

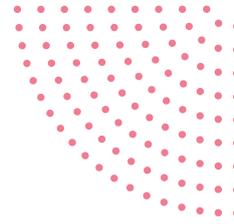


Investment Report Quarter 4 2021

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.



Contents

What's been happening in the markets?	5
The default fund performance overview	5
The big events	5
A strong end to 2021	6
How have global equities performed?	7
A look at government and corporate bonds	8
The US Dollar remains strong	9
Commodities: a calmer end to a tumultuous year	10
How have our funds performed?	11
This quarter's performance tables	11
How do we manage your money?	12
Trustees	13
Want to find out more?	14
Glossary	15

What's been happening in the markets?

The default fund: performance overview

The default Smart Pension (former Tesco MPS) Growth Fund continued to gain during Q4 2021. Despite a resurgence of COVID-19 cases due to the Omicron variant, the quarter was positive overall for financial markets on the back of strong corporate earnings and the prospects of further growth in 2022.

It gained 5.3% in the three months to December 2021, bringing performance for 2021 to +20.5%. The fund continues to outperform the targets for long-term pension savings over one, three and five years to the benefit of future retirement income.

As has been the case since the market recovery began in April 2020, equities were the strongest performers and the major contributor to the performance of the growth phase of the default fund for the quarter. Fixed income markets were overall more muted in Q4 2021, and the contribution of the fixed income allocation of the default fund was slightly negative.

The big events



Stock markets performed well on the back of strong corporate earnings



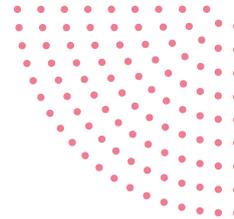
Omicron variant spread at the end of the year



Fixed income markets muted



Higher inflation, leading to tighter monetary policies outlook



A strong end to 2021

Financial markets performed well in Q4 2021 and added to the gains already seen since the beginning of the year. This made 2021 a strong year for financial markets, with stock markets showing noticeable gains across most of the developed world. The sharp decline seen in March 2020, at the beginning of the COVID-19 crisis, now seems like a distant event. Strong corporate earnings and economic resilience in the face of the pandemic have helped support the markets throughout.

The fourth quarter did see a sharp increase in the number of COVID-19 cases due to the Omicron variant. This variant first appeared in South Africa but quickly spread to much of the world, with most containment measures proving all but futile. The variant seemed to be highly transmissible, but early signs pointed to potentially milder symptoms. That, and high vaccination rates in much of the developed world, helped reduce the impact of this infection wave on the economy. Financial markets did not endure any lasting negative effects from the Omicron infection wave (as positive economic news outweighed its risk factors), but they did experience slightly heightened volatility on the back of it towards the end of November.

As pointed out in our previous investment report, inflation has been an increasing concern throughout the year, and there was further proof of rising inflation in the final quarter of the year. A sharp rebound in both consumption and economic conditions coincided with supply chain issues, rising energy prices (electricity and gas throughout Europe/UK) and effects from the ample monetary stimulus put in place early on as pre-emptive measures against negative economic effects of the pandemic. Inflation concerns, initially thought to be temporary, now seem to be more persistent – and are likely to be a recurring theme for 2022. As an example, the US and the UK showed year-on-year inflation figures of 6.8% and 5.1% for November 2021, the highest readings seen in 39 and 10 years respectively.

In addition to rising inflation concerns, the labour market is tightening, with unemployment rates being somewhat subdued and employment recovering well from the early effects of the pandemic. This has led to a change (or acceleration) in Central Banks' policy outlook. Central Banks typically have a dual mandate, to keep inflation at or around a predetermined level whilst making sure unemployment remains under control. As inflation is picking up, and unemployment is not, most Central Banks have indicated tighter monetary conditions are coming. These take the form of either scaling down and reversing quantitative easing (tapering), as announced by both the US Federal Reserve (the 'Fed') and the European Central Bank (ECB), or raising the base rate, as the Bank of England did in December by increasing its base rate from 0.10% to 0.25%.

How have global equities performed?

As previously mentioned, developed equity markets had a good fourth quarter despite the resurgence in COVID-19 cases linked to the Omicron variant. However, emerging market equities did not follow suit and have shown a comparatively poor performance in 2021.

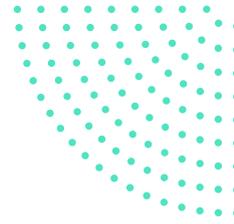
In the US, gains were weaker in November as both the Omicron variant and the speed of the Fed tapering program put some pressure on the stock market, but those concerns dissipated towards year-end. The tech market remains robust with the 'mega-stocks' still driving the market higher.

It was much of the same in Europe and the UK, with good corporate results driving markets higher. New travel restrictions imposed by some countries on the back of the Omicron variant did have an impact on the travel industry (including airlines and hospitality), but the overall picture was nonetheless positive, albeit slightly more volatile than in the US.

Stock market performance was lower in both Japan and Asia in general. Japanese equity markets showed declines in October and November that could not be fully overturned in December, ending the quarter down 1.7%.

Equities in emerging markets remained the biggest laggard in the equity world, both for Q4 of 2021 and for the year overall, as can be seen from the performance of the Smart World Emerging Markets Equity Index Fund. It was down 0.9% for Q4 2021 and up 1.7% for the year (in British Pound terms). In the face of the pandemic, economies in emerging markets have been struggling more than those of developed economies. The poor performance of the Chinese stock market weighed heavily on the overall performance of equities in emerging markets.





A look at government and corporate bonds

The bond market has been mixed to slightly negative in Q4 2021. Bond performance is inversely correlated to interest rate expectations, as holding a fixed interest bond becomes less attractive if interest rates are rising. As a result, it is no surprise that the bond market was dominated by news about inflation, potential rate rises and the tightening of monetary policies by Central Banks around the globe.



Despite some volatility during the quarter, the long-dated yield remained broadly stable, with the ten-year US yields rising to 1.51% from 1.49% and the UK ten-year yields falling from 1.02% to 0.97% (Germany from -0.17% to -0.19%). This does reflect the fact that inflation concerns, although present, are still seen as somewhat transitory, although to a lesser extent than they were in Q2/Q3 2021.

That said, short-dated yields did pick up across the board. Inflation is, so far, exceeding expectations and most Central Banks across the world are boosting their hawkish rhetoric to prepare markets for future rate rises and tapering. This led to an overall flattening of the yield curve, with the difference between short-term yields and long-term yields reducing. As an example, the US two-year yields increased from 0.28% to 0.73% (an increase of 0.45%) whereas the ten-year yields only increased 0.02%.

The Bloomberg Global Aggregate Bond index, a leading measure of performance for the global bond market, was down 0.7% for Q4 2021, closing the year down 4.7% (please note, this index contains both government and corporate bonds, amongst others).

Within the bond market itself, investment grade corporate bonds lagged behind government bonds. However, high-yield bonds, typically riskier investments, performed better as the risk premium (spread) associated with such bonds diminished amidst improving economic conditions.

A strong US Dollar

The main currency mover in the period remained the US Dollar, which rose against most major currencies except the British Pound and continued the strong performance seen for much of the year.

The greenback benefitted from the hawkish stance of the US Federal Reserve, as explained earlier. The US is seen as reacting faster to inflation than most other developed economies, with an aggressive schedule for tightening its monetary policy.

As such, the Dollar gained 2.4% and 2.8% against the Euro and the Japanese Yen respectively,

bringing its total gains against each in 2021 to 7.2% and 11.6% respectively.

The British Pound was more stable against the Dollar, despite some volatility throughout the year. The exchange rate showed little change over the quarter or the year, with the Pound buying \$1.35 at year-end, compared to \$1.36 at the end of 2020. The Bank of England is also seen as more reactive to the inflationary environment than its European counterpart, making the Pound more aligned to the US dollar than its European counterpart.



Commodities: Soaring energy prices

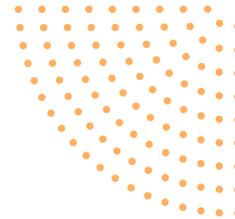
The S&P GSCI Index, a basket of commodities widely used as a measure of the performance of the commodity market, was broadly flat in Q4 2021. That said, the index is up more than 37% across the whole of the year, making commodities the best-performing asset class in 2021.



As mentioned in the previous investment report, natural gas prices increased significantly in Q3, leading to significant electricity prices increases in the UK, as an example. However, gas prices did suffer a sharp drop in Q4 and reverse some, if not all, of their Q3 gains. Some of those losses were offset by marginal gains in oil prices, leading to a slight decline in energy prices overall.

Away from the energy sector, the period saw the prices of industrial metals (including zinc, lead and copper) posting gains on the back of an improved economic outlook and the continued recovery. In contrast, prices of precious metals were more muted and broadly flat on the quarter.

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 31 December 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	5.3%	8.6%	20.5%	16.2%	56.9%
Smart Pension (former Tesco MPS) Nearly There Bond Fund	0.3%	1.1%	2.5%	N/A	N/A
Smart Pension (former Tesco MPS) Equity Fund	5.2%	8.6%	21.8%	18.6%	67.0%
Smart Pension (former Tesco MPS) Diversified Fund	5.6%	8.6%	17.5%	10.5%	34.9%
Smart Pension (former Tesco MPS) Cash Fund	0.0%	0.0%	0.1%	0.5%	1.4%
Smart Pension (former Tesco MPS) Corporate Bond Fund	0.3%	-0.6%	-3.8%	3.8%	11.7%
Smart Pension (former Tesco MPS) Pre-Retirement Fund	2.2%	0.7%	-4.7%	6.0%	19.1%
Smart Pension (former Tesco MPS) Sharia Fund	10.7%	14.8%	27.9%	27.0%	104.8%
Smart Pension (former Tesco MPS) Ethical Fund	7.5%	11.6%	25.3%	20.8%	76.3%
Smart Pension (former Tesco MPS) Index Linked Gilts Fund	4.5%	6.8%	4.6%	7.0%	22.5%

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.



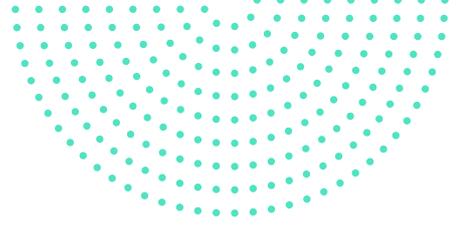
They keep an eye on:

- 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

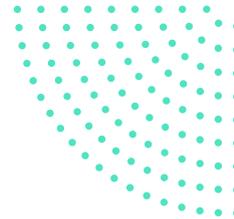
An index is a number that represents the value of a group of stocks and shares, often combined by country and/or type of companies. For instance, the UK FTSE 100 is an index that represents the value of the largest 100 companies in the UK. Similarly, the Dow Jones Index is representative of the 50 largest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

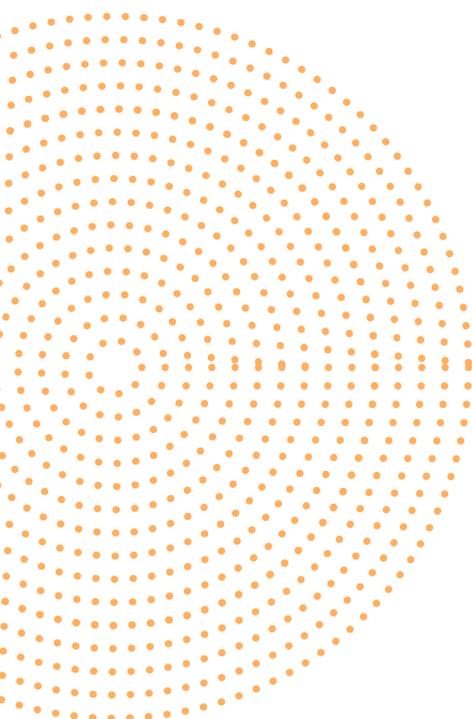
Unless you actively choose otherwise you will automatically be invested in our default fund during the growth phase, up to twenty years before your selected retirement age. Our default fund is the Smart Pension (former Tesco MPS) Growth Fund. It has been created so that it will typically suit most of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

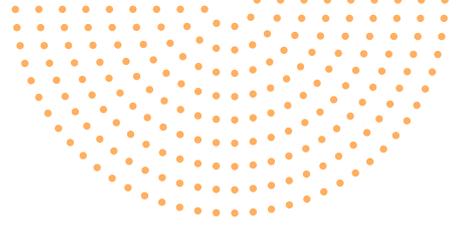
The default strategy

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).

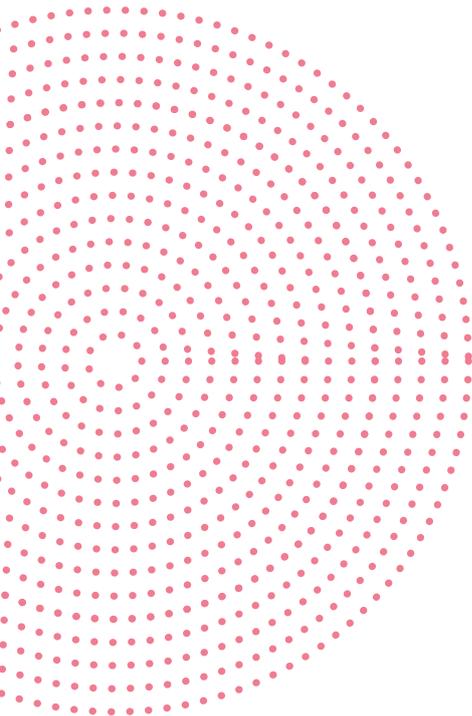




Legal disclaimer

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.

While we regularly review information and material provided in our report, and take steps to ensure it is easy to understand and accurate, we do not provide any guarantee or warranty in relation to material in our report or accept liability for any errors, incompleteness, inaccuracies or omissions. Should you find an error, please email us immediately at content@smartpension.co.uk to alert us.





The Smart Building
136 George Street, London, W1H 5LD

Website smartpension.co.uk

Telephone 0333 666 26 26

Company registration number 9026697