Smart Pension

Smart Pension Master Trust Investment Report Quarter 3 2022

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Welcome to your investment report

This report is for all members of the Smart Pension Master Trust. As a member, your money is invested in one, or a combination, of our funds. If you do not make an active choice, your money is invested in our default strategy. This is designed by the trustee of the scheme to be suitable for most members and it solely uses our default fund, Smart Growth – Moderate Risk, up to eight years prior to your chosen retirement date, when additional funds (Smart Income, Smart Annuity and Smart Cash) are also used.

Will Wynne, Group Managing Director and Andrew Evans, Group CEO

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 investment 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, three years and five 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 fund used in the growth phase of our default investment strategy grew modestly in the third quarter of 2022. Global equity markets recovered a little from recent lows, but the bond portion of the portfolio suffered because of continued anxiety over interest rate rises to meet increasing inflation across the main financial markets.

The Smart Growth – Moderate Risk fund, the main fund used in the default for those a while away from retirement, grew 0.6% during the quarter, reducing its losses over the past year to -5.8%. Markets remain sensitive to increases in interest rates around the world and there was a further sell-off at the end of September, as central banks around the world continued to increase interest rates and news about the strength of the global economy surprised markets.

Fixed income products such as corporate and government bonds fell significantly in the third quarter, affected by interest rate rises that make future interest payments less valuable to markets. This was particularly felt for long-dated bonds, which are exposed to rising interest rates for longer periods.

However, the Smart Growth – Moderate Risk fund invests in a range of different asset classes. This diversification means that any adverse conditions in either equity or bond markets are balanced and smoothed-out by other investments.

The big events

UK mini-budget triggered chaos in UK government bonds in September

Central banks increased interest rates to stem inflation

Economic growth fell with many countries moving into recession

Equity markets felt the end might be in sight and posted positive returns

The mini-budget

It is no secret that the UK government, like that of many other countries, increased its borrowing significantly to help people and businesses affected by the Coronavirus pandemic. On 23 September the incoming government of Liz Truss and her Chancellor of the Exchequer, Kwasi Kwarteng, outlined its plans to deal with this debt. While the idea of cutting taxes to promote growth had been openly discussed during her campaign to be elected leader of the Conservative party, it is fair to say actually seeing the plan put into action surprised markets – and not positively.

In the context of markets and economics, two big mistakes were made. First, the plan itself was to significantly increase the government's debt, in the hope of stimulating the economy. However, more debt means higher interest rates, as markets believe there is a higher risk that the debt won't be repaid. Secondly, the government did not use the Office for Budget Responsibility, which is an important institution set up to provide independent verification of any government's financial plans. The sense that the government was avoiding independent scrutiny made markets fear that the real projections would be much worse, rightly or wrongly, than the figures being quoted.

The chaos for UK government debt that followed in financial markets from the mini-budget has been discussed many times. Apart from helping to bring an end to Liz Truss' brief tenure as Prime Minister, though, its most enduring effect for members is that interest rates rose and the British Pound fell sharply against other currencies, particularly the US Dollar. Some of our funds do hold UK government debt, but for most members this is only a small proportion of their investments.

Interest rates rising globally

To try to deal with inflation in their economies, governments and central banks have been continuing to increase 'base' interest rates, which are the rates at which they lend to banks. The Bank of England raised rates twice in the quarter, moving interest rates from 1.25% to 2.25% in two 0.5% moves on 4 August and 22 September. Meanwhile, the US Federal Reserve raised rates from 1.75% to 3.25%, in two 0.75% rises, while the European Central Bank was slower to increase its most important rate from 0.25% to 1.50% over the quarter.

Whether this means that we are close to a 'high-water mark' of interest rates remains to be seen. It will depend on the rate of increase in prices occurring in those economies. Certainly, in UK, inflation continues to rise, so it would not be unlikely that further increases in interest rates will follow as the Bank of England tries to contain the highest levels of inflation seen in a generation.

Recession, but as predicted?

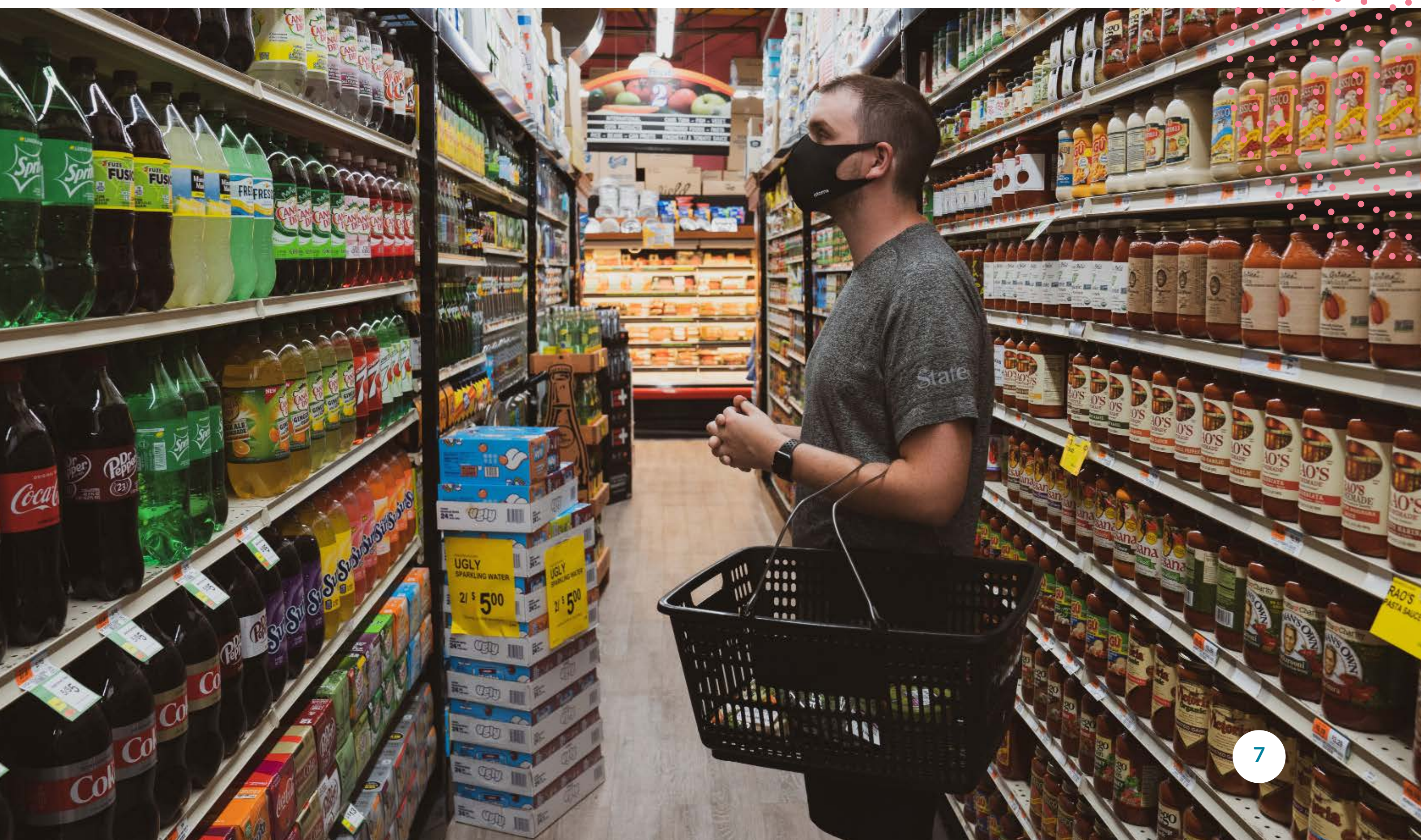
A strange thing about financial markets is that they can fear a recession more than they suffer when that recession actually occurs. This is because people trading in a company's shares have to think about the profitability of the company over the coming months and years, to understand whether those shares offer good value, rather than financial performance in the immediate term.

This meant that in the first half of the year, when recession seemed likely, share prices fell as traders felt companies would be making lower profits (and would therefore be worth less) in an imminent recession.

Once actual performance numbers start to be released, they make it clearer to see which companies are doing well and which aren't. This can mean that shares start to rise in value, as traders find out either that things are not as bad as were feared, or that particular companies are doing badly, but not all of them. However, there is always a risk that this will be reversed as more numbers are subsequently announced.

Equity markets in July and August showed a bit of this effect. They posted positive returns as traders started to feel that economic numbers and the performance of headline companies was not as bad as they had feared, and there was value in buying the shares of certain companies. This was then reversed, to some extent, at the end of September, when newer data showed that maybe the recessions around the world would get worse before getting any better.

All of this is why equities have, in general, a higher risk than many other kinds of investments. They can move up and down in price quickly on the back of frequent news releases. The best approach, we think, is to try to build a diversified set of investments across most companies on offer, meaning that the portfolio as a whole moves up and down less than any one company's shares.



How have our funds performed?

This quarter's performance tables

These tables show you the returns for each of our funds over different time periods. All values are as of 30 September 2022.

All values are shown after Annual Management Charges (AMCs) are deducted. 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.

Funds used in our investment strategies

Growth phase	3m	6m	1y	3y	5y
Smart Growth – Lower Risk					
Fund (returns beyond 1y are annualised)	-2.5%	-13.1%	-9.4%	0.5%	3.7%
Fund (cumulative returns)	-2.5%	-13.1%	-9.4%	1.5%	20.0%
Benchmark (UK CPI +3%) (figures beyond 1y are annualised)			13.1%	7.5%	6.5%
Smart Growth – Moderate Risk (used in our default strategy)					
Fund (returns beyond 1y are annualised)	0.6%	-7.5%	-5.8%	2.4%	4.7%
Fund (cumulative returns)	0.6%	-7.5%	-5.8%	7.4%	25.8%
Benchmark (UK CPI +3.5%) (figures beyond 1y are annualised)			13.6%	8.0%	7.0%
Smart Growth – Higher Risk					
Fund (returns beyond 1y are annualised)	-0.7%	-8.9%	-3.3%	3.7%	5.6%
Fund (cumulative returns)	-0.8%	-8.9%	-3.3%	11.5%	31.0%
Benchmark (UK CPI +5%) (figures beyond 1y are annualised)			15.1%	9.5%	8.5%

“De-risking” phase	3m	6m	1y	3y	5y
Smart De-risking					
Fund (returns beyond 1y are annualised)	-1.4%	-8.3%	-6.2%	0.9%	2.9%
Fund (cumulative returns)	-1.4%	-8.3%	-6.2%	2.7%	15.5%
Benchmark (UK CPI +2%) (figures beyond 1y are annualised)			12.1%	6.5%	5.5%
Smart Lower Risk					
Fund (returns beyond 1y are annualised)	-0.7%	-2.9%	-2.8%	-0.8%	0.1%
Fund (cumulative returns)	-0.7%	-2.9%	-2.8%	-2.4%	0.4%
Benchmark (UK CPI +1%) (figures beyond 1y are annualised)			11.1%	5.5%	4.5%
Smart Cash					
Fund (returns beyond 1y are annualised)	0.3%	0.4%	0.4%	0.1%	0.2%
Fund (cumulative returns)	0.3%	0.4%	0.4%	0.2%	0.8%
Benchmark SONIA			0.7%	1.2%	2.4%
Smart Income					
Fund (returns beyond 1y are annualised)	-2.9%	-8.9%	-9.2%	0.2%	2.2%
Fund (cumulative returns)	-2.9%	-8.9%	-9.2%	0.5%	11.3%
Target benchmark (UK CPI +2%)			12.1%	6.5%	5.5%
Smart Annuity					
Fund (returns beyond 1y are annualised)	-15.1%	-25.3%	-31.1%	-11.6%	-4.4%
Fund (cumulative returns)	-15.1%	-25.3%	-31.1%	-30.8%	-20.1%

Self-select funds

Self-select funds	3m	6m	1y	3y (AR)	5y (AR)	3y (CR)	5y (CR)
Smart UK FTSE100 Equity Index Fund	-2.7%	-6.7%	0.5%	1.1%	2.4%	3.3%	12.6%
Smart World (ex UK) Developed Equity Index Fund	3.1%	-7.1%	-2.8%	9.1%	10.0%	29.8%	61.0%
Smart All Stocks Index Linked Gilt Fund	-8.3%	-26.7%	-28.5%	-10.4%	-2.9%	-28.1%	-13.8%
Smart North America Equity Index Fund	4.5%	-6.2%	1.0%	12.2%	13.2%	41.1%	86.0%
Smart Cash Fund	0.3%	0.4%	0.4%	0.1%	0.2%	0.2%	0.8%
Smart Overseas Bond Index Fund - GBP Hedged	-3.2%	-7.4%	-11.9%	-3.8%	-0.7%	-11.1%	-3.6%
Smart World Emerging Markets Equity Index Fund	-2.5%	-5.3%	-9.0%	2.2%	2.8%	6.7%	14.8%
Smart Income Fund	-2.9%	-8.9%	-9.1%	0.2%	2.2%	0.5%	11.3%
Smart Annuity Fund	-15.1%	-25.3%	-31.2%	-11.7%	-4.5%	-31.0%	-20.5%
Smart Diversified Fund	-2.8%	-9.1%	-8.9%	0.9%	3.1%	2.6%	16.5%
Smart Sharia Fund	2.2%	-8.7%	-2.3%	12.8%	13.6%	43.4%	89.3%
Smart Ethical Index Fund	1.6%	-7.5%	-1.6%	9.1%	9.9%	29.8%	60.3%
Smart Future Fund	-2.5%	-11.4%	-8.3%	1.7%	4.2%	5.2%	22.8%

(AR) : Annualised Returns
(CR) : Cumulative Returns

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.

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 eight years before your selected retirement age. Our default fund is the Smart Growth – Moderate Risk 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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