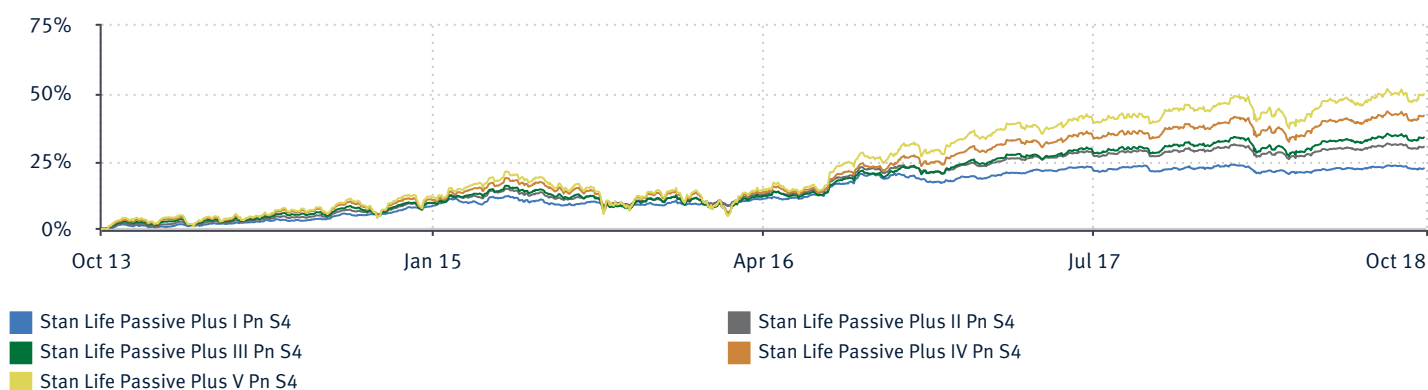


Passive Plus

There are five Passive Plus Pension Funds, ranging from lower through to higher risk (I to V). Each fund invests in a diverse range of assets and investment strategies, including equities, bonds, property, money market instruments and absolute returns. They do this mainly through index-tracking (passive) funds managed by Vanguard Asset Management. However, they also invest a proportion in actively managed absolute return, high yield bond and property funds from Standard Life Investments.

Performance (as at 30/09/2018)



Cumulative performance (as at 30/09/2018)

	I	II	III	IV	V
1 month	-0.49%	-0.32%	-0.17%	0.01%	0.20%
3 months	0.17%	0.72%	1.20%	1.71%	2.26%
6 months	1.10%	2.76%	4.33%	5.94%	7.54%
1 year	0.86%	2.53%	4.06%	5.56%	6.70%
3 years	13.17%	19.94%	24.59%	31.26%	38.98%
5 years	22.35%	30.35%	33.80%	41.86%	49.75%
Since launch	31.38%	42.84%	48.82%	59.41%	70.94%

Year on year (as at 30/09/2018)

	I	II	III	IV	V
0-12m	0.86%	2.53%	4.06%	5.56%	6.70%
12-24m	1.29%	3.88%	6.11%	8.37%	10.15%
24-36m	10.78%	12.61%	12.84%	14.75%	18.24%
36-48m	2.96%	2.38%	0.60%	0.14%	-0.67%
48-60m	5.00%	6.16%	6.75%	7.93%	8.47%

Gross income reinvested, net of fund charges, GBP, sourced from FE © 2018
The chart shows the performance of the fund over the period shown.

Past performance is not a guide to future returns. The value of this investment and the income from it may go down as well as up and cannot be guaranteed. An investor may receive back less than their original investment.

Market review

Global equity markets delivered robust returns over the third quarter, albeit with marked regional variations. The US was the standout market, with the S&P 500 Index hitting an all-time high, driven by a buoyant economy and robust corporate profits. Several emerging and Asian equity markets declined, with investor sentiment dampened by an escalation in the protracted US/China trade war. The strong US dollar also adversely affected many in the region. By contrast, Japan had a strong quarter as a weak yen boosted exports. Rounding off, Brent crude oil hit a four-year high at the close of the review period. Risk aversion was a primary influence on global government bonds during the period, which was largely rooted in an escalation of the trade spat between the US and China. Against that, a slew of encouraging US economic data caused the market to price in two interest rate rises before the end of 2018, pushing the 10-year Treasury yield decisively above the 3% mark. Meanwhile, it was a challenging but positive quarter for corporate bonds, with fears of faster-than-expected US interest rate rises and escalating global trade tensions fuelling volatility.

UK commercial property remained stable, although there were some indications during the quarter that the market is moderating. Total returns have been marginally weaker in recent months, with the return for August (the latest data available) the lowest since September 2016. Although capital growth is weaker, rents have held up fairly well – particularly for industrial and office property. Market trends continue to see industrial and retail property move in opposite directions. Industrials are still outperforming all the other commercial sectors as the relentless demand for all types of storage and distribution facilities drives the sector higher.

Range commentary

We review the Strategic Asset Allocation (SAA) for each of the funds every quarter, with the aim of ensuring that we continue to meet investors' long-term interests. At the most recent review, we made no changes to the SAA model.

Market outlook

While there are grounds to remain positive on certain equity markets and sectors, we are unlikely to enjoy the stellar returns seen in prior years. The Federal Reserve has started to raise interest rates, while the US/China trade dispute has intensified. The strength of the US dollar is also posing problems, notably in those emerging markets with high dollar-denominated debt. Meanwhile, the EU and UK are running out of time to strike a deal on Brexit. Nonetheless, the overall economic backdrop is broadly supportive and, while valuations in many areas of the market look stretched, there remain numerous opportunities for stock pickers.

We continue to see value in investment grade credit, given the sizeable market correction in the first half of 2018 and the strong fundamental backdrop for most corporates. However, the combination of trade tensions, continuing political uncertainty around Brexit and the US mid-term elections could increase near-term volatility. Meanwhile, the path and speed of interest rate changes will continue to determine the short-term outlook for government bond markets.

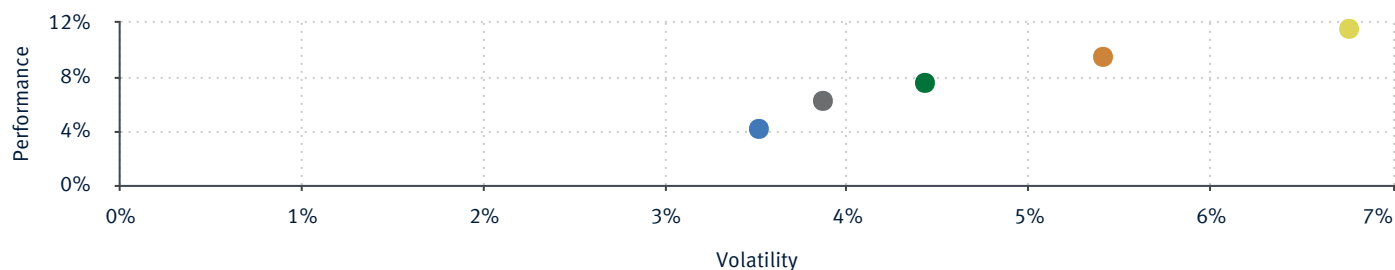
Although some progress has been made in Brexit negotiations, uncertainty around the ultimate economic impact continues to affect sentiment towards UK commercial real estate. We envisage a period of low returns over the next five years, with the forecast annual total return being slightly below the market income return. With income expected to be the main driver of returns over the period, the degree of income risk – from potential tenant default or the ability to maintain income at lease events – will be key to asset performance.

Additional information

	I	II	III	IV	V
Fund Management Charge	1.000%	1.000%	1.000%	1.000%	1.000%
Total Annual Fund Charge*	1.01%	1.03%	1.02%	1.03%	1.04%
Citicode	0SVK	0SVL	0SVM	0SVN	0SVO
Fund size in £m as at 30/09/2018	8.21m	52.64m	3,547.89m	316.05m	37.29m

Source: Standard Life Investments 2018

*The Total Annual Fund Charge is the total of the Fund Management Charge (FMC) and additional expenses.

Annualised risk and return (as at 30/09/2018)

Gross income reinvested, net of fund charges, GBP, Sourced from FE © 2018

The chart shows the annualised volatility (risk) and annualised performance based on fund returns over the past three years to the date shown.

Key	Name	Performance	Volatility
●	Stan Life Passive Plus I Pn S4	4.21%	3.52%
●	Stan Life Passive Plus II Pn S4	6.25%	3.87%
●	Stan Life Passive Plus III Pn S4	7.60%	4.43%
●	Stan Life Passive Plus IV Pn S4	9.49%	5.41%
●	Stan Life Passive Plus V Pn S4	11.59%	6.76%

The table shows the annualised volatility (risk) and annualised performance based on fund returns over the past three years to the date shown.

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Current asset allocation (as at 30/09/2018)

Defensive assets	I	II	III	IV	V
Money Market including Cash	10.80%	5.60%	2.50%	2.00%	1.00%
UK Government Bonds	14.30%	10.10%	7.30%	2.10%	-
Sterling Corporate Bonds	11.90%	8.80%	5.30%	1.80%	-
Short Dtd Sterling Corp Bonds	11.90%	8.80%	5.30%	1.80%	-
Global Corporate Bonds	17.80%	13.20%	7.90%	2.80%	2.00%
Short Dated Global Corp Bonds	5.90%	4.40%	2.60%	0.90%	-
Total	72.60%	50.90%	30.90%	11.40%	3.00%
Growth assets	I	II	III	IV	V
UK Equities	5.70%	10.30%	14.70%	19.20%	25.40%
US Equities	5.00%	9.20%	13.30%	17.20%	23.00%
European Equities	2.20%	4.10%	5.80%	7.60%	10.20%
Japanese Equities	1.60%	3.00%	4.20%	5.50%	7.40%
Asia Pacific Equities	1.30%	2.30%	3.30%	4.30%	5.80%
Emerging Market Equities	1.30%	2.30%	3.30%	4.30%	5.80%
Global High Yield Bonds	1.10%	2.00%	2.20%	1.80%	-
UK Real Estate	2.60%	4.50%	6.20%	8.10%	-
Global REITs	0.90%	1.50%	2.10%	2.70%	-
Multi Asset Absolute Returns	5.70%	9.90%	14.00%	17.90%	19.40%
Total	27.40%	49.10%	69.10%	88.60%	97.00%

Source: Standard Life Investments 2018

Holdings (as at 30/09/2018)

Defensive assets		Asset class	I	II	III	IV	V
SL Vanguard Global Corporate Bond Idx Pn	Global Corporate Bonds	17.80%	13.20%	7.89%	2.78%	1.99%	
SL Vanguard Global Sht-Tm Corp Bd Idx Pn	Short Dated Global Corporate Bonds	5.91%	4.37%	2.59%	0.89%	-	
SL VANGUARD UK GOVERNMENT BD IDX PENS FD	UK Government Bonds	14.25%	10.09%	7.29%	2.07%	-	
SL VANGUARD UK INVEST GRADE BD IDX PN	Sterling Corporate Bonds	11.87%	8.77%	5.29%	1.77%	-	
SL Vanguard UK Sht-Term Inv Grd Bd Idx P	Short Dated Sterling Corporate Bonds	11.86%	8.77%	5.29%	1.78%	-	
STANDARD LIFE MONEY MARKET PENSION FUND	Money Market including Cash	10.80%	5.57%	2.49%	1.98%	0.99%	
Total		72.49%	50.77%	30.84%	11.27%	2.98%	
Growth assets		Asset class	I	II	III	IV	V
PENSIONS PROPERTY	UK Real Estate	2.61%	4.47%	6.19%	8.07%	-	
SL Global Property Securities Asset Fd	Global REITs	0.87%	1.47%	2.09%	2.67%	-	
SL SLI GBL ABSOL RTN STRTGS (PASSV PLUS)	Multi Asset Absolute Returns	5.73%	9.87%	13.99%	17.87%	19.39%	
SL SLI GLOBAL HIGH YIELD BOND ASSET	Global High Yield Bonds	1.11%	1.98%	2.19%	1.79%	-	
SL VANGUARD EMERG MARKETS STOCK INDEX PN	Emerging Market Equities	1.31%	2.33%	3.32%	4.34%	5.79%	
SL VANGUARD FTSE DEV EUR EX UK EQ IDX PN	European Equities	2.21%	4.13%	5.80%	7.63%	10.19%	
SL VANGUARD FTSE UK ALL SHARE INDEX PN	UK Equities	5.77%	10.42%	14.78%	19.34%	25.41%	
SL VANGUARD JAPAN STOCK INDEX PENSION FD	Japanese Equities	1.63%	3.07%	4.22%	5.56%	7.46%	
SL VANGUARD PACIFIC EX JAPAN STK IDX PN	Asia Pacific Equities	1.29%	2.31%	3.29%	4.27%	5.79%	
SL VANGUARD US EQUITY PENSION FUND	US Equities	4.98%	9.18%	13.29%	17.19%	22.99%	
Total		27.51%	49.23%	69.16%	88.73%	97.02%	

Source: Standard Life Investments 2018

Important information

The value of a fund can go down as well as up, and is not guaranteed. You may receive back less than the amount originally invested. Past performance is not a guide to the future.

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