Smart Pension

Investment Report Quarter 2 2021

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.

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What's been happening in the markets?

The default fund: performance overview

The default Smart Pension (former Tesco MPS) Growth Fund enjoyed a period of strong performance in the second quarter of 2021. Financial markets benefited as the acceleration in the rollout of vaccination programmes in many countries, combined with the easing of lockdown restrictions, drove continued economic recovery and an improving outlook for corporate profits.

It gained 6.8% in the three months to June, bringing performance in the first half of 2021 to +10.9%. The fund continues to outperform the targets for long term pension savings over one, three and five years.

Equities continued to be the main driver of strong performance as many markets continued to hit new all-time highs, and these form the largest component of the growth phase of the default fund. Fixed income markets generally recovered from the weakness of the first quarter and contributed to the overall strong performance.

The big events

Vaccine rollouts continue, easing of lockdown restrictions

Equity markets continue to be supported

Government and corporate bonds recover from Q1 2021

High inflation but moderate expectations

Recovery continues to be the focus for financial markets

At the end of 2020 and during the first three months of 2021, financial markets were focused on looking through the resurgence of COVID-19 infections and on the anticipated recovery. More recently the recovery has become tangible. Economic indicators have been increasingly positive as the continued rollout of vaccination programmes in many countries has allowed restrictions to ease, leading to a recovery driven by a pent-up demand for many goods and services.

At the end of the previous quarter, the major concern was the slow vaccination programme in much of continental Europe, reflected in another surge in infections. The result was a slower opening-up than in the UK and US and a slower economic recovery. However, the pace of vaccination has picked up over the last three months, resulting in an easing of restrictions.

Recently, much of the discussions in financial markets have focused on the outlook for inflation. In May, Consumer Price Inflation in the US reached an annual rate of 5%, the highest level since 2008. It has been less dramatic in the UK and Europe but is nevertheless accelerating. Much of the increase is expected to be short-term in nature. As production had halted for several weeks in many industries during the early stages of the pandemic, stockpiles were rapidly run down when demand picked up, resulting in shortages and upward pressure on prices. For example, there is an ongoing and chronic shortage of semiconductor chips, which is having an impact on multiple industries, from smartphones to car production.

To date, central banks have not been concerned about higher inflation and have pledged to maintain interest rates at their current record lows to ensure that the economic recovery is not held back. The huge amount of government debt is also a factor, as higher interest rates make it more expensive to service that debt. This commitment has helped to reassure equity markets and drove them higher. If inflation does prove to be more than temporary, it may again become a concern.

The main worry overhanging financial markets going into the third quarter of the year is the renewed surge in infections caused by the Delta variant of the virus, which is seemingly more contagious and is now the dominant cause of new infections in most countries. Whilst vaccination rates continue to rise in the developed world and mortality rates are low, localised measures have been re-introduced in parts of Europe to try to slow the spread. Meanwhile, in Asia, Australia and developing countries, where vaccination rates are significantly lower, restrictions have become more stringent once again. If concerns about further lockdowns increase, financial markets are likely to come under pressure.

How have global equities performed?

Equity markets across the board rose in the second quarter, with the exception of Japan which was broadly flat. The backdrop for the strong performance has been the so-called "Goldilocks" environment of low interest rates, accelerating economic growth and strong corporate earnings. Faster growth sectors such as technology were the strongest performers in response to bond yields in the US falling. Regional performance generally reflected the pace of vaccine rollouts, with Asian markets lagging.

US markets again led the way, as they have done for much of the recovery from the pandemic, on the back of strong corporate earnings and the application of fiscal stimulus measures. Tech giants such as Apple, Amazon, Facebook and Microsoft drove much of the gains, hitting new all-time highs in June. Property companies also did well as mortgage rates came down, and the energy sector gained on the back of a surging oil price. Defensive sectors such as utilities were the worst performers because of low exposure to the economic recovery.

European markets were next in line as infections fell sharply and social restrictions were eased, following on from the UK and US. Economic data started to show a strong rebound in response, led by the services sector. In the Eurozone, the European Commission signed off on the first of the national recovery plans as part of the €800bn Next Generation EU fund, the first of its kind.

UK equities were also up strongly, although lagging slightly against the US and the Eurozone due to weakness in June as infection rates increased with the Delta variant. Ultimately, the government delayed the planned full relaxation of restrictions.

Asian markets were the main laggards. Broadly speaking, vaccination levels are significantly lower than in the US and Europe and the risk of rising infections is weighing on the growth outlook. Whilst total infection rates and deaths in Japan are significantly lower than in Europe, the government is struggling to contain the increase ahead of the Olympic Games. Chinese equities were also relatively sluggish. Concerns over high inflation have caused the government to take measures to prevent speculation. Meanwhile, many technology stocks are facing a regulatory clampdown.

A look at government and corporate bonds

It was a more mixed picture for fixed income markets. US and UK government bonds recovered some of the heavy losses they suffered in the first quarter, despite ongoing concerns about inflation. The ten-year US bond yield, a typical benchmark for the fixed income market, fell from 1.74% to 1.47% and the UK ten-year yield fell from 0.85% to 0.72%, as investors took hope that the inflation spike is only temporary and the result of short-term supply chain disruptions.

The Federal Reserve and other central banks also helped boost sentiment by confirming they had no intention of withdrawing support or raising interest rates in the very near future, reinforcing the view that they are not concerned about inflation in the longer run.

Both the US and UK also benefited from a switch out of Eurozone bonds, where in countries such as Germany and the Netherlands the bond yield is negative, meaning investors are willing to accept negative interest rates to hold them. Eurozone government bonds had a negative performance during the quarter, reflecting the improvement in the economy as infection rates fell and restrictions were eased. In all markets, though, yields fell towards the end of the quarter as concerns increased about the Delta variant and its potential to slow growth later in the year.

Corporate bonds, particularly those considered lower quality, performed well, as did emerging market bonds. Such bonds have a higher risk of default and as a result carry higher yields. With risk appetite strong, investors were willing to take on higher risk due to the low returns available from safer government bonds.

All quiet for currencies

The Pound finished the quarter largely unchanged against most major currencies, after a period of strong performance. May trade data showed a surprise positive balance, driven by higher exports to both EU and non-EU countries. It will take some time for the true impact of Brexit to become clear, but after the initial disruption at the start of the year, the three-month trade balance in goods with the EU at the end of May is less negative than at any time since 2013, primarily as a result of lower imports. Trade data is likely to continue to be a significant driver of Sterling, particularly against the Euro.

Having performed strongly in the first quarter, the US Dollar lost some ground in the first period of the second quarter. However, it recovered sharply in June, finishing the quarter little changed against a basket of currencies. The reason for the change in direction was the Federal Reserve indicating a slightly faster rise in interest rates than the market had assumed. Higher interest rates help make a currency more attractive. However, the Fed also indicated that rates will not be raised until 2023, and then only modestly.

Commodities : A “super-cycle” under way?

Commodities continue to be the best-performing asset class, with the S&P GSCI Index, a basket of commodities, returning 14.7% in the second quarter and more than 31% over the first half of the year. Oil prices continued to lead the charge, reaching a three-year high above $75 a barrel, up 45% since the start of the year. As economies have re-opened in the US and Europe, demand for oil has rebounded. Meanwhile, the collapse in prices seen at the beginning of the pandemic saw significant cuts in new capacity which means demand is now rising faster than supply, and this should continue through the course of 2021. In the longer term, the outlook for oil demand remains more difficult as the switch to renewable energy sources continues to accelerate. Indeed, if the price of oil rises too far in the short term, it will lead to an even sharper fall in demand in the long term.

However, commodity strength was broad-based. Prices for metals for industrial use also moved sharply higher, led by aluminium, lead and nickel on rebounding industrial activity and tight supply. Many food prices also rose due to poor harvests in several countries. Gold reversed its recent falls but gains were only modest.

This strength in commodity prices has led many to believe that we may be in the relatively early stages of another commodity “super-cycle”, as seen in the years 2001-2008. This would have significant consequences for the medium-term inflation outlook as higher prices would eventually filter across the economy. Wary of this happening, the Chinese government has begun to introduce measures aimed at preventing speculation driving prices too far too quickly, which would potentially lead to a sharp increase in interest rates.

How have our funds performed?

This quarter's performance table

This table shows you the returns for each fund over different time periods. All values are as of 30 June 2021.

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 table shows 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 performance

Funds	3m	6m	1y	3y (AR)	3y (CR)
Smart Pension (former Tesco MPS) Growth Fund	6.8%	10.9%	22.5%	11.1%	37.3%
Smart Pension (former Tesco MPS) Nearly There Bond Fund	0.9%	1.4%	3.1%	N/A	N/A
Smart Pension (former Tesco MPS) Equity Fund	7.5%	12.1%	26.8%	12.8%	43.4%
Smart Pension (former Tesco MPS) Diversified Fund	5.2%	8.2%	13.1%	7.2%	23.1%
Smart Pension (former Tesco MPS) Cash Fund	0.0%	0.0%	0.1%	0.6%	1.9%
Smart Pension (former Tesco MPS) Corporate Bond Fund	1.3%	-3.2%	-0.7%	4.0%	12.5%
Smart Pension (former Tesco MPS) Pre-Retirement Fund	2.4%	-5.4%	-2.5%	5.6%	17.7%
Smart Pension (former Tesco MPS) Sharia Fund	9.6%	11.4%	24.3%	20.1%	73.1%
Smart Pension (former Tesco MPS) Ethical Fund	7.5%	12.3%	24.7%	14.3%	49.3%
Smart Pension (former Tesco MPS) Index Linked Gilts Fund	4.6%	-2.0%	-3.7%	5.5%	17.3%

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**.

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.

Nikesh Patel, Trustee Director

Nikesh joined the board in 2021. He has a wealth of experience in consulting trustees and employers on defined benefit (DB) and defined contribution (DC) pension schemes. In 2019, he was recognised as a Rising Star in Asset Management by Financial News for his work managing pension scheme assets directly as a fiduciary investment 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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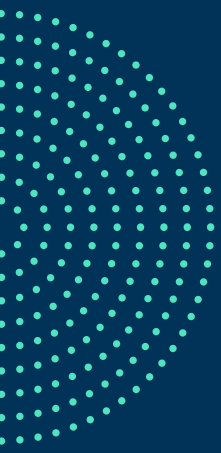

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