

Standard Life
There's a lot to look forward to

GARS update for investors

Q2 2020 performance review



Staying close to your investments

We understand how important your investments are to you, and to your future.

Together with your financial adviser, we're here to help you build your life savings and work towards your goals.

We believe that you need straightforward and regular updates on your investments so that you always know where you stand.

Staying up to date

This document has been designed to keep you up to date on how GARS is performing and how the fund is positioned for the future.

To get more details on your policy, log on to www.mystandardlife.ie

You can also talk to your financial adviser for more information.



GARS fund aim

Global Absolute Return Strategies (GARS) has a return target of cash* +5% per annum on average when measured over any three consecutive years (gross of charges). The fund is expected to show volatility of one-third to one-half of a long-term investment in global equities (volatility is a measure of how much an investment rises and falls).

By investing across many different markets and different types of investments, the risk can be spread much further. Aberdeen Standard Investments purposefully select investments for GARS that are likely to respond differently to a given set of economic scenarios.

Whilst not guaranteed, this means that losses from some should be offset by positive performance from others.

* as measured by the six month European Interbank Offer Rate (EURIBOR).

The views expressed in this document represent the opinions of Aberdeen Standard Investments and are not intended to be relied upon as a forecast or guarantee of future results. Aberdeen Standard Investments reserves the right to make changes and corrections to the opinions expressed in this document at any time.

Warning: If you invest in this fund you may lose some or all of the money you invest

Warning: The value of your investment may go down as well as up

Warning: This investment may be affected by changes in currency exchange rates

Q2 2020 performance review

GARS posted a positive return, as markets rebounded after first quarter losses.

How did GARS perform over the third quarter 2019?

GARS rose 2.3% net of fees in the second quarter of 2020. The rebound in global equities boosted our US and Korean equity positions. These gains were partly offset by negative contributions from our US equity volatility, short US equity technology and short US small-cap equity strategies. Developed market corporate bonds benefited from central banks' accommodative stance. This drove positive returns from the European and US investment-grade and high-yield corporate bond positions. Renewed risk appetite also supported the funds' exposure to South African government bonds.

Developed market government bonds advanced (prices rose), with German bunds outperforming US Treasuries. Consequently, the funds' US versus German government bonds strategy hampered performance.

Activity

In April, we increased our equity exposure after central banks and governments responded to the Covid-19 crisis with unprecedented support measures. Specifically, we increased our US large-cap equity position and reduced our short US small-cap equity position. We closed our Japanese and emerging markets (EM) equity exposures and increased the Korean equity allocation. We further increased allocations to both Korean and US equity later in the period.

We substantially increased our exposure to developed market corporate bonds, as central banks broadened the scope of their bond-buying programmes. We increased allocations to investment-grade and high-yield bonds, and added a new position in contingent capital bonds (also called contingent convertible bonds or 'CoCos') to enhance portfolio income. Given our concerns about the outlook for EM economies, we closed the Mexican and Indonesian government bond positions and reduced the EM income strategy. Additionally, we added an EM currency relative-value strategy that seeks to exploit the perceived vulnerability of certain EM currencies in the current environment. We closed the US dollar versus Thai baht position as the baht is no longer our favoured expression of the weakening EM theme.

We switched interest rate exposure from Sweden to Australia where, in our view, there is greater potential for rate cuts. We reduced the US yield curve steepener allocation, taking profits. Also, we converted the US versus German interest rates strategy into an outright US rates position, which offered better upside potential while retaining defensive qualities.

We later added a global equity gold miners strategy, comprising a basket of stocks with earnings linked to gold prices. We consider gold attractive, given the scale of monetary stimulus and its potential effects on currencies. We added global equity video games and 5G strategies where we see substantial growth potential beyond the immediate boost of the 'stay at home' environment. We also added a position in UK equity mid-cap stocks.

Following news of European stimulus packages, we raised the level of risk (and therefore return potential). Specifically, we increased our high-yield corporate bond exposure and removed the hedge from the European equity infrastructure strategy. Also, we reduced the yen versus euro position and closed the Swiss franc versus euro position.

In June, positive market drivers started to fade and market valuations looked less appealing. This prompted us to again reduce risk levels by decreasing US and Korean equity market exposures. We also added a new European yield curve steepener strategy. We expect this to benefit from economic recovery over the very long term, from central bank purchases and from anticipated changes to Dutch pensions regulations.

To complement these changes, we reduced our US and Australian interest rate exposures. We closed the short US small-cap equity strategy and added further to high-yield corporate bonds, where central bank support is directed. We also took profits on our European investment-grade corporate bond and Korean equity strategies.

Long-term performance

Since GARS launch in Ireland in September 2008 it has returned:

	Since launch annualised
GARS gross of annual management charge	4.8%
GARS net of annual management charge	3.4%

Source: Aberdeen Standard Investments, 30 June 2020

The following chart illustrates the net performance of GARS since launch in Ireland in September 2008.



Warning: Past performance is not a reliable guide to future performance

Aberdeen Standard Investments' outlook and positioning

While improving Covid-19 infection and mortality trends have allowed some countries to start releasing lockdowns, we view the progress as limited. The pace of normalisation is also likely to be slow, particularly in those parts of the service sector reliant on close interaction with clients. Levels of unemployment have risen at record rates, so the potential knock-on consequences for consumption and therefore businesses are material. Mitigating this are central bank and government stimulus packages of unprecedented scale. This will underpin some assets, and it is in these areas we have aligned our positioning.

The range of potential outcomes for economies and markets is extraordinarily wide. Some equity markets appear to already price in an optimistic recovery scenario, hence our holdings in those are relatively low. These volatile conditions do, however, offer the potential for valuable new opportunities which our team is on the alert to uncover.

GARS is a portfolio of carefully selected longer-term diverse investment strategies. Typically, we hold around 25 to 35 strategies in the portfolio. Through these, we look to exploit return opportunities across a broad range of asset classes and geographies.

Aberdeen Standard Investments seeks to ensure the investments chosen cover a broad variety of economic and secular themes in the global financial marketplace. In this way, we aim for GARS to deliver a relatively stable return in a wide range of market conditions.

Note, there will be periods when GARS delivers more or less than the target, and the portfolio may even lose money – GARS is not a capital-protected portfolio.

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A decision to invest should not be based on the information in this document. Please talk to your financial adviser for more information, or if you need an explanation of the terms used.

For fund factsheets, performance and other information, visit our Fund Centre: www.standardlife.ie/funds

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