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Unit Linked & With-Profits Pension Funds Investment Report 2020

Market Commentary

Global Overview

Globally, stock markets rose over the past 12 months, but with considerable divergence by country. While US and Chinese stocks performed well, markets in many other countries recorded sharp falls. Shares in the UK and Latin America, in particular, fared badly. Covid-19 was the dominant factor in 2020, negatively affecting markets in the first quarter. However, markets have broadly been recovering since April.

Interest-rate cuts were prevalent over the period. The US Federal Reserve (Fed) reduced the main rate twice in March, with the final cut taking the main US rate to near zero. The European Central Bank (ECB) announced a stimulus plan worth €1.35 trillion to counter the economic effects of coronavirus. In October, the central bank signalled a strong possibility of further stimulus. Both the US and the EU announced expanded stimulus measures in December.

The first quarter of 2020 was a torrid time for global share prices. Concerns about the virus dominated investor sentiment. Investors sold stocks in favour of assets that they considered to be less risky, such as government bonds. But decisive action by governments and central banks to limit economic damage supported investor sentiment and markets began to recover in April. Technology stocks have been strong performers globally, especially in the US.

The recovery stalled in September and October, reversing some recent gains. In November, however, the relatively smooth US presidential election – coupled with news of three major Covid-19 vaccines – buoyed markets. This positive sentiment persisted throughout December as vaccination programmes were launched, stimulus programmes were approved and a Brexit trade deal was struck.

UK

The UK stock market was among the poorer developed markets, ending lower over the 12 months. During a period of considerable political upheaval, investors grappled with Brexit-related uncertainty and the economic fallout from the coronavirus pandemic. Smaller domestic companies outperformed larger London-listed companies, which includes many global commodity firms.

At the beginning of the period, the market rose steeply when the Conservatives won a resounding victory in the December election. In February, UK stocks tumbled in line with their global peers, as the economic fallout from the coronavirus pandemic became clear. Share-price falls accelerated until late March, when the Bank of England (BoE) and UK government cut interest rates and announced a record spending package, respectively.

Stocks rallied thereafter as the economy began to reopen after months of economic lockdown. The third quarter was more mixed. Stocks dipped in July amid wider economic uncertainty before posting marginal gains in August. But stocks fell again in September and October amid a second Covid-19 wave and continued uncertainty around Brexit.

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However, news of a Biden presidency coupled with major vaccine announcements in November spurred a strong rally in equities. The rollout of vaccination programmes, coupled with the UK and the EU agreeing on a Brexit trade deal, were also supportive for UK equities thereafter – even as a new, more virulent Covid-19 strain spread through the country. To provide further economic relief, the government announced it would be extending its furlough scheme until the end of April 2021. The central bank also boosted its bond-buying scheme by a further £150 billion.

Europe
European shares (excluding the UK) finished slightly higher over the period, although performance varied by country. At the beginning of 2020, greater clarity on Brexit and a 'phase-one' trade agreement between the US and China also drove markets upwards. However, European investor confidence nosedived with market returns as Covid-19 spread around the world. Eurozone economic activity collapsed as countries shut down to tackle the coronavirus. In response, the ECB announced a massive €750 billion corporate and government bond-buying scheme to shore up markets.

Bond buying by central banks around the world ignited a rebound in European bourses in April. Markets rose on signs of falling infection rates and hopes for the lifting of lockdown restrictions. However, dismal economic data dragged equities down in July, while hopes of further stimulus, coupled with a dovish tone from the Fed, gave equities a boost in August.

However, stocks dipped in September and October as a dramatic rise in Covid-19 cases sparked lockdown fears and actual lockdowns in Germany, France and Italy. European equities posted one of their best months ever in November, as news of major vaccine breakthroughs, a Biden presidency and falling new coronavirus cases in the latter half of the month lifted stocks.

December saw a continuation of this trend. The rollout of vaccinations, a new Brexit trade deal, the confirmation of a Biden victory, the new US stimulus package and the €500 billion expansion of the ECB's monetary stimulus programme all combined for a near-universally positive month for equities. This was even as a second wave of infections continued to surge through the continent, resulting in an extension of lockdown measures.

Asia Pacific
Equity markets in the Asia Pacific (excluding Japan) region rose over the period, showing particular strength in the last few months. After a robust 2019, the coronavirus outbreak hit the region in early 2020, and markets saw a turbulent few months. Coronavirus disruption hit global economic forecasts in March, while May saw protests in Hong Kong and a deterioration in US-China relations. However, stocks rebounded strongly in the summer months.

The start of the period saw the US and China sign a 'phase-one' trade agreement, which Asian markets welcomed. Equity indices tumbled in early 2020 following the coronavirus outbreak. In response, Asian central banks further reduced rates. They also provided extraordinary credit facilities to allow local banks to lend to struggling businesses. Additionally, South Korea declared an economic emergency and Singapore unveiled a US$4.6 billion fiscal stimulus programme.

Across the region, markets have been recovering for a few months, as investors perceived the pandemic's spread to be more under control. News of vaccine breakthroughs and the outcome of the US election helped extend this trend into November. Equities maintained their strong performance in December as vaccination programmes were rolled out and the new US stimulus bill was approved.

Chinese markets have rallied strongly, driven by consumer, technology and healthcare stocks. China's economy continued its recovery, with third-quarter GDP posting a 4.9% year-on-year increase. Its manufacturing sector has also expanded for six consecutive months since June. South Korea saw its economy return to growth, with a seasonally adjusted 1.9% quarterly increase for the third quarter.

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Corporate Bonds
Corporate bond returns were positive over the period, largely fuelled by falling government bond yields across developed markets. Investment-grade issues saw solid returns, and although the high-yield sector was more turbulent, it still posted good performances. This was despite Covid-19 hitting economies and companies, leading to fears over the creditworthiness of the high-yield sector.

Gilt yields fell abruptly in January as the scale of China's coronavirus outbreak became apparent, and markets looked at its potential effect on global growth prospects. Boosted by a subsequent large downward move in government bond yields, returns for sterling corporate bonds were strong in January.

However, they suffered in February on investors' perception of corporate bonds as higher-risk assets. Investment-grade corporate bonds were badly hit in March, faced with the double effect of the coronavirus and a precipitous fall in the oil price. High-yield and emerging-market bonds fared even worse, with the former pricing in a significant rise in default rates over the coming months. Since April, there has been a broad recovery and stabilisation. Moreover, the major central banks all purchased corporate bonds through their stimulus programmes.

Bond prices fell slightly in September and October as investors sold out of riskier debt, concerned about the potential for rising defaults amid uncertainty from rising coronavirus cases and the US election. November saw a resumption of the upward trend on positive news flow stemming from vaccine breakthroughs and a likely Biden presidency. This extended into December, driven by vaccine optimism and the agreement of the Brexit trade deal.

Government Bonds
Government bonds mostly rose over the past 12 months, with yields falling in most major economies. At the beginning of the year, US 10-year Treasury yields remained high on news that China and the US looked closer to resolving their trade dispute. The spillover effect from the results of the UK's December 2019 general election, which markets viewed as a positive, also kept UK gilts high at the start of 2020.

However, that trend reversed abruptly from mid-January 2020. Fears about the Covid-19 outbreak encouraged a 'flight to safety'. Investors abandoned risky assets in favour of government debt. As demand increased, government bond prices rose, and yields dropped. The Fed and the BoE both slashed interest rates in March, while demand for defensive assets drove the yields on government bonds sharply downwards.

Many countries hit record-low yields in mid-2020. After a brief correction in August, investors sold global equities for government bonds, seeking lower-risk investments in the face of growing economic uncertainty and pushing bond prices higher. November saw US Treasury yields dipping slightly, with German bunds and UK gilts seeing increases due to vaccine optimism and a likely Biden presidency. US Treasury yields reversed course in December and climbed, as the Fed pledged to maintain its bond-buying programmes. UK gilts had a mixed month, initially falling amid news of a more virulent Covid-19 strain, before rising on hopes of a Brexit trade deal. Nevertheless, yields ended the month lower. German bund yields also wavered throughout the month for the same reasons, before ultimately ending the month flat.

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UK Commercial Real Estate
The reporting period was dominated by the effects of the ongoing Covid-19 pandemic. According to the MSCI monthly index, UK commercial property returned -1.9% (in sterling terms) over the 12 months to the end of November (the latest data available). Retail was the weakest sector at -11.9%, while industrials outperformed at 6.7%.

According to Property Data, there were £41.8 billion worth of deals in the UK in 2020. It was the lowest annual total since 2012's £33.4 billion. Adjusted for capital growth, however, it is broadly in line with volumes in 2010, 2011 and 2012, so could be regarded as being the weakest year since the global financial crisis.

The second Covid-19 wave gathered pace in the autumn and lockdowns were reintroduced in all UK nations. Consumer-facing sectors – such as retail, leisure and hotels – continued to face challenging trading conditions. The lower real estate returns reflect these difficulties. Elsewhere, the supermarket and industrial sectors continued to show relative resilience. There is strong and focused demand in the market for the preferred sectors. Supermarkets, industrials, residential and the secure income markets fit the bill in this regard.

Japan
Equities in Japan slightly increased over the 12 months to the end of December. The coronavirus outbreak rocked Japanese stocks in early 2020 and markets dipped precariously. Sentiment improved in the second quarter of 2020 as the government started to ease lockdown measures. The third quarter was mixed, although markets saw a slight uptick overall. The fourth quarter saw a strong performance, driven by optimism surrounding both the vaccine, the US presidential election and a fresh economic stimulus package.

At the dawn of 2020, hopes of central-bank stimulus measures and the signing of the US-China 'phase-one' trade deal boosted Japanese share prices. But soon after, the coronavirus pandemic dominated sentiment. Shinzo Abe, the then prime minister, declared a nationwide state of emergency in April. As economic activity dried up, the Bank of Japan announced a ¥117 trillion stimulus package, which helped local equity markets to rebound strongly.

However, investor optimism was dampened in June by evidence of a deep recession due to lockdown measures. Prime Minister Shinzo Abe announced his resignation towards the end of August, citing health concerns. Despite recovering in August and September, markets dipped again in October, weighed down by concerns about Covid-19 and the upcoming US presidential election. Japanese equities then benefited from positive investor sentiment arising from vaccine breakthroughs, US election results and positive economic data. This positive trend was maintained throughout the rest of the year, with the government announcing free vaccines for all residents as well as a new ¥73.6 trillion stimulus package. The approval of the US stimulus bill also contributed to improving sentiment.

US
US shares registered positive returns over the past 12 months. Lockdowns implemented across the country to combat the coronavirus sparked precipitous falls in late February and early March 2020. However, drastic government and central-bank responses then drove a dramatic market recovery. This took equity markets to new all-time highs.

US-China trade negotiations led to an initial trade agreement in January. This fuelled a market rally that was earlier encouraged by supportive central-bank policy. Robust corporate earnings also boosted investor sentiment and the S&P 500 Index hit a new high in February.

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Stocks crashed in late February as countries began to shut down in response to the spread of Covid-19. The Fed reacted by cutting interest rates to near zero. Massive stimulus by the authorities spurred a strong rally in US stocks in April. Gains continued amid hopes of a V-shaped economic recovery and easing lockdowns. In June, the speed of the market recovery slowed due to fears of a second wave of coronavirus. Nevertheless, the recovery continued at a steady pace and the S&P 500 reached a new all-time high at the beginning of September.

However, bearish sentiment reared its head and major indices fell thereafter. This was driven by an uptick in Covid-19 cases, and doubts about both vaccine stability and additional fiscal stimulus. In November, the US presidential election, coupled with three major vaccine announcements, was positive for equities – despite the likely prospect of a divided government. This trend continued into the end of the year. Despite daily coronavirus cases continuing to tick upward, equities ended the year at new all-time highs, with Trump finally signing a new US$900 billion stimulus package. The electoral college also officially confirmed Joe Biden's election victory, quelling some political uncertainty.

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Key Updates for Phoenix Life Limited
SPI With-Profits Fund Customers

Former Scottish Provident Limited 1 January 2021
Irish traditional with-profits pension policies

Your policy is part of the Phoenix Life Limited SPI With-Profits Fund (the 'with-profits fund').

Self Employed Deferred Annuity (SEDA) policies have guaranteed annuities / pensions.

Executive type pensions have cash sums at the selected retirement age that have been purchased with the premiums that have been and will be paid, and from previous bonuses we have added.

Bonus rates
The annual bonus rates for Executive type pension policies remain at nil for 2020.

Annual bonus rates for SEDA pension policies also remained at nil for 2020.

There has been no increase to annual bonus rates because the benefits already guaranteed to be paid are high compared to the value of the underlying assets, and we are giving priority to paying a final bonus at the retirement date if at all possible. The addition of any future annual bonuses will depend on the future investment performance and experience of the with-profits fund, after allowing for the historic performance and the value of the guaranteed benefits.

We have reviewed our policy of concentrating on final bonuses before increasing annual bonuses and continue to believe that this is the fairest way for all policyholders to benefit from the returns of the with-profits fund.

We may add a final bonus on retirement at the selected retirement date. We do not guarantee final bonuses. We normally review final bonus rates twice a year from 1 January and 1 July. However we may change final bonus rates at any time.

Please remember that annual bonuses are only one part of the benefits from your with-profits policy. In many cases the benefits already guaranteed to be payable are very valuable and there may also be a final bonus. Please also remember that guarantees will normally be lost if your policy is surrendered or transferred out.

Investment approach
The with-profits fund consists of a wide range of assets with the aim of providing good growth potential over the medium to long term.

On 31 December 2020, the split of assets for Irish traditional with-profits pension policies was approximately:

Company shares	20%	
Property	6%	
Other growth assets	5%	
Total growth assets		**31%**
Fixed interest stocks - issued by governments in the eurozone	48%	
Other fixed interest stocks - (including corporate bonds)	18%	
Cash	3%	
Total fixed interest and cash assets		**69%**
Total assets		**100%**

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The investment return on the with-profits fund for these policies over the last few years is shown in the table below.

Phoenix Life Limited – SPI With-Profits Fund
Former Scottish Provident Limited
Irish traditional with-profits pension policies

Investment return
(before tax, expenses and charges)

Year	Investment return
2020	3%
2019	9%
2018	0.5%
2017	3%
2016	4%
2015	4%
2014	12%
2013	5%
2012	10%
2011	1%

We do not expect to make any changes to the investment strategy for the with-profits fund during 2021.

Surplus money

There is more money in the fund than we expect to pay out in claims. Some of this surplus money is used to protect the fund against unexpected shocks, for example a fall in the value of the fund's investments. However, the remainder can be released and used to increase the amounts we pay out to policyholders. From January 2021 this surplus is increasing policy payouts by up to 45.5% for those policies receiving a final bonus. The amount we are able to add to policy values will be regularly reviewed and may increase or decrease, and could even be removed entirely.

This information is correct at 1 January 2021.

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Key Updates for Phoenix Life Limited
SPI With-Profits Fund Customers

Former Scottish Provident Limited 1 January 2021
Irish unitised with-profits pension policies

Your policy is part of the Phoenix Life Limited SPI With-Profits Fund ('the fund'). Your policy has with-profits units that have been purchased with the premiums you have paid. Some policies may be split between unit-linked funds and the with-profits fund. This information sheet refers only to the with-profits element.

Bonus rates
Annual bonuses from 1 April 2021:

- For all units purchased before 1 October 1999 (Irish pension series I) there is a guaranteed minimum annual bonus of 4.0% each year. We have continued to add this, but we have not been able to add any additional annual bonus.
- For the other series, where there is no guaranteed annual bonus, we have reduced the annual bonus at 2.5% (was 4.5% from 1 April 2020).

We have reviewed our policy of concentrating on final bonuses before increasing annual bonuses and continue to believe that this is the fairest way for all policyholders to benefit from the returns of the fund.

The addition of any future annual bonuses will depend on the future investment performance and experience of the fund, after allowing for the historic performance and the value of the guaranteed benefits. Where series of units have a guaranteed amount of annual bonus, these will continue to be added as usual.

We are currently (as at 1 January 2021) adding a final bonus on retirement at the selected retirement date. However, we do not guarantee final bonuses. We normally review final bonus rates twice a year from 1 January and 1 July, but we may change the final bonus rates at any time. On surrender, transfer or retirement at any date other than the selected retirement date, we may apply a market value reduction. This would have the effect of firstly reducing any final bonus and then reducing the value of the units in the policy. We review the level of market value reductions regularly.

Investment approach
The fund consists of a wide range of assets with the aim of providing good growth potential over the medium to long term. On 31 December 2020, the split of assets for Irish unitised with-profits pension policies was approximately:

	Series I	Series II	Series III
Company shares	20%	41%	41%
Property	6%	12%	12%
Other growth assets	5%	10%	10%
Total growth assets	**31%**	**63%**	**63%**
Fixed interest stocks - issued by governments in the eurozone	48%	22%	22%
Other fixed interest stocks (including corporate bonds)	18%	11%	11%
Cash	3%	4%	4%
Total fixed interest and cash assets	**69%**	**37%**	**37%**
Total assets	**100%**	**100%**	**100%**

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The investment return on the fund for these with-profits units over the last few years is shown in the table below.

Phoenix Life Limited – SPI With-Profits Fund Former Scottish Provident Limited Irish unitised with-profits pension policies Investment return (before tax, expenses and charges)			
Year	Series I	Series II	Series III
2020	3%	2%	2%
2019	9%	14%	14%
2018	0.5%	-1.3%	-1.3%
2017	3%	7%	7%
2016	4%	3%	3%
2015	4%	8%	8%
2014	12%	14%	14%
2013	5%	11%	11%
2012	10%	11%	11%
2011	1%	-2%	-2%

We do not expect to make any changes to the investment strategy for the fund during 2021.

Surplus money

There is currently more money in the fund than we expect to pay out in claims. Some of this surplus money is used to protect the fund against unexpected shocks, for example a fall in the value of the fund's investments. However, the remainder can be released and used to increase the amounts we pay out to policyholders. From January 2021 this surplus is increasing policy payouts by up to 45.5% for those policies receiving a final bonus. The amount we are able to add to policy values will be regularly reviewed and may increase or decrease, and could even be removed entirely.

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Unit Linked Fund Returns for 2020

A. Ignis Asset Management:

Fund / Asset Class	2020
Guaranteed Deposit*	0.00%
Fixed Interest	2.84%
Cautious Managed	1.56%
Balanced Managed	2.27%
Adventurous Managed	2.24%
European Stock Market	0.16%
North American Stock Market	7.68%
World Stock Market	2.63%
UK Stock Market	-7.17%
Far East Stock Market **	6.83%
Japan Stock Market	-0.65%

www.ignisasset.com

* The bid price of this fund is guaranteed not to fall other than by the value of the annual reduction applied for the Irish Government tax levy.

** Please note that the Far Eastern Stock Market had exposure to the Japan Stock market

B. KBC Asset Management:

Fund /Asset Class	2020
Irish Equity	-1.92%
Managed	-3.14%
Euroland Equity	6.46%
Dividend Plus Global Equity (Top Picks)	-6.60%
Dividend Plus Global Equity (Fallen Angels)	-6.50%
Euro Balanced	4.92%
Balanced Managed	-3.01%
Irish Stockmarket	-1.43%

www.kbcam.com

C. BlackRock Investment Managers:

Fund /Asset Class	2020
Euro Global Balanced Managed	9.70%
Global Equity	8.99%
Euro Global Bond	4.01%

www.blackrock.co.uk/uksite/index.htm

D. Aberdeen Asset Management.

Fund / Asset Class	2020
Global Champions	3.72%
Technology	27.30%

www.aberdeen-asset.com

Source – Financial Express Analytics

Scottish Mutual International Limited (Company No. 242244) trading as Phoenix Ireland is regulated by the Central Bank of Ireland. Phoenix Life Limited, trading as Phoenix Ireland, is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom and is regulated by the Central Bank of Ireland for conduct of business rules. Scottish Mutual International Limited's registered office is 25-28 North Wall Quay, Dublin 1, Ireland. An up-to-date list of its directors, containing the particulars required by paragraphs (a), (b), and (c) of section 196(1) of the Companies Act 1963, is available upon request from the company's registered office. Phoenix Life Limited is incorporated in England (Company No. 1016269) and has a registered branch in Ireland (Branch No. 906073). Phoenix Life Limited's registered office is 1 Wythall Green Way, Wythall, Birmingham B47 6WG United Kingdom. Its directors are A B Davidson (UK), J P Evans (UK), M J Merrick (UK), A Moss (UK), M D Ross (UK), W Snow (UK), W R Treen (UK), S True (UK) and M N Urmston (UK).