Smart Trends

Social Insights

Smart Pension

Introduction

At Smart Pension, we currently consider people within our own processes and those of our appointed investment managers and advisers. This is captured in our Trustee's work, policies, meetings and decision-making processes in particular within the Social element of Environmental, Social and Governance (ESG). The Trustee considers ESG in their selection and monitoring of managers and chooses managers who integrate ESG in their investment process.

Social factors in our investments relate to various issues and characteristics in companies such as labour practices, human rights, and diversity. Diversity, Equity and Inclusion (DEI) which has been a key stewardship focus over the past year.

Why are social factors important to us?

Social factors, the "S" in ESG, refer to the human capital of our business and our investments. We started considering social factors by focussing on diversity, equity and inclusion. Diversity refers to having people with different life experiences to produce better thought and overall governance. However, if those people are not and do not feel respected (equal) or heard (included), then we cannot benefit from the talents and experiences of those people. At Smart Pension, we believe that every person deserves to be treated fairly and with respect, which is foundational to a just society and creating a better world for our members to live in and retire into.

Creating long-term value for our members' pensions is a key priority. Human capital can contribute to improved investment returns and stronger company performance. Diverse teams mitigate groupthink by offering varied perspectives, enhancing decision-making and risk management. Differences in ethnicity, age, gender, opportunity, and experience contribute valuable insights. Diverse leadership can boost organisational success, with companies more likely to achieve higher profitability and innovation through enhanced decision-making and market adaptation.

Smart Pension has partnered with Denominator, to analyse social and human capital metrics within the public equity of the Smart Sustainable Growth Fund (the "portfolio"), which is the main default investment fund for members of the Smart Pension Master Trust. Considering human capital, we can gain a better overview of the performance and risk of a company beyond surface financial metrics. Gender tends to be a metric with sufficient data coverage to provide insights into diversity. Denominator considered areas such as Gender, Age and Ethnicity.
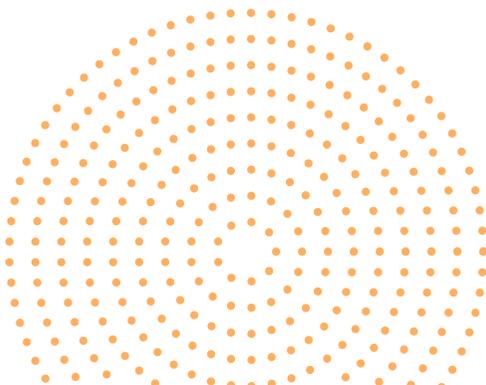
This analysis provides insights on how the companies fare within their country standards, with the aim to improve some of these areas through voting and engagement with our managers or the companies directly. In particular, the analysis focuses on the areas of risk where companies are underperforming their country counterparts with processes or representation. We note this does not necessarily mean these are poor performing companies but can provide insight into where engagements could be focused to make sure these companies are considering suitable processes and policies. This analysis evaluates company performance against country standards, highlighting areas where companies underperform in processes or representation. The goal is to identify focus areas for engagement with managers or the companies themselves, aiming to improve these aspects through voting and direct interaction. It's important to note that underperformance doesn't necessarily indicate poor overall company performance, but rather pinpoints areas where suitable processes and policies could be enhanced.

Summary of insights

Denominator assessment of the portfolio flagged companies which are performing below the bottom quartile when compared to other companies in their country, to highlight opportunities for improvement across a range of lenses.

Denominator uses three tiers to evaluate the overall performance of a company. The board and executive management represents the highest level of leadership and people in power, whereas the organisational tier covers the workforce and

company policies and programmes. **Key areas that stood out in their analysis were Gender on Board, Gender Gaps, Age, Race/Ethnicity and Education.**

Denominator's analysis showed when analysing the overall diversity performance from a total perspective, considering all three tiers, the Smart portfolio exhibited no exposure to worst performers. This means that no company has an overall diversity score that is below the threshold of worst performers in the respective country's peer group. When evaluating the board and

executive management separately, the results show some exposure to worst performers. With 6% of the executive management teams performing below the benchmark, and 2% for the board. Denominator's analysis uses a multifactor lens on these two leadership tiers and further components such as employee turnover, women's representation across roles, gender pay and bonus gap and company policies. **Denominator took a deeper dive into Gender, Age, Employee Retention and Policies.**

Denominator analysis showed:

1 **Gender on Board:** companies in the portfolio show 99% have one or more women on the board. For the executive team, it's 88%. No companies were below the lowest comparable scores in terms of their Total Gender Score. However, women's representation did decrease as the leadership level increased, with an average of 25% women at least represented in the executive roles compared to 34% board seats. Representation at the top when focusing on the very top c-suite positions, the analysis showed women take up c. 6-7% of the positions.

Research by Denominator and Moody's Ratings finds that investment-grade firms have, on average, 31% women on the board, 19% more than speculative-grade ones[1].

2 **Gender Pay Gap:** on average, is 19%. In comparison, the gender bonus gap is 36%, which is around the expected gap[2]. As the results outline a larger gap on bonuses than salaries, this suggests that a broader approach to considering compensation could be viewed.

1. www.denominator.com/knowledge-hub/new-moodys-ratings-report-powered-by-denominator-data-board-gender-diversity-correlates-with-credit-quality-in-advanced-economics
2. www.denominator.com/knowledge-hub/mind-the-gap-analyzing-gender-pay-gap-and-bonus-gap-in-ftse-100-firms

3 **Age:** demonstrates the largest exposure to a score below the average, with 38% of investee company boards having a lower Age score than 'worst performers' among country peers.

4 **Employee retention:** demonstrates company culture, workforce stability, and long-term risk exposure. There was a big difference between sectors' turnover rates, ranging from 0.5% to 19%. High turnover can be early warning signs of poor cultural and low employee engagement which can result in operational vulnerability and risks.

5 **Company policies:** are prevalent, with over 90% of companies having them in place. The most common policies include Paid Parental Leave, LGBTQ+ Support Initiatives, and Human Rights Policies. These policies are crucial for safeguarding employee rights, fostering an inclusive environment, and maintaining a baseline for workforce well-being.

6 **Education and ethnic minorities:** while the Denominator report didn't go into further detail on Education and Ethnic Minorities, we note that these were other areas that had exposure flagged in our portfolio and aim to explore how we can encourage better educational programmes at companies and the opportunity for fair representation across minorities.
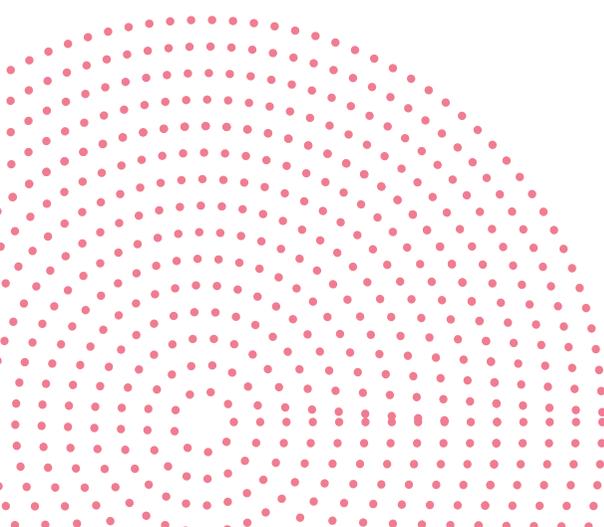
Quote from Smart Pension

Denominator's analysis on human capital within the companies in our portfolio offers valuable insight into long-term sustainability and governance practices. This data can be an indicator of a company's risk management and resilience. We look forward to using these insights to empower us to engage more effectively and drive meaningful change.

Fiona Smith, Head of Responsible Investment, Smart Pension

Quote from Denominator

Human capital is a key driver of corporate resilience and long-term performance. At Denominator, we equip investors with the data and insights needed to assess the human capital strengths and weaknesses across their portfolios. By translating complex information into comparable, decision-ready metrics, we help identify both risks and opportunities linked to people and governance practices. Our collaboration with Smart Pension demonstrates how human capital intelligence can power more informed, responsible, and resilient investment strategies.

Anders Rodenberg, CEO, Denominator

See Denominators full report here.

Strategic oversight

The Scheme's Trustee Board recognises an inclusive culture that attracts and develops diverse talent is important to the Scheme, resulting in diverse views that better understand decisions, manage risks and opportunities, and ultimately achieve better member outcomes. The Trustee has an Equality, Diversity and Inclusion Policy, which sets out how the Trustee defines these terms, to set the aims and ensures they are reflected and integrated into their processes.

This policy aligns with the Pensions Regulator's (TPR notes that pension schemes have legal duties to scheme members, and good decision-making is key to ensuring those duties are met.
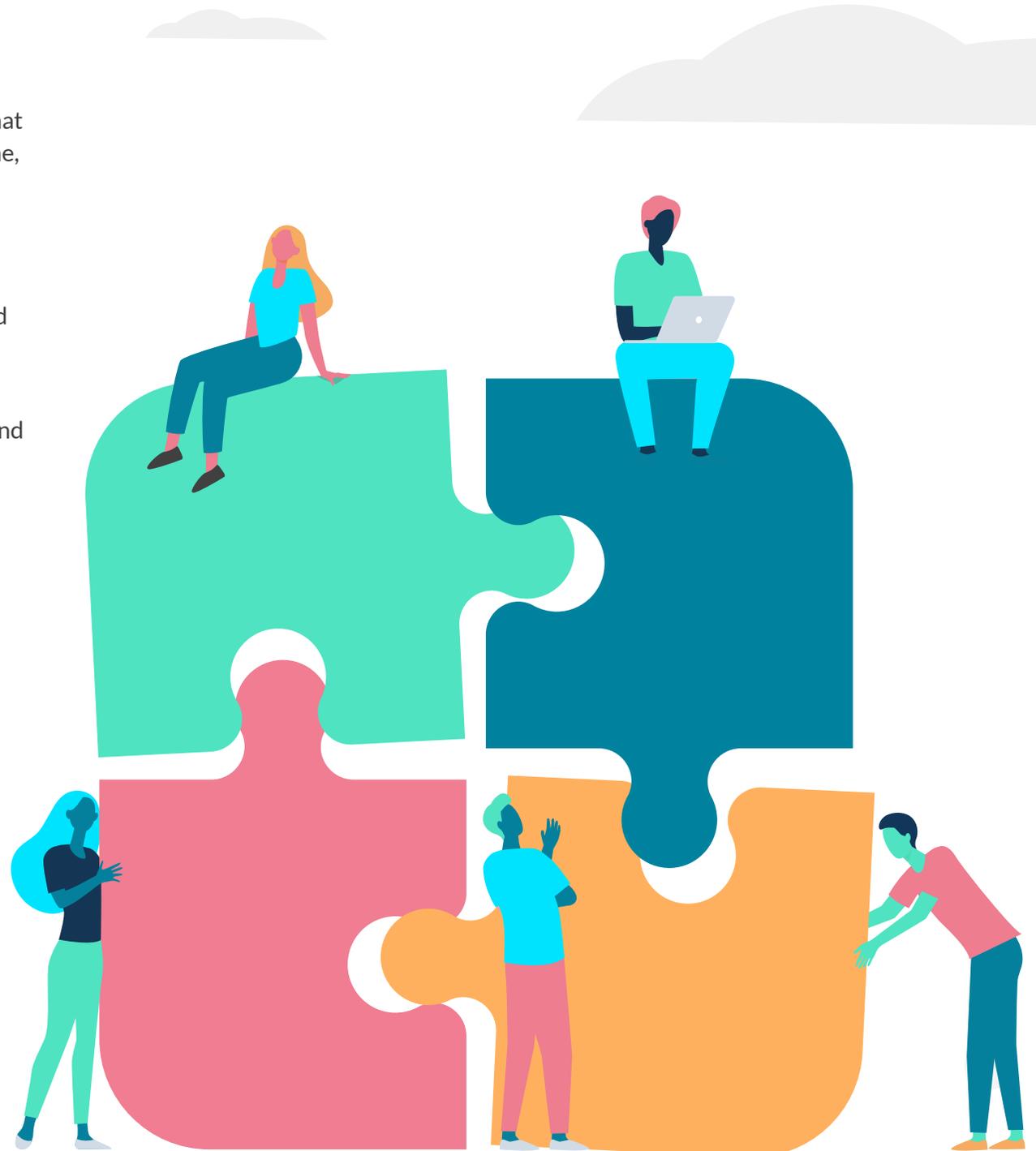
The introduction of automatic enrolment has seen a dramatic change in the pension industry. It has meant that more people than ever before are saving into a workplace pension. There has never been a more important time for pension schemes to be well-run, with good governance and decision-making, in the best interests of savers.

We want to enhance and protect the outcome for all savers, so that together with our regulated community, we can build a workplace pensions system that works for everyone. Supporting EDI on scheme governing bodies (including sub-committees) is key to achieving these goals.

The policy covers the Trustee's decision-making, recruitment, expected role of the Chair, communicating with members of the Scheme, the structure, size and composition of the Board, ongoing training, grievance process and external appointments. 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.

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. 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. The Investment Sub-Committee (ISC) will feed into the Trustee Board, offering oversight and expertise on the Scheme's investments. The Trustee directors on the ISC include Nikesh Patel (Chair), David Brown and Paul Bucksey. Bios of the Trustee Board can be found here: **www.smartpension.co.uk/governance/trustees**.

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 Trustee Board and governance processes through formal board effectiveness reviews and by promoting Trustee development with training and knowledge checks.

Effective stewardship requires a focused approach to ensure that engagement efforts drive meaningful change. Given the huge number of sustainability challenges facing investors today, the ISC agreed that prioritisation is essential to optimise resources, time, and efforts, ultimately achieving the greatest impact. As a result, in 2024, two key stewardship priorities were identified: Diversity, Equity and Inclusion (DEI) and Nature, starting with deforestation. These focus areas were selected based on their materiality to long-term value creation, systemic importance (risks, market and regulations), the current impact of our investments and our ability to influence behaviours in the areas.

While stewardship priorities can be reviewed and updated, consistency in these areas will result in more meaningful change as they require sustained engagement, persistent advocacy, and long-term commitment. A multi-year horizon allows for deeper dialogue with asset managers and investee companies, the ability to track progress over time, and a greater likelihood of achieving tangible outcomes.

In 2025, Smart Pension joined the Asset Owner's Diversity Charter (AODC) which provides a framework and collective commitment for asset owners to engage with asset managers on their own DEI practices and progress by using standardised data collection and benchmarking across the industry to reduce the burden of ad hoc requests.

Taking action

Investment manager selection

Considering social factors in selecting external asset managers is a key component of strong governance, risk management, and long-term performance. Questions on diversity are included in our selection and monitoring of external asset managers, as well as a view of firm culture, where we look for evidence of an inclusive workplace and leadership's commitment to these issues.

Manager selection and appointment is often the time when we have the greatest access to senior figures at investment management firms, and the greatest ability to shape the mandate we are requesting. With this in mind the manager selection process is primarily a chance to assess commitments to diversity and an opportunity to signal that diversity is a crucial issue to consider.

Each of our externally appointed asset managers has a diversity policy, commitment or equivalent. We continue to ask our managers questions on social and human capital issues in our monitoring and we are liaising with our managers who have not completed the AODC questionnaire. From a quantitative perspective, 4 out of 11 of our managers had previously completed the AODC questionnaire.

These following areas are included in the our annual manager oversight questionnaires:

- Any changes to processes, projects or policies.

- Engagements or voting on social issues at investee companies.

Engagement and voting

As mentioned previously, we include areas in our annual manager oversight questionnaires on managers' engagements on social issues at investee companies. These questions aim to give the Trustee insight into how managers continue to consider diversity within their investments, as well as their own companies. We have periodic meetings throughout the year with our investment managers to discuss their strategies, any challenges, and progress, where diversity may form part of those discussions.

There are also voting opportunities to vote for fairness and equality e.g. gender pay gap. We have a split voting policy in place for our passive equity within our default investment option.

This year (2025), we have updated our split voting policy to include additional areas of social considerations. This policy covers the AMX-DWS Global Low Carbon Stewardship Fund and the Smart Pension Net Zero Pathway Custom Equity Index Fund.

The following updates were made:

- Diversity was moved out of the Board Composition section into a new Diversity, Equity and Inclusion subsection while the Board Composition was expanded. Introductory text was added on DEI with language around all characteristics across organisations and a request for measurable disclosures in relation to gender and ethnic diversity.

- In particular, in relation to gender, our voting guidelines set out the expectation that investee companies adopt and disclose a policy on board diversity and are encouraged to adopt measurable objectives for increasing gender diversity and to report on progress against the objectives. As a minimum standard, last year the expectation was for boards to have at least one female member; this has been updated to encourage good practice and on a global basis and expect at least one-third of the board to comprise women. Companies listed in the UK are expected to comply with the Financial Conduct Authority diversity targets concerning at least 40% female representation and for at least one of the senior board positions (Chair, CEO, CFO or Senior Independent Director).

- Adding wording on social impact: companies should consider the impacts of transitioning to a lower-carbon business model on their workers and communities and commit to decarbonising in line with the International Labour Organisation's 'Guidelines for a Just Transition'.

Where a company fails to meet these expectations, we will generally support voting against the chair of the nomination committee. Additionally, we generally support shareholder proposals that, if implemented, would enhance disclosure on employee and board diversity policies and practices such as reporting on meaningful workforce diversity data and disclosure of the median pay gaps across race and gender.

We continue to review the wording in our split voting policy and are reviewing whether additional wording on the other areas set out in this paper and Denominator's wider analysis are worth including or rewording. This includes reference to bonus gaps as well as pay gaps across race and gender.

Our split voting policy is available on our Stewardship, voting and engagement **webpage**, along with our voting and engagement reports.

This paper covers the main section of the Smart Pension Master Trust, not bespoke third party sections. The outline aligns with the Taskforce on Inequality and Social-related Financial Disclosures (TISFD) where possible.

Appendix

Methodology

Denominator measures social and human capital performance worldwide. Denominator's data is based on publicly available information disclosed by the company or its employees across multiple sources from filling, reporting, website, official registries, news etc.
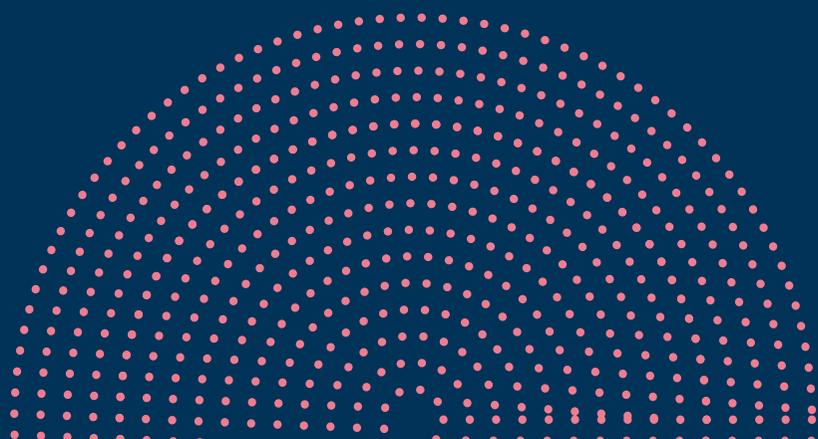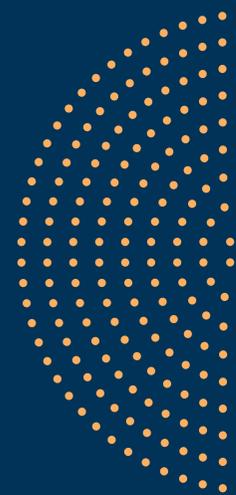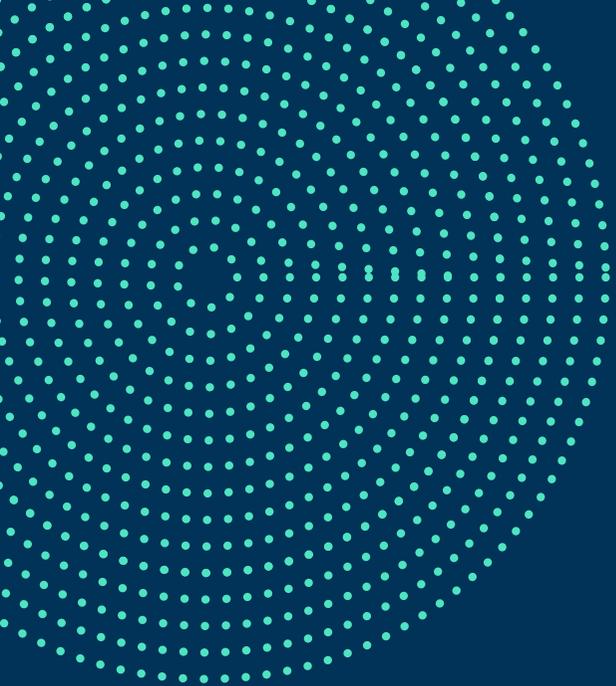
The scoring model used for this report only applies disclosed data, meaning no estimates are included to generate a score. Scores range from 0-100 with 100 being the highest possible. To account for differences globally, scores are calibrated towards country demographics, meaning that the same raw data value will not always result in the same score. The database covers more than 5 million public and private companies and investment funds across 195+ countries and 85+ industries. The datasets cover the board of directors, executive management, workforce and organisation to drive detailed scoring and rating models.

Partnered with Denominator

Denominator is a worldwide database and analytical company which can measure companies across different social and human capital dimensions, including leadership and workforce dynamics, diversity, human rights, health and safety, and labour rights. The aim is to better understand investment portfolios from a people perspective. When compared to global benchmarks and other schemes (where possible), this can help to make informed decisions in stewardship efforts

Denominator analysed the listed equities within our main default growth fund, for which the underlying funds hold over c. 75% of the entire Scheme's assets. Denominator analysis considers multiple factors across social and human capital. The analysis applied both scores and raw data. For scores, an assessment of the overall diversity performance across the board of directors, executive management, workforce and organization was analysed as well as scores evaluating the board of directors and executive management separately. This is referred to as cognitive diversity among people in power. In addition, raw data for employee turnover, gender representation, gender pay gap, parental leave and company policies were analysed.