Smart Pension Master Trust (“SPMT”) UK Stewardship Code and Voting and Engagement Report

30 June 2023

Smart Pension

Contents

1. Overview

Smart Pension operates a Defined Contribution master trust pension scheme for over one million members across the United Kingdom, called the Smart Pension Master Trust (also referred to as "SPMT" and "the Scheme").

The independent trustee board ("the Trustee") makes sure the Scheme's members' retirement savings are invested responsibly and sustainably. The Scheme has a digital-first approach and uses a pensions technology platform, Keystone by Smart, to help members and employers to set up and run their workplace pension with simple, automated processes.

Smart Pension has an inclusive and innovative culture which believes in doing business the right way by investing in people, supporting the community, caring about the environment and creating products with purpose. This shows in our people, service, offices and investment options.

We offer a range of sustainable investment strategies and self-select fund options for members. Currently, members who do not make an active choice are invested entirely in our default investment strategy, and our main default invests in the Smart Sustainable Growth Fund (formerly named the Smart Growth – Moderate Risk Fund) up until eight years from retirement, with an allocation remaining in this fund up to a member's retirement. As a result, the majority of the Scheme's assets, over 80%, are invested in this fund.

In our Smart Sustainable Growth Fund, we are targeting net zero[1] by 2040, and a 75% reduction in emissions from 2019 levels by 2030. This is a new interim target from last year introduced after this reporting period. Last year, we had a 50% reduction target by 2025, which we met by the end of 2022. This fund therefore aims to deliver strong returns for members' pension savings whilst also tackling climate change and aiming to make a positive difference to society and our planet. Performance of this fund, and the wider fund range, is provided in Appendix 7b.

We aim to protect members' pension savings with strong governance and oversight from independent trustees. The Trustee has a number of policies setting out its beliefs and policies around stewardship and responsible investing, climate and nature and voting and engagement. The Trustee's Investment Sub-Committee ("ISC") monitors the application of the investment-related policies. Further details on these policies, and their application, are provided throughout this report. Additionally, Trustee investment policies are available on our Scheme Governance website.

This report provides a summary of the Trustee's activities throughout the year to 30 June 2023 (also the Scheme's year end, and referenced as such throughout) which we believe meet the requirements of the UK Stewardship Code and the relevant Trustee

[1] Net zero refers to equalling the amount of greenhouse gases produced and the amount removed from the atmosphere through the investments we make.

policies. These activities, detailed throughout this report, demonstrate how our beliefs and policies are translated into our investment decisions and the engagements we make. We believe that the information provided in this report shows that we have been effective in serving the best interests of beneficiaries during the Scheme year. In particular, we have reviewed and followed our policies, monitored and engaged with managers on their voting and engagement activities, communicated with members and maintained a strong governance approach with the external advisers and internal teams. We consider the views of our managers and assurances from our investment adviser, Hymans Robertson, when monitoring the actions and outcomes of voting and engagement activities on our behalf. This report is in addition to our Implementation Statement, which is the regulatory requirement to set out how we have implemented our Statement of Investment Principles ("SIP"), particularly in relation to stewardship and engagement. Our Implementation Statement is published on our website and in our annual report and accounts.

Smart Pension Master Trust

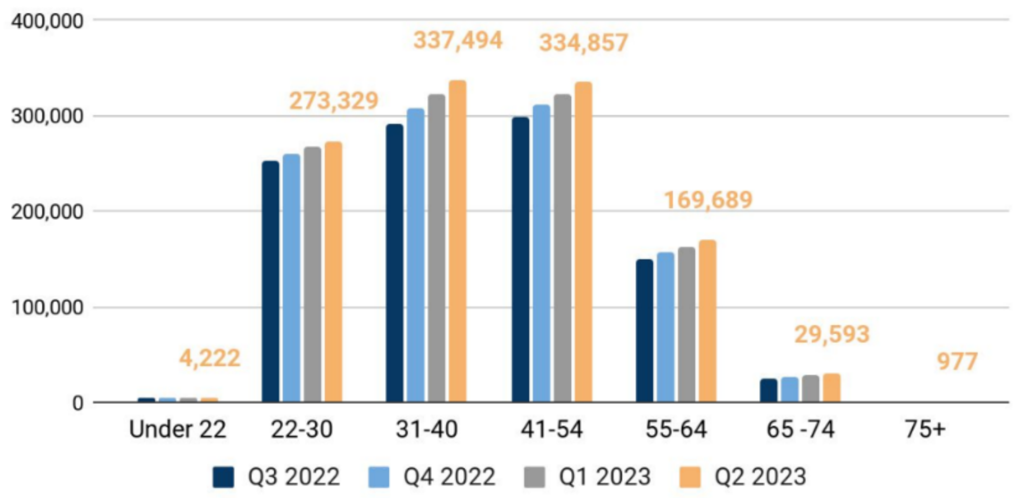
All data provided below is as at 30 June 2023, and sourced from Smart Pension[2].

Assets Under Management

£3,250.5 million

There were 829,859 deferred members and 317,814 active members, totalling 1,147,673 members in the Scheme.

The largest age group is 31 - 40, with a total of 337,494 members.

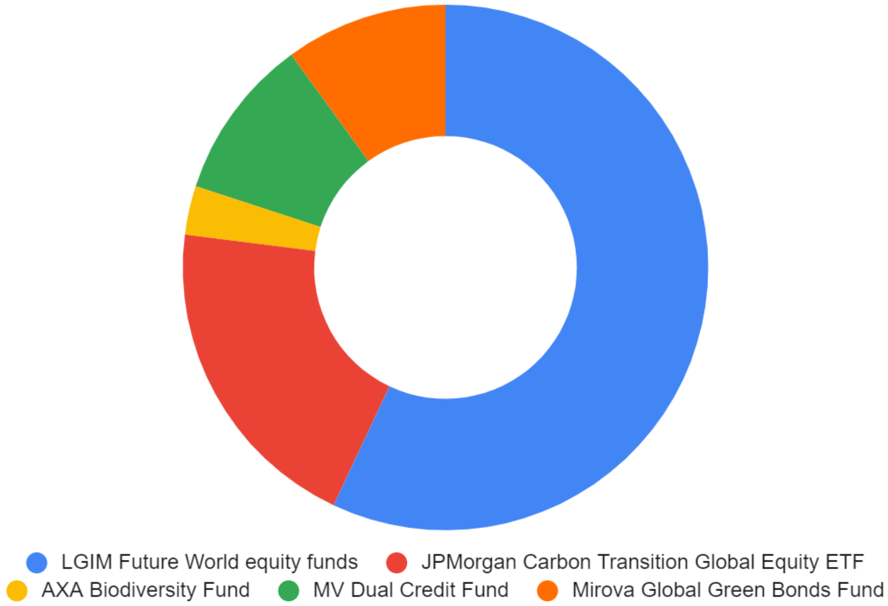


[2] Figures shown on this page are unaudited as our annual accounts are produced in January.

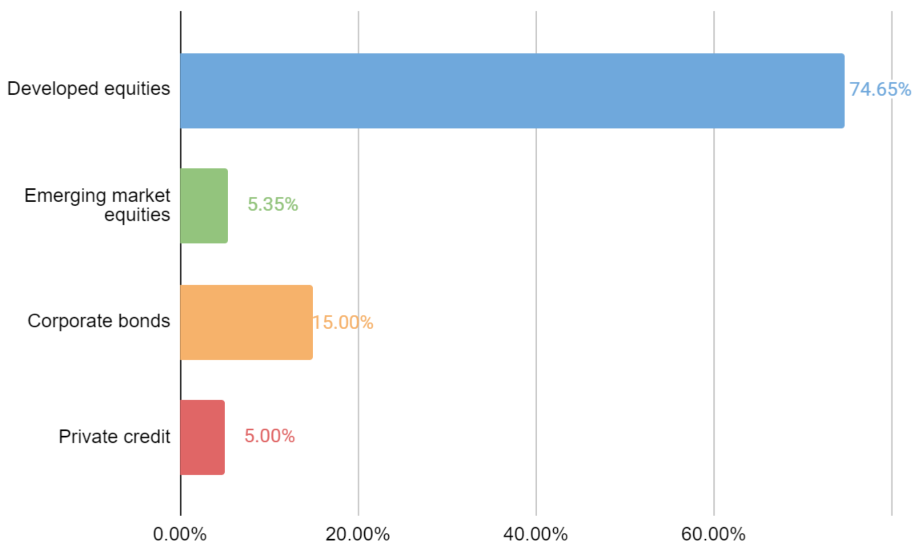
Smart Pension

Smart Sustainable Growth Fund

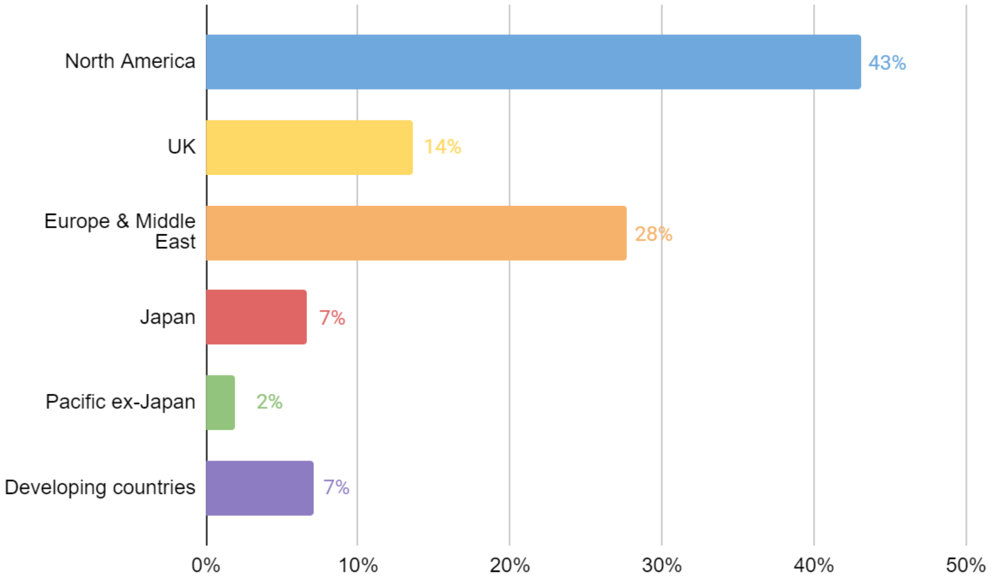
With support from our investment advisers we reviewed the ongoing suitability of the default growth fund. We replaced our 10% corporate bond allocation with the Mirova Global Green Bond Fund, and allocated 3% of our equities to the AXA Biodiversity Fund and 20% to the J.P. Morgan Climate Transition Fund. Our MV Dual Credit Fund is a combined private credit and listed bond fund to provide liquidity.



Asset allocation



Geographic allocation



Source: investment managers

While our expectations and monitoring in relation to voting apply to our listed equity allocations, we expect managers to consider our policies in relation to engagements in all asset classes and geographies, and integrate Environmental, Social and Governance ("ESG") factors into their investment process. All managers are also expected to be, or working towards becoming, signatories to initiatives such as the Principles for Responsible Investment and UK Stewardship Code, as set out in our Responsible Investment policy.

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2. Our approach

Beliefs and objectives

The Trustee has clearly-defined investment beliefs and objectives to help make investment decisions. These beliefs and objectives are set out in our SIP and are reviewed periodically or when any significant changes to the Scheme or membership occur.

SPMT is open to new members from the age of 16, if an employer chooses to allow access from this age. Given the likelihood of increases in retirement ages in the future, investment strategies and risks need to be considered over a multi-decade time horizon exceeding 50 years. While the majority of members are expected to take income drawdown in retirement, the Trustee offers investment strategies for alternative retirement routes and considers the suitability of these.

The Trustee recognises that responsible investing and good stewardship are key to providing members with the best outcomes in retirement. We take into consideration the long-term impact of their investments and the policies of the individual companies and countries to ensure sustainable outcomes, equality and fairness. We have policies covering responsible investing, climate change and voting and engagement, which set out our beliefs and provide the Trustee, its advisers and fund managers with a process to adhere to.

Some of our beliefs, in particular those relevant to stewardship and ESG, are outlined below:

- **ESG risks, including in climate and nature, pose a real and material threat to members' retirement outcomes. Generating an appropriate and sustainable financial return for members while also addressing global challenges helps to mitigate these risks.**
- **Responsible investment factors influence long-term performance, which presents opportunities and risks. Each stage of the investment decision-making process (including investment strategy, investment selection and reporting) needs to consider ESG risks.**
- **The Trustee believes that engagement with the companies in which the Scheme invests, including the proactive use of shareholder voting rights, can improve the longer-term returns of its investments.**
- **Being active owners of investments over the long term is critical for responsible stewardship of assets.**

We believe that engagement and encouraging behavioural change will lead to better long-term sustainability outcomes than simply exclusion. Numerous automatic exclusions may lead organisations to move outside public asset markets, where their actions are less easily monitored and assessed, and to continue to pursue damaging ESG policies. Therefore, only companies which consistently refuse to engage or consider change in behaviour will be subject to exclusion. In practice, doing so means we select investment managers where this forms part of their stewardship policies and it is implemented effectively.

Managers' voting and engagement beliefs

A summary of our investment managers and their policies and approach to voting and engagement is provided below. Our Statement of Investment Principles, Responsible Investment, Climate and Nature and Voting and Engagement policies set out SPMT's beliefs and principles in relation to investments held in the Scheme. These are available online and we have shared these with our investment managers as an expression of wish. As set out in our Responsible Investment policy, we expect managers to be, or working towards becoming, signatories of the UN Principles for Responsible Investment and the UK Stewardship Code. While we also expect managers to use collaborative engagements where suitable, we do not specify which initiatives or organisations they should use.

Legal & General Investment Management ("LGIM") manages our Future World equity allocations and has its Climate Impact Pledge, which excludes companies for lack of engagement and action. In some cases they have subsequently reinstated those who demonstrate strong change. J.P. Morgan Asset Management ("JPMAM") manages our climate transition equity allocation and has a robust engagement model built on four principles of intentionality, materiality, additionality and transparency. AXA Investment Management ("AXA") manages our biodiversity equity allocation and their voting and engagement policy follows three general principles; no abstention, support for management and engagement and has a "Three Strikes and You're Out Policy" for climate laggards. These three equity managers are members of the Net Zero Asset Managers Initiative ("NZAMI") as well as other organisations.

Mirova manages our global green bond fund allocation and engagement with companies forms a part of their responsible investment approach, with the main aim to improve corporate practices. As well as direct engagement, their approach includes advocacy actions to structure and develop sustainable finance. Dialogue with national and international regulators, as well as with various professional organisations, promotes the emergence of specific regulations and standards that promote sustainable finance. Mirova is also a member of the NZAMI and various other engagement initiatives including Finance for Biodiversity Pledge, Ceres, Global Impact

Smart Pension

Investing Network, Act4Nature and the Alliance for the Preservation of Tropical Forests.

MV Credit is responsible for managing our MV Dual Credit Fund, which is a blended manager fund with an strategic asset allocation target of corporate bonds (40%) and private credit (60%) to allow for daily liquidity in the fund. MV Credit provides the exposure to private credit, while Loomis Sayles invests the corporate bond allocation. MV Credit focuses its efforts on pre-investment ESG due diligence assessment and engagement with sponsors and the management of prospective borrower companies during the life of the investment. MV Credit is a signatory to the UN Principles for Responsible Investing and the EU Alliance for a Green Recovery. They are on the ESG Committee for Alternative Investment Management Association (AIMA) and the European Leveraged Finance Association. Loomis Sayles uses direct engagement to promote transparency, raise awareness of risks and opportunities and may also engage collectively with an issuer with a view to protecting and enhancing shareholder or bondholder rights, which can be affected by ESG-related matters, such as contract enforcement or questionable behaviour by management that could negatively impact investors. Loomis Sayles is a member of various initiatives and governing bodies including the Credit Roundtable, Fixed Income Investor Network and the Financial Services Women's Executive Alliance. As our only manager without a specific net zero target, we are working with Loomis Sayles to determine their net zero commitments.

The Trustee reviews the managers' approach to voting and engagement and any developments. This forms a key part of our oversight of all managers, and examples such as these are discussed with managers when the ISC meets them. The ISC aims to actively encourage the fund managers directly or through the platform provider to engage with key stakeholders (which may include corporate management, regulators and governance bodies), relating to their investments in order to improve corporate behaviours and performance and mitigate financial risks.

CASE STUDY 1: Example of manager stewardship in our private credit allocation

The private credit issuer, Partner in Pet Food, scored 56/100 in MV Credit's 2021 ESG assessment (included in their 2022 ESG report), which is above the benchmark for MV's company ratings. The company's areas for improvement according to its ESG score were: diversity of the board, management and general workforce; health, safety and security management strategy and certification; environmental management system and external certification; and introduction of intrusion tests for the IT system. Over the last Scheme year, MV Credit's ESG officer and sustainability service provider thoroughly reviewed the ESG scoring with Partner in Pet Food. The company provided 'comprehensive, relevant and useful' information as well as upcoming sustainability projects which will address many of their improvement areas and offer

better ESG data. MV Credit was able to offer guidance on 'quick win' KPIs to focus on, in order to improve performance. A follow up call has been scheduled between MV Credit and Partner in Pet Food to further engage with them on improving its ESG assessment score. We will continue to liaise with MV over the next Scheme year to see if this has resulted in a score improvement.

Exclusions

While voting and engagement is considered a significant tool in improving ESG policies and processes of companies, the Trustee does implement some exclusions when investing, which addresses the "worst of the worst" ESG performers. Some companies operate in industries which have inherently negative environmental or social outcomes and poor governance policies. Our managers take this into account in line with their own responsible investing policies or fund guidelines, therefore some of our funds may have additional selective exclusions on top of those listed here, which are across the board. However, the funds we select focus on engagement as a first priority, in order to have the greatest long term impact and maintain diversification throughout our investments.

In terms of reducing our negative impact by removing the worst offending companies, the Trustee seeks to minimise financially material risks to protect long-term returns by excluding companies that:

- are involved in the manufacturing of controversial weapons (chemical weapons, biological weapons, nuclear weapons, anti-personnel mines and cluster munitions) as defined by the United Nations;
- derive the majority of their revenues from coal mining. Not only does coal put out the most carbon dioxide per unit of energy versus other fossil fuels, it also has dangerous working conditions, it causes mercury pollution, acid rain and can pollute nearby water with sediments and chemicals. Therefore we do not see the stewardship benefits, as seen in other fossil fuel companies; and
- violate the United Nations Global Compact standards on human rights, labour, the environment and corruption.

The Trustee will also seek to invest with external managers who:

- offer investment strategies which are aligned with our investment beliefs set out in our policies and our net zero target;
- have a policy in place to cease the financing of fossil fuel expansion; and
- are committed to improving their climate and nature footprints including removing commodity-driven deforestation in their investments.

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CASE STUDY 2: Example of exclusions

During the Scheme year, Mirova's team analysed companies such as Nike, Avery Dennison, Lincoln Electric, UPS and Rockwell Automation (non exhaustive list) that were deemed not eligible for the funds investment due to their non-alignment with sustainability objectives. Thus, any company included in Mirova's Global Green Bond Fund (10% of our default growth fund) is analysed as having a robust sustainability strategy and divestment due to a non-alignment is rare, unless unexpected controversies occur or the engagement with the company is considered unsuccessful. A significant controversy with inadequate company response, including but not restricted to serious breaches, and no action, of the UN Global Compact and OECD Guidelines for Multinational Enterprises, will lead to divestment. For example, Inditex was downgraded in 2022 due to the impact of fast fashion business models on the environment (and mainly biodiversity) as well as risks related to human rights, notably following new lawsuits in France against the company (and its peers) for crime against humanity.

Strategy

To ensure that investment and related stewardship risks are mitigated and suitably governed, engagement and behavioural change are encouraged, we have taken the following approach.

1. Risk and return

We consider financial, including ESG, risks and their effect on return into our investment strategies. These are incorporated into the objectives we set for the Trustee's independent investment adviser and our statement of investment beliefs for our fund managers. Nature-related risks were added to the Trustee's policies over the Scheme year.

2. Allocate to opportunities

We consider investment opportunities when developing strategies and making new allocations. We aim to allocate to specific impact investments covering a range of ESG themes and we have a target to maintain an investment of at least 10% of our default growth fund into climate solutions. Our impact allocations are 3% to the AXA Biodiversity Fund and 10% to the Mirova Global Green Bond Fund, while investments in climate solutions are across all the funds. In particular, the Mirova Global Green Bond Fund allocates c. 60% to climate solutions.

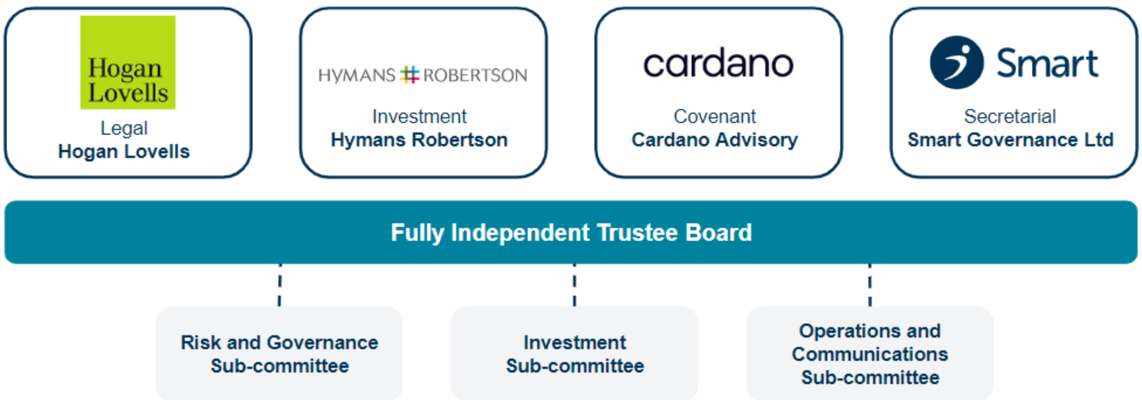
3. **Voting and engagement**

We share our policies covering responsible investing, climate change, and voting and engagement with our current and new fund managers, with the expectation that they will adhere to our beliefs when carrying out the day-to-day investment of the Scheme's assets. We assess this annually and our recently-updated Voting and Engagement Policy addresses ESG factors, our areas of interest and our strategy with our fund managers to ensure effective stewardship is carried out. Our areas of interest and strategy are shown in Section 2.

Structure

Our Trustee Board is supported by three separate sub-committees (Investment Sub-Committee, Operations and Communications Sub-Committee, and Risk and Governance Sub-Committee). Each committee has at least two Trustees and they meet quarterly to discuss developments and changes.

Alongside the sub-committees, Hymans Robertson provides investment advice, research and analysis, while Hogan Lovells provides legal advice. It is important to the Trustee that their advisers have a focus on ESG issues and developments. The Trustee's investment adviser is also a member of the Investment Consultants Sustainability Working Group. In addition, Smart has internal governance, legal and investment teams who provide on-the-ground support, ensuring an additional layer of support and responsiveness to the Board. Our Trustee's strong governance approach is adaptive and responsive to changes in the industry and recognises evolving requirements in reporting and duties to members.



We have chosen this approach and structure to promote well-rounded stewardship by leveraging specialised committees, external oversight and knowledge as well as in-house teams. The SPMT in-house investments team over the Scheme year consisted of three persons. The benefits of a small team having strong cohesion and collaboration, agility and flexibility in being able to adapt quickly and comprehensive knowledge sharing. We also recognise the importance of working collaboratively with the Trustee, external advisers and industry groups to expand knowledge and expertise, augment resources and mitigate bias. This structure offers scalability and flexibility to engage with external experts and organisations as needed, manage workload and brings insights on best practice. This ensures the consideration of ESG issues facilitates all areas of decision-making and therefore will enhance our effectiveness in monitoring and carrying out voting and engagement activities. While there is a division of responsibilities, which allows for focussed discussions and expertise in each area, the committees, advisers and teams work collaboratively and have the opportunity to meet and discuss topics on a quarterly basis at the Trustee meetings.

CASE STUDY 3: Strong adaptive governance structure

During the Scheme year, the Trustee updated the ISC Terms of Reference document to review the ISC and Trustee powers. The aim was to make the Trustee and Committee meetings more efficient and clarify responsibilities. Wording was included to explain that the ISC has delegated authority to meet and monitor investment managers on a regular basis in line with their policy on manager oversight and they can set objectives for their advisers. The ISC will also review the SIP, Implementation Statement, wider investment policies and TCFD reporting. Following these actions and reviews, the ISC will give feedback and make recommendations to the full Trustee Board.

In addition, we support and participate in various external initiatives and reporting requirements, including:

- Principles for Responsible Investment (PRI)
- Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD)
- Institutional Investors' Group on Climate Change (IIGCC)
- Occupational Pensions Stewardship Council (OPSC)
- ShareAction and Climate Action 100+

Our Trustee, with input from the Investment Sub-Committee, the Chief Investment Officer and the investment team at Smart Pension, as well as the Trustee's Independent Investment Adviser where appropriate, is responsible for the selection and monitoring of fund managers. The Trustee (directly or via the ISC) also meets managers on a rolling basis (meeting at least one manager or party responsible for scheme governance every quarter), with a particular focus on stewardship and ESG, to ensure they are acting in line with their policies and our beliefs.

Our Trustee Board is made up of experts of varying backgrounds and industry experience. A mix of ages, gender and race is represented within the Board, bringing knowledge gained from leading global advisory firms, pension scheme management, investment firms and specialisms in customer experience and digital products. The Trustee has an equality positioning statement covering its position on equality, diversity and inclusion. The Trustee welcomes and encourages diversity without discrimination, and wants to work with suppliers and providers who support this within their business and reflect it in their actions. As part of our process to appoint providers we have introduced a new factor of consideration, cultural fit, of which equality, diversity and inclusion forms a part.

Smart Pension

Our Trustee Board aims for interactions and communications with members to be accessible and relatable to our diverse membership, and is therefore active in reviewing and considering member communication initiatives to support this goal. Feedback is welcomed and in the small number of complaints received they offer an opportunity to gain insight into any possible areas for improvement in communications, processes or Trustee policies. An example of how this has been implemented in practice was member demand for a 'fossil fuel free' fund, which was added by the Trustee during the period following this feedback.

Our current Trustee Directors are as follows:

Andy Cheseldine (Capital Cranfield – Chair of the Board of Trustees – Joined 2017)

Andy is renowned for his deep knowledge and wealth of expertise in the pensions industry and has accrued more than 35 years of experience in consulting on Defined Benefit and Defined Contribution arrangements. He's been named as one of the top 25 most influential investment consultants in the past five years - a testament to his reputation. Andy has written an article on why it's important to have a diverse trustee board.

David Brown (Independent – Trustee Director – Joined 2018)

David is a fully accredited professional pension trustee with a range of board appointments.

David has over 30 years' experience worldwide in the pension and investment industry, working as an operator and consultant. He has worked for two of the Big Four consulting firms and was the UK and ROI Pensions and Payroll Manager for Tesco. David is a Fellow of the Pensions Management Institute and an Associate of the Chartered Insurance Institute. He is passionate about ESG and addressing the risks and opportunities arising from climate change, and collaborates with organisations such as Pensions for Purpose on this. He holds the CFA Certificate in ESG Investing.

Anna Darnley (Independent – Trustee Director – Joined 2019)

Before joining our Trustee Board, Anna was a trustee of the Accenture Retirement Savings Plan. As a digital strategy consultant, she specialises in Product Management and has worked extensively on the design, build and launch of digital banks and retail investment apps in East Asia. She brings this technological expertise to the board, along with her passion for great member communications and re-engaging scheme members.

Smart Pension

Nikesh Patel (Independent – Trustee Director – Joined 2021)

Nikesh has a wealth of experience in consulting trustees and employers on defined benefit and defined contribution pension schemes. He was recognised as a Rising Star in Asset Management by Financial News in 2019, and as Professional Pensions' Investment Manager of the Year in 2021 for his work managing pension scheme assets as a fiduciary investment manager. He is passionate about responsible investment being done well, and the value it can bring to investors. Nikesh is a founder member of Diversity in Pensions – https://diversityinpensions.co.uk.

Our diverse Trustee Board and committees provide rigorous oversight and accountability for effective stewardship. We recognise that any governance structure can continue to be improved, which is why we monitor the effectiveness of our Trustees and governance processes through formal board effectiveness reviews and by promoting Trustee development with training and knowledge checks.

Over the Scheme year to 30 June 2023, the Trustee received investment training on climate disclosures, nature-related risks and deforestation, wider sustainability at Smart, conflict management, and equality, diversity and inclusion. On an annual basis a review against a skills matrix is undertaken, and a plan agreed with regard to training over the year. A reading room is also available to our Trustee where relevant industry publications and surveys are stored to support learning.

Within the internal Smart Pension teams there is significant experience within the pension industry as well as diversity of knowledge and backgrounds. We recognise the importance of stewardship and ESG considerations as integral to our corporate values and long-term sustainability, in addition to being significantly important to our members' outcomes. These considerations are therefore embedded into our objective setting and annual performance management process, where pertinent to the individual's role for SPMT and, more broadly, with corporate alignment. Key performance indicators (KPIs) include targets related to sustainability practices, commitments made by SPMT and interim targets, as well as community engagement and ethical conduct. While there is no separate reward programme that can be tied to stewardship and ESG, employees who demonstrate exceptional performance and make notable contributions to these areas are recognised during performance reviews.

Our internal teams support the effective stewardship of assets and processes by working with the Trustee. We assess the effectiveness of our structure and teams on an ongoing basis and remain content with the current structure. Members of these teams have varying skills, experiences, qualifications, and diversity and are continually available for input into stewardship topics and issues arising. Paul Bucksey, our Chief Investment Officer, has over 20 years of experience, including at investment managers and other providers, while Ian Digby, Director of Policy and Regulation, has over 30 years' experience, including at other pension providers and The Pensions Regulator. This experience is in place throughout the internal teams and is combined with the training and qualifications held by a number of the individuals with the teams, such as being CFA Charterholders or Fellows of the Faculty and Institute of Actuaries.

Governance and compliance team		
Ian Digby, Director of Policy and Regulation Ian is responsible for the compliance of the UK master trust proposition. Ian previously worked as an Industry Liaison Manager with The Pensions Regulator and has held senior client relationship roles and regulated advisory roles with employee benefit consultants. He holds the Advanced Financial Planning Certificate.	Louise Williamson, FIA, CERA Head of Governance Louise provides support to the Trustee Board and ensures good governance of the Scheme for members. Louise was a DB pensions actuary, supporting large employers and pensions schemes. Louise previously secured the LifeSight master trust status as the first authorised scheme under The Pension Regulator's supervisory regime. Louise has a Masters of Mathematics from Oxford, Masters of Actuarial Finance from Imperial and is a member of the IFoA Risk Board.	Rob Boston, Secretary to the Trustee Rob is responsible for working with the trustee Board to ensure an effective governance structure is in place. Rob has over 25 years in the pensions industry previously providing Governance and Secretarial support at the Crystal Trust and Lane Clark and Peacock and has held a variety of Secretarial roles including at Tate & Lyle and Northern Trust.

David Marner, Head of Compliance David ensures the Scheme's compliance with relevant legislation and regulation. David has over 30 years experience within the financial service sector, most latterly in senior governance and oversight roles with large organisations. David was promoted to his current role, recognising the growing scale of the Scheme and the increasing focus on compliance oversight, delivering the right outcomes for our customers.	Naj Al-Mussawi, Pensions Compliance Lead Naj works with David to ensure compliance with relevant legislation and guidance is met and to ensure good customer outcomes. Naj previously worked at The Pensions Regulator as a Case Manager within Automatic Enrolment for 7 years, working with various stakeholders and ensuring employers implemented AE correctly. Naj and David are asked to input into Trustee policies and processes as required.

Smart Pension

Investments team		
Paul Bucksey, Chief Investment Officer Paul is responsible for the overall strategic design and management of the Smart Pension Master Trust investment proposition. Before joining Smart Pension in 2019, Paul was Managing Director at BlackRock (and Aegon), leading their UK DC workplace pension business. He has also held senior positions at Fidelity, AXA and PwC and brings his wide industry knowledge to the Trustee and their Sub-committee meetings.	James Lawrence, CFA Head of Investments James leads the development of the Smart Pension Master Trust's investment strategy. James previously worked at Mercer for 9 years including as lead investment strategist for the UK DC delegated investment business. James' experience in being responsible for the strategic direction of the delegated investment solution, Mercer SmartPath, brings important market and technical knowledge and expertise to the Scheme.	Fiona Smith, CFA Investment Proposition Manager Fiona is responsible for developing the investment strategy, including our sustainable investing approach. Fiona previously worked at Mercer in DC investment consulting for 7 years, working with large institutional pension schemes. Fiona received the CFA Certificate in ESG Investing in 2021 and has participated in groups including the pensions deforestation-free working group. Her focus on sustainable investing offers key skills for our stewardship approach.

Legal team	
Carly Kisanga, Head of Legal Pensions Carly is a corporate lawyer with more than 14 years' experience. She oversees the Pensions Legal team and assists with master trust acquisitions. Carly has previously worked for Linklaters LLP advising trustees and employers on all aspects of defined benefit and defined contribution schemes, including investments, litigation and taxation.	Kim Copland, Pensions Lawyer Kim is a pensions lawyer with previous experience of 6 years' at Hogan Lovells. Kim focuses on technical queries related to members, employers and transfers into the Scheme. While the legal team is not included in the day-to-day management of the Scheme, they offer advice to the Trustee and Sub-committees as needed and are available to discuss specific areas, for example, conflicts.

Our Trustee has a Conflicts of Interest Policy available online. This policy also covers conflicts with the Trustee's advisers and aims to make sure that priority is placed on covering the interests of clients and beneficiaries. Decisions about voting and engagement activities are agreed by the Trustee, with input from their investment adviser, in-house Smart governance and investments teams. Influence from other areas of Smart Pension Limited, such as those responsible for client relationships and client acquisition, is not permitted. Any potential conflicts arising will be communicated to the Scheme Secretary and the Chief Investment Officer. The Trustee will regularly review this policy and any conflicts, as they arise. There were no new conflicts of interest noted over the Scheme year. We publish voting and engagement records and activities on our website each year, in our implementation statement.

To help identify and potentially manage conflicts of interest, the following actions were taken during the Scheme year:

1. Conduct regular training and education: while these sessions may not be specific to stewardship, regular training ensures that the Trustees are aware of topics in more depth and therefore the various forms of conflicts which may arise during any stewardship relating to these. As mentioned above, there were no new conflicts of interest noted over the Scheme year. More information of the training carried out by the Trustee over the Scheme year was provided earlier. A conflicts register is also maintained containing details of Trustee Director's other appointments and any Advisers/Providers declared conflicts.
2. Required disclosures: at the start of each Trustee or sub-committee meeting, the trustees are asked to disclose any new conflicts of interest or any conflicts relating to any agenda item to be discussed at the meeting.
3. Annual manager monitoring: as part of our manager monitoring oversight, external managers across all our asset classes were asked to provide details on voting and/or engagement activities during the Scheme year and flag any issues arising. Given the pooled nature of our investments, the review and engagement with external investment managers is key to determining conflicts or issues arising. More details on our manager oversight process is described later in this document.

Given that the Scheme uses pooled funds, the Trustee has delegated day-to-day investment decisions, including exercising rights and responsibilities on its behalf. The Trustee therefore does not have any direct voting power. The Trustee does require all managers to have an active and transparent engagement policy and for their activities to be in line with our Responsible Investment and Voting and Engagement Policies.

The Trustee expects that the fund managers will have members' financial interests as their first priority when choosing investments. Fund managers across all our asset classes (equity, bonds and private credit) are expected to:

- Integrate their responsible investment policies into their investment process;
- Be, or be working towards being, signatories of the UN Principles for Responsible Investment and the UK Stewardship Code;
- Have net zero ambitions that are aligned, or will be aligned, with our own net zero ambitions; and
- Have engagement strategies that are aligned as far as possible with our stewardship and engagement priorities. This means engaging with companies to both reduce the negative environmental and social impact of their activities and enhance the positive effects.

As mentioned earlier, we do not set a requirement for our investment managers to use collaborative engagement to influence issuers. However, we do consider the key groups or initiatives managers are aligned to/members of, when selecting and monitoring our managers. In particular, engagements with issuers are considered within our bond and private credit allocations (see case study 1), where voting is not applicable. The ISC meets with these managers annually and discusses stewardship activities. Currently, all our investment managers are signatories to the UN Principles for Responsible Investment and the UK Stewardship Code, with the exception of our private credit manager, MV Credit, who is not a signatory to the UK Stewardship Code. MV Credit generally supports the objectives that underlie the Code but notes that the provisions of the Code are not considered to be relevant to the activities currently undertaken by the firm. We remain comfortable with their overall engagement approach and continue to monitor and review them.

Voting process

We require our fund managers to be active stewards of our investments, which means voting on all company resolutions in the best interests of our members and driving sustainable best practice. Our listed equity fund managers (LGIM, JPMAM and AXA) will use proxy voting to carry out the votes on our behalf. Voting is not applicable to our fixed income (private and public credit) allocations.

LGIM uses ISS to place its electronic votes through ISS ProxyExchange. ISS recommendations are used to augment voting decisions made by LGIM. Additionally, LGIM has a custom voting policy in place which incorporates its specific stances on issues such as climate change, as implemented through its Climate Impact Pledge. This is in line with our beliefs. LGIM has securities lending programmes in selective overseas equity markets under strict conditions on the credit rating of counterparties and the quality and extent of collateral. LGIM does not lend UK stocks as the right to scrip dividends is lost, which can have a material impact on the performance of a UK index fund and voting rights are lost. The securities lending programme is managed and administered by its custodian (Citibank) within risk control parameters set by LGIM.

LGIM has a risk-averse approach to securities lending and believes this should only be undertaken where the expected return considerably outweighs the controlled risk and conflicts of interests are avoided. LGIM restricts lending of more than 50% of the assets of the fund with a maximum of 10% to any one counterparty. Historically, the percentage of assets lent by any one fund has been in the region of 0.1% to 20%. There will always be a holding of every line to vote on and, if required, stock can be recalled. LGIM has an agreement with counterparties that they are not able to vote on stock that is loaned to them.

JPMAM monitors the corporate actions of the companies held in their clients' portfolios. To assist JPMAM investment professionals with public companies' proxy voting proposals, a JPMAM entity may, but shall not be obligated to, retain the services of an independent proxy voting service ("Independent Voting Service"). The Independent Voting Service is assigned responsibility for various functions, which may include one or more of the following: coordinating with client custodians to ensure that all proxy materials are processed in a timely fashion; providing JPMAM with a comprehensive analysis of each proxy proposal and providing JPMAM with recommendations on how to vote each proxy proposal based on the Guidelines or, where no Guideline exists or where the Guidelines require a case-by-case analysis, on the Independent Voting Service's analysis; and executing the voting of the proxies in accordance with Guidelines and its recommendation, except when a recommendation is overridden by JPMAM. We remain comfortable with JPMAM's approach to voting.

JPMAM oversees the proxy-voting process on an ongoing basis: a Proxy Committee has been established for each global location where proxy-voting decisions are made. Each Proxy Committee is composed of members and invitees including a Proxy Administrator and senior officers from among the Investment, Legal, Compliance and Risk Management Departments. The Proxy Committee meets at least quarterly, or more frequently as circumstances dictate. The Global Head of Investment Stewardship is a participant of each regional committee and, working with the regional Proxy administrators, is charged with overall responsibility for governance issues including proxy voting worldwide and coordinating regional proxy voting guidelines in accordance with applicable regulations and best practices.

AXA uses proxy voting and shareholder engagement work – derived from their belief that company management, directors and investors all have critical yet unique roles to play in sustaining the health of financial markets and ensuring the efficient allocation of capital. It concerns rights, responsibilities of the different stakeholders in the corporation such as the functioning of the Boards, managers, shareholders. AXA's voting policy aligns with our beliefs to promote ESG considerations and sustainability.

AXA is a member of the Proxinvest Steering Committee which helps institutional investors with global asset portfolios to understand the regulatory diversity in Europe by providing corporate governance research and proxy voting advice based on local market expertise. Pursuing a consistent proxy voting or corporate governance engagement policy across markets therefore can be challenging for global investors.

BlackRock (used by Barclays Wealth) and HSBC are also equity managers which are used in the Scheme. Collectively assets in these funds are less than 0.2% of total assets. Both these managers also use ISS for vote instruction and proxy research firms for custom recommendations, similar to the above managers. In addition, Schroders was added to the Scheme in December 2022 and represents c. 1.3% of total assets. These managers are included in our expectations of managers and our annual monitoring of stewardship approach and wider investment strategy.

Over the Scheme year, questionnaires were sent out to our investment managers to help the Trustee to determine whether they are meeting the Trustee's policies and objectives in their stewardship activities and day-to-day management of assets. Investment managers were issued these questionnaires in July 2022 (MV Credit), October 2022 (LGIM and Barclays), January 2023 (JPMAM and HSBC) and April 2023 (AXA). Given the launch date of Mirova and Schroders in December 2022, the first questionnaire and monitoring process was not carried out during the reporting period. The Trustee recognises that the approach of stewardship depends on a number of factors, including asset classes and active or passive management.

Prior to engaging with managers, we take a view on the investment managers' abilities to exercise responsible investment insight. LGIM manages passive investment funds and we realise there is a limited ability for it to influence through security selection, but there is a clear ability to influence through direct engagement with the underlying companies. The Trustee's investment advisers then carry out assessments on the level of engagement from the investment managers, the quality of their responses and priorities for future engagements. The Investment Sub-Committee then reviews these responses and the assessments and agrees to the priority areas and any additional engagement activity required. An example of this with LGIM was a focus on recent departures in the stewardship team, as well as capabilities around split voting.

Our stewardship process has been updated over the Scheme year and will continue to be reviewed and refined in the future, as part of our annual meetings with the investment managers. The Trustee, via the in-house investments team and their investment adviser, undertakes an assessment of all voting activity (for the listed equity managers), covering votes in the priority areas for the default growth fund as follows:

- The top five holdings of each underlying fund;
- Material climate impacting sectors, as set out by the Paris Agreement Capital Transition Assessment (power, coal mining, oil and gas upstream sectors, auto manufacturing, cement, steel and aviation) and removing commodity-driven deforestation;
- Votes that are highlighted by ShareAction, on a case by case basis;
- Votes that are not in line with the Red Line Voting initiative; and
- Where managers voted in different ways or where a manager's vote could have influenced the overall outcome of the vote.

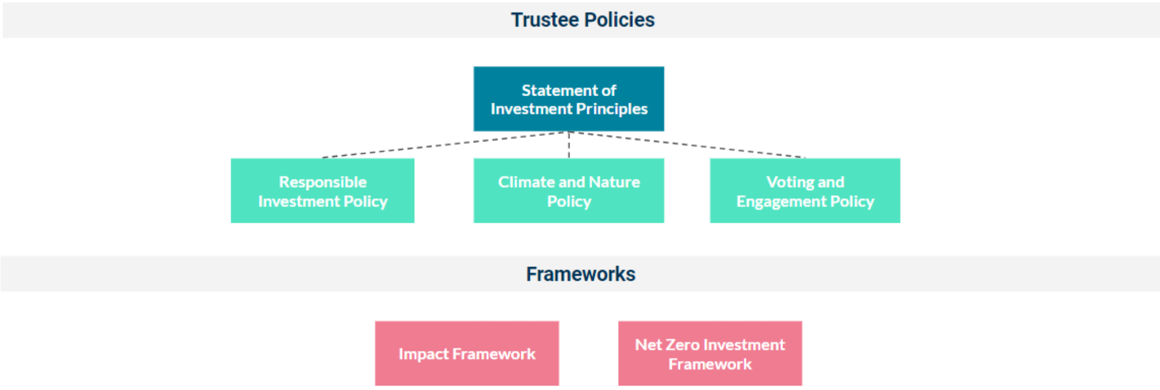
The Trustee then uses this assessment as a basis for discussion with the investment manager. If equity managers have not voted as would have been expected, they would be asked to explain the reasons for their actions, and this would be escalated if the response is not satisfactory. If the further response to this is not seen as satisfactory, this could lead to a review of the allocation.

CASE STUDY 4: Manager questionnaires

As part of the rolling annual oversight programme, we included new topics to engage managers with. In particular, a new area of engagement was in relation to deforestation and whether our managers had a deforestation policy and whether they assessed exposure to this risk. For the managers within our default growth fund, three had deforestation policies and three did not. While managers didn't have specific metrics on deforestation that they disclosed, we liaised with them to consider our exposure and used the Forest 500 list of companies and financial institutions as a starting point. Some managers have been helpful in analysing their holdings for us while others aren't focussing on nature-related metrics yet. Therefore, we are also working with our investment adviser to cover these gaps and analyse the portfolio as a whole. One barrier is the lack of identifiers (e.g. ISIN codes) on the Forest 500 data.

Smart Pension

3. Investment decisions



The Trustee's investment beliefs are set out in their Statement of Investment Principles and their wider policies, such as the Voting and Engagement Policy, provide additional details on these areas. The Trustee also has internal frameworks for their net zero targets and development of impact investing allocations. The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment platforms and fund managers, and the monitoring of compliance with agreed policies. As noted above, the Trustee believes that engagement with the companies in which the Scheme ultimately invests, including the proactive use of shareholder voting rights, can improve the longer-term returns of the investments it makes.

All the Trustee's publicly available policies are reviewed annually to ensure they remain up to date and incorporate the Trustee's latest beliefs on investment approach and stewardship. A number of improvements were made to them during the Scheme year to 30 June 2023. The policies are reviewed by the internal investments team, then presented to by the Investment Sub-Committee and finally approved by the Trustee Board. The policies were updated to take into account nature risks, in addition to the climate risks already set out. These include biodiversity and deforestation considerations. In particular, our Climate Policy is now titled our Climate and Nature Policy. Further details on these identified risks are outlined on the following pages.

As a master trust, our purpose is to deliver strong retirement outcomes for our members. The investment strategy forms a critical part of this, alongside maximising contributions as far as is practical (such as through member engagement). Given the importance of the investment strategy in delivering returns, stewardship is in turn key in helping to ultimately build and invest in companies which will provide these returns over the longer term. This is particularly true from an ESG and climate perspective, where the goal is wider than just financial return.

Robust stewardship helps to ensure that managers, and the companies they invest in, are on the right track. We are working towards building for a future that our members will be happy to retire into.

To address market-wide and systemic risks and ensure well-functioning markets, we:

- Have a dynamic Trustee risk register in place, available online, with the key risks for the Scheme, which is reviewed at least annually and discussed at each quarterly meeting;
- Discuss ongoing risks to the portfolios regularly at Trustee and Investment Sub-committee meetings. These include shorter-term risks, such as specific political uncertainty, as well as medium to longer-term risks, such as stranded assets and climate change;
- Regularly request details from our managers on the risks they are seeing, and how they are managing them, as part of our oversight process. This includes risks that are more systemic in nature, such as the 2023 US banking crisis and Russia/Ukraine war;
- Have invested in a specific biodiversity strategy as we see this as a systemic risk to both natural and financial systems;
- Are reviewing how universal ownership feeds into our portfolios, to ensure we have visibility on systemic risks, rather than moving the problem elsewhere;
- Regularly request details from our managers on how they are most effectively allocating capital and trading efficiently; and
- Select managers based on their risk management processes and controls, in line with PRI due diligence questionnaires, as well as their ability to execute efficiently and form part of a well functioning market. This forms a key part of the advice and research we receive from our investment adviser, Hymans Robertson.

Related risks considered over the Scheme year:

1. The Trustee fails to engage with ESG requirements, climate change considerations, or own a stated policy.

This is an ongoing identified risk with the consequences that the Trustee holds assets which do not comply with policy or market sentiment and finds itself in 'stranded assets' or inappropriate assets such as oil and gas, investment managers do not implement and follow their own responsible investment and stewardship policies, as well as the reputational and regulatory consequences of not adhering to the Trustee’s policies.

To manage this risk, external managers are requested to complete a rolling annual questionnaire and meet with the ISC annually, which helps to assess the effectiveness of stewardship activities. The questionnaire asks a number of stewardship-related questions including stewardship priorities and commitments, changes within your stewardship team, split voting development, details of any strengthened voting priorities on climate and social issues and monitoring of deforestation issues. Managers are asked to share their latest policies, including progress towards net zero. Following the responses to these questionnaires will set our priorities for engagement with the managers going forward. Hymans Robertson also reviews the responses and attends these meetings to provide assurances and suggestions.

2. The Trustee agreed that nature-related risks were a significant consideration in investments and inter-related to climate risks.

Economies rely on goods and services generated by natural capital, such as food, raw materials and water. These economies are often regulated by climate legislation. The Trustee believes that climate and nature are under unprecedented threat which in turn can adversely affect our members' money when not considered from an investment perspective. The Trustee's climate policy was updated to "Climate and Nature" policy and approved by the Trustee in June 2023.

3. At the ISC meeting in February 2023, the ISC discussed commodity-driven deforestation and the risk it imposed on members' investments.

Deforestation is connected to biodiversity loss, increased climate change and company risk. Loss of forests and habitat can put companies involved in deforestation at risk of regulatory enforcement, reputational damage and financial losses. Details on this are included in the updated Climate and Nature Policy.

We believe that the above process remains effective in addressing the risks identified as well as reviewing ongoing stewardship activities that are associated with the Scheme's investments.

CASE STUDY 5: Managing deforestation risk

Over the Scheme year, we began working with our investment adviser and other industry experts to plan how to analyse and map these risks in more detail. We have decided to commit to removing commodity-driven deforestation from our investments and explore data partners and public data sources such as the Global Canopy's Forest 500. This initial analysis will help us to plan our journey to deforestation-free investments, including setting interim and final target dates. We have embedded our commitment to be deforestation-free in our Responsible Investment, Climate and Nature and Voting and Engagement policies, highlighting it as a priority engagement area. We have shared these with our investment managers as an expression of wish and going forward, when we can influence voting directly, will take these views into account. As part of our rolling manager oversight process, we have also assessed our investment managers on their deforestation policies (if in existence) and will continue to engage with those who require further development of these, in line with our policies.

There are always risks that have not yet been identified and/or explored by the Trustee, but we believe that our risk management process is robust and focuses on the correct risks. Our online, dynamic risk register has discussion areas which allows exchange of messages in respect of each individual risk, and the register can be updated in real time. It contains a robust controls listing and assessment of key Trustee risks, subject to regular review and supported by deep dive exercises of specific risks. A change log records every update to the register and this is shared regularly with the Trustee. The heatmap is another powerful tool for the Trustee to see risks. We will continue to explore new ways of managing risks, including being more proactive where possible, such as in evolving geopolitical issues. Similarly, from an efficient market perspective, we believe that we are active in allocating capital to geographies and companies, via investment managers, where there is a risk and return benefit from doing so. We have chosen to use selected levels of active management in particular as we believe that they can efficiently allocate capital on our behalf, including with the AXA and Mirova funds appointed within the period.

There are a number of ways we have engaged with our members and clients over the Scheme year, facilitated by our technology platform. Examples of this include:

- Member webinars which covered key areas such as sustainable investing, financial wellness and pension scams;
- Digital communication campaigns around changes to our funds and our new commitments; and
- Site visits to employers to present on various pension scheme topics including a broader understanding of Smart Pension.

Our approach uses technology primarily to communicate, usually via the app, as engagement rates will be stronger than with more traditional means, such as letters. It also allows us to test new ideas quickly and poll our members and clients on their views in real time.

As noted above, pension savings can have long-term time horizons, particularly for our younger members. These members are invested in a higher proportion of equities, providing us with the ability to align the engagement strategy with these time horizons. This means working with companies, including those we ultimately invest in, to work towards a brighter future over the long term. Our focus is therefore on engagement over divestment, to reflect this time horizon and our ability to engage over the longer term. However, in some circumstances, we recognise the need for divestment and monitor our managers ability and processes of carrying this out.

CASE STUDY 6: Example of a divestment in our green bond allocation

The potential collapse of Thames Water in 2023 prompted us to ask Mirova about their process for assessing the allocation to the company within our bond allocation. Mirova Global Green Bond fund had an exposure to one bond from Thames Water, a 2028 bond amounting to 0.45% of the AuM within the fund (c. 0.045% of our default growth fund). Mirova credit analysts and portfolio managers had decided a haircut on debt was a likely scenario and they had reduced this position and subsequently removed it from the portfolio. The impact of holding this position was a small positive contribution to performance amounting to +0.08%, given the underweight to Thames Water vs. the index overall as well as the choice of the 2028 bond, which was the most resilient one across the issuer curve.

When we select our investment managers, the ability to engage for the longer term is a critical requirement and made clear in selection processes. Whilst we do not have direct contractual arrangements in place, given the pooled nature of our investments, we review all investment managers, including new managers, annually, and we will ultimately remove any who do not meet the high standards expected, in line with our escalation process set out in our Voting and Engagement Policy. We have not yet removed any investment managers based on these expectations.

A rolling investment manager oversight programme is in place at Trustee's quarterly meetings, through which managers are met on at least an annual basis, and asked to provide an update on portfolios, including voting and engagement and broader ESG items, as well as priority areas being discussed. The Trustee met with six managers and one platform provider over the period. We also met with one prospective manager, who was asked to show evidence of strong ownership and stewardship credentials in their presentations to the ISC and/or Trustee.

We have also worked with investment managers to create mandates which feature stronger voting powers. One manager has been implemented since the Scheme year end who has split voting capabilities. Similarly, when we work with our suppliers such as investment advisers, we view these relationships as long-term and collegiate relationships, to help drive forward not only the industry but also member outcomes. This is particularly the case with our investment adviser, Hymans Robertson, with whom we added new investment consultant objectives in relation to ESG over the period, with the aim of driving industry thinking forward.

All service providers (including platform managers and investment advisers, but excluding investment managers) are reviewed on a regular basis in line with our Appointment and Review of Advisers and Service Providers Policy. An annual questionnaire is sent to them and a Trustee assessment of the provider is undertaken. ESG/sustainability positioning and credentials are one of the pillars in our policy to ensure it is considered as part of a review. Consideration is given formally to the need for a re-tender exercise every three years.

These assessments help the Trustee to determine whether the service providers are meeting the objectives set for them. In addition, a number of service providers attend Trustee meetings, in which the Trustee is updated on the work undertaken by those providers and can ask questions on the quality of the services being delivered. The scope of the Trustee annual review includes that of the Trustee's legal, covenant, investment and audit (accounts and TECH 05/20 supplied by separate parties) advisers, as well as their administrator, platform manager and software governance tool provider.

As well as the Trustee's policies, which are available online and referenced in other communications where relevant, members are regularly communicated to on a number of topics. A recent example of this was the launch of our webpages for members to explain important topics and areas of investments, for example our investment in global green bonds. Members are communicated to on a regular basis, including through an annual newsletter updating them on changes and via annual benefit statements, as well as on an ad-hoc basis as and when required.

We aim to communicate primarily through digital means, given our use of technology and to limit the impact from a sustainability perspective, but will also communicate by paper if required. Digital communications can take the form of both messages and nudges within the app, emails and webinars. Nudges in particular allow us to communicate quickly, including testing out new ideas and to gain our members' views on stewardship and engagement.

CASE STUDY 7: Member webinar 2023

Our member webinar was carried out at the start of June 2023 and covered a variety of topics including what it means to invest sustainably and our approach. We had an increase of registrants by 2.1% on last year's figures, with a 62% attendance rate (an 11.1% increase on last year's figures) and 31% survey responses. The feedback from members was very positive, examples below, and reinforced the importance of this type of communication.

"Informative, taught me about my pension I have with the service. Also empowered me to take ESG investment options."

"Presenters were providing information in a clear and accessible way. Jargons and expressions were explained. Good representation of women."

"Made me look at mine, as [I] had not even realised investments were being made for me!"

"You used simple language - so that I could understand what you were talking about!"

The Trustee reviews each manager against their own policies (which are shared with managers) over the year as part of the ongoing oversight process. Where there were issues, we escalated these with the managers and kept ongoing communications. Over the last Scheme Year, we raised an issue with our platform provider in relation to providing transaction cost data in a timely manner, which we escalated and have monitored closely this year.

For the service providers in place, selection and review exercises incorporate questions around ESG. Objectives are set for the Trustee's investment adviser, which meet investment consultant requirements and incorporate a number of items related to ESG and stewardship, including the following objectives (unchanged from last year):

- Help the Trustee to implement an investment strategy which adds value through the integration of ESG, responsible investment, effective stewardship and environmental considerations in their investment manager appointments and strategy recommendations. This should be in line with the Trustee's policies, as well as the Trustee's net zero and impact frameworks.
- As appointed adviser to the Trustee, to act in line with the Trustee's expectations of key advisers and suppliers. This includes demonstrating commitment to responsible investment and stewardship through actions across their corporate function that do not significantly differ from the Trustee's beliefs and policies.

Stewardship and engagement is bespoke based on managers, asset classes and geographies for example our equity funds oversight differs from our private credit manager. A higher proportion of time is spent on our default strategy managers, given the majority of assets are invested here, but all managers used across the Scheme are engaged with and reviewed on an annual rolling basis. Broadly, our funds are structured to be global or pan-European in nature, and therefore there are limited differences in how we engage based on geography at this stage.

4. Voting and engagement

We aim to improve long-term outcomes for our members through voting and engagements. The Trustee works closely with the internal investment team and our investment adviser, Hymans Robertson, to oversee and implement the stewardship strategy for the Scheme. Hymans Robertson keeps both the Smart Pension internal teams and the Trustee up to date on best practice around stewardship, as well as areas of stewardship priority based on their research. Overall engagement themes have remained unchanged over the Scheme Year, as the focus remains on climate change and developing into nature.

In addition, all Trustee Directors are independent of Smart Pension and have experience in stewardship, whether from other trustee roles or as part of their day-to-day roles. This experience is utilised as far as possible for the Scheme, for example David Brown's work with Pensions for Purpose, or Nikesh Patel's work in creating a proactive and forward-looking engagement and exclusion policy at Kempen Capital Management.

As part of the oversight program the Trustee has in place, the objective for engagement with each manager is discussed by the Trustee. Individual managers are scored using a Red Amber Green (RAG) framework, and the Trustee and its investment adviser engage with managers to improve a manager on areas which are red or amber. For example, if a manager is less far along its journey on voting and engagement, they may be scored 'red' for transparency, and an appropriate objective would be to improve reporting in the first instance. The Trustee therefore has bespoke objectives and priorities depending on the manager or service provider in question. These objectives and priorities are detailed in the stewardship oversight questionnaires and reports discussed by the Trustee on a quarterly basis. Examples of the areas flagged with managers are: changes to their stewardship teams, joining of initiatives and progress towards allowing split voting.

The Trustee's Voting and Engagement Policy was updated over the Scheme year to embed the considerations of biodiversity loss and deforestation as a risk, and a priority engagement area. This was also highlighted in our Responsible Investment Policy and Climate and Nature Policy. External managers receive our policies as an expression of wish. An important aspect of implementing the Trustee's Voting and Engagement Policy is the engagement with our investment managers. The Trustee ensures that suitable due diligence is carried out in the selection and monitoring of investment managers, in line with the Trustee's Investment Manager and Platform Selection and Oversight Policy, which was implemented during the Scheme year. As mentioned in the "Voting activity" section, if any issues arise during the appointment, for example an investment manager not voting in line with the Trustee's views or expression of wish, the Trustees will engage with investment managers in a constructive manner. Following the Trustee's review of their Voting and Engagement Policy over the Scheme year, they added additional steps to clearly outline the Trustee's formal escalation procedure, as follows:

- Annual manager assessment: the priority areas outlined in the policy are considered.
- Informal discussions: areas of divergence from the above priorities or voting principles are raised with the investment manager via the in-house investment team.
- Formal meeting: if unable to resolve the issue through informal discussions, the investment manager may be invited to a formal Trustee or sub-committee meeting to discuss. This concern will be clearly documented in the meeting minutes.
- Senior management: if the Trustee is unable to resolve the issue through informal and formal discussions, the issue can be escalated to the investment manager's senior management team, or board. The Trustee will consider all available options, including termination of the investment manager appointment, to manage the concern.

The Trustee has requested updates on engagements of topics, which align with the Trustee's beliefs, as set out in their Statement of Investment Principles and other policy documents. This includes engagements in relation to climate change, biodiversity loss and deforestation. Where suitable we do request information on the "intent" to vote. The Trustee is reviewing the capability of managers to inform us of their intention and allow us to influence voting.

CASE STUDY 8: Request for information on intent to vote from managers

With a 0.8% allocation to Shell in our equity allocation, we asked our external manager whether they would be taking any action against Shell at its AGM on 23 May 2023 by voting against its top directors. This is in line with Climate Action 100+ analysis of Shell (October 2022) that the company scores 'red' on both short and medium term targets for the question "The target (or, in the absence of a target, the company's latest disclosed GHG emissions intensity) is aligned with the goal of limiting global warming to 1.5°C". The manager, LGIM, responded that due to

company policy, they are unable to comment on the upcoming Shell AGM. However, their votes are made publicly available on their vote disclosure website one day following the AGM. LGIM did not vote against Shell's top directors, however, they did vote against the Shell Energy Transition Progress, over the lack of disclosure surrounding future oil and gas production plans and targets, in line with our views. We are currently considering options to give us more flexibility and control over the voting and engagement within our equity allocation, on top of the split voting fund already implemented (post Scheme year end). Due to the sensitivity of the considerations, we can not expand further at this stage.

The Trustee believes in opportunities to work collaboratively with other asset owners to use its voice to improve stewardship such as working with the Occupational Pensions Stewardship Council and ShareAction. Since the Scheme Year end, the Trustee has signed up to Nature Action 100. The review and input of all parties highlighted above has ensured stewardship is embedded into manager selection and oversight exercises, including the appointment of a specific manager with trustee-directed split voting capability.

Similarly, the Trustee uses the experience of the Trustee Directors, advisers and Smart Pension teams to help make sure the stewardship reporting is fair, balanced and understandable. As mentioned previously, member feedback is regularly sought through a variety of methods, and part of this is determining whether members are happy with the reporting and feel it is balanced. Smart Pension has a number of teams, including marketing and content writers, who review stewardship reporting to make sure that it is easy to understand.

Our Voting and Engagement Policy details the Trustee's approach to voting and engagement. This policy dictates how the Trustee approaches voting and engagement, and is kept under regular review, at least once a year.

In line with this policy, the Trustee, with the in-house investments team and its investment adviser, undertakes an assessment of each investment manager's voting activity (for the listed equity managers), covering five priority areas for the Scheme – top holdings, material sectors, votes highlighted by ShareAction, votes not in line with Red Line Voting and significant votes where a manager's vote could have influenced the overall outcome of the vote. A summary of voting analysis is included in the Trustee's Implementation Statement, available on our website under Scheme Governance.

Given that the Scheme invests in pooled funds, we have limited remit to engage directly with companies, but we have assessed and engaged with our investment managers on the priority companies listed, and escalated as appropriate. An overview of this analysis, including case studies on highlighted priorities, is provided.

Smart Sustainable Growth Fund: top ten holdings

Company	Exposure %	Manager engagements* over the Scheme year
Apple	4.5	2
Microsoft	4.0	1
Alphabet	2.1	0
Nvidia	1.8	0
AstraZeneca	1.5	0
Amazon	1.4	3
HSBC	1.1	4
Unilever	1.1	4
Shell	0.8	9
Meta	0.8	1
Top ten holdings	***19.2***	

Source: Hymans Robertson, LGIM
*Engagements refer to direct or collaborative meetings, dialogue and issues raised outside the usual voting process.

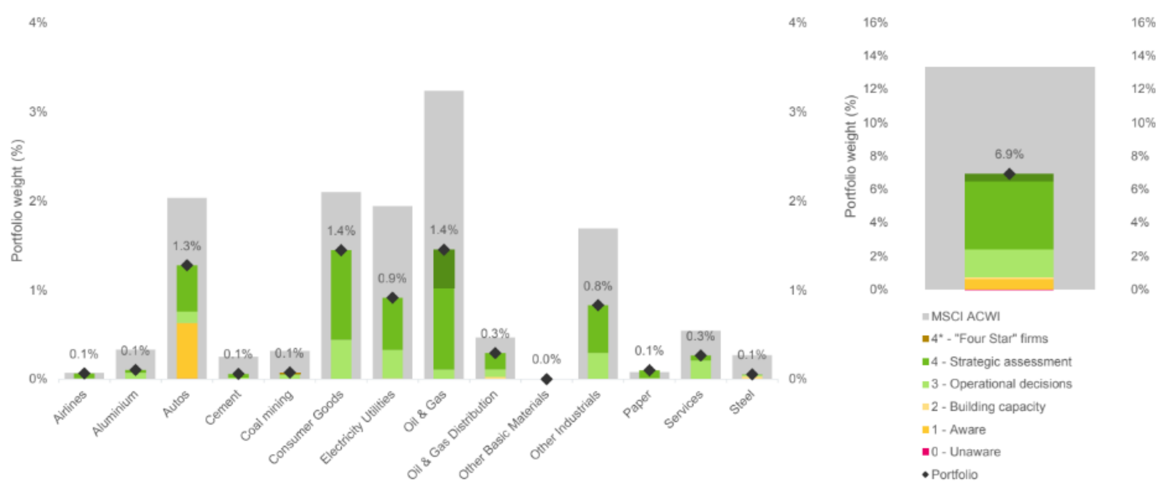
The Scheme's top equity holdings are most overweight to the healthcare sector, mainly through AstraZeneca, when compared to the MSCI ACWI index (1.5% vs. 0.4%), a portfolio of companies not tilted to ESG scores. The top holdings were geographically overweight to the UK compared to MSCI ACWI (4.5% vs 0.0%).

From the top holdings in our default, we highlighted two focus areas which had the potential to improve from an ESG perspective; oil and gas and healthcare. Shell operates in the Oil & Gas sector and remains a top 10 holding from last year, although we note is 0.8% of the default growth fund. We note that the company has been assessed positively by the Transition Pathway Initiative relative to peers for integration of climate change considerations in strategic decisions. However, there is further progression needed to meet net zero targets. The previous case study [8] outlines an example of our engagement regarding this company and our manager's voting. We also recognise the potential for companies involved in the pharmaceutical sector to be subjected to high levels of controversy e.g. due to animal testing. Therefore, we will keep this area under close review.

Material sectors

The TPI is a global initiative, partnered with FTSE Russell, led by asset owners and supported by asset managers. It assesses companies' preparedness for the transition to a low-carbon economy. This analysis helps us to prioritise areas going forward for engagements. Using this initiative, the following analysis was carried out:

1. Exposure to material carbon intensive sectors[3] – airlines, aluminium, autos, cement, coal mining, consumer goods, electricity utilities, oil and gas, oil and gas distribution, other basic materials, paper, services and steel.
2. Management quality – assessment of level of integration of climate considerations in management decisions.



Source: Hymans Robertson

The Scheme's equity exposure to carbon intensive sectors was around 60% of theMSCI ACWI index (6.9% versus 13.3% for the index). The Scheme is most significantly underweight to the oil and gas sector (1.4% vs. 3.2%) and we continue to monitor companies in this sector. In absolute terms, our equity exposure had a lower exposure to carbon intensive sectors over the Scheme year, relative to last year, as did the MSCI ACWI. The analysis showed that within our equity exposure, there has been an increase of companies that embed climate change considerations in their strategic and/or operational decisions, c. 90% from 84% last year. Around 10% are either building capacity towards embedding climate change considerations in their process or are at least aware of the need to do so. There are 31 companies in this

[3] Includes sectors covered in the PACTA tool.

category compared to 82 last year. Only one company, Tesla Motors represents more than 0.05% of the portfolio, at 0.6% of the allocation. In addition, only two companies are unaware of the impact of climate change in their organisation, as a reduction from six companies last year, Nio Inc and Huaibei Mining holdings - both Chinese companies in the automobile and mining industries respectively.

CASE STUDY 9: Priorities from material sector analysis

In light of the above, as we have done previously, we liaised with LGIM in relation to their ESG scoring and engagements with the companies flagged. Where exposures are 0.1% or more within the Smart Sustainable Growth Fund the exposure level is shown.

Company	Exposure	Reason
Tesla Motors	0.6%	Materiality and significant scope for development
Nio Incorporated	~	Despite small exposures, these companies are not aware of how climate change could impact their organisation. Scope for wider world beneficial impact, and challenge asset managers on inclusion.
Huaibei Mining Holdings	~	

Source: Hymans Robertson, LGIM

LGIM's ESG scores show Huaibei Mining Holdings having a low ESG score (1/100) and therefore a tilt away from the company which in turn gives it a 0.0002% allocation within the default growth fund. Nio Inc. has a higher ESG score (44/100) with an environmental score of 98/100 but a transparency score of 20/100 which is likely where it falls short in the TPI analysis; it also scores lower in social (25/100) and governance (39/100) categories. Its allocation is 0.007% within the default growth fund. Tesla Inc has scored 52/100, with a high environmental score (98/100) and governance score (63/100) but lower in the other categories of social (24/100) and transparency (29/100). With the highest exposure of the three companies flagged in the material sector analysis, it still only represents 0.6% of the default growth fund. The Trustee recognises the nature of passive ESG-tilted investing over more active exclusion-based investing, and engaged with LGIM on whether they intend to take a stronger stance or exclude these companies, in particular, given their negligible allocation from an investment perspective and poor environmental prospects. LGIM confirmed they have no intention to change their "Future World" exclusion or inclusion process. We are exploring ways where we can further exclude the "worst of the worst" in our equity allocations.

CASE STUDY 10: Engagement with LGIM on the inclusion of Huaibei Mining Holdings

Huaibei Coal Mining Group is a state-owned coal mining company based in Huaibei, China. We requested information from LGIM as to why Huaibei Mining Holdings isn't excluded entirely and whether it meets the exclusion criteria of coal mining & oil sands revenue. As

part of the LGIM Coal Policy, screening is carried out and exclusions are applied to those companies that generate 20% or more of their revenues from thermal coal mining and extraction, oil sands or coal-fired power generation. Where a company has set out a clear Paris-aligned plan to phase out coal by 2030 in OECD, and by 2040 in non-OECD, they retain the ability to invest as well as where the company has non-coal subsidiaries. LGIM's analysis of Huaibei Mining Holdings is shown below.

Indicator Details

Thermal Coal

The company extracts thermal coal.

Range: **5-9.9%**

Revenue Percentage: **7.5%**

Revenue Analysis Source: **Estimated**

Fiscal Year: **2022**

Huaibei Mining Holdings Co., Ltd. primarily engages in coal mining, washing, processing, sales, and production of coal as well as production and sales of coal chemical and explosives products. It primarily explores and produce coking coal, but also produce lean or thermal coal used in power generation. It operates coal production mines, with a production capacity of 32.55 million tons/year. According to third party sources, revenues from mining and coal accounted for 32.5% of total revenues in FY2022. Given unrelated activities and the fact that its main product is coking coal, , according to Sustainalytics' revenue estimation rules it is estimated that thermal coal production accounted for 7.5% of total revenues in FY2022.

Sources

Huaibei Mining Holdings Co., Ltd., www.hbkykg.com; accessed 15 June 2023

Market Screener, www.marketscreener.com; accessed 15 June 2023

Significant votes highlighted by ShareAction

We have considered significant ShareAction votes from our top holdings. We tend to focus on LGIM, J.P. Morgan and AXA in the wider voting and engagement analysis given the small holdings in the BlackRock, Schroders and HSBC funds (< 1.5% in total). For reference, HSBC manages the Shariah-compliant equity fund available in the self-select range, BlackRock funds are used within the Barclays Wealth Global Markets funds offered in the Barclays section and Schroders manages the Smart Schroders funds offered in the Schroders section.

Case study 7 shows our engagement with our manager LGIM (our largest holding) in relation to votes for Shell. While Red Line Voting does suggest the alignment of greenhouse gas reduction targets with the Paris Agreement, it does not go into detail on metrics or accompanying targets and plans. Our managers voted against this resolution over the lack of disclosure surrounding future oil and gas production plans and targets. To vote against was in line with ISS's recommendation.

Smart Pension

Company	Resolution	Red Line Voting guideline	Outcome
Alphabet	Report on effectiveness of Audit and Compliance Committee in promoting public wellbeing	N/A	Not passed
Amazon	Report on ethnicity and gender pay gaps	N/A	Not passed
Shell	Align greenhouse reduction targets with the Paris Agreement	Vote For	Not passed

Company	LGIM	AXA	JP Morgan	HSBC	BlackRock	Schroders	Consideration
Alphabet	For	Against	Against	For	Against	Against	Differences across managers
Amazon	For	For	Against	For	Against	For	Differences across managers
Shell	Against	Against	Against	N/A	Against	Against	Consistency across managers

Source: Hymans Robertson

We recognise the variation in voting amongst our managers on the same issue, in particular on corporate matters. Investment managers can have diverse perspectives on how to vote which usually arise from their unique investment strategies, priorities and views on corporate governance. To streamline this process and ensure consistency we are exploring how we can adopt a unified voting and engagement policy across our default growth fund managers. In addition, we recognise the limitations of the Red Line Voting guidelines for the review of specific detailed resolutions. Red Line Voting provides a high level guide to broad issues, for example in the Shell resolution, Red Line Voting encourages plans in line with the Paris Agreement but investment managers had issues with the level of detail and targets set out within this plan. We will look to review these guidelines and take this into account when exploring how we can bring consistency across voting in our manager allocations.

5. Partners in change

The Trustee partners with a number of other organisations, including pressure groups and other pension schemes, to drive change, including the robust functioning of financial markets. Our investment strategy has been driven by these engagements as well. Examples of this include:

- Pensions for Purpose's Impact Investing Principles signatory: This includes attending collaborative meetings focused on DC pension schemes investing more in impact investing. Individuals from Pensions for Purpose have also made a presentation to the Trustee about market developments and innovations. This work has driven our thinking around impact investing, in particular how to effectively appoint and monitor managers. Since joining, we have appointed AXA and Mirova, as managers with impact integrity.
- Occupational Pensions Stewardship Council founding member: This forum helps occupational pension schemes, such as our own, to determine how to most effectively build and implement stewardship strategies. Council meetings were attended on a regular basis.
- Member of the pensions deforestation-free working group: This group fed into the guidance produced by Global Canopy, Make My Money Matter, and SYSTEMIQ on "How to achieve deforestation-free pensions". It details how pension schemes can integrate deforestation-free requirements into agreements with asset managers, as well as how to work with asset managers on the need to engage with companies/investments.

The above, along with broader industry activity, are undertaken by both the Trustee Directors and individuals from the Smart Pension internal teams.

Our Trustee Board continues to have significant experience in the industry, and is involved in a number of industry groups, helping bring expertise and new ideas to the Scheme, as well as driving the industry, including financial markets, forward. The Trustee and Smart Pension teams work closely with Hymans Robertson, as investment adviser to the Trustee, to develop new ideas and thinking, including pushing boundaries on stewardship from a DC pension scheme perspective.

We include details on how members' savings are invested in videos and information we host on our website and our annual member webinar. Overall, we believe this improves outcomes for members through improved engagement, which can turn into an increase in contributions.

6. Future priorities

The Trustee and Smart Pension teams are constantly looking for ways to enhance the offering to members and the value for money provided. The key areas of focus, particularly around voting and engagement, will therefore be:

- Continuing to implement the new Voting and Engagement Policy and the enhanced levels of oversight it brings;
- Being proactive around risks, particularly nature-related risks including deforestation, as well as ongoing geo-political and inflation-related risks which were flagged in our report last year;
- Engaging with members in a variety of ways and on a variety of topics, with a focus on educating members about reducing the risk to their investments by considering ESG factors;
- Continuing to use our voice and wider collaboration memberships and activities to promote and uphold high stewardship standards;
- Developing our equity strategy to give us a stronger influence on voting and engagement;
- Monitoring our progress against our net zero and impact frameworks; and
- Driving innovation in the industry, from both technology and investment perspectives, looking for new ideas that can help to provide members with strong outcomes.

We believe we have the right resourcing, processes and structures in place to do the above, and will look to continue our reporting on this through our annual UK Stewardship Code and Voting and Engagement reports.

Andy Cheseldine

Chair of Trustee, Smart Pension Master Trust

Smart Pension

7. Appendix

A) 2020 UK Stewardship Code principles

Stewardship Code Principles	Page references
1. Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.	3-4, 7-11, 17-18, 23-28
2. Signatories' governance, resources and incentives support stewardship.	3-4, 11-22
3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	17-18
4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	7-14, 19, 24-26, 29, 38
5. Signatories review their policies, assure their processes and assess the effectiveness of their activities.	4, 7, 9, 12-19, 23-31
6. Signatories take account of client and beneficiary needs and communicates the activities and outcomes of their stewardship and investment to them.	4-7 , 10-12, 14, 26-28, 37
7. Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	7-13, 18-36
8. Signatories monitor and hold to account managers and/or service providers.	4, 6, 12-13, 18-22, 24-27, 29-30
9. Signatories engage with issuers to maintain or enhance the value of assets.	6, 12, 18, 21, 26-28
10. Signatories, where necessary, participate in collaborative engagement to influence issuers.	6, 8, 13-15, 19, 21, 31, 37
11. Signatories, where necessary, escalate stewardship activities to influence issuers.	26-28, 29-31, 34
12. Signatories actively exercise their rights and responsibilities.	8-10, 12-13, 18-22, 29-36

B) Investment performance

Fund and benchmark (shaded) performance to 30 June 2023

Type	Fund	3 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a)
Smart Blends	Sustainable Growth	3.0	8.9	7.4	5.1
	UK CPI +3.5%	2.8	11.4	10.1	8.0
	Sustainable Growth Core	2.8	-	-	-
	UK CPI +3.5%	2.8	-	-	-
	Sustainable Growth Plus	1.5	-	-	-
	UK CPI +3.5%	2.8	-	-	-
	Growth – Higher Risk	3.0	9.6	9.4	6.1
	UK CPI +5%	3.2	12.9	11.6	9.5
	Growth – Lower Risk	2.4	6.0	4.9	4.3
	UK CPI +3%	2.7	10.9	9.6	7.5
	Income	1.1	4.0	2.6	3.2
	UK CPI +2%	2.8	11.4	10.1	8.0
Equity	UK Equity Index	-0.7	7.4	10.1	3.0
	Solactive L&G ESG UK Index	-0.7	8.3	10.5	3.4
	World ex UK Developed Equity Index	5.4	12.9	11.4	10.2
	Solactive L&G ESG Dev ex UK Net Index	5.3	12.5	11.4	10.4
	North America Equity Index	7.0	12.5	13.2	12.5
	Solactive L&G ESG North America Index	6.8	12.1	13.2	12.7
	Emerging Markets Equity Index	-1.9	-2.6	2.3	2.7
	Solactive L&G ESG EM Equity Index	-1.8	-2.1	2.7	3.2
	Ethical and Climate	4.3	9.8	11.1	10.1

Smart Pension

	FTSE All-World TPI ex FF/TBC/Controv	4.2	9.6	10.9	9.8
	Sharia	9.0	15.1	12.3	14.3
	Dow Jones Islamic Market Titans 100	9.0	15.0	12.5	14.6
Fixed Income	All Stocks Index-Linked Gilts Index	-7.7	-14.3	-13.1	-4.6
	FTSE Actuaries UK Index Linked Gilt All Stocks	-7.7	-14.3	-13.0	-4.4
	Global Bond Index	-0.4	0.4	-3.5	-0.1
	Composite 4	-0.5	0.0	-3.6	0.2
	Annuity	-5.4	-13.7	-12.4	-4.4
	FTSE Annuities Index	-8.8	-14.7	-12.8	-4.1
Cash	Cash	1.1	3.0	1.0	0.7
	SONIA	1.1	3.1	1.2	0.9

Source: LGIM, Smart Pension. Gross of fees. Please note we have shown performance for our main investment offering.

Benchmark notes

Composite 1: 50% Solactive L&G ESG UK Index, 25% Solactive L&G ESG North America Index, 2.5% Solactive L&G ESG Europe ex UK Index, 3% Solactive L&G ESG Japan Index, 4.5% Solactive L&G ESG Asia Pacific ex Japan Index, 15% FTSE Actuaries UK Index-Linked Gilts All Stocks Index

Composite 2: 25% FTSE 100 Index, 25% FTSE Developed World (ex UK) Index, 25% SONIA, 15% FTSE Actuaries UK Index-Linked Gilts All Stocks Index, 10% JPM Global Government (ex-UK) Traded Bond Index - GBP Hedged

Composite 3: 85% SONIA, 10% FTSE Actuaries UK Index-Linked Gilts All Stocks Index, 5% FTSE 100 Index

Composite 4: 20% Solactive L&G ESG GBP Investment Grade Corporate TR Index, 59% Solactive L&G ESG USD Investment Grade Corporate TR Index, 21% Solactive L&G ESG EUR Investment Grade Corporate TR Index.