Smart Pension

Smart Pension Master Trust Investment Report Quarter 1 2023

smartpension.co.uk

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 Sustainable Growth Fund, 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?	**4**
The Smart Sustainable Growth Fund: performance overview	4
The big events	4
Collapse of Silicon Valley Bank	5
Persistent high inflation	6
Geopolitical tensions	7
UK economic outlook 2023	7
How have our funds performed?	**8**
This quarter's performance tables	8
Funds used in our investment strategies	8
How do we manage your money?	**11**
Trustees	12
Want to find out more?	13
Glossary	**14**

What's been happening in the markets?

The Smart Sustainable Growth Fund: performance overview

The Smart Sustainable Growth Fund had positive performance in the first quarter of 2023. This was in part due to global growth exceeding expectations over the quarter, driving equity markets higher. Inflation remained a key theme over the period. There was a slight decrease to the headline numbers due to the drop in energy prices, but core inflation remained higher than expected. This resulted in central banks continuing to raise interest rates in an effort to control inflation through monetary policy.

The Smart Sustainable Growth Fund gained 3.2% during the quarter. Over the quarter global equity markets performed well, while bond prices continued to struggle as yields increased with the continued increases in interest rates.

While performance suffered due to the fixed income holdings, the Smart Sustainable Growth Fund is designed to hold a range of securities. During the quarter, the fund benefitted from the diversity of the holdings as equities rallied. The strategy is designed to be a diversified long-term investment, capable of dealing with different market environments, and these are what we saw over a period of economic uncertainty.

The big events

Geopolitical tension

Persistent high inflation

UK economic outlook 2023

Collapse of Silicon Valley Bank

Collapse of Silicon Valley Bank

On Friday 10 March, Silicon Valley Bank (SVB) became the largest bank failure in the US since the global financial crisis of 2008 and the second-largest bank failure in US history. The collapse of SVB sent markets into a tailspin, with American banks leading the way. The knock-on effects were widespread, with two other US banks collapsing.

The collapse of SVB was caused by liquidity concerns when the bank's deposits were rapidly removed by savers, the majority of whom were start-up businesses. As cash was removed by depositors, the bank had to liquidate the bonds that it held and incurred large losses from doing so. This turned concerns about the bank's liquidity into fears about its solvency, and it became unable to meet its obligations quickly enough, inevitably leading to its rapid collapse.

Because European banks have tighter regulations around their ability to meet potential sudden demands for withdrawals than their American counterparts, this was largely a US issue. However, in this quarter Credit Suisse would prove to be the exception. Credit Suisse had been facing issues for a while, and ended up being taken over by fellow Swiss bank UBS after increased problems with its financial reporting process and selling pressure on its shares.

While the failure of SVB and takeover of Credit Suisse appear to be individual cases, the stress that the financial sector experienced is expected to result in a slowdown of bank lending. This could help to reduce some of the inflationary pressures facing major economies. Markets gained some confidence as the European Central Bank's president made it clear that they would step in and provide further support to the banking sector if necessary. With the confidence that the ECB would support the banks and the tighter regulations that Europe has compared to the US, the risk of another European debt crisis is considered low.

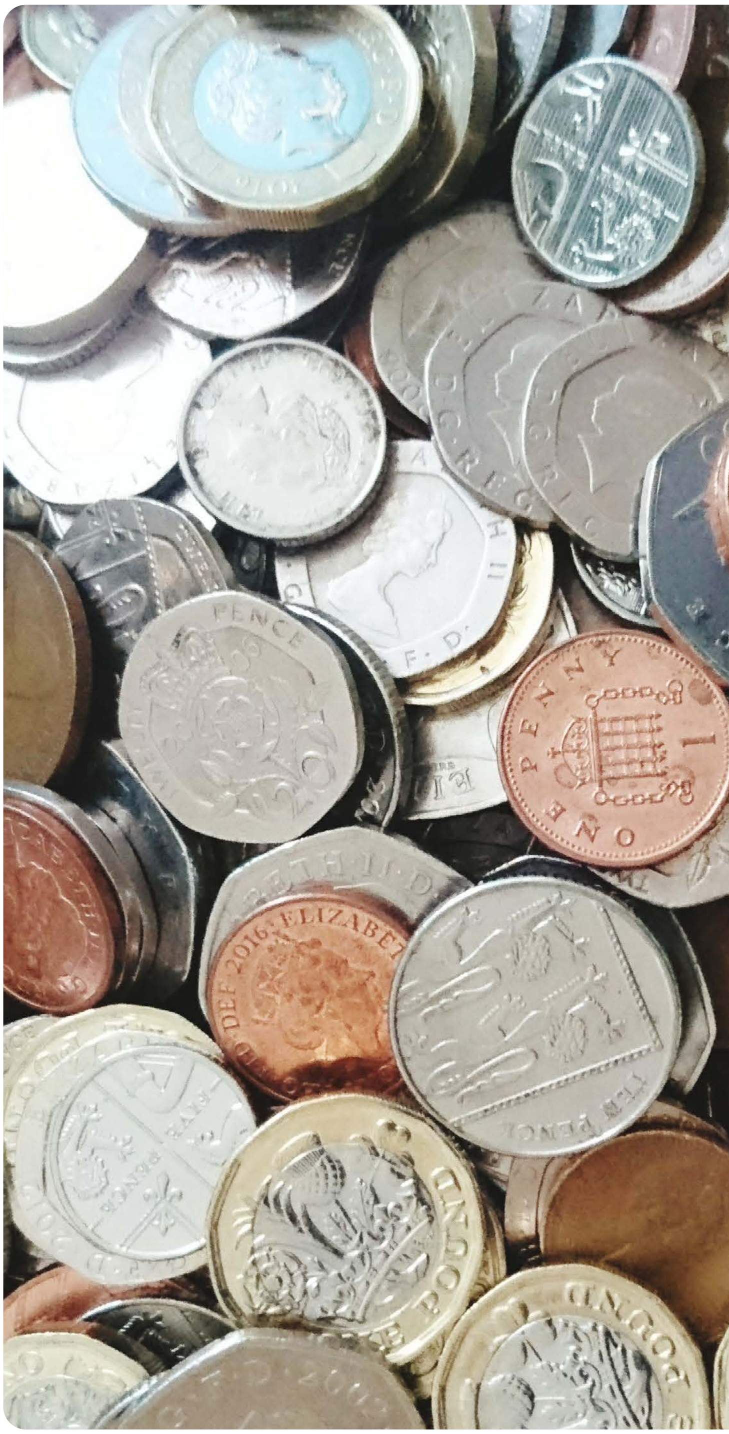
Persistent high inflation

After reaching a 40-year high last year, UK inflation may have peaked, but it could take a while before consumers feel the benefit of slowing price rises. The surge in the rate of price increases over the past 12 months is largely due to a combination of an increase in demand after the pandemic, supply chain delays, the war in Ukraine and surging energy prices. Despite inflation slowing it was still above 10% throughout the first quarter, well above the Bank of England's target of 2%.

Financial analysts expect the bank to continue to try to control the cost of living measure by raising interest rates. While the British government cannot prevent the prices of most goods and services from rising, it is continuing to provide an energy price guarantee that subsidises gas and electricity bills to help struggling households.

Raising interest rates may help to combat soaring inflation, but also makes borrowing for loans and mortgages more expensive. If pressure on household budgets causes consumer demand for goods and services to fall, this could have the effect of making retailers cut the prices of goods to encourage people to buy them.

The BoE increased interest rates from 3.5% to 4.25%, commenting that while inflation might be decreasing, it needs to ensure inflation continues to fall. The expectation is that interest rates will continue to rise and reach a peak around September.



Geopolitical tensions

Rising geopolitical tensions among major economies have intensified concerns about global economic and financial fragmentation. Current examples of these tensions include the strained relationship between the US and China and the international condemnation of Russia's invasion of Ukraine.

Financial fragmentation can have significant consequences on global economic stability by affecting cross-border investment, international payment systems and asset prices.

The rise in geopolitical tensions is increasing the narrative among developed nations of "nearshoring" (sourcing commercial items and services from nearby countries and markets instead of faraway ones) and "friend shoring" (manufacturing and sourcing from countries that are geopolitical allies). This can put increased strain on supply chains and cause rising prices – and therefore inflationary pressure – within developed markets. As an example, if the US no longer sources commercial items from China, it can find alternatives elsewhere but not as cheaply.

UK economic outlook 2023

The Bank of England's Monetary Policy Committee (MPC) held meetings on 2 February and 9 March 2023.

In its February meeting, the MPC voted to raise interest rates by 0.5% to 4.0%, and a further rise to 4.25% was agreed in March. In the February report the MPC noted that the economic outlook had deteriorated since its previous meeting in December, with inflation rising sharply and the global economy slowing. The February economic outlook projected a fall in GDP throughout 2023, consistent with a recession. In contrast, the March report mentioned stronger global growth than projected, although did not comment either way on the chance of a UK recession.

The economic challenges currently weighing on the UK are likely to stifle the country's financial performance in 2023. However, it is nonetheless important to note that the UK economy is still relatively strong, and there are a number of factors that could help to mitigate the impact of the economic challenges. These factors include the Bank of England's efforts to control inflation, the government's support for businesses and the resilience of UK consumers.

Overall, the outlook for the UK economy in 2023 is uncertain. There is a risk that the country could enter a recession, but the outlook is increasingly positive from a number of factors that could help to mitigate the impact of the economic challenges we face.

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 31 March 2023.

All values are shown before 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

Smart Blended Funds	3m	6m	1y	3y
Smart Sustainable Growth Core				
Fund (returns beyond 1y are annualised)	3.3%	This fund has been in existence for less than three months.		
Fund (cumulative returns)	3.3%			
Benchmark (UK CPI +3.5%)				
Smart Sustainable Growth Fund				
Fund (returns beyond 1y are annualised)	3.2%	5.0%	-2.7%	10.8%
Fund (cumulative returns)	3.2%	5.0%	-2.7%	36.2%
Benchmark (UK CPI +3.5%)			13.6%	9.4%
Smart Sustainable Growth Plus				
Fund (returns beyond 1y are annualised)	2.3%	This fund has been in existence for less than three months.		
Fund (cumulative returns)	2.3%			
Benchmark (UK CPI +3.5%)				

Smart Growth – Higher Risk				
Fund (returns beyond 1y are annualised)	3.2%	7.1%	-2.2%	13.0%
Fund (cumulative returns)	3.2%	7.1%	-2.2%	44.1%
Benchmark (UK CPI +5%)			15.1%	10.9%
Smart Lower Risk				
Fund (returns beyond 1y are annualised)	3.0%	5.9%	-7.6%	8.0%
Fund (cumulative returns)	3.0%	5.9%	-7.6%	26.1%
Benchmark (UK CPI +3%)			13.1%	8.9%
Smart Income Fund				
Fund (returns beyond 1y are annualised)	2.5%	5.8%	-3.5%	5.2%
Fund (cumulative returns)	2.5%	5.8%	-3.5%	16.3%
Benchmark (UK CPI +2%)			12.1%	7.9%

Equity Investments	3m	6m	1y	3y
Smart UK Equity Index Fund				
Fund (returns beyond 1y are annualised)	2.2%	11.1%	3.7%	14.2%
Fund (cumulative returns)	2.2%	11.1%	3.7%	49.0%
Smart World (ex UK) Developed Equity Index Fund				
Fund (returns beyond 1y are annualised)	3.9%	3.9%	-3.4%	15.9%
Fund (cumulative returns)	3.9%	3.9%	-3.4%	55.6%
Smart North America Equity Index Fund				
Fund (returns beyond 1y are annualised)	3.6%	0.7%	-5.4%	17.2%
Fund (cumulative returns)	3.6%	0.7%	-5.4%	61.1%
Smart World Emerging Markets Equity Index Fund				
Fund (returns beyond 1y are annualised)	0.8%	2.3%	-3.4%	9.2%
Fund (cumulative returns)	0.8%	2.3%	-3.4%	30.2%

Fixed Interest	3m	6m	1y	3y
Smart All Stocks Index – Linked Gilts Index Fund				
Fund (returns beyond 1y are annualised)	5.6%	1.1%	-25.7%	-8.7%
Fund (cumulative returns)	5.6%	1.1%	-25.7%	-24.0%
Smart Global Bond Index Fund				
Fund (returns beyond 1y are annualised)	2.0%	4.2%	-3.5%	-3.4%
Fund (cumulative returns)	2.0%	4.2%	-3.5%	-9.8%
Smart Annuity Fund				
Fund (returns beyond 1y are annualised)	2.7%	7.4%	-19.6%	-8.5%
Fund (cumulative returns)	2.7%	7.4%	-19.6%	-23.4%

Cash	3m	6m	1y	3y
Smart Cash Fund				
Fund (returns beyond 1y are annualised)	0.9%	1.6%	2.2%	0.6%
Fund (cumulative returns)	0.9%	1.6%	2.2%	2.0%

Smart Specialist Funds	3m	6m	1y	3y
Smart Sharia Fund				
Fund (returns beyond 1y are annualised)	8.3%	3.3%	-5.5%	15.9%
Fund (cumulative returns)	8.3%	3.3%	-5.5%	55.6%
Smart Ethical and Climate Fund				
Fund (returns beyond 1y are annualised)	4.1%	4.1%	-4.0%	15.7%
Fund (cumulative returns)	4.1%	4.1%	-4.0%	54.9%

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.

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.

Smart Pension

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

Website smartpension.co.uk

Telephone 0333 666 26 26

Company registration number 9026697