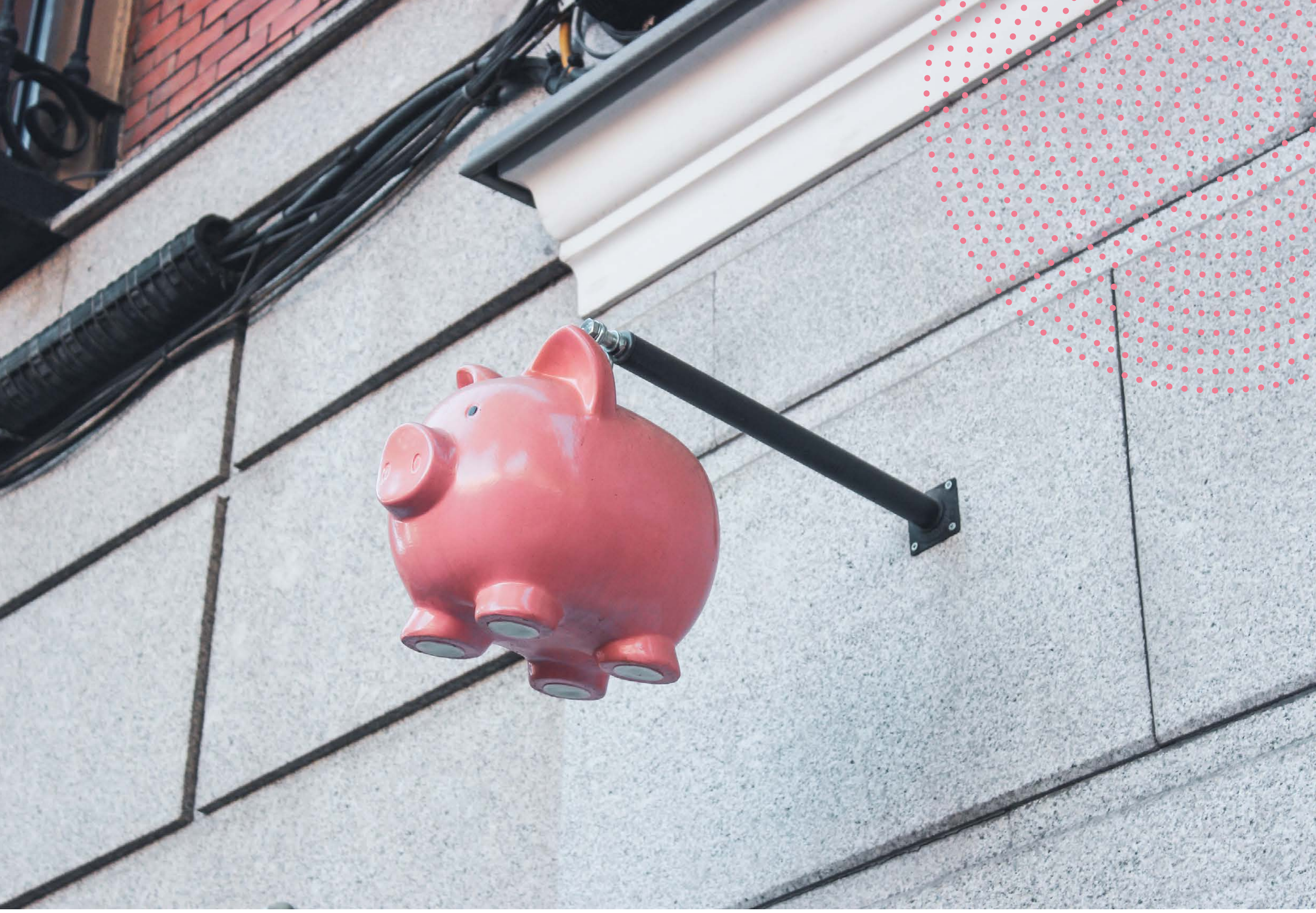
Changes in the currency market

Although there was no extreme move in currency prices over the quarter, we did see a weakening of the US Dollar against most major currencies. This means that currencies such as the Sterling Pound, the Euro and the Australian Dollar ended the quarter worth more against the US Dollar than they were at the beginning of the quarter.

The loose US monetary policy and change in inflation target measurement mentioned previously provided some impetus for market participants to sell the US Dollar and purchase foreign currencies.

There was a slight fall in the value of the Pound in early September, on the back of increased Brexit concerns relating to trade deal negotiations between the UK and the EU, but, as mentioned above, the overall change in the Pound's value against the US Dollar was positive over the quarter. Sterling closed Q3 2020 at 1.29 against the US Dollar (1 GBP = 1.29 USD).

Gold also made headlines during Q3 2020. Prices reached all-time highs at the beginning of August ($2,050 per ounce), as many considered the yellow metal a 'safe haven' and a good store of value in those troubled times.



Oil prices update

Oil prices remained somewhat stable during the quarter, after a tumultuous Q1 and Q2 2020. Prices were mostly stuck in a range of $37-43 per barrel (WTI Crude) as supply and demand found some equilibrium.

How have our funds performed?

This quarter's performance tables

This table shows you the returns for each fund over different time periods. All values are as at 30 September 2020.

All values are shown before costs are deducted. These costs are the Annual Management Charges (AMCs). You can learn more about the charges applicable to you from your tailored investment guide within the secure section of your account.

The performance tables show both annualised and cumulative returns.

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

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

Fund performances

Funds	3m	6m	1y	3y (AR)	3y (CR)
Smart Pension (former Tesco MPS) Growth Fund	2.6%	18.4%	1.2%	6.9%	22.2%
Smart Pension (former Tesco MPS) Nearly There Bond Fund	0.7%	N/A	N/A	N/A	N/A
Smart Pension (former Tesco MPS) Equity Fund	3.8%	22.7%	4.6%	8.1%	26.4%
Smart Pension (former Tesco MPS) Diversified Fund	-0.3%	8.8%	-6.7%	3.9	12.3%
Smart Pension (former Tesco MPS) Cash Fund	0.0%	0.1%	0.6%	0.8%	2.3%
Smart Pension (former Tesco MPS) Corporate Bond Fund	0.7%	7.1%	4.0%	4.8%	15.2%
Smart Pension (former Tesco MPS) Pre-Retirement Fund	0.4%	8.6%	5.9%	7.3%	23.4%
Smart Pension (former Tesco MPS) Sharia Fund	7.5%	28.9%	23.8%	18.3%	65.6%
Smart Pension (former Tesco MPS) Ethical Fund	2.8%	21.2%	5.8%	9.7%	32.2%
Smart Pension (former Tesco MPS) Index Linked Gilts Fund	-1.7%	5.3%	1.4%	1.0%	22.6%

How do we manage your money?

Your pension scheme is managed by a group of independent and non-affiliated trustees. They look after your interests and work for you. Your relationship is with the trustees, not Smart Pension Limited.

They keep an eye on:

- the investment strategy
- how your investments are performing
- value for money
- member communications
- member engagement

The trustees look after your money to ensure it is invested in line with the statement of investment principles.

The statement of investment principles is a trustee document that outlines the way trustees will invest the scheme assets. This also includes the trustees' policy on responsible investment (also known as Environmental, Social and Governance (ESG) issues).

The trustees work alongside fund managers and the scheme's investment manager to ensure performance is in line with the agreed benchmarks. You can view the statement of investment principles **here**. You can also view the trustees' ESG policy **here**.

Trustees

Andy Cheseldine, Chair of the Board

Andy is renowned for his deep knowledge and wealth of expertise in the pensions industry. 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.

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 employers. Before joining Law Debenture, she was with Willis Towers Watson Ltd.

Anna Darnley, Trustee Director

Before joining the board, Anna was a trustee of the Accenture Retirement Savings Plan. As a digital strategy consultant, she specialises in the Internet of Things, and has also worked on artificial intelligence and blockchain projects. She brings this technological expertise to the board, along with her passion for great member communications and re-engaging scheme members.

David Brown, Trustee Director

David 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.

The trustees would love to hear from you

The trustees are keen to get as much feedback as possible about how they can improve the pension scheme. If you have a suggestion, please do not hesitate to contact them at trustees@smartpension.co.uk.

Want to find out more?

For up to date information about the performance of your investments, you can download the Smart Pension app or sign in to SmartPension.co.uk/sign-in.

You can also download the investment guide to find out more information about your investment strategy.

You can also contact us for any other information relating to your pension savings at member@smartpension.co.uk.

Glossary

Bonds

A bond represents a loan made by an investor to a borrower and is often referred to as a fixed income security. This is because fixed interest payments are made as part of the returns. They can be issued by a government to raise money for things like infrastructure projects, or by private or public companies.

Central banks

Central banks around the world set the base interest rates of a country. The setting of these rates is part of something called monetary policy. For instance, increasing interest rates makes it more expensive to borrow and more profitable to save. In theory, this means people would spend less and save more, taking money out of circulation from the economy and reducing inflation rates. Reducing the interest rates level would have the opposite effects. Too high, very low or negative inflation rates can be bad for the economy.

Equities

Shares in publicly-traded companies such as Apple, Facebook, BP or HSBC. They are grouped in major indices depending on the country in which they are traded. (for instance the FTSE in the UK, or the Dow Jones in the US).

Equity index

An index is a number that represents the value of a group of stocks and shares, often combined by country and/or type of companies. For instance, the UK FTSE 100 is an index that represents the value of the largest 100 companies in the UK. Similarly, the Dow Jones Index is representative of the 50 largest companies in the United States.

Inflation

Inflation is a measure of the rate at which the average price of a “basket” of goods and services in an economy increases over a period of time. As the cost of goods rises, a single unit of currency for example, £1) buys fewer and fewer goods and services. This loss of purchasing power has an impact upon the general cost of living. Excessive inflation makes goods and services too expensive to buy and is bad for the economy.

Interest rate

An interest rate is the amount to be paid over a given period and is given as a proportion of the amount lent, borrowed or saved. For example, if you saved £100 in an account with a 1% annual interest rate, then after one year you would be paid £1 in interest.

Investment strategy

Is a way of investing your money over time with the aim of growing your pension savings. As you get closer to your retirement age, we move your money into funds that are less likely to fall in value.

The default fund

Unless you actively choose otherwise you will automatically be invested in our default fund during the growth phase, up to twenty years before your selected retirement age. Our default fund is the Smart Pension (former Tesco MPS) Growth Fund. It has been created so that it will typically suit most of our members.

The default strategy

If you do not make an active investment choice, your savings will be invested according to the default strategy. It uses our default fund during the growth phase, and then switches to funds designed to protect your savings as you approach retirement. The full details of the default strategy can be found in our investment guide.

Volatility

Volatility refers to the amount of risk or uncertainty due to the size of changes in value (of currencies or equities).

Legal disclaimer

The value of investments may go up or down due to fluctuations in currencies, financial markets and other risk factors. Default funds may not fulfil their objectives: performance is not guaranteed and future performance may not be in line with the past. This report has been created by Smart Pension and is valid at the date it is published. It has been created for general information only and does not constitute specific legal advice or opinion. You should not rely on any of the information contained within this report without seeking further advice from qualified investment advisers. The facts and data contained in this report shall not be copied, made available, reproduced, extracted or published within your business, for commercial purposes, or to the public or for any other purposes unless Smart Pension gives you consent.

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