Smart Pension

Smart Pension Master Trust Investment Report Quarter 3 2023 (Schroders)

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Welcome to your investment report

This report is for members of the SMART Schroders Scheme. If you did not make an active choice, your money is invested in the default strategy, the SMART Schroders Retirement Focus Fund (Default). 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.

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 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?

The default fund: performance overview

The SMART Schroders Retirement Focus Fund (Default) registered a small drop in the third quarter of 2023. During the quarter, global equity prices fell, interest rate volatility increased and oil prices rose.

Over the quarter, investors' main focus continued to be on global interest rates and when central banks would stop the trend of raising rates. Central banks' decisions on interest rates are influenced by the inflation rate of each country. Although inflation has been falling around the world over the past few months, central banks monitor the speed of the falls and will be concerned that inflation will go back up if they stop raising – or cut – interest rates. This is why we have seen further interest rate rises from the Bank of England (UK), the Federal Reserve (US) and the European Central Bank (EU) during the past three months.

However, as the quarter ended, there was a growing sentiment that the cycle of raising interest rates is coming to an end and that cuts to rates can be expected next year.

Your money is invested in a diversified long-term strategy that is designed to be capable of dealing with different market environments – and those are what we saw over a period of economic uncertainty.

The big events

- China
- Interest rate speculation
- War in Ukraine
- UK economic outlook

China

China has become an increasingly important influence on the global economy and investors will be affected by the strength or weakness of the Chinese economy. This rebounded in the quarter, with the country's GDP exceeding expectations and growing by 4.9%. So far, policy measures appear to have been effective in fostering a recovery against a backdrop of a property crisis and consumption challenges. The government's 2023 growth target of around 5.0% now appears to be achievable, but only time will tell if sufficient policy measures have been introduced to maintain momentum.

Despite positive data, a downturn in the property market, which represents a significant part of the Chinese economy, poses challenges and there are concerns about defaults by major developers. Policymakers may consider rate cuts and easing homebuying restrictions to address these issues. The IMF has downgraded its growth forecasts for China in 2023 and 2024, citing the property slowdown as a potential factor for GDP decline.

Interest rate speculation

Despite several interest rate rises from a variety of central banks during the quarter, ten-year yields had fallen back from their highs as the third quarter of 2023 came to a close.

In part this was driven by falling inflation, but growth was also slowing as an effect of higher interest rates on household spending and debt maintenance. Volatility in interest rates has increased dramatically and brings consequences for pension savers at the end of their accumulation phase. Yields are currently falling, which will benefit bond funds, but a complex geopolitical and economic backdrop means we should expect volatility to remain high in this space. A downward trend on rates is clearly forming, but it will not be a straight line.

War in Ukraine

At the beginning of 2023, much was made of the expected Ukraine counteroffensive in the war with Russia and this was anticipated over the spring and summer of 2023. However, it has so far failed to deliver the gains hoped for. As we enter the fourth quarter of the year, the supply chain risks that the war originally triggered could again become an issue. While many manufacturers have now had time to mitigate some of the risks the conflict originally caused, inflation from food and energy supplies could still have the capacity to derail the recent progress on inflation.

UK economic outlook

The Bank of England's Monetary Policy Committee voted to raise interest rates by 0.25% to 5.25% (from 5%) in August 2023.

The recent round of interest rate increases is now starting to weigh on the UK economy, which is showing new signs of strain. Although concerns about a severe recession have largely subsided, growth is likely to be impeded by elevated interest rates and sluggish productivity.

The UK economy is expected to face challenges in the closing months of the year. According to a Bloomberg survey, real GDP growth is anticipated to slow to a mere 0.5% in 2023 and 0.4% in 2024. Uncertainty surrounding a likely General Election and a falling strength in demand suggest that risks are tilted towards the negative.

Inflation remains high, and is unlikely to reach its target of 2% any time soon, especially if businesses continue to pass on increased costs to rebuild profit margins. At the same time the labour market is cooling, with hiring losing momentum and workers becoming less confident about changing positions. As the gap between supply and demand narrows, we expect to see a gradual decline in wage growth.

How have our funds performed?

This quarter's performance tables

This table shows you the returns for each fund over different time periods. All values are as of 30 September 2023.

All values are shown after 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.

Fund Performance

Funds	3m	6m	1y
SMART Schroders Islamic Global Equity Fund	1.2%	10.3%	
SMART Schroders ESG Fund	0.3%	4.3%	
SMART Schroders Cash Fund	1.2%	2.3%	
SMART Schroders Inflation-Linked Annuity Focus Fund	-1.4%	-8.4%	
SMART Schroders Fixed Annuity Focus Fund	0.3%	-5.2%	
SMART Schroders Corporate Bond Fund	1.7%	-1.0%	
SMART Schroders Global Equity Fund	-0.1%	4.7%	
SMART Schroders Retirement Focus Fund (Cash)	1.2%	2.3%	
SMART Schroders Retirement Focus Fund (Annuity)	-0.5%	-4.5%	
SMART Schroders Retirement Focus Fund (Default)	-0.4%	-0.4%	
SMART Schroders Cautious Growth Fund	-0.5%	1.6%	
SMART Schroders Stable Growth Fund	-0.8%	2.1%	
SMART Schroders Long Term Growth Fund	-0.9%	2.8%	

Note: The funds performance is shown for the time that they have been on the Smart platform.

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 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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