Smart Pension

Smart Pension Master Trust Investment Report Quarter 4 2023

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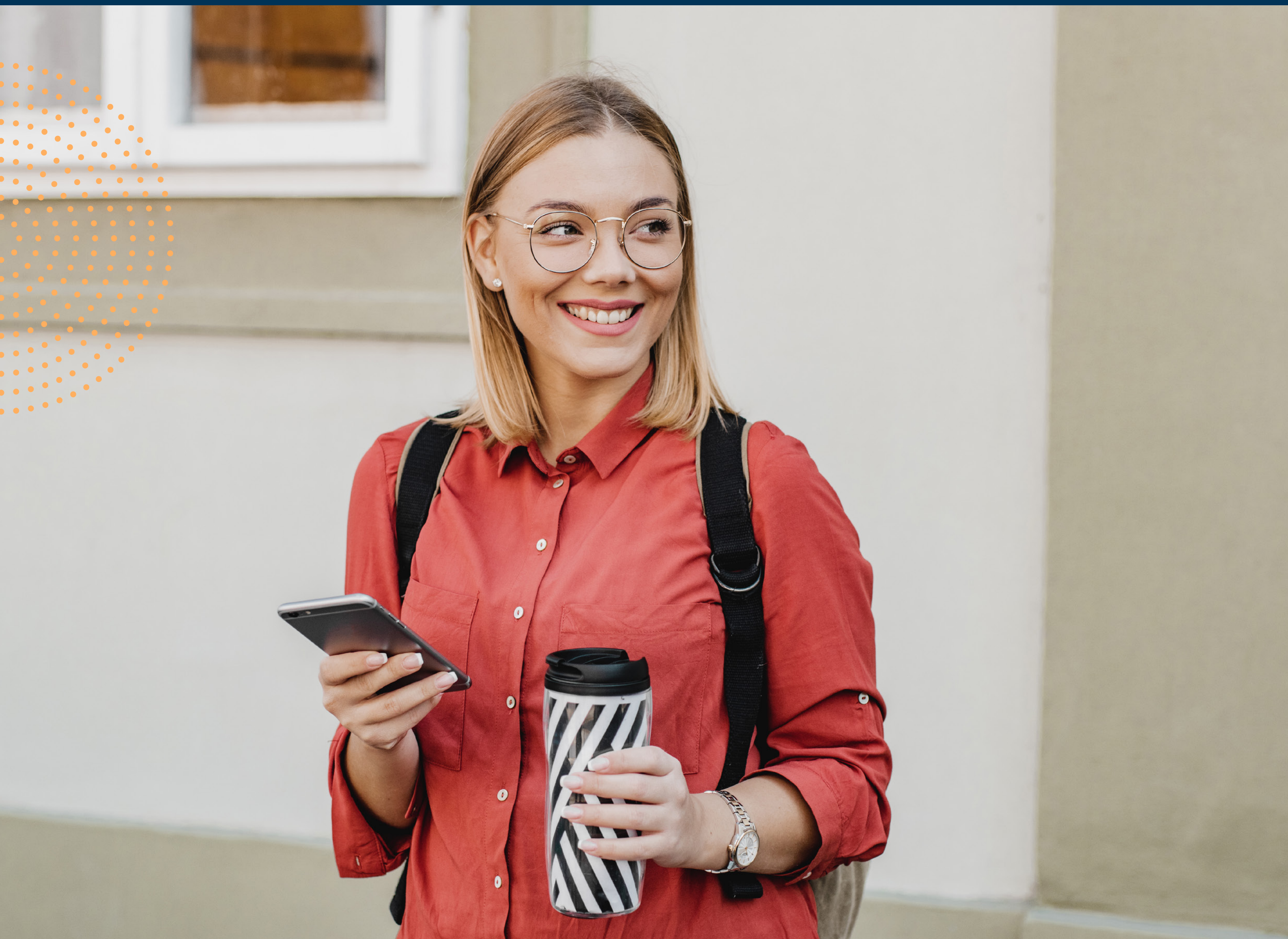


Welcome to your investment report

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 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 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

During the fourth quarter of 2023, we finally saw the steady fall of inflation, not only in the UK but also elsewhere around the world. As the financial quarter and the year closes, investors are speculating about when the first interest rate cuts will happen, rather than if they will. This has created a 'feel good' factor in financial markets, resulting in a strong finish to 2023 for investors around the world.

The default growth fund, Smart Sustainable Growth (SSG), posted a significant gain of 6.8% (net of fees) in the quarter, resulting in a satisfying 13.0% gain for the whole of 2023.

This positive global asset performance is particularly impressive against the backdrop of a troubling geopolitical landscape in the Middle East, triggered by the Hamas terror attack on Israel in October, and Israel's subsequent military response.

As the quarter progressed, investor confidence in both the speed and scale of anticipated rate cuts continued to grow, leading to a general consensus that the US Federal Reserve was once again behind the curve. However, it should be noted that central bankers have been resolute in their efforts to calm expectations, even if with little success. In the US the Consumer Price Index (CPI), which measures general retail price growth, fell from 3.7% year-on-year in September to 3.2% in October, and then again to 3.1% in November.

Similarly, UK inflation fell in October to 4.6%, down from the previous month's 6.7%, marking its lowest level in two years. November saw another drop in inflation, surpassing expectations in falling to 3.9%. During the quarter, yields of UK ten-year government bonds decreased from 4.4% to 3.5%. Despite these encouraging economic data points, no interest rate cuts have yet occurred.

US stock indices continued to be monopolised by the so-called 'magnificent seven' (Apple, Amazon, Alphabet, Meta Platforms, Microsoft, Nvidia and Tesla – see below), and this helped to power the S&P 500 index to total gains of more than 24% over the course of 2023.

Currency markets were benign over the year, except for the odd period of short-term volatility, despite large shifts in interest rates. Because interest rates were broadly uniform across the major economies, rate differentials remained constant.

Oil and energy prices also stayed calm, despite the worsening picture in the Middle East and genuine concerns that the conflict could escalate and spread to other parts of the region.

As we look forward to 2024, market sentiment is likely to be dominated by elections in the US, the UK and elsewhere around the world, as detailed below.

The big events

Elections

Magnificent seven

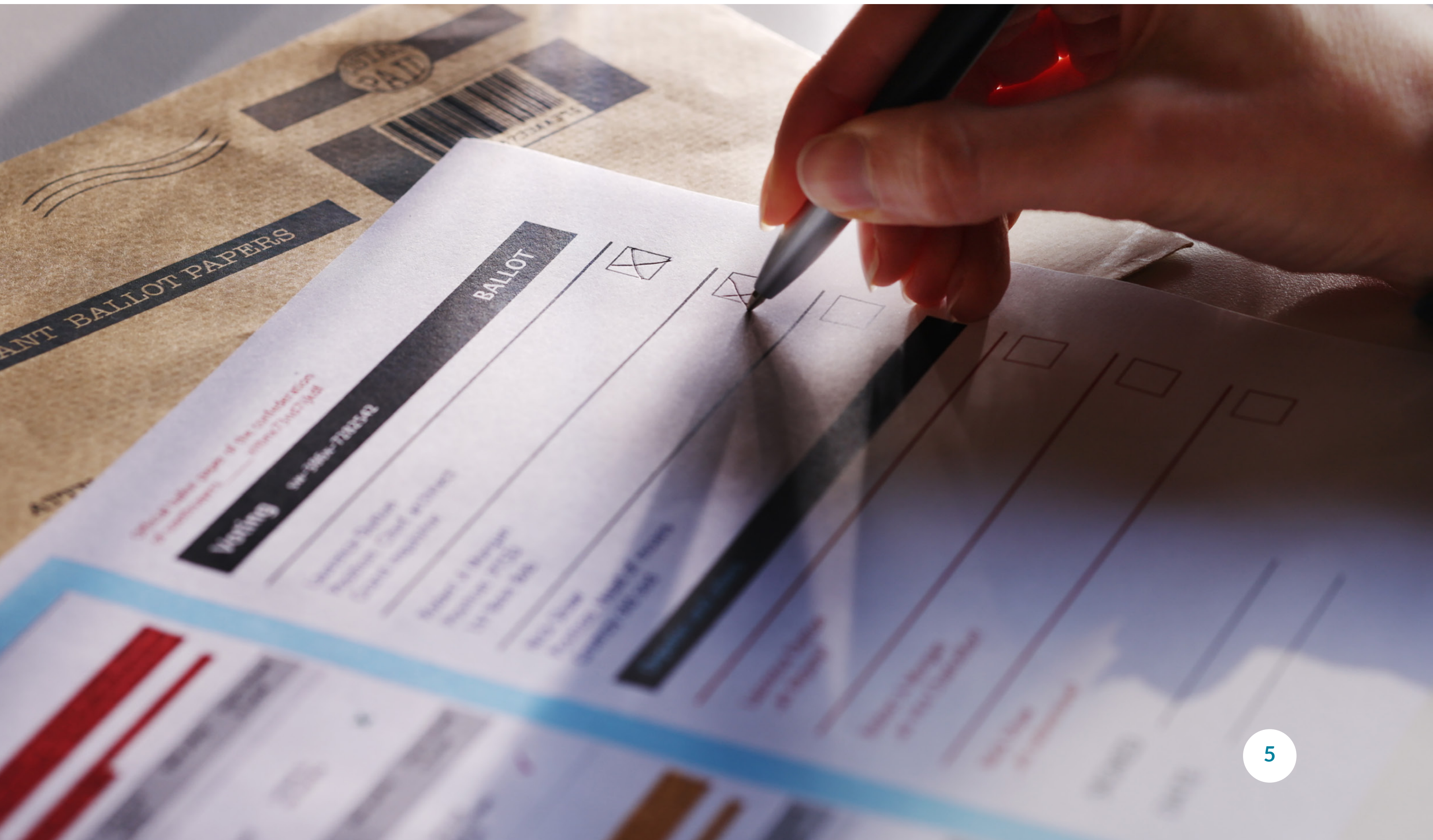
UK economic outlook

Interest rate volatility

Elections

2024 will see voters go to the polls in over 70 countries, representing almost half the global population. Elections in the UK, US, India and Taiwan all have the potential to influence the world order and all outcomes will no doubt be highly speculated upon. In the US, the Democrat/Republican race remains tight, and the prospect of a second Trump term is something that will be keeping many western leaders up at night, with its potential ramifications for NATO, Ukraine, Russia and the Biden green domestic economy.

In the UK, results look more predictable, with the Labour party in a healthy lead. Whatever the outcomes, investors should be prudent in their risk appetite until the political landscape looks more settled.



Interest rate volatility

There's a definite divide between market expectations and the official line from central bankers on the pace of rate cuts, and this is clearly a situation that will breed some price volatility. With a year of elections ahead of us, inflation (and how to control it) will be a significant topic that has the capacity to play a key role in outcomes. It is therefore a safe bet that central banks will be under a lot of pressure to snuff out any sign of inflation returning to its upward trajectory, especially because they usually err on the side of caution anyway.

Magnificent seven

The seven S&P 500 stocks detailed above have been widely recognised as the engine for growth that powered the index – and the US economy as a whole – in 2023. The effect is twofold: yes, the group has had phenomenal collective performance, but at the same time the index is market 'cap weighted', so it is the sheer size of these businesses that makes them so meaningful.

Should investors be concerned about concentration risk and the associated potential volatility this could bring? There is no doubt that the current status quo can potentially lead to increased volatility. However, all seven firms are the winners of the big tech race, so perhaps the true lesson here is in the exceptional performance of the S&P 500 compared to the FTSE 100. Sadly, the lack of true tech titans in the UK markets will continue to weigh down domestic indices.

UK economic outlook

The Bank of England's Monetary Policy Committee (MPC) voted to keep interest rates steady at 5.25% during the quarter.

On the face of it, the UK economic picture is improving – stocks rose, bonds strengthened, a recession has so far been avoided and the cycle of hiking interest rates is over. However, the UK economy remains behind many of its global peers, asset growth is not strong and the political picture is troublesome.

In the coming months, market momentum is likely to be politically driven, by either the policies of the current government or policy signposting from the Labour party, or indeed by the election itself.

Inflation has fallen from its peaks but some stubborn pockets of higher prices (food and wages) remain. These will see the MPC remaining cautious on the timing and size of any cut in interest rates.

It is hard to draw any firm conclusions for the UK economy at the present time, beyond assuming and hoping for the time being that things will carry on along a benign trajectory.

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 December 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.

Smart Blended Funds	3M	1Y	3Y	5Y
Smart Sustainable Growth Core				
Fund (returns beyond 1y are annualised)	6.7%	13.5%	This fund has been in existence for less than one year.	
Fund (cumulative returns)	6.7%	13.5%		
Benchmark (UK CPI +3.50%)	1.0%	8.0%		
Smart Sustainable Growth Fund				
Fund (returns beyond 1y are annualised)	6.9%	13.4%	6.7%	8.1%
Fund (cumulative returns)	6.9%	13.4%	21.6%	47.4%
Benchmark (UK CPI +3.50%)	1.0%	8.0%	10.3%	7.9%
Smart Sustainable Growth Plus				
Fund (returns beyond 1y are annualised)	6.3%	7.1%	This fund has been in existence for less than one year.	
Fund (cumulative returns)	6.3%	7.1%		
Benchmark (UK CPI +3.50%)	1.0%	8.0%		

Smart Growth – Higher Risk				
Fund (returns beyond 1y are annualised)	6.6%	13.5%	9.0%	9.3%
Fund (cumulative returns)	6.6%	13.5%	29.6%	55.8%
Benchmark (UK CPI +5.00%)	1.3%	9.4%	11.8%	9.4%
Smart Lower Risk				
Fund (returns beyond 1y are annualised)	6.7%	12.4%	5.2%	6.9%
Fund (cumulative returns)	6.7%	12.4%	16.3%	39.4%
Benchmark (UK CPI +2.00%)	0.6%	6.5%	8.8%	6.4%
Smart Income Fund				
Fund (returns beyond 1y are annualised)	7.2%	10.4%	2.7%	5.1%
Fund (cumulative returns)	7.2%	10.4%	8.2%	28.0%
Benchmark (UK CPI +3.50%)	1.0%	8.0%	10.3%	7.9%

Equity Investments	3M	1Y	3Y	5Y
Smart Active Impact Equity Fund				
Fund (returns beyond 1y are annualised)	5.8%	This fund has been in existence for less than one year.		
Fund (cumulative returns)	5.8%			
Smart UK Equity Index Fund				
Fund (returns beyond 1y are annualised)	2.4%	5.5%	9.4%	6.2%
Fund (cumulative returns)	2.4%	5.5%	30.8%	35.4%
Smart World (ex UK) Developed Equity Index Fund				
Fund (returns beyond 1y are annualised)	8.4%	18.9%	10.2%	13.6%
Fund (cumulative returns)	8.4%	18.9%	34.0%	89.0%
Smart North America Equity Index Fund				
Fund (returns beyond 1y are annualised)	8.9%	21.3%	12.4%	15.9%
Fund (cumulative returns)	8.9%	21.3%	42.1%	108.7%
Smart World Emerging Markets Equity Index Fund				
Fund (returns beyond 1y are annualised)	2.7%	2.2%	-1.3%	4.2%
Fund (cumulative returns)	2.7%	2.2%	-4.0%	22.6%

Fixed Interest	3M	1Y	3Y	5Y
Smart Active Impact Bond Fund				
Fund (returns beyond 1y are annualised)	9.0%	This fund has been in existence for less than one year.		
Fund (cumulative returns)	9.0%			
Smart All Stocks Index- Linked Gilts Index Fund				
Fund (returns beyond 1y are annualised)	9.5%	2.3%	-11.1%	-4.1%
Fund (cumulative returns)	9.5%	2.3%	-29.7%	-18.8%
Smart Global Bond Index Fund				
Fund (returns beyond 1y are annualised)	7.3%	8.0%	-1.6%	1.0%
Fund (cumulative returns)	7.3%	8.0%	-4.8%	5.2%
Smart Annuity Fund				
Fund (returns beyond 1y are annualised)	11.6%	8.1%	-10.1%	-2.1%
Fund (cumulative returns)	11.6%	8.1%	-27.3%	-10.2%
Cash	**3M**	**1Y**	**3Y**	**5Y**
Smart Cash Fund				
Fund (returns beyond 1y are annualised)	1.3%	4.6%	2.0%	1.2%
Fund (cumulative returns)	1.3%	4.6%	6.0%	6.0%
Smart Specialist Funds	**3M**	**1Y**	**3Y**	**5Y**
Smart Sharia Fund				
Fund (returns beyond 1y are annualised)	6.7%	27.5%	11.3%	16.8%
Fund (cumulative returns)	6.7%	27.5%	37.7%	117.6%
Smart Ethical and Climate Fund				
Fund (returns beyond 1y are annualised)	7.9%	16.9%	10.1%	13.1%
Fund (cumulative returns)	7.9%	16.9%	33.6%	85.2%

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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