

Smart Trends

Deforestation Insights Report

2025

Introduction

This report assesses the exposure of the Smart Sustainable Growth Fund (the “portfolio”) to deforestation risks, based on current holdings in sectors and geographies linked to forest loss, as well as wider nature considerations. The purpose of this Insight Report is to assist framing our engagement focus over the next few years.

Deforestation is the intentional clearing of forested land, usually to make space for agriculture and animal grazing and to obtain wood for fuel, manufacturing and construction. The conversion of land and land use is closely linked to deforestation, as well as accompanying human rights abuses. Deforestation is connected to biodiversity loss, increased climate change and financial risk for companies linked to it.

As part of our continued journey to offer the best outcomes for members and invest for a more sustainable future, we are committed to taking action to prevent deforestation in our investments.

This report can be read in conjunction with Smart Pension’s paper “Our road to deforestation-free investments”.

In this report, we have aimed to identify potential financial, reputational, regulatory, and operational risks associated with deforestation, and outline next steps for risk mitigation through engagements with our managers and companies.



Governance and strategy

The Trustee maintains clear oversight of material ESG risks, including nature-related risks, through structured governance processes. Nature-related risks are reviewed quarterly by the Investment Sub-Committee (ISC) and subsequently discussed at full Trustee Board meetings. This ensures that emerging risks such as biodiversity loss and commodity-driven deforestation are regularly monitored and addressed.

The Trustee's Responsible Investment Policy explicitly identifies biodiversity loss and deforestation as material risks, and sets out the Trustee's commitment to mitigating their impact on members' investments and, reciprocally, the impact of those investments on nature. The Trustee created a 'Climate and Nature' Policy which covers these areas in more detail¹. The ISC, supported by the internal investment team, is responsible for overseeing the effective

integration of these policies into the investment decision-making process.

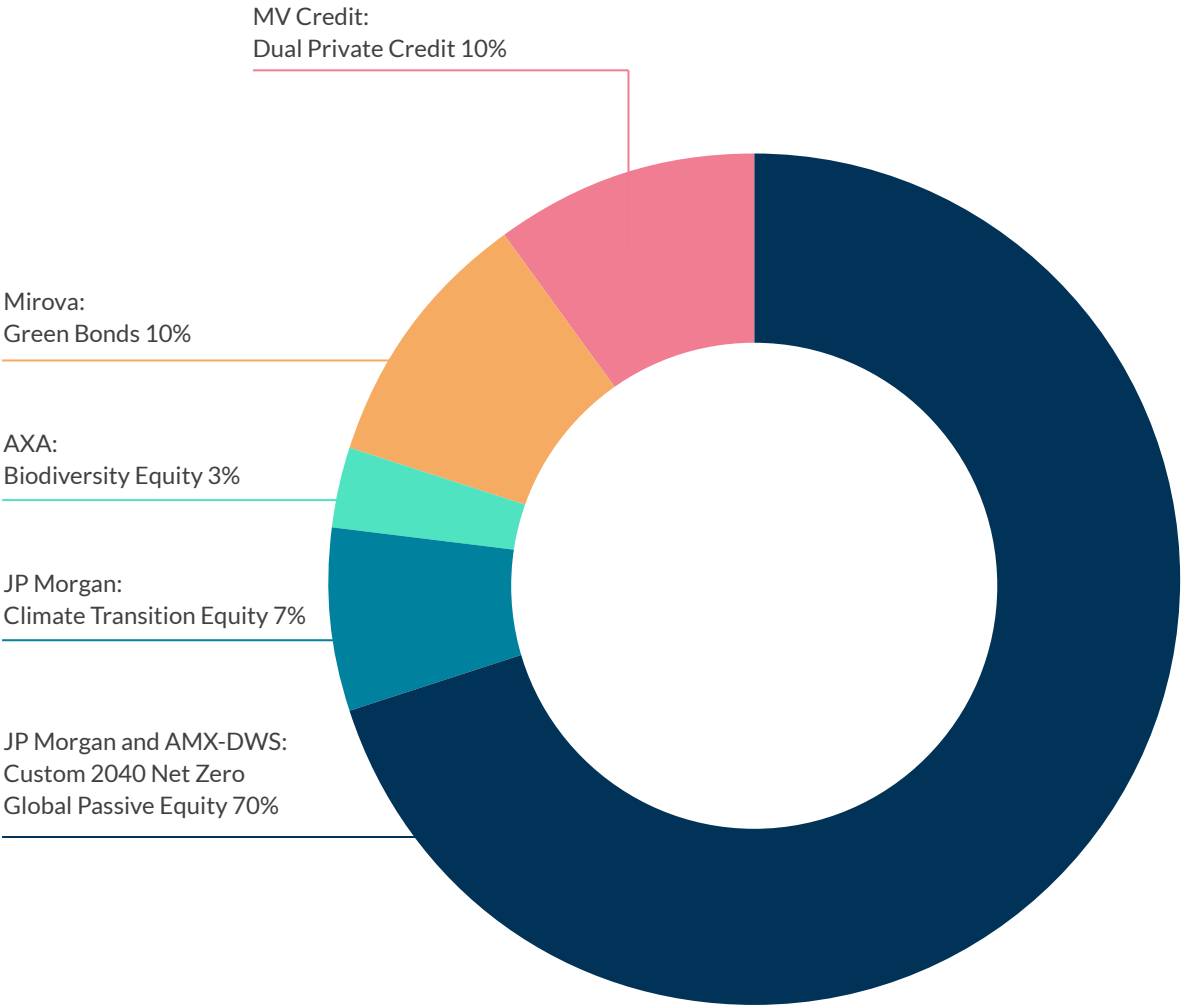
In our oversight of investments, we consider various risks associated with deforestation and wider nature loss. In particular the risks outlined in the table below.

Category	Description
Physical Risk	Loss of ecosystem services e.g. trees, water, soil often tied to specific locations and can be acute (short term event-driven) or chronic (longer term shifts).
Transition Risk	Policy, regulation e.g. EU Deforestation Law, technology changes and market shifts.
Reputational Risk	Non-Governmental Organisation campaigns and consumer backlash. These tend to be more immediate risks to company value.

We have assessed physical and transition risks through our exposure to sectors where operations have a negative impact on biodiversity or to companies which are operating in biodiversity-sensitive locations. Reputational risks have been assessed through company-level controversies. This structured and forward-looking approach supports the Trustee's long-term objective of protecting member outcomes while contributing to broader nature-positive outcomes.

¹ www.smartpension.co.uk/investments/climate-and-nature

Scope of analysis: Smart Sustainable Growth Fund



Assessment period: asset allocation is as at July 2024 - June 2025

This analysis covers the following:

Portfolio exposure to key biodiversity sectors and sensitive biodiversity locations

- Exposure to deforestation risk, based on Forest 500 and MSCI data
- Contribution to deforestation, including split by sector, geography and commodity
- Key nature and deforestation controversies in the portfolio

Where possible, this approach is aligned with guidance from the Taskforce on Nature-related Financial Disclosures (TNFD) and Global Canopy’s guidance on Deforestation-Free Finance.

Risk Assessment

Our risk assessment aims to align where possible with the LEAP approach outlined by the Task Force on Nature-related Disclosures. We have looked to identify sectors where portfolio companies will be most exposed to biodiversity (Locate). We have focused on evaluating the dependencies within the portfolio on the exposure to biodiversity sensitive locations, including deforestation fronts (Evaluate). We have not yet evaluated the “impact” on these dependencies on nature. We have then looked to assess the risk through the nature controversies in companies and the companies marked as risks in Global Canopy’s Forest 500 companies list (Assess). Finally, our plan and next steps are outlined in the next section (Prepare).



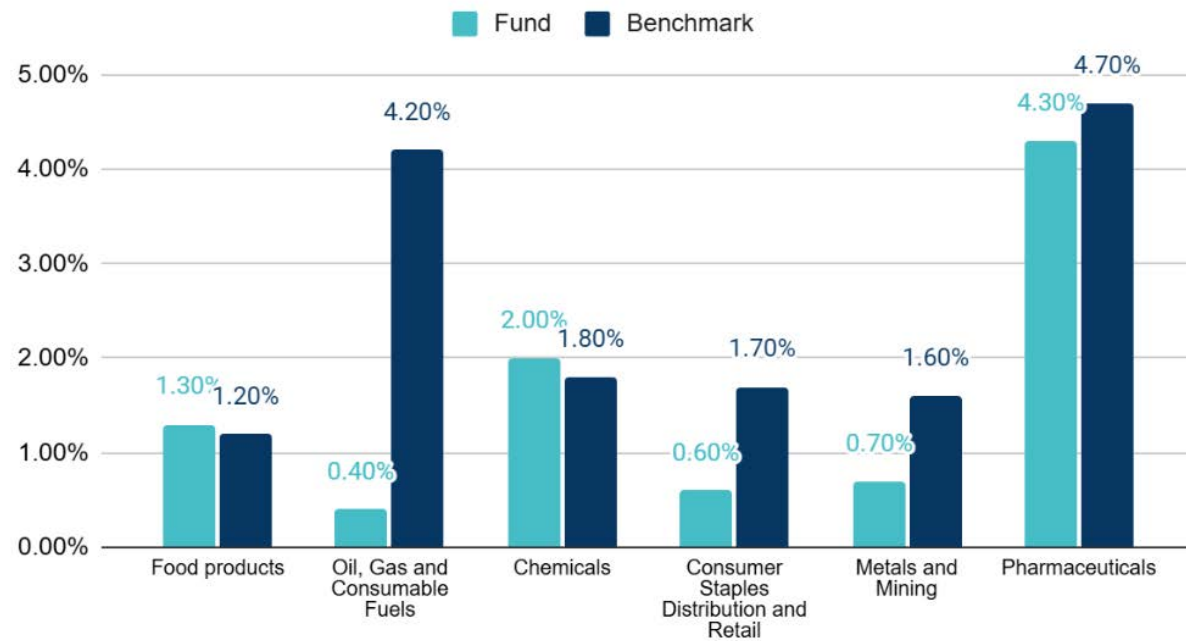
Key sectors exposure

Research from Finance for Biodiversity indicates that over half of the negative impact on biodiversity is concentrated in six key sectors: food products, oil, gas and consumable fuels,

chemicals, consumer staples distribution and retail, metals and mining, and pharmaceuticals.

The chart illustrates the Scheme's equity exposure to the top six sectors in terms of impact on biodiversity and how this exposure is split across each sector. The portfolio's overall exposure to these sectors is lower than the exposure for the MSCI benchmark across all these key sectors apart from Chemicals and Food Products. The portfolio's overall exposure to these sectors was 9.2%, with the highest exposure being within our equity manager allocations.

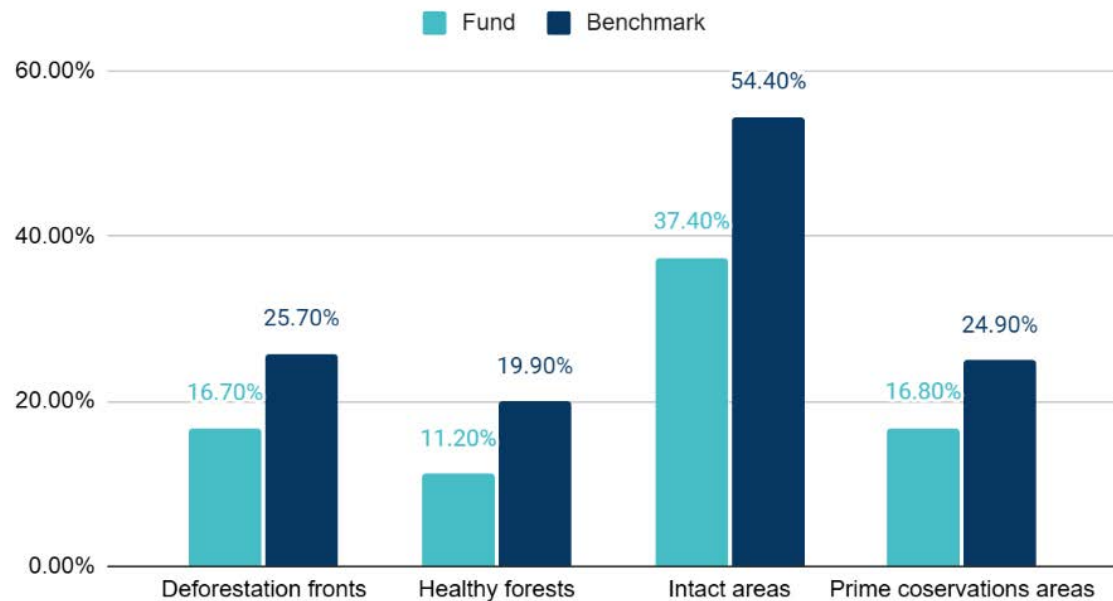
Fund vs Benchmark Exposure



Key sensitive locations exposure

The sensitive locations exposure highlights the proportion of holdings with three or more physical assets located within a 1-kilometre vicinity of a biodiversity-sensitive area. The portfolio is lower than the MSCI benchmark for all sensitive areas but is still very material. Overall, 50.1% of our portfolio companies are exposed to operations in biodiversity sensitive areas vs 68.2% of the benchmark. Having a high exposure to sensitive locations is not unexpected, given that over half of the global GDP is moderately or highly dependent on nature and its ecosystem services². These figures and the previous chart on sector exposure are not meant to be negative indicators or lead to company exclusions. Instead, the analysis can help inform where efforts should be focussed in terms of engagement with asset managers and companies on nature-related issues to ensure they are carrying out responsible practices.

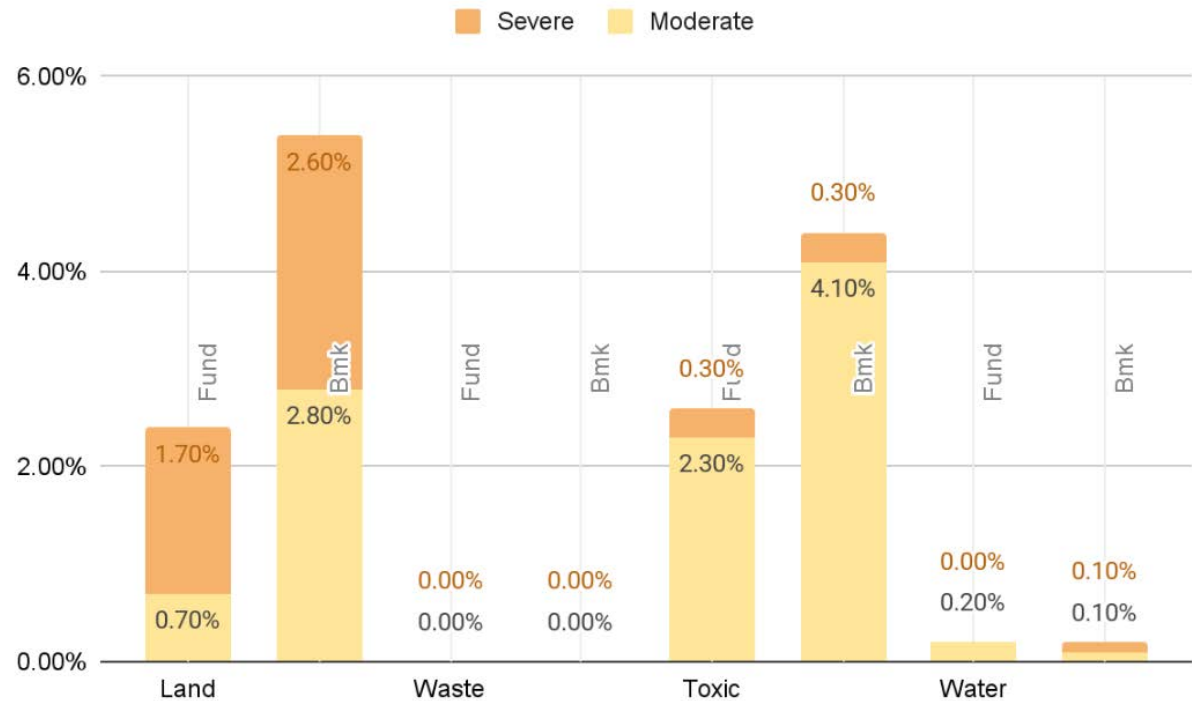
Fund vs Benchmark Exposure



² www.pwc.co.uk/press-room/press-releases/corporate-news/more-than-half-of-global-gdp-is-exposed-to-material-nature-risk.html

Nature controversies

As previously mentioned, the issue is not being exposed to these sectors or sensitive locations but how companies are operating within those areas and sectors. The next chart indicates the proportion of companies with an environmental controversy across the portfolio. These controversies have been split into several environmental themes including land, waste, toxic and water. Each controversy is rated as moderate or severe depending on the level of controversy. It is positive that the portfolio's exposure to companies with nature controversies is lower than the MSCI benchmark, which is positive. The portfolio's highest exposure to controversies are within the "Land" and "Toxic" theme.

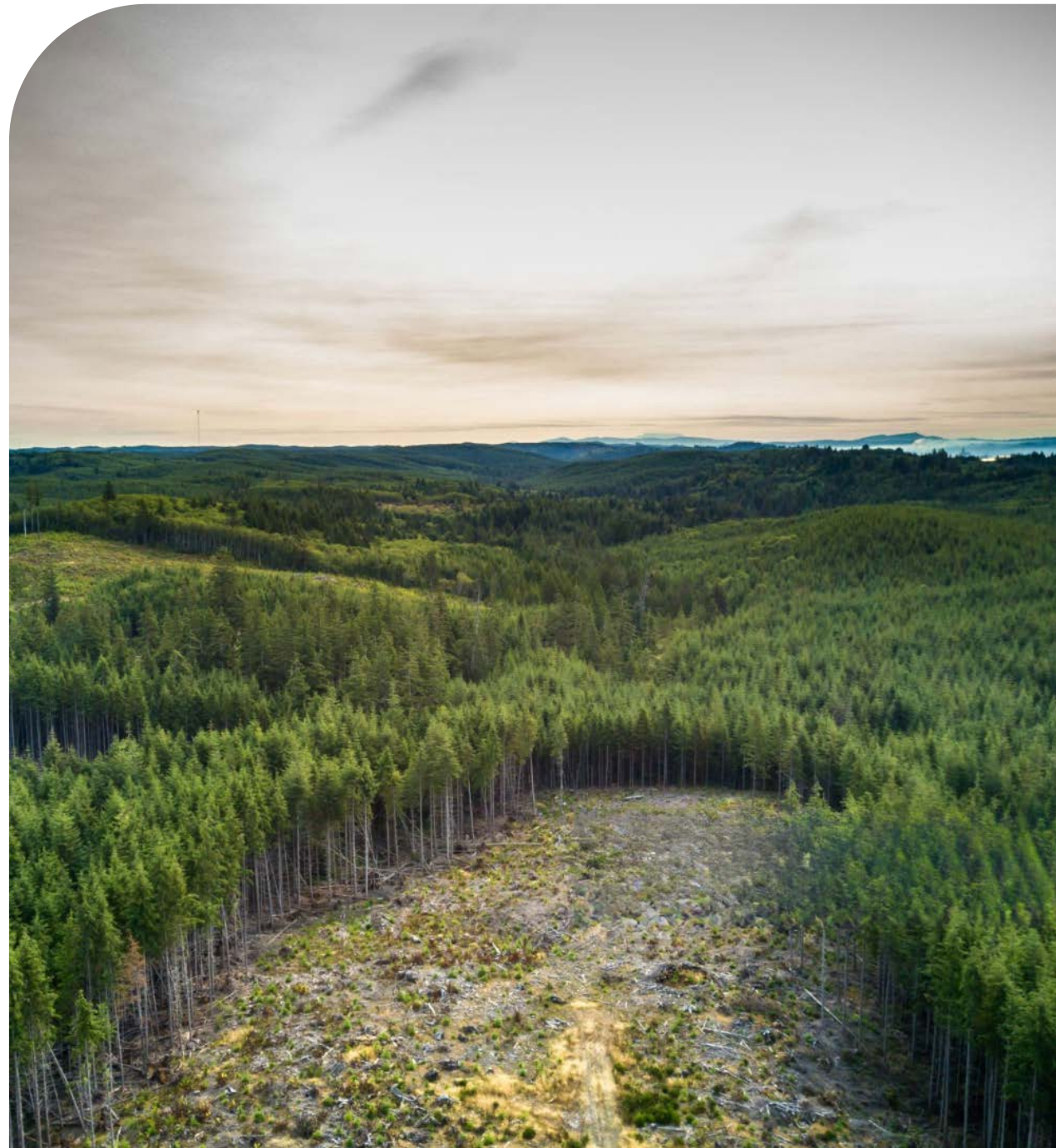


Companies flagged with large holdings

Company	Holding	Controversy
Unilever	0.4%	Land: Criticism by NGOs over alleged contribution to global plastic pollution and an investigation by Greenpeace found palm oil suppliers were responsible for clearing rainforests.
Procter & Gamble	0.4%	Land: Criticism by NGOs over alleged contribution to global plastic pollution and role in sourcing materials linked to destructive logging practices and illegal clearing of forests.
Nestlé	0.3%	Land: Criticism by environmental protection groups and development agencies over contribution to global plastic pollution and allegations that cocoa used in Nestlé's chocolate products was grown illegally in national parks and protected areas.
Ecolab	0.3%	Toxic: US State lawsuit alleging damages to natural resources related to per- and polyfluoroalkyl substances (PFAS) and has faced environmental and social fines in the past.

Forest 500 companies

The Forest 500, maintained by Global Canopy, ranks the 500 most influential companies and financial institutions in global forest-risk commodity supply chains. In our portfolio, there were 164 companies from Global Canopy's Forest 500 list of companies, with a total allocation of c. 9%. Being invested in Forest 500 companies is not inherently bad—in fact, it can represent an opportunity to drive meaningful environmental change. These are the entities with the greatest potential to reduce tropical deforestation, based on their exposure to commodities like palm oil, soy, beef, leather, timber, pulp and paper, cocoa, coffee and rubber. Deforestation-related risks e.g. supply chain disruptions, regulation and reputation can affect the profitability of these companies and subsequently our members' investments value. By using our shareholder power e.g. voting and engagement dialogue, we can push for stronger deforestation-free supply chain policies, human rights practices and transparent reporting within these companies.



Companies flagged with large holdings

Company	Holding	Forest 500 assessment
J.P. Morgan Chase and Co	0.6%	With no overarching commitment or recognition of deforestation as a financial risk, it has been criticised for lacking comprehensive deforestation policies.
Johnson & Johnson	0.4%	The company uses palm oil derivatives as emollients and emulsifiers and is exposed to paper packaging and soy.
Procter & Gamble	0.4%	Noted for its commitment to no deforestation in its palm oil, wood pulp, and paper packaging supply chains.
Unilever	0.4%	Unilever was selected as a powerbroker for palm oil, soy and paper packaging. Unilever has policies for deforestation-free sourcing for palm oil, soy, and paper.

Summary

The portfolio's highest exposed sector was to 'Pharmaceuticals', with twice the exposure (4.3%) to the next highest 'Chemicals' (2.0%). In addition, 50.1% of our portfolio companies are exposed to operations in biodiversity sensitive areas.

Johnson & Johnson, a pharmaceutical company was flagged in the Forest 500 assessment, as having a large exposure within our portfolio and being exposed to deforestation risk. Unilever and Procter & Gamble were also in the Forest 500 list, as consumer staples, and flagged in the controversies assessment for the "Land" theme. Ecolab was flagged in the controversies assessment for "Toxic" theme but remains a leader in water, hygiene, and energy technologies, generally maintaining a strong ESG (Environmental, Social, and Governance) profile.

The portfolio's highest exposure to controversies are within the "Land" and "Toxic" themes. "Toxic" emissions and waste tends to be harder to engage and improve on in investments compared to "Land" issues like deforestation due to several key reasons tied to data quality, standardisation, traceability, and policy frameworks. Higher-quality data, Non-Governmental Organisation scrutiny and clear commodity linkages (e.g. palm oil, soy, beef) help trace financial exposure in deforestation. In addition, engaging with companies on land use often involves requesting clear supply chain targets, sector-wide initiatives and measurable outcomes. Engaging on toxic emissions and waste is highly technical and site-specific and currently less influenced by standard ESG dialogues or stewardship voting mechanisms. Therefore, we are comfortable that we have chosen deforestation as a starting point for our nature-related efforts. Deforestation and land-use change is also more visible in climate transition risk assessments, given the direct link to negatively affecting carbon sinks and biodiversity—both increasingly factored into our investments.

J.P. Morgan Chase and Co was flagged in the Forest 500 list and has a high exposure within our portfolio's equity holdings. The company has and continues to face wider controversies, being heavily criticised for financing fossil fuel projects, including oil, gas, and coal, contributing to environmental degradation and climate change. J.P. Morgan Chase is included in the Forest 500 list due to its significant role in financing companies with substantial exposure to forest-risk commodities such as soy, beef, leather, palm oil, timber, and pulp and paper. J.P. Morgan's inclusion is primarily due to its substantial financial support to companies without comprehensive deforestation policies. We also acknowledge banks have a role in financing positive projects like renewable energy.



Taking action

Short-Term (Now)

We have begun structured engagements with our managers on their deforestation policies and their engagements with companies they invest in on our members behalf. We aim to hold managers to 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. We will include the companies flagged in this Insight Report in our monitoring of our managers' engagements. However, we have selected a couple of companies to have focussed engagements on ourselves over a longer time period (see next section).

Last year in 2024, we embedded deforestation-free expectations in our Responsible Investment, Climate and Nature and Voting and Engagement policies, with consideration to manager policies and aims in our manager selection, highlighting it as a priority engagement area. In 2025, we included specific deforestation wording into our split-voting policy, which is applied across 70% of our portfolio (20% is fixed income and alternatives and have no voting rights attached). A 'split voting' policy refers to an arrangement where the voting rights associated with investment assets are given directly to the Trustee, rather than being pooled together with other investors and therefore directed by the manager. Our policy now includes the following wording:

We encourage companies, particularly those with high exposure to natural capital risks, to provide disclosure on how they manage nature-related dependencies and impacts, as well as disclosure on the governance structures and processes, including appropriate metrics and targets, deployed to manage nature-based risks and opportunities. Company reporting should be aligned with good practice frameworks such as the Taskforce on Nature-related Financial Disclosure (TNFD).

Where we believe a company is not providing sufficient consideration of nature and biodiversity in its corporate reporting, we may consider voting against the report and accounts. We generally will also support shareholder proposals asking companies to report on their nature-related practices, policies and impacts.

Medium to Long Term (1+ Year)

While our managers engage with companies on our behalf and we monitor the processes and outcomes of these, we will also engage directly with companies where we are able to. We believe in opportunities to work collaboratively with other asset owners to use our voice to improve stewardship such as working with Nature Action 100, the Asset Owner Council and ShareAction. Nature Action 100 is a global investor engagement initiative focused on driving corporate action to reverse nature and biodiversity loss. This enables us and other asset owners or managers to collaborate and speak with a unified voice to large, high-impact companies. This can dramatically increase our leverage, efficiency, and effectiveness, especially on complex, systemic issues like biodiversity loss.

In 2024 we were allocated to two company engagement groups from the companies we requested: Unilever and Johnson & Johnson. Both of these companies have been flagged in this Insight Report as risks and potential for improvement. Through these engagements, we aim to encourage nature-positive strategies, transparent disclosures and reduce the

companies' negative impacts on ecosystems and biodiversity. The Nature Action 100 benchmark is a standardised framework developed to evaluate the performance of companies over time. The benchmark assesses companies against clear, measurable criteria aligned with global best practices and frameworks for their sectors³.

Longer engagements allow us and our managers to build trust, credibility, and open communication with companies. While our short-term plan is to monitor our managers' engagements, we understand that the outcomes of these engagements, and any we carry out ourselves, are a multi-year approach. Nature-related challenges like biodiversity loss, deforestation, or water management are systemic and deeply embedded in companies' operations and supply chains. Changes often require developing new policies, changing sourcing or production methods or investing in new technology - these are changes that don't happen overnight. In order to be most effective, we have chosen to focus on the above companies, however, our engagements are not limited to these companies and where we have the opportunity, time and resource, we will also

engage with the other companies flagged in this report.

Long-Term (2+ Years)

We have been considering the nature and people-positive impacts of our investments for a while. We recognise that the human and economic impacts of climate change, biodiversity loss and deforestation are becoming a cost for companies and they are starting to measure them as a financial expense.

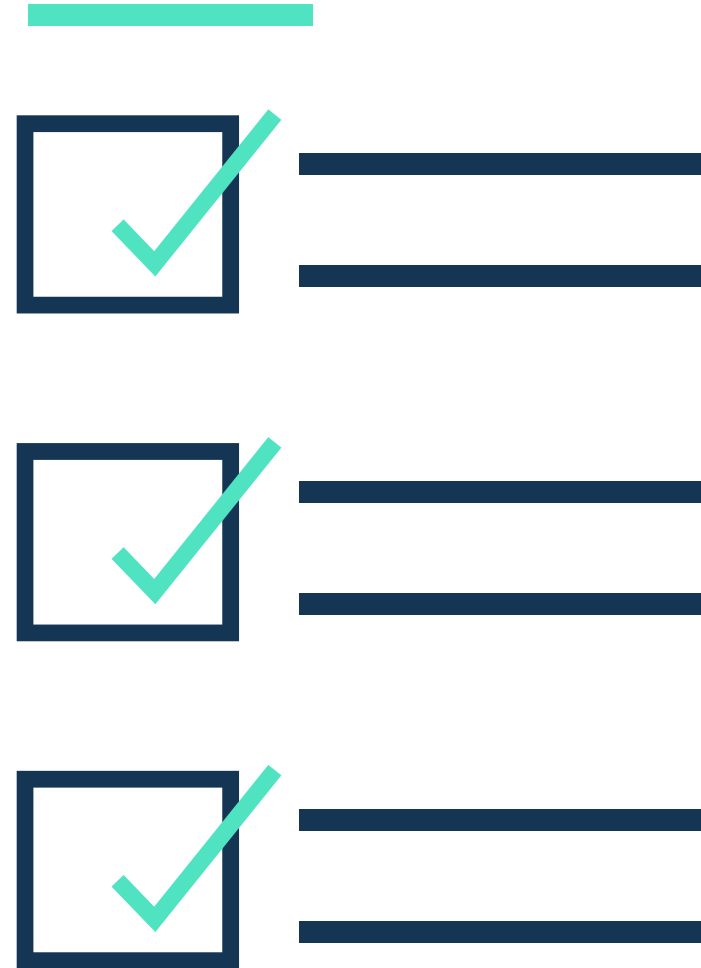
In 2022, we invested an allocation in our default growth fund in a biodiversity equity impact strategy which aims to invest in sustainable materials, land and animal preservation, water ecosystems, recycling and recirculation. We also invested in a global green bond fund which invests in projects looking to generate an environmental and/or social benefit alongside a financial return. Neither of these allocations include companies in the Forest 500 list or have a direct or indirect contribution to deforestation. We aim to expand investments in nature-positive assets to help improve global biodiversity and climate goals.

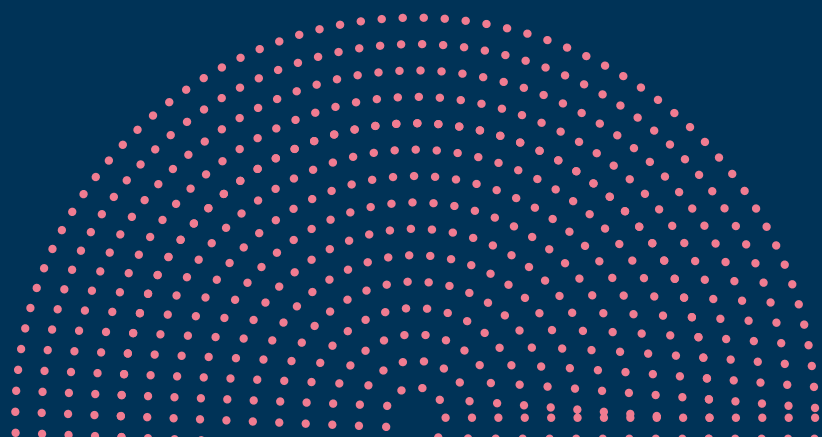
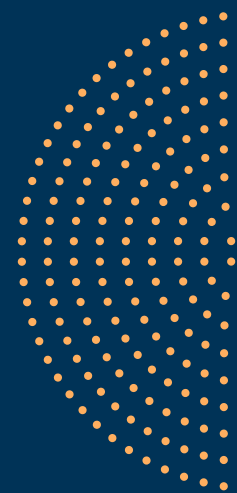
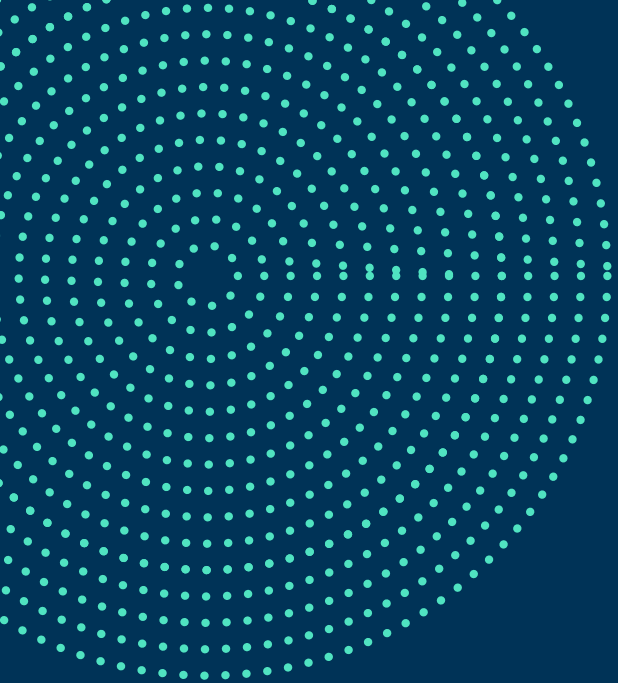
³ www.natureaction100.org/company-benchmark/

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