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Investment guide

For Smart Pension Master Trust members



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Investment guide

We've created this guide to help you understand your investment options when you save with Smart Pension. As well as telling you what investments are available for your pension savings, we've put some information together to help you understand the basics of investing and what you should think about before choosing investments.

In this guide we cover:

- What the different kinds of investment are and how they differ
- The different investment strategies you can choose and why they might be suitable for you
- The funds available in our full selection

The Halal Investment Strategy, created in partnership with Wahed, is also available to you. Further details on this investment strategy can be found at smrt.pe/hwp-investment-guide.

If you would like a recommendation for your personal circumstances, you should see a regulated financial adviser.

If you have any questions, please contact us on 0333 666 2626 or through our form smrt.pe/member-contact. We are open from 9am to 5pm on Mondays to Fridays.

What is investing and why do we do it?

Investing is one way to grow the money you've saved. An investment can give you a return on your money, much like the interest you get from a cash Individual Savings Account (ISA) or other savings account. However, when you invest, you don't know the return you're going to get in advance – and it will change over time.

When you invest, you're usually putting money into an asset – for example, shares in a company, property or a government bond. The more this asset rises in value, the more your money will grow.



Why we invest your pension savings

Most pension schemes invest your savings. This is because investments have a higher potential for growth than a cash ISA or a deposit account. And as you save for retirement throughout your working life, there's more time for your money to grow.

The longer your money is invested, the more opportunity it will have to benefit from compound returns. Compound returns simply means that you earn returns on your initial investment, plus any returns that have built up over time. You could think of it as 'growth on the growth you have previously earned'. So as the value of your investment rises, there is even more money to earn returns on.

What you should know about investments

Your pension savings are invested to help them grow. This section briefly tells you some of the key facts about investments. If you are familiar with investing, you can skip this section and move straight to the details of the investment strategies or funds you can choose.



Different types of investment

An investment is anything you buy with the intention of making a profit on it. The different types of things you can buy (called “asset classes”) are described later in this section.

An investment's value will go up and down over the short term, with the expectation that it will increase, particularly over longer time periods. In general, asset classes with the potential to go up the most can also fall the most. So there is a trade-off between how much an investment could grow and how far it could fall. Higher opportunity for growth comes with a higher risk of loss.

Here is a brief summary of the main asset classes that we use. We describe what each asset class means.



Equities



Fixed
interest



Cash



Equities

Equities are part ownership of companies, sometimes called stocks and shares. The value of a share depends on the company's performance. Equity investments can focus on types of company or on companies which operate in certain countries.

Equities tend to have high potential for growth but they can also have high volatility in the short-term.



Fixed interest

Fixed interest covers investments in bonds, which are loans to companies or governments. Loans to the UK Government are called "gilts". The companies or governments agrees to pay the loan back in the future and pay interest until then.

Bonds tend to offer a stable return with lower risk than equities. However, they can experience some volatility.



Cash

The cash asset class invests money in secure bank accounts or short-term loans between banks. It offers little potential for growth but the lowest risk of losses and volatility.



Infrastructure

Infrastructure refers to long-term physical buildings, energy, transportation and utilities that enable essential services.

Infrastructure offers diversification benefits to other asset classes, generally more stable returns although it tends to have a very long time horizon.



Private credit

Private credit is where the money is loaned directly to companies for projects or financing, and not via a traditional bank. This is also known as private debt.

Private credit offers generally lower risk and return than equities, but higher than public bonds. It has a long time horizon.



Private equity

Private equity is the ownership of private companies, not public ones (see “Equities”). The aim is to improve the value of the companies and eventually sell them. These ownership shares are not listed publicly or traded daily.



Derivatives

Derivatives are financial contracts whose value depends on the price or performance of an underlying asset, such as stocks, bonds, commodities, currencies, or interest rates. Common types include options, which give the right to buy or sell at a set price, futures, which obligate a purchase or sale at a future date, and swaps, which are agreements to exchange cash flows. Derivatives are widely used for hedging risk, speculation, and gaining exposure to markets without directly owning the underlying asset. We use derivatives, and in particular swaps, for the latter, i.e. for example to gain exposure to certain markets and indices.

Risk

Risk is the chance that something can go wrong. Here are the key risks that you face when you invest for your retirement.

Risk	Description
Investment	Your investments might not grow as much as you need, or might shrink. This means you might not have as much at retirement as you want.
Inflation	Your investments might not keep pace with rising prices (inflation), which means that your money won't buy as much when you retire as it would now.
Volatility	Your investments might go up and down sharply over shorter time periods. This variability in returns tends to be greater for investments with greater potential for growth, for example, equities.
Currency	<p>Where investments are held overseas, your investments can also be affected by a change in the price of one currency against another. This is also known as exchange rate risk and can cause gains or losses, depending on the way the currency prices move.</p> <p>“Hedged” or “hedging” is a tool which aims to reduce the impact from changes in exchange rates on the performance of your investments. Funds will show if they are hedged or not.</p>
Interest rate	Your investments can be affected by changes in interest rates. These tend to affect fixed interest investments more than others.
Credit	Relates to fixed interest investments where the entity offering the bonds (or gilts) may be unable or unwilling to pay the interest or repay the loan. Gilts, for example, tend to have low credit risk as they are backed by the UK Government. There is also credit risk in derivatives, however steps are taken to mitigate this, such as exposure limits and the use of collateral.

Emerging market	Different countries have different investment risks. Countries in emerging markets may have increased risks due to their political climate and economic sufficiency (labour and material resources), as well as higher volatility in inflation, interest rates, credit and currency fluctuations.
Conversion	Your investments can be misaligned with how you intend to take your money at retirement. You may therefore have a lower income than if your investments were aligned in the period before retirement. For example, if you want to buy an annuity, the cost of an annuity is linked to the price of fixed interest investments. See page 13 for details on annuities.
Liquidity	The risk that the investments held are in assets that are not accessible in a timely manner. The funds have daily liquidity, however the level of liquidity within the funds may differ by asset class. This could affect liquidity in adverse or extreme market conditions.

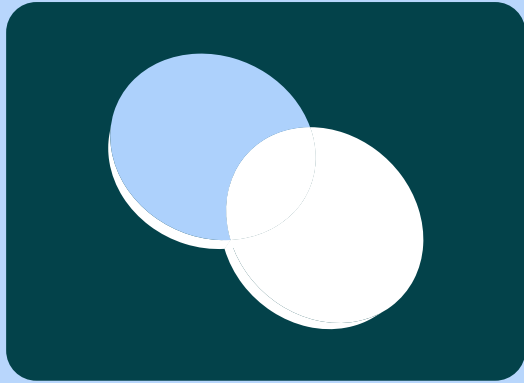
We have designed our investment strategies to allow for and reduce these risks where possible.

Dealing with risk (diversification)

One way of dealing with these risks is to invest in a mixture of the asset classes, to spread the risk. This means that even if some of your investments go down in value, others may go up, which reduces your potential for losses.

By choosing a careful mixture of different asset classes you can get a blend that keeps most of the growth potential, but lessens the unpredictability.

Top tips for saving for your retirement



- Start as soon as possible. The sooner you start, the more time your money has to grow.
- Save as much as possible. The more you save, the more you'll have when you retire.
- Save regularly. This smoothes out the price you pay for investments because you can buy more when prices fall. You've already got this covered by saving with Smart Pension.
- Choose the right investments for you. Make sure that they give you the growth and risk you want.

Do you want to choose your investments?

Yes

No

Do you want to use an investment strategy?

Do nothing. We'll choose a investment strategy for you (our default strategy).

Yes

No

Choose an investment strategy that suits how much risk you want to take or what you want to do with your money when you retire. We'll keep an eye on your investments and move them automatically if we think

Choose your own investments. You must keep an eye on them yourself and make sure they continue to be right for you.



Investment funds

We don't invest directly in companies or bonds. We buy shares in investment funds that pool people's money and invest it in a particular asset class. These shares are called units. When you save your money with Smart Pension, we buy units in the investment fund with it. We record how many units you have bought in your pension account. When the assets in the investment fund go up or down in value, the price of each unit changes too and with it the value of your pension account.



Sustainable investing

We aim to invest in a sustainable way, which takes into account ESG considerations. ESG is an industry term that stands for Environmental, Social and Governance. When investing, we think about the financial risks associated with Environmental impacts such as climate change, Social impacts which are issues affecting the fair treatment of people and Governance, which considers the way companies are run. Some of our funds not only consider these risks but also look to invest in companies and projects that aim to provide solutions to our environmental and societal issues.

This is the difference between investing in a company that is reducing its carbon emissions by using renewable energy and investing in a company that is producing renewable energy, for example, a wind farm.

Each of our investment funds has an objective that sets out the extent to which ESG risks are taken into account and whether the fund goes further to invest in companies offering solutions.

Our investment strategies

An investment strategy sets out what mixture of investments you will hold and how that mixture will change over time.

We have designed investment strategies with specific retirement targets. We will automatically move your investments as you get closer to retirement into asset classes that are more aligned with how you might choose to use your pension savings when you reach your retirement age.

This section explains how we do this and what funds we use.

Our investment strategies depend on two factors:

- How sustainable (environmentally and socially focused) you want your growth fund to be
- How you plan to take your money from your account when you retire

Each strategy has two phases – the growth phase and the pre-retirement phase.

You are also able to invest in the Halal Investment Strategy, which is managed by Wahed. It is designed for those with Islamic investment requirements. Further details on this investment strategy can be found at smrt.pe/hwp-investment-guide.

Growth phase

You can choose one of two funds for the growth period, depending on how sustainable you want to be and how much you want to pay in charges. Investing sustainably can support not only positive change when it comes to challenges such as climate change, but also long-term returns. If you are not sure, we will choose the Smart Sustainable Growth Fund.

Smart Sustainable Growth Core Fund	This fund aims to invest in a sustainable way, by considering Environmental, Social and Governance (ESG) risks. This includes investing in companies that consider their impact on the environment and society. The return objective of the fund is inflation (CPI) + 3.5% p.a. This option has the lowest charges of the three sustainable growth funds.
Smart Sustainable Growth Fund	The Smart Sustainable Growth Fund also invests a moderate allocation into opportunities to help solve some of the world's biggest environmental and societal issues, such as reducing biodiversity loss. The return objective of the fund is inflation (CPI) + 3.5% p.a.

Pre-retirement Phase

We move your savings into investments that are most suitable for the way you plan to take money out. You can choose one of three retirement targets, which are outlined below. This helps to manage the conversion risk we described in the “Risk” section. If you are not sure which one to choose, we will select the ‘flexible income (drawdown)’ target by default.

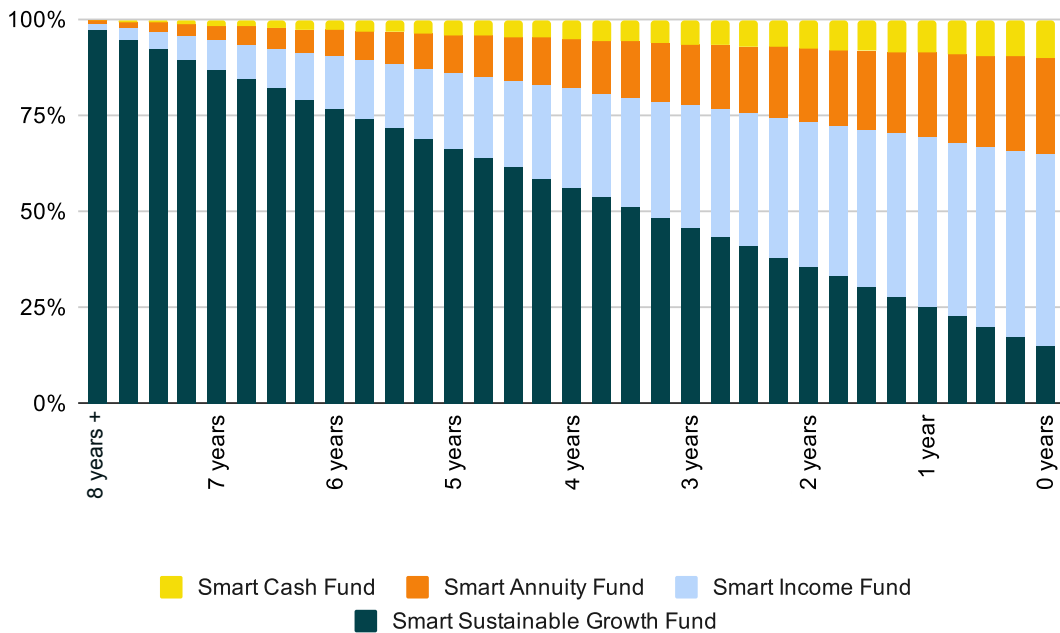
Flexible income (drawdown)	<p>You take income directly out of your account.</p> <p>This gives you flexibility to vary your income to suit your needs. You must keep managing your investments after you retire. There is a risk that you could run out of money sooner than you planned if you take too much money out of your account and/or your investments do not grow as much as you hoped.</p>
Guaranteed income (annuity)	<p>You use your account to buy an annuity for life from an insurance company, which gives you a guaranteed income each year.</p> <p>You can choose whether this income increases every year and if someone else gets paid after you die. You need to shop around to get the right option for you. This gives you the security of knowing that your income is guaranteed however long you live. Once you have bought an annuity, you cannot change your mind, so you don't have the flexibility to change your income if your circumstances change.</p>
Cash	<p>You take your account as cash.</p> <p>You could pay a higher amount of tax if you take a large cash sum.</p>

More information on how you can take your pension savings is available here: www.moneyhelper.org.uk/en/pensions-and-retirement/taking-your-pension

The bar charts below show what funds we use when automatically moving your money as you get closer to retirement, depending on the retirement target you choose.

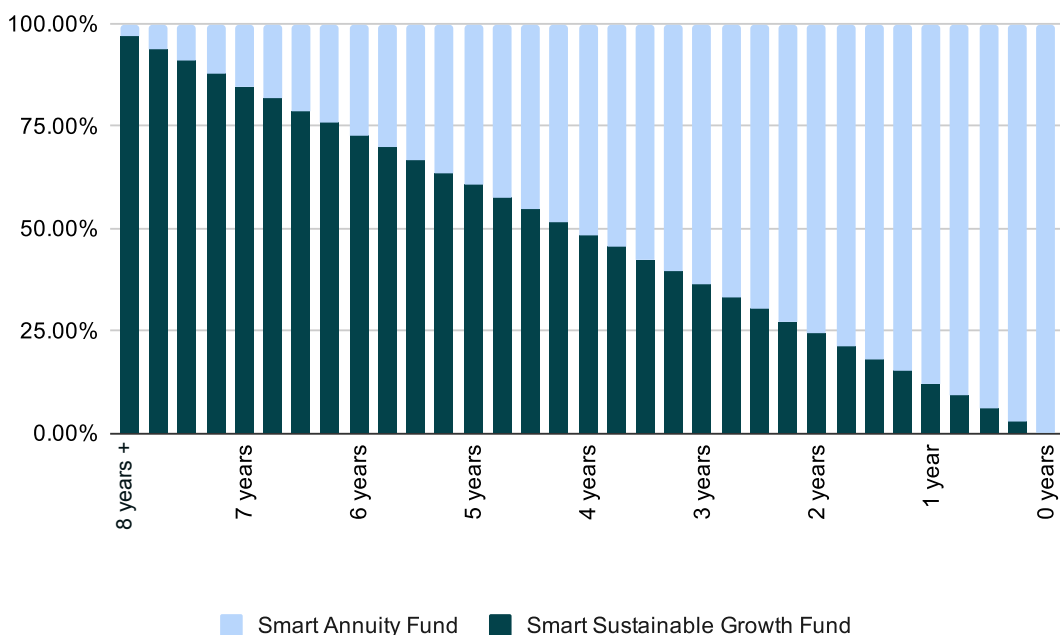
Investment strategy targeting a flexible income (drawdown)

This strategy can be chosen if you are looking to take a flexible income in retirement and can be used with any of the three growth funds. If you do not make a choice you will be invested in this strategy with the Smart Sustainable Growth fund. If your money is invested in this strategy, it will move in line with the bar chart below.



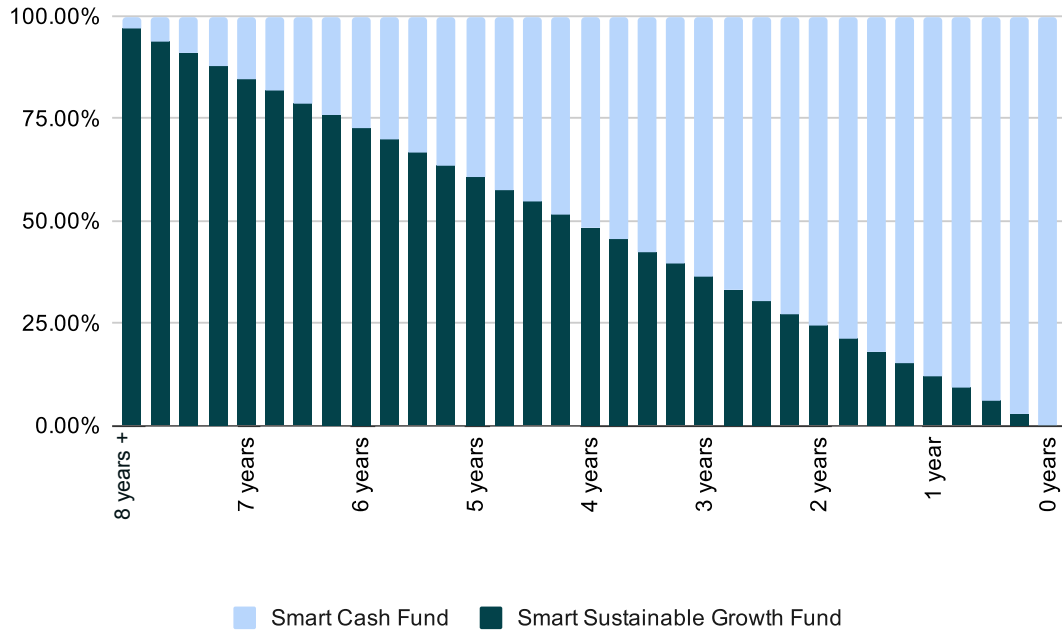
Investment strategy targeting a guaranteed income (also known as an annuity)

This strategy can be chosen if you are looking to take an annuity in retirement, and can be used with any of the three growth funds. If your money is invested in this investment strategy, your money will move in line with the bar chart below.



Investment strategy targeting cash

This strategy can be chosen if you are looking to take your money as cash at retirement and can be used with any of the three growth funds. If your money is invested in this strategy, it will move in line with the bar chart below.



About investment strategies

There are advantages and disadvantages of using an investment strategy. You should take these into account when deciding how to invest.



Advantages

- You don't have to choose which funds to invest in – the funds are chosen for you and your money is managed by experts.
- Your money is invested in a range of different funds for diversification.
- Your money is moved into lower risk investments for you as you approach your selected retirement age.
- Your savings are moved gradually. We won't move them all in one go because, if the markets are performing badly at the time, this will affect their value.



Disadvantages

- You aren't choosing where you invest. One of our other investment funds might be more suitable for your goals or risk preferences.
- You also can't choose when your investments will change – movement is automatic and doesn't take market conditions into account. Even though not all your savings are moving at once, you could still miss out on specific opportunities in the market.
- The investment strategy may not align with your retirement date and so the investments you hold at the final point may not be suitable for your circumstances. If you decide to change your retirement age, you should tell us by updating it in your pension account.

Choose your own investments

You don't have to use one of our investment strategies – you can choose your own investments from our selection instead. Remember that if you choose your own investments you must keep an eye on them, changing them if you think it is necessary. You cannot choose an investment strategy and your own investment funds at the same time.

Below are the investments in our selection. The risk ratings give an indication of the potential level of risk and reward, based on the asset class of the investment. The risk ratings are based on the Trustee's assessment of investment risk and reflect advice from their investment advisers. The levels of investment risk may change in the future. They are not based on any industry standard, so you can't use them to compare with investments outside Smart Pension. They are only meant to be a guide and are for comparison against other Smart Pension funds only.

Volatility means how much a fund goes up and down. Funds with a lower risk rating tend to be less volatile and have lower potential returns, while funds with a higher risk rating tend to be more volatile and have higher potential returns, although there is no guarantee that this will occur in practice.

A fund with a risk rating of 3 is likely to be more risky than a fund rated 2 and less risky than a fund rated 4, but this does not mean it will have half the risk of a fund with a rating of 6.

Our risk rating system



The further away you are from accessing your retirement benefits, the more risk you are usually able to take. This is because, if your investments fall in the short term, you still have a lot of time for their value to recover and grow before you retire.

How much risk you should take will depend on how you would feel if your investments were to fall in value at any point in time. Even within an asset class, there are different levels of risk and potential return that depend on what the fund is trying to achieve. In this section, we have provided a high-level rating of the risk associated with the investment funds available. The funds used in our investment strategies are also set out here, so you can see how the investment risk changes over time depending on the funds which are used. We are unable to provide advice so if you are unsure we suggest you speak to a regulated financial adviser.

Investment fund factsheets

You can find out more about the individual funds in the factsheets available on our website and your online account.

Multi-asset (mix of asset classes)

Smart Sustainable Growth Core Fund

Aims to take advantage of Environmental, Social and Governance factors by investing more in companies which score well in these areas.

Risk
4

Smart Sustainable Growth Fund

Aims to take advantage of Environmental, Social and Governance factors and to benefit people and the planet by having a moderate allocation to investments contributing to solutions for environmental and social issues.

Risk
4

Smart Growth Fund – Higher Risk

Aims to take advantage of Environmental, Social and Governance factors and have a moderate allocation to investments contributing to environments and social solutions. This fund carries a higher risk than other growth funds available, but has the potential for high growth, though this is not guaranteed.

Risk
5

Smart Growth Fund – Lower Risk

Aims to take advantage of Environmental, Social and Governance factors and have a moderate allocation to investments contributing to environments and social solutions. This fund carries the lowest risk compared to the other growth funds available but also a reduced likelihood of a high return. It may be suitable if you are concerned about volatility.

Risk
3

Equity

Smart World (ex UK) Developed Equity Index Fund

Aims to provide broad exposure to companies in the developed world, excluding the UK, taking into account Environmental, Social and Governance factors.

Risk
5

Smart North American Equity Index Fund

Aims to provide broad exposure to companies in the developed world, excluding the UK, taking into account Environmental, Social and Governance factors.

Risk
5

Smart UK Equity Index Fund

Aims to provide broad exposure to the UK stock market, taking into account Environmental, Social and Governance factors.

Risk
5

Smart Europe (ex-UK) Equity Index Fund

Aims to provide broad exposure to companies in the European (ex-UK) equity market, taking into account Environmental, Social and Governance factors.

Risk
5

Smart World Emerging Markets Equity Index Fund

Aims to provide access to key emerging economies, taking into account Environmental, Social and Governance factors.

Risk
6

Smart World Small Cap Equity Index Fund

Aims to provide broad exposure to small-cap companies in the developed world, taking into account Environmental, Social and Governance factors.

Risk
6

Smart Active Impact Equity Fund

The aim of this fund is to invest in equities that provide growth over the long term (being a period of five years or more) and invest in companies that contribute to the achievement of the **United Nations Sustainable Development Goals**.

Risk
6

Specialist

Smart Ethical and Climate Fund

Aims to track a filtered index, which excludes companies that operate in industries that breach certain ethical criteria.

Risk

5

Smart Shariah Fund

Aims to create long-term growth through investments in a diversified portfolio of equities which meets Islamic investment principles.

Risk

5

Smart Wahed Balance Fund

The portfolio seeks a balanced investment approach with medium risk to enhance potential returns by investing in stocks, fixed income assets and gold. It is structured towards achieving long term steady growth. This fund is designed by Wahed to meet Islamic investment principles.

Risk

3

Smart Wahed Growth Fund

The portfolio seeks a balanced investment approach with medium-to-high risk to enhance potential returns by having a bias towards stocks over fixed income assets and gold. It is structured towards achieving long term steady growth. This fund is designed by Wahed to meet Islamic investment principles.

Risk

4

Smart Wahed Growth+ Fund

The portfolio seeks a growth focused investment approach with high risk to enhance potential returns by investing in stocks and gold. It is structured towards achieving strong long term growth. This fund is designed by Wahed to meet Islamic investment principles.

Risk

5

Fixed interest

Smart All Stocks Index – Linked Gilts Index Fund

Aims to invest in UK government bonds with returns in line with movements of the Retail Price Index (RPI), which is a measure of the average change in living prices over the last year.

Risk
4

Smart Global Bond Index Fund

Aims to invest in different types of bonds, including corporate and government bonds both in the UK and overseas.

Risk
3

Smart Active Impact Bond Fund

Aims to invest in bonds that have an environmental impact and generate financial returns above the global green bond market, taking into account Environmental, Social and Governance issues when selecting investments.

Risk
4

Cash

Smart Cash Fund

Aims to maintain money and provide a return in line with interest rates by investing in a range of money market securities denominated in sterling.

Risk
2

Pre/At retirement

Smart Income Fund

Aims to provide long-term investment growth up to retirement and to support flexible income during retirement, taking into account Environmental, Social and Governance factors.

Risk
3

Smart Annuity Fund

Aims to invest in a way which matches the broad characteristics of investments underlying the pricing of an annuity.

Risk
3

How much we charge you

The best way to find out about the charges you pay is to sign in to your Smart Pension account at smarpension.co.uk/sign-in. Once signed in go to **Investments**, then scroll to the bottom of the page and click **Charges for investments**.

For more information

If you're an employer coming directly to us, you can find out about the charges and transaction costs paid by members through our Chair's Statement. You can find this on our website through our **Scheme information** page and it's under the dropdown **Scheme documents**.

If you have any questions about your charges, you can contact us through our form smrt.pe/member-contact, or if you have any problems signing in, please visit our help article at smrt.pe/how-to-sign-in.

Legal stuff

The aim of this guide is to give general information about investments, and choosing the right investments for you within the Smart Pension Master Trust. It does not give personal advice. If you need personal advice then you should speak to a regulated financial adviser.

Remember that the value of investments is not guaranteed, may go down as well as up and may fall below the original investment amount. You should not see past performance as an indication of future performance.

The Smart Pension Master Trust is governed by a document known as the trust deed and rules. In the event of any differences between the trust deed and rules and this guide, the trust deed and rules will apply.

Where links are given to external websites in this guide, neither Smart Pension Limited nor the Trustee of the Smart Pension Master Trust are responsible for the content of those websites.

Smart Pension Limited does not provide investment, financial or any other type of professional advice, and none of the material or content of this brochure, our phone calls or other communications or our website should be taken as providing such advice. The Smart Pension Master Trust is authorised and regulated by The Pensions Regulator.

Smart Governance Limited

136 George Street, London, W1H 5LD

Website www.smartpension.co.uk/member

Telephone 0333 666 2323

Company registration number 12295061

