Smart Pension

Smart Pension Master Trust Investment Report Quarter 2 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 a 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. For further details on which growth fund you are invested in, please refer to your investment guide, available on the Smart Pension app.

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 an overview of recent events in the 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. This report gives a generalised perspective 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 Smart Sustainable Growth Fund: performance overview

The Smart Sustainable Growth Fund had positive performance in the second quarter of 2023. This was driven by positive global equity market performance across the quarter. During the quarter, a decrease in energy prices continued to lead to a reduction in headline inflation. The UK started to see the core inflation numbers move with the material slowdown in house price and rent growth being reflected in the official numbers. The Bank of England Monetary Policy Committee (MPC) continued to raise rates in an effort to continue the reduction of inflation to their target.

The Smart Sustainable Growth Fund gained 2.9% during the quarter. Over the period global equity markets performed well, while UK government bond prices continued to struggle as yields increased with the continued increases in interest rates.

The Smart Sustainable Growth Fund is designed to hold a range of securities, which resulted in a performance drag due to the fixed income holdings. 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 that is capable of dealing with different market environments.

The big events

Generative AI

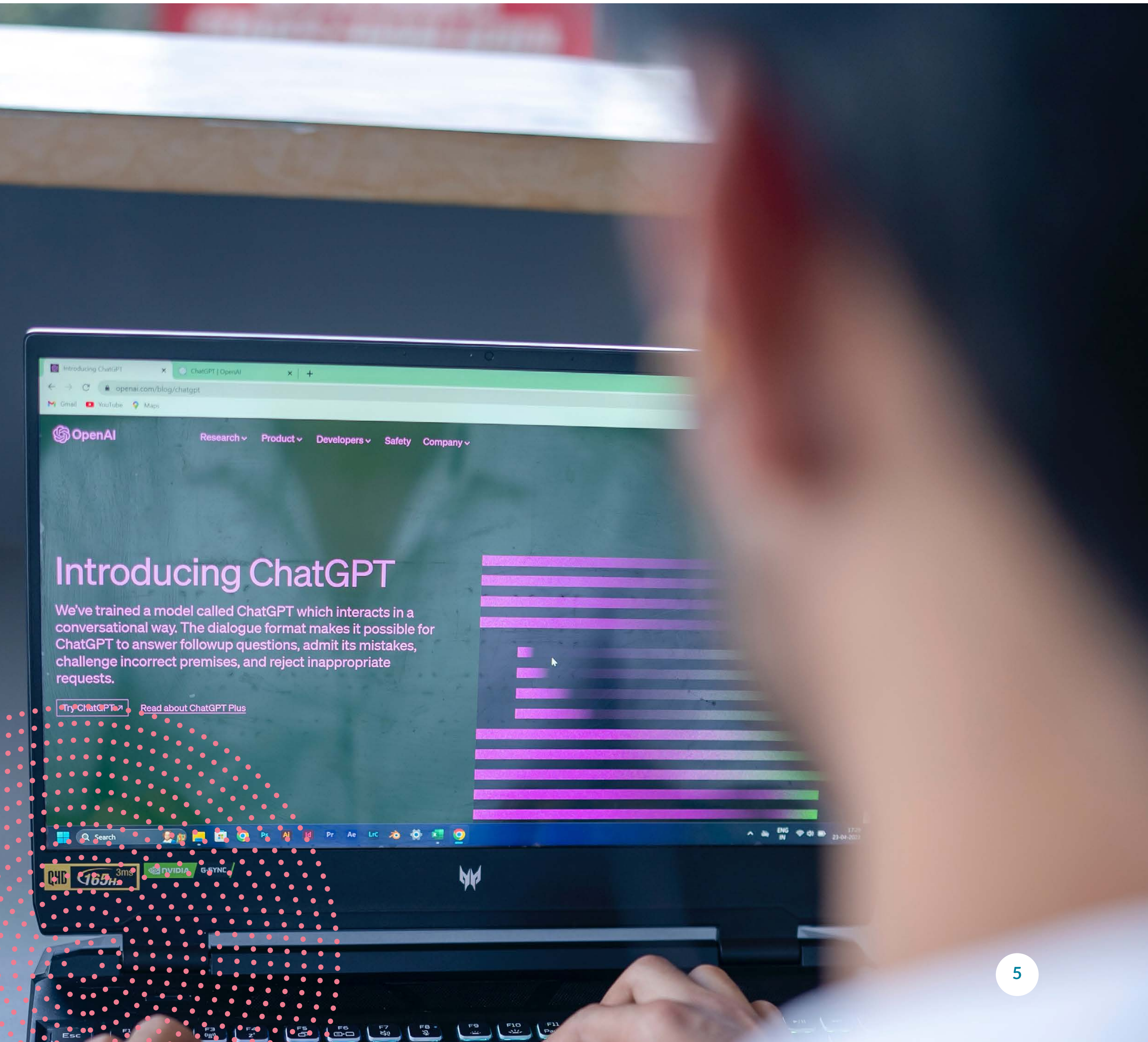
Persistent high inflation

Geopolitical tension

UK economic outlook

Generative AI

Artificial intelligence has been the discussion topic of the year following the popularity of ChatGPT, released by OpenAI in November 2022. There is wide speculation about the impact that generative AI will have on jobs and economy, and these views vary from extreme optimism of the benefits, to fear of the unintended consequences. What is clear is that companies are positioning for change and that is having an effect on the stock market. Over the quarter, there has been considerable investment into technology stocks that has driven the positive performance in equity markets. Economists are predicting that AI technologies could significantly increase UK labour productivity and corporate profits. This is backed up by the governments strategic vision of making the UK as technology superpower by 2030, as part of the UK Science and Technology Framework and National AI Strategy that is “pro-innovation”.



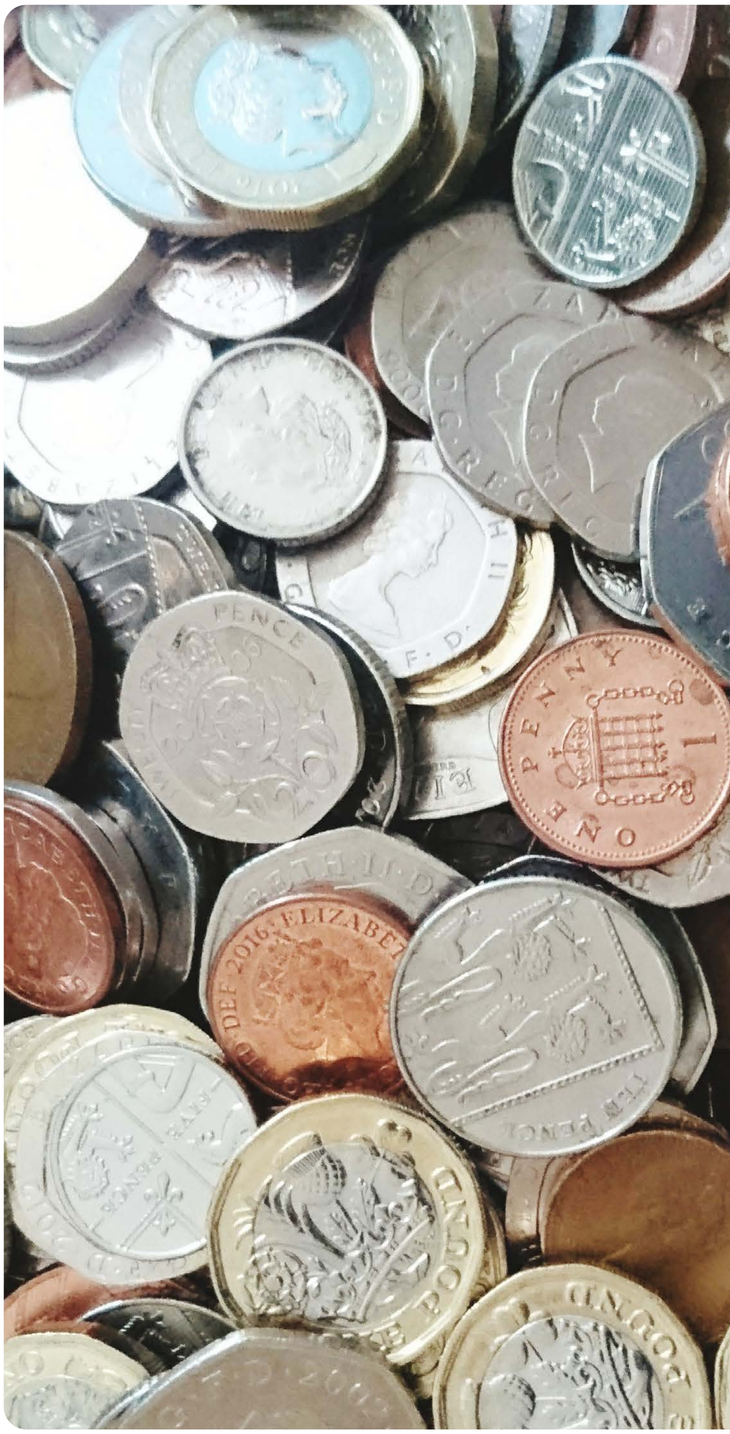
Persistent high inflation

During the quarter we have seen a reduction in the UK's headline inflation. This was largely due to favourable base effects from energy prices, which peaked last June and have come down significantly since. The slowdown in house prices and rent growth is helping to reduce core inflation. The expectation is that the Bank of England will continue to hike rates in an effort to reduce inflation to their target of 2%.

The increase in interest rates will continue to make borrowing for loans and mortgages more expensive while encouraging saving with higher returns. This will decrease the demand for goods and services which is expected to bring prices down, helping to decrease inflation.

The government cannot prevent most goods and services' prices from rising. However, they have announced the reduction in the energy price cap that limits gas and electricity bills to help struggling households. While this does help, the price cap is still significantly higher than the average household energy bill before we saw prices rise in 2021.

If inflation continues to fall, it is expected that the Bank of England will slow or even halt the rises to interest rates.



Geopolitical tensions

The tension between Russia and NATO, over the war in Ukraine, and the continued US-China rivalry have ushered in a new era of global fragmentation. This has led to an increasingly volatile geopolitical landscape with a higher potential to impact economic growth and financial market disruption.

Geopolitical events have historically had a short-lived impact on markets; however, this seems to be changing. Today's geopolitical tension is having a more persistent and long-lasting impact on global supply chains and, therefore, on markets. This is partially due to the new geopolitical landscape being more complex and interconnected, making it more difficult for investors to assess and manage risk.

This increased risk is continuing the narrative of "onshoring" and "friend-shoring" by developed nations as they look to mitigate the perceived risks in global supply chains. This move away from globalisation puts upward pressure on inflation as the cost of manufacturing and labour have increased, as well as the funding required to train the newly required workforce.

UK economic outlook

The Bank of England's Monetary Policy Committee (MPC) held meetings on 11 May 2023, and 22 June 2023. In its May meeting, the MPC voted to raise interest rates by 0.25% to 4.5% and a further 0.50% to 5.0% in June.

The UK economy has so far avoided a technical recission and this is expected to continue throughout 2023 with slight positive growth. This is partially down to the support provided by the government through the energy price cap. However, the UK economy is facing a number of headwinds that are likely to continue to drag on activity throughout 2023. GDP is still 0.5% below its pre-pandemic level, and consumption and business investment are both down.

The labour market has remained strong, but hiring is starting to slow down. The unemployment rate was 3.8% in April, which is close to a historical low. However, regular pay growth was reported to be over 7%, which is its highest level since the pandemic. These headline indicators may give the impression that the labour market is very strong, but they may also be reflecting other factors, such as the increased use of remote working and the falling cost of digital advertising for jobs keeping the vacancy rate artificially high.

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 June 2023.

All values are shown before Annual Management Charges (AMCs) are deducted. You can learn more about the charges applicable to you by signing into your Smart Pension account. Once signed in go to Investments, then scroll to the bottom of the page and click Charges for investments.

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.

Smart Blended Funds	3M	1Y	3Y	5Y
Smart Sustainable Growth Core				
Fund (returns beyond 1y are annualised)	2.8%	This fund has been in existence for less than a year.		
Fund (cumulative returns)	2.8%			
Benchmark (UK CPI +3.5%)	2.8%			
Smart Sustainable Growth Fund				
Fund (returns beyond 1y are annualised)	3.0%	8.9%	7.4%	5.1%
Fund (cumulative returns)	3.0%	8.9%	23.7%	28.3%
Benchmark (UK CPI +3.5%)	2.8%	11.4%	10.1%	8.0%
Smart Sustainable Growth Plus				
Fund (returns beyond 1y are annualised)	1.5%	This fund has been in existence for less than a year.		
Fund (cumulative returns)	1.5%			
Benchmark (UK CPI +3.5%)	2.8%			

Smart Growth – Higher Risk				
Fund (returns beyond 1y are annualised)	3.0%	9.6%	9.4%	6.1%
Fund (cumulative returns)	3.0%	9.6%	30.9%	34.7%
Benchmark (UK CPI +5%)	3.2%	12.9%	11.6%	9.5%
Smart Lower Risk				
Fund (returns beyond 1y are annualised)	2.4%	6.0%	4.9%	4.3%
Fund (cumulative returns)	2.4%	6.0%	15.3%	23.4%
Benchmark (UK CPI +3%)	2.7%	10.9%	9.6%	7.5%
Smart Income Fund				
Fund (returns beyond 1y are annualised)	1.1%	4.0%	2.6%	3.2%
Fund (cumulative returns)	1.1%	4.0%	8.1%	17.0%
Benchmark (UK CPI +2%)	2.8%	11.4%	10.1%	8.0%

Equity Investments	3M	1Y	3Y	5Y
Smart UK Equity Index Fund				
Fund (returns beyond 1y are annualised)	-0.7%	7.4%	10.1%	3.0%
Fund (cumulative returns)	-0.7%	7.4%	33.6%	16.1%
Smart World (ex UK) Developed Equity Index Fund				
Fund (returns beyond 1y are annualised)	5.4%	12.9%	11.4%	10.2%
Fund (cumulative returns)	5.4%	12.9%	38.4%	62.7%
Smart North America Equity Index Fund				
Fund (returns beyond 1y are annualised)	7.0%	12.5%	13.2%	12.5%
Fund (cumulative returns)	7.0%	12.5%	45.2%	79.9%
Smart World Emerging Markets Equity Index Fund				
Fund (returns beyond 1y are annualised)	-1.9%	-2.6%	2.3%	2.7%
Fund (cumulative returns)	-1.9%	-2.6%	6.9%	14.1%

Fixed Interest	3M	1Y	3Y	5Y
Smart All Stocks Index – Linked Gilts Index Fund				
Fund (returns beyond 1y are annualised)	-7.7%	-14.3%	-13.1%	-4.6%
Fund (cumulative returns)	-7.7%	-14.3%	-34.3%	-21.1%
Smart Global Bond Index Fund				
Fund (returns beyond 1y are annualised)	-0.4%	0.4%	-3.5%	-0.1%
Fund (cumulative returns)	-0.4%	0.4%	-10.3%	-0.3%
Smart Annuity Fund				
Fund (returns beyond 1y are annualised)	-5.4%	-13.7%	-12.4%	-4.4%
Fund (cumulative returns)	-5.4%	-13.7%	-32.8%	-20.0%

Cash	3M	1Y	3Y	5Y
Smart Cash Fund				
Fund (returns beyond 1y are annualised)	1.1%	3.0%	1.0%	0.7%
Fund (cumulative returns)	1.1%	3.0%	3.1%	3.4%

Smart Specialist Funds	3M	1Y	3Y	5Y
Smart Sharia Fund				
Fund (returns beyond 1y are annualised)	9.0%	15.1%	12.3%	14.3%
Fund (cumulative returns)	9.0%	15.1%	41.8%	94.7%
Smart Ethical and Climate Fund				
Fund (returns beyond 1y are annualised)	4.3%	9.8%	11.1%	10.1%
Fund (cumulative returns)	4.3%	9.8%	37.3%	61.7%

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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