



Helping people save for their future

# EVOLVING YOU PENSION INVESTMENT SOLUTION

SCOTTISH WIDOWS

# PROGRESS ON RECENT CHANGES TO YOUR DEFAULT AND LIFESTYLES

Last year, Scottish Widows confirmed changes were being made to your pension investments, through our two managed lifestyle investment solutions:

- The Pension Investment Approaches (PIAs) and their underlying Pension Portfolio Funds (PPFs)
- The Scottish Widows Passive Guided Lifestyles (previously called Zurich Managed Solutions) and their underlying Passive Multi-Asset Funds (PMAFs)

We confirmed that we were making changes to the PMAFs (started in late 2020) to enhance their asset allocation and deliver a more diversified asset mix, including:

- Changing the regional equity mix
- Investing in the BlackRock Climate Transition Global Equity fund
- Added a Global Bond fund managed by Abrdn

We also planned to mirror the Passive Guided Lifestyles with the Pension Investment Approaches, but following a review we're now going to instead facilitate a fund switch to the Pension Investment Approaches. This includes moving members automatically and a change in investments available under the scheme.

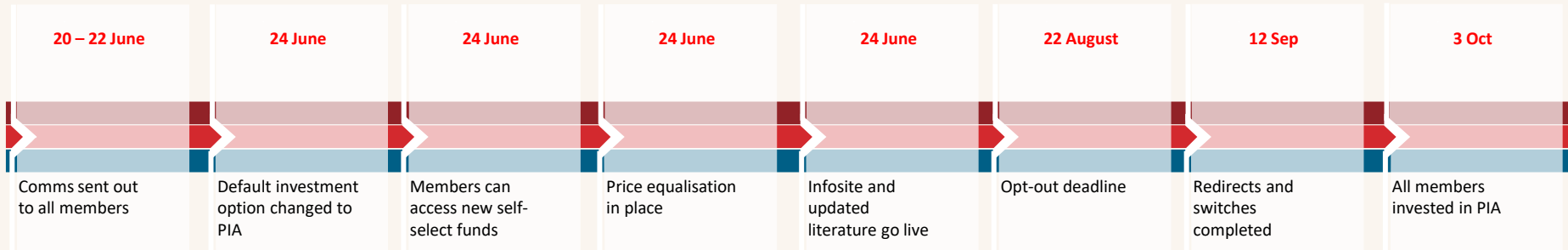
We believe this is a positive change for members, as not only will they benefit from the asset allocation within our flagship Pension Investment Approaches but they'll also gain access to additional lifestyle options, allowing them to pick an investment solution that is more aligned with their individual risk tolerance and/or retirement goals. Other enhancements we're making are as follows:

- New self-select fund range including 13 sustainable options
- Equalisation of charges applied between funds used in accumulation and those in flexible income (drawdown)
- Improving the fund range for members who decide to take flexible income (drawdown),

# WHAT DOES MY NEW INVESTMENT SOLUTION LOOK LIKE?

	Existing Investment Solution	New Investment Solution
Scheme Default	<ul style="list-style-type: none"> <li>SW Passive Flexible Retirement Lifestyle</li> </ul>	<ul style="list-style-type: none"> <li>PIA Balanced Targeting Flexible Access</li> </ul>
Alternative Lifestyle Options	<ul style="list-style-type: none"> <li>SW Passive Interim Lifestyle</li> <li>SW Passive Immediate Spend</li> <li>SW Passive Securing Lifelong Income</li> <li>SW Dynamic Flexible Retirement</li> <li>SW Dynamic Immediate Spend</li> <li>SW Dynamic Securing Lifelong Income</li> </ul>	<ul style="list-style-type: none"> <li>PIA Balanced Targeting Annuity &amp; Encashment</li> <li>PIA Cautious Targeting Flexible Access, Annuity &amp; Encashment</li> <li>PIA Adventurous Targeting Flexible Access, Annuity &amp; Encashment</li> <li>SW Flexible Retirement, Passive Interim, Immediate Spend &amp; Securing Lifelong Income</li> <li>SW Dynamic Flexible Retirement, Immediate Spend &amp; Securing Lifelong Income</li> </ul>
Core Fund Range	<ul style="list-style-type: none"> <li>16 funds</li> </ul>	<ul style="list-style-type: none"> <li>81 funds, including 13 sustainable and thematic options</li> </ul>
Wider Fund Range	<ul style="list-style-type: none"> <li>Yes</li> </ul>	<ul style="list-style-type: none"> <li>Includes all funds in the existing Core and Wider ranges, that are not already in the new Core fund range</li> </ul>
Drawdown Offering	<ul style="list-style-type: none"> <li>Investment Pathways – 4 options to meet different needs</li> <li>5 investment choices designed for easy transition into drawdown:                             <ul style="list-style-type: none"> <li>SW Dynamic Annuity Purchase Fund CS1</li> <li>SW Flexible Retirement Fund CS1</li> <li>SW Mixed Investments Fund CS1</li> <li>SW Money Market Fund CS1</li> <li>SW passive Annuity Purchase Fund CS1</li> </ul> </li> <li>Self-select fund options</li> </ul>	<ul style="list-style-type: none"> <li>Investment Pathways – 4 options to meet different needs</li> <li>5 investment choices designed for easy transition into drawdown:                             <ul style="list-style-type: none"> <li>SW Pension Portfolio A Fund</li> <li>SW Pension Portfolio B Fund</li> <li>SW Pension Portfolio C Fund</li> <li>SW Pension Portfolio Four Fund</li> <li>SW Pension Portfolio Five Fund</li> </ul> </li> <li>Self-select fund options</li> </ul>
Pricing	<ul style="list-style-type: none"> <li>Drawdown administration charge higher than accumulation</li> </ul>	<ul style="list-style-type: none"> <li>Drawdown administration charge reduced to match the accumulation charge</li> </ul>

# TIMELINE OF CHANGES



Between **16 and 23 June 2022**, your scheme default will be changed to the Pension Investment Approach Balanced Targeting Flexible Access and all new joiners will be automatically invested in this lifestyle strategy.

Member letters will be issued during this period and associated information will then be available on your dedicated scheme infosite.

By **12 September 2022**, existing members invested in the Scottish Widows Passive Guided Lifestyle will have their investments switched into an equivalent Pension Investment Approach lifestyle and all future payroll contributions will also be redirected to this Pension Investment Approach. This change will happen automatically, unless members instruct us otherwise.

Should members wish to remain in their current lifestyle they'll have the option to opt out of the switch, by completing the opt out form that will be provided in their letters.

# HOW DOES THIS AFFECT MY MEMBERS?

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- Most members invested in a Passive Guided Lifestyle (both default and self-selected) will be automatically switched to a Pension Investment Approach lifestyle, unless instructed otherwise. However, the following groups will be excluded from the automated change:
  - members invested in a Passive Guided Lifestyle who are less than 4 years from their retirement date
  - members that have made a self-select fund selection, or are in any other lifestyle, outside of the Passive Guided Lifestyle options
- If a member is less than 4 years from their retirement date, and asks to change that date between now and when the fund switch takes place, we will, if it moves them more than 4 years from their retirement date and aren't instructed otherwise, automatically switch them into a Pension Investment Approach.
- The Dynamic and Passive Guided Lifestyle options will continue to be available to members and we'll continue to govern the funds that underpin them, to ensure they continue to target the same retirement outcome.
- The table below shows what existing members are currently invested in and where they'll be invested after **12 September 2022**, unless instructed otherwise.

Current Lifestyle	New PIA Lifestyle
SW Passive Interim	PIA Balanced Targeting Flexible Access
SW Passive Flexible Retirement	PIA Balanced Targeting Flexible Access
SW Passive Immediate Spend	PIA Balanced Targeting Encashment
SW Passive Securing Lifelong Income	PIA Balanced Targeting Annuity

# SUSTAINABLE INVESTMENT OPTIONS

We're introducing a range of new funds, which will be in addition to the existing fund range members can already access.

The new core range will offer 81 funds, selected by Scottish Widows after extensive analysis, to provide members with access to a broader coverage across a number of investment themes and managers as well as a wider variety of asset classes and sectors, including 13 sustainable options (in the table below) which reflects our continued commitment to offer sustainable options.

It also helps us deliver our Responsible Investment and Stewardship Framework to you, and allows members to feel empowered in choosing a pension fund that matches their environmental, social or ethical concerns.

ESG Fund	Asset class	ESG Fund	Asset class
Scottish Widows Environmental	UK Equity	Scottish Widows Shariah	Specialist Equity
SW BlackRock ACS Climate Transition World Equity	Global Equity	SW AXA Framlington Biotech	Specialist Equity
SW Impax Global Equity Opportunities	Global Equity	SW Threadneedle UK Social Bond	Sterling Corporate Bonds
SW Schroder Sustainable Multi-Factor Equity	Global Equity	SW Robeco Global Credits	Global Fixed Interest
SW Baillie Gifford Positive Change	Global Equity	SW Liontrust Sustainable Future Managed	Multi-Asset Solution
Scottish Widows Global Ethical	Global Equity	SW BlackRock Sterling Liquid Environmentally Aware	Money Market
Scottish Widows Ethical	UK Equity	Scottish Widows Shariah	Specialist Equity

# CHANGES TO YOUR SCHEME CHARGES

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## Transaction Costs

There's no increase in charges as a result of these changes, however the switch to the Pension Investment Approach may generate a small transaction cost caused by the necessary selling and buying of funds.

Based on current fund spreads and an assumption that the switch maximises these transaction costs, they would still be lower than 0.5%.

Even at this level, we consider it small compared to the higher expected returns members will receive by being invested in PIA. Indicative costs will also be included in the communications we send out to members.

## Charge Equalisation

Currently, there are two different charges for members – one for those in accumulation and a higher charge for those who choose to go into flexible income (drawdown).

We're pleased to let you know that we're reducing the charge for flexible income.

This means that your members will continue to benefit from the same scheme charge they do in accumulation, when they wish to start drawing an income from their pension.

These changes also allow us to offer even more flexibility to members, as we support them on their journey to achieving good retirement outcomes



# APPENDIX



# THE SCOTTISH WIDOWS PENSION INVESTMENT APPROACHES

Our Pension Investment Approaches (PIA's) launched to market in 2006 – and celebrated their 15 year anniversary in February 2021. They form part of our overall fully governed default investment solution – the Scottish Widows Managed Solution.

Similar to the Scottish Widows Passive lifestyles, our PIA's use passively managed funds (the Scottish Widows Pension Portfolio Funds) within a lifestyling process that progressively reduces investment risk as member's approach their retirement age.

In 2020, we undertook a review of our Pension Portfolio Funds and introduced increased levels of diversification, with no increase in cost to members. This change brought additional asset classes into the funds and began to embed our sustainable investment strategy.

The PIAs offer flexibility through a range of 9 risk-based glidepaths, representing 3 choices of risk level and 3 choices of retirement goal. This provides members with a range of options to help them meet their own personal outcomes and goals for retirement.

It's easy for members to change to a different retirement outcome (or different risk category) if their plans and objectives change as they get closer to retirement.

Adventurous Risk Category	Balanced Risk Category	Cautious Risk Category
Adventurous Targeting Annuity	Balanced Targeting Annuity	Cautious Targeting Annuity
Adventurous Targeting Encashment	Balanced Targeting Encashment	Cautious Targeting Encashment
Adventurous Targeting Flexible Access	Balanced Targeting Flexible Access	Cautious Targeting Flexible Access

# A LONG AND SUCCESSFUL TRACK RECORD

Launched in 2006, the PIAs have delivered excellent performance, founded on their robust glidepath design and the global diversification and well managed asset allocation of the Pension Portfolio funds.

This table shows the performance of the Balanced Targeting Flexible Access Lifestyle PIA fund at different points in the journey to retirement, over different periods.\*

SW Balanced Targeting Flexi Access Lifestyle	At retirement	5 Years from retirement	10 Years from retirement	15+ Years from retirement
1m	0.52%	0.70%	1.91%	2.42%
3m	1.49%	1.96%	3.64%	4.61%
1y	4.55%	6.57%	13.15%	16.50%
3y annualised	7.28%	8.99%	11.58%	12.89%
5y annualised	5.06%	6.48%	8.10%	8.82%
10y annualised	8.02%	9.36%	10.34%	10.70%
<b>Since Inception</b>				
Ann. Performance	7.03%	7.93%	8.81%	9.14%
Vol	7.56%	9.46%	10.69%	11.08%

This chart depicts simulated glidepath performance\*\* since inception for members five years from retirement. The de-risking phase started 10 years prior moving from 100% Pension Portfolio 2, to 100% into Pension Portfolio 3 and finishing on 100% Pension Portfolio 4, five years from retirement.



Source: Scottish Widows and FE. Performance shown reflects CS1 series data which includes a 0.1% charge and income reinvested. Performance experienced by customers may differ. This is due to differences including the timing of investment and applicable charges. Past performance is not a reliable indicator of future returns.

\* all figures relate to 31 December 2021 \*\* Depicts the performance of the benchmarks along the glidepath moving from CPI+3% to CPI+2.5% to CPI+1%.

# THE SCOTTISH WIDOWS FLEXIBLE INCOME RANGE

Our Flexible Income Range is available for members who choose to take flexible income (drawdown). They already have access to the Investment Pathways and wider fund range but we're amending the flexible income fund range to reflect the changes to your default lifestyle offering. Members can choose any of the following options, when they move into drawdown:



Select an Investment Pathway

Pathway 1 – I have no plans to touch my money in the next 5 years

Pathway 2 – I plan to use my money to set up a guaranteed income (annuity) in the next 5 years

Pathway 3 – I plan to start taking my money as long term income in the next 5 years

Pathway 4 – I plan to take all my money out in the next 5 years



Select from our flexible income fund range

Existing flexible income range	New flexible income range
Dynamic Annuity Purchase Fund CS1	Pension Portfolio A Fund
Flexible Retirement Fund CS1	Pension Portfolio B Fund
Mixed Investments Fund CS1	Pension Portfolio C Fund
Money Market Fund CS1	Pension Portfolio Four Fund
Passive Annuity Purchase Fund CS1	Pension Portfolio Five Fund



Choose from our wider range of funds

Choose from the self-select fund range available



**SCOTTISH WIDOWS**

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