

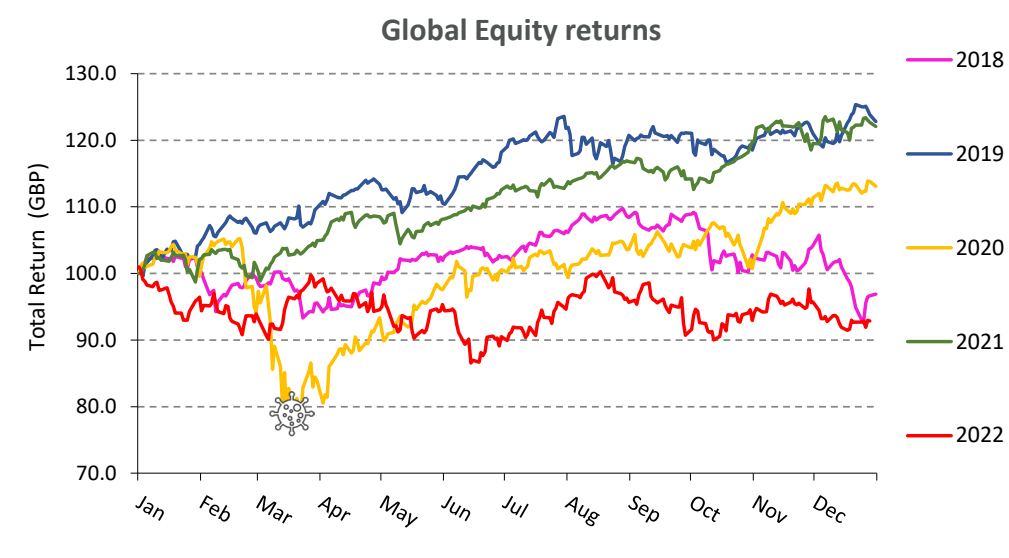
MARKET CONDITIONS IN 2022

Market Overview

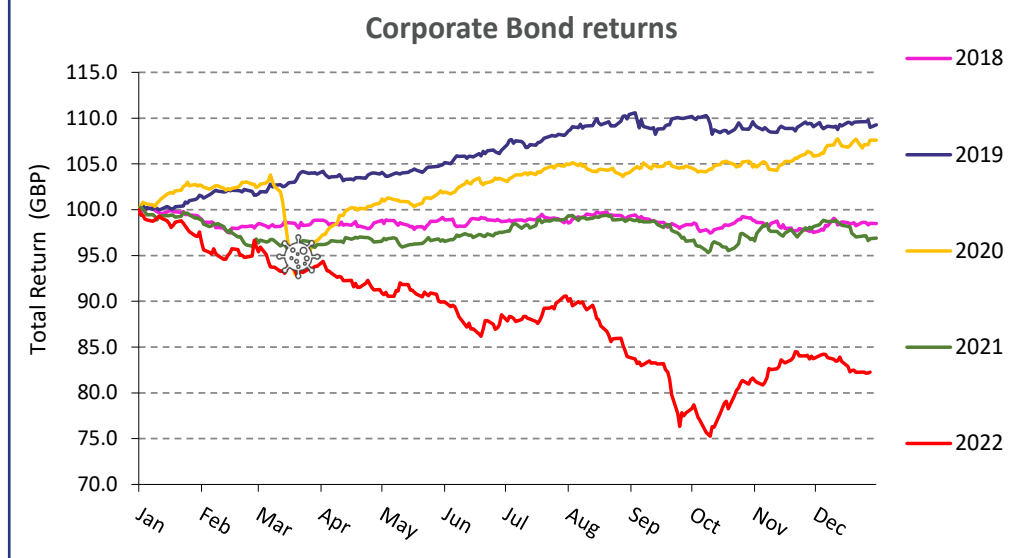
2022 was a challenging year for investment markets. The war in Ukraine, soaring inflation and interest rates, turbulent politics and the continued strict lockdown in China all contributed to a difficult period that saw the greatest losses for financial assets since the 2008 financial crisis. The difficult market conditions resulted in nearly all major asset classes moving in the same downward direction. All members are likely to have seen a fall in the value of their funds with members closest to retirement seeing the largest impact.

The graphs below show how the different types of assets performed in each year for the last five years. 2022 is the red line in each chart. The impact of Covid in 2020 is seen in the yellow lines. The graphs illustrate how the years differ from each other in terms of return and how variable the returns were. The performance of the Cheviot and self-select funds can be found [here](#). Fund values have recovered slightly in the first half of 2023.

Global equities have generally produced good returns but the returns are volatile, reflected in the movement in the lines. The 2022 red line is still broadly within range of previous equity returns, albeit at the bottom.



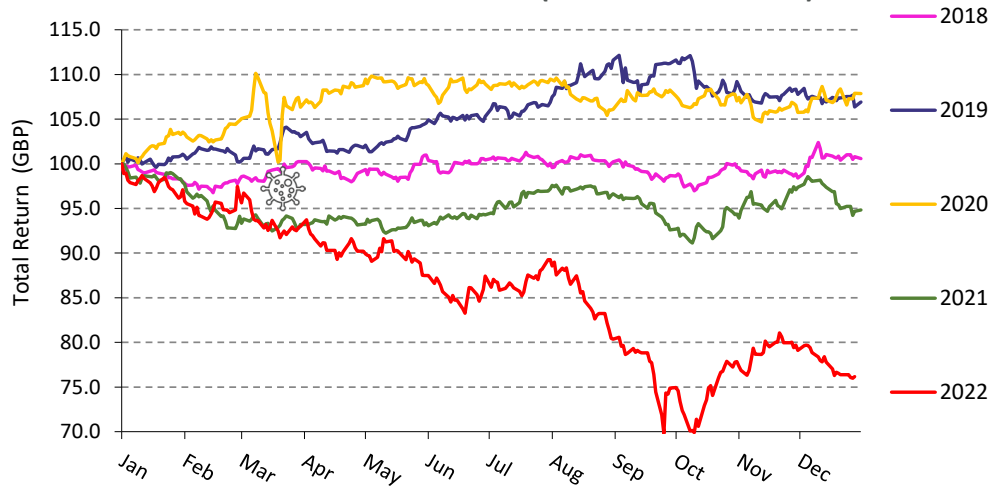
In comparison to equities, corporate bond returns are much more stable over each of the years before 2022 but then fell sharply in 2022 and end up significantly below the previous range of returns.



Notes: Returns shown as at 31 December 2022. 5-year returns are shown % per annum (per year). Source: Refinitiv. Isio calculations.

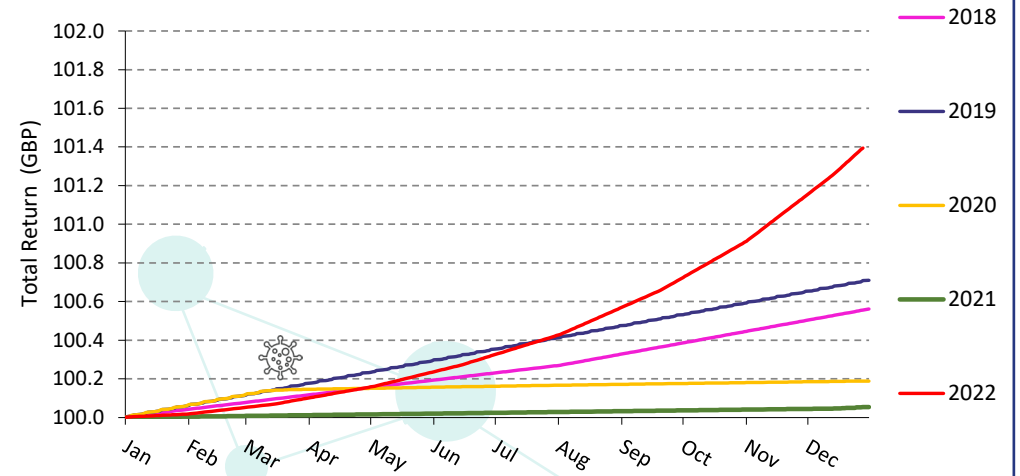
Fixed Interest Gilt returns are similar to corporate bonds as returns had been generally stable but then fell very sharply in 2022. These significant falls were caused by high inflation driving central banks to increase interest rates at an unprecedented rate.

Fixed Interest Gilt returns (Government Bonds)



The cash returns rose sharply after the bond and gilt falls in September, reflecting the sharply increasing interest rates designed to curb inflation.

Cash returns



Impact on Members

Most members are invested in the Cheviot Lifeplan where the Trustee sets the investment strategy and transition members through different funds according to how far they are away from retirement. Members' savings gradually change from higher-risk assets (e.g. equities, which generally provide higher returns) to lower-risk assets (e.g. corporate and government bonds, which provide lower returns but are normally more stable) as they get closer to their target retirement age.

The impact on members' funds during 2022 depends on which funds they were invested in. Members closer to retirement were worst affected because of the very sharp fall in the value of corporate and government bonds.

The Trustee is very aware of the impact on members at this critical time in their pension planning journey. The Investment Committee met 12 times during 2022 to consider alternative strategies but as all assets were falling and inflation was rising, options were very limited. Cash may appear to be a safe haven but members close to retirement will already be transitioning into cash and with inflation over 10%, in current value terms, cash was falling in value. Disinvesting assets which had fallen in value would also have crystallised losses and prevented the opportunity to participate in any future recovery.



Trustee oversight

Given its responsibilities to members, the Trustee used an external firm to review Cheviot Lifeplan's performance during 2022. Cheviot's performance was reviewed against similar DC funds (the 'peer group') that other providers offer, and it was concluded that the performance was not out of line with the peer group as all providers struggled for investment returns in the 2022 market environment and members approaching retirement were particularly badly affected.

Members who are close to retirement

For members who are close to taking their benefits or drawing down an income, the poor performance in 2022 could mean changes to their plans, such as increasing their contribution rates to help recover losses or working longer than originally planned.

Members who decide to push back their retirement date should make sure they change their Target Retirement Date with Cheviot either through the member portal or by completing a [form](#), this is so that their investment strategy is adjusted accordingly. Members who also have defined benefit scheme pensions may have more flexibility to leave their Money Purchase funds invested for longer.

The impact may be less for members considering purchasing a secure income (an annuity) at retirement as annuity rates improved significantly by the end of 2022, making it easier for members to get competitive pricing at retirement. This better pricing may have, to some extent, been offset by the fall in the value of their fund. Members who are further away from accessing their benefits have a longer time horizon and therefore can likely withstand more volatile markets as they have more time for markets to recover and their savings to increase in value.

All members

All members should be cautious and not make hasty decisions. Most members will be invested for the long-term and therefore should consider investment returns over a long time period. For example, it may seem sensible to move funds into cash to protect it, but cash is likely to underperform most asset classes over the longer-term, particularly in light of the current high inflation.

Above all, members should recognise the risk of pension scams, particularly given the current cost of living crisis, which may make an offer to release cash from your pension attractive. Our [Pension scams factsheet](#) explains the warning signs and helps members to avoid losing their savings to a scam.

What to do next

There are good resources online to support members and help them understand their options.

MoneyHelper (www.moneyhelper.org.uk) – provides free, independent and impartial information and guidance. Pension Wise, is a service from MoneyHelper, backed by government (www.moneyhelper.org.uk/en/pensions-and-retirement/pension-wise) – if you're over 50 and have a defined contribution (DC) pension, Pension Wise offers pre-booked appointments to talk through your retirement options.

