



Smart Pension Master Trust Climate and Nature Policy

December 2025

A message to our members

Climate change and nature related issues can affect the risk and value of your investments. This policy sets out how we manage these risks and take advantage of the investment opportunities to improve your long-term outcomes while positively contributing to progress in the real world.

We believe that to provide the best outcomes for our members we need to take into consideration the long term impact of their investments from a climate and nature perspective. 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. Climate and nature are under unprecedented threat which in turn can adversely affect our members' money when not considered from an investment perspective.

Our Climate and Nature policy is embedded in our investment strategy and informs all the investment funds we provide for members, both within the default funds and the self-select investments. Our accompanying targets and plans to transition to a lower carbon economy and reach net zero by 2040 and take action to halt and reverse biodiversity loss by 2030 cover our main default fund, the Smart Sustainable Growth Fund (our "default growth fund"), and its underlying funds. This accounts for the majority of the assets held in the Smart Pension Master Trusts (the "Scheme") and will be monitored on an ongoing basis. The policy is written and executed by the Trustee's Investment Sub-Committee which constantly monitors the application of the principles and investment guidelines. The policy is summarised and referred to in the Trustee's Statement of Investment Principles.

Guiding Principles

Climate change

Climate change is one of the most important challenges facing the world today and cannot be solved overnight. Being proactive in addressing the causes of climate change, and targeting a lower temperature outcome than is currently forecast, is a key sustainability goal of our investment strategy. Decisions today will have an impact many years from now and the Trustee believes that the pensions industry has a responsibility to be part of the solution. We recognise that addressing climate change requires a global response and changes beyond our investments. The Trustee supports effective stewardship and collaboration with industry groups as a strong tool to promote wider progress and solutions to the climate challenge.

Transitioning from a fossil fuel economy to a low-carbon economy requires huge long-term investment and can only be achieved if new sources of capital are identified and directed towards those investments. Pension schemes can therefore play a meaningful role in facilitating the transition to a Net Zero economy in the coming decades. It is also essential for the value of our members' pension pots that we are proactive in identifying the climate-related

risks and opportunities. We aim to manage the risks and take advantage of new opportunities where appropriate.

Nature

The Trustee recognises that we cannot deliver on net-zero commitments and keep global temperature rise to 1.5°C without considering nature and biodiversity issues, including taking action to end commodity-driven deforestation. Forests provide food and shelter for life on earth, influence rainfall patterns, water and soil quality and flood prevention. Trees also absorb and store carbon dioxide. If forests are cleared, or even disturbed, they release carbon dioxide and other greenhouse gases.

When we refer to nature, we mean the natural world and all its living and non-living things, with an emphasis on the diversity of living organisms (including people) and their interactions among themselves and with their environment. Biodiversity is a part of nature, as is the variability among living organisms from all sources including the diversity within species, between species and of ecosystems. Specific issues such as deforestation are related to climate change and nature and biodiversity loss, as well as human right violations.

Therefore our commitments to be net-zero by 2040 and to take action to end commodity-driven deforestation are interlinked with our overall aim to mitigate climate change and nature and biodiversity loss to reduce the risk in our members' investments as well as having a positive impact on our planet and people. It is also essential for the value of our members' pension pots that we are proactive in identifying the nature-related risks and opportunities. We aim to manage the risks and take advantage of new opportunities where appropriate.

The risks

Climate change and nature and biodiversity loss brings both physical and transition risks to the value of investments. Physical risks refer to the direct impacts: rising sea levels, coastal damage, flood risks, extreme weather events and droughts are all linked to climate change and nature, which pose risks to physical assets and higher insurance costs. Transition risk refers to the costs and disruptions from changing behaviour and policy actions to address climate change and nature and biodiversity loss. As an example, fossil fuel companies may see lower commodity prices and the risk of "stranded assets" where assets are no longer economically viable due to policy changes or climate effects and need to be written off. Heavy polluters are also likely to face rising costs from taxation and regulation. Another example is palm oil, which is an ingredient used widely in many products, and is a major driver of deforestation in tropical regions. The deforestation, land-use change and human rights violations linked to the production of palm oil poses reputational and financial risks to companies exposed.

The opportunities

The transition to a low-carbon and nature-aware economy will also create many new opportunities. The scale of investment required in the coming years is huge. New technologies and new industries in climate and nature-related investments are certain to be created in the need to make meaningful progress towards longer-term net zero goals and many of these will generate attractive long-term investment returns appropriate for pension funds. And financing large scale new infrastructure developments which address climate change opens up further opportunities, such as the green bond market. A key goal of our investment strategy is to look for new opportunities which not only limit harmful emissions and the impact on our biodiversity but are also part of the climate and nature solution.

As a master trust there are significant price constraints on the “investment budget” which means we need to balance the allocation to higher cost impact / climate / active strategies with the overall costs to members. There will almost certainly be more room for a greater allocation in the coming years as 1) the increase in the provision of such strategies together with increased allocations from investors will serve to lower the cost of these funds for pension schemes; 2) the advances in, and growth of, green technologies will reach levels where there are greater economies of scale leading again to lower costs; 3) as the Smart Pension Master Trust itself grows in size the ability to allocate to higher cost (impactful) strategies will increase as investment cost is spread over the total investment budget of the default funds.

Investment Beliefs

The Trustee of the Smart Pension Master Trust believes that climate change and nature and biodiversity loss, including the policies to address the negative impacts of these and how we transition to a lower carbon and nature-aware future, will have a material impact on the value of investments over the time horizon of its members’ pension savings. Additionally, the interests of members are best served if the investment strategy takes full account of the risks and opportunities related to climate change and nature loss.

The Trustee seeks to:

- ensure that the investment strategy considers the physical and transition risks to its members investments associated with climate change and nature including biodiversity loss and current and future policy action and is positioned accordingly;
- identify opportunities which are sustainable and offer climate and nature solutions;
- position the default growth fund, in a manner consistent with providing strong returns on members’ assets and limiting global warming to 1.5°C above pre-industrial levels with no or limited overshoot, in line with the best efforts target of the Paris Agreement on Climate Action and recommendations by the Intergovernmental Panel on Climate Change (IPCC);
- use external managers who have in place policies and/or commitments to cease fossil fuel expansion;

- not use carbon offsets to implement their climate strategy and goals in the default growth fund. Carbon offsets are not currently used by the Scheme. We recognise the issue of unwavering residual emissions as we approach our 2040 target and will consider this alongside any strategy and technological progresses; and
- align the default growth fund with our commitments to take action to end commodity-driven deforestation from investments and halt biodiversity loss.

We aim to limit the global warming indication of our default growth fund by reaching net zero carbon emissions by 2040, halving emissions by 2025 and reducing emissions by 75% by 2030, from our baseline year of 2019. We also aim to limit the effects on nature and biodiversity by taking action to remove commodity-driven deforestation and halt or even reverse biodiversity loss. We expect fund managers to consider these targets in the funds they manage for us, and will aim to select new managers who align, or will align, to this. While our net zero target relates to our default growth fund, we look to incorporate this more broadly, across all our investments. In addition, as set out in our Responsible Investment Policy (available [here](#)), we expect fund managers to be, or are working towards being, signatories of the UN Principles for Responsible Investment and the UK Stewardship Code or equivalent.

While the Trustee commits to this Climate and Nature Policy, there may be exceptional short-term circumstances where the Trustee is unable to meet the requirements of this Policy. The Trustee expects that these exceptional circumstances would be minimal, of short duration and would reverse as soon as possible. As such, it is also expected that these circumstances would not materially hinder the ability of the Smart Pension Master Trust to operate in line with the Climate and Nature Policy for any significant period of time.

Smart Pensions' Climate and Nature Policy is based on the broader investment principles set out in the Trustee's Statement of Investment Principles which can be found [here](#). This policy covers all the investments we make on behalf of our members, across different asset classes, and determines our overarching approach to the selection of external asset managers and individual funds.

Investment Strategy

Our approach to addressing climate change and nature and biodiversity loss can be summarised as follows:

1. We analyse the climate and nature related risks in the investments we make on behalf of our members and set our investment strategy to take into account those risks. Limiting climate and nature risks is a key consideration in the selection of the investment funds we select for our members pension portfolios;
2. We seek appropriate investment opportunities which contribute to addressing climate change and nature and biodiversity loss and are consistent with the best interests of our members;

3. We publicly advocate and support initiatives which promote the transition to a low carbon economy, nature positive and deforestation-free investments with industry, policymakers and stakeholders;
4. We monitor the carbon footprint of our members assets and set targets to reduce the harmful emissions of the portfolios in line with our commitment to the goal of net zero emissions;
5. When we select a new fund for the default funds or self-select options we research each fund to ensure their practices align with our responsible investment and climate and nature policies. This includes detailed questions of their approach to managing these risks, their journey to net zero, their advocacy for climate action and limiting nature and biodiversity loss through policies in relation to fossil fuel, biodiversity and deforestation. As we move towards monitoring and reporting the climate and nature performance of our funds, we ensure that external managers measure and disclose the carbon footprint of their funds, using consistent methodology and are looking to develop measurements beyond emissions;
6. We look to direct or influence voting and engagement activities of our managers, with particular consideration to companies which are most material to climate and nature risks, such as deforestation, conversion and land use, deployed in line with our Voting and Engagement Policy;
7. We will fully inform our members and other stakeholders of our actions, commitments and targets for addressing climate change and nature and biodiversity loss, and the performance of portfolios against those targets, in line with the best practices recommended by the Taskforce for Climate-Related Financial Disclosures (TCFD); and
8. We will endeavour to continue to seek member feedback on the scheme's effectiveness of communicating our pathway to net zero.

We recognise the need for a balance between the risk and return of our investments. Therefore, we will continue to decarbonise our default growth fund through a carbon-reduction transition and look to allocate towards climate and nature solutions which have a positive impact. As stated in our Responsible Investment Policy, we want to encourage this action to be taken through focused engagements, which aims to benefit from investment opportunities over time. More information on our approach on engagement and stewardship can be found in our Voting and Engagement Policy [here](#).

Climate, net zero and emissions reporting

We are committed to investing towards a lower carbon economy and aim to meet net zero in our main default growth fund, by 2040. This target covers scope 1, 2 and 3 emissions and covers the listed equity and listed bond asset classes in our portfolio¹.

¹ This is 94% of the default portfolio at policy date

Our reduction targets are set from our base year 2019, and based on tonnes of carbon dioxide equivalent per million pounds invested (tCO₂e/£m) and are reported in our Task Force on Climate-Related Financial Disclosures (“TCFD”) report. Assets in high-emitting sectors or “material sectors” are considered by the Trustee and help to direct our engagements with managers and companies.

We recognise that reducing our emissions and targeting net zero by 2040 will require active engagement with companies, investments in new opportunities as well as changes from industries and policymakers. Our Voting and Engagement Policy outlines our process for engaging with managers and companies which will keep us on track with our net zero pathway.

Nature, biodiversity and deforestation

Through our investments we aim to take action to halt and even reverse biodiversity loss. This includes taking action to stop commodity-driven deforestation, the destruction of natural habitats and the conversion of land areas of high conservation value and high carbon stock. These are key drivers of biodiversity loss and contribute to climate change. Our ambition covers our default growth fund and sits alongside our target for net zero emissions by 2040, to align our investments with a 1.5°C scenario, with no or limited overshoot.

We look to appoint managers and invest in strategies which have policies that are aligned with our beliefs and policies. In relation to biodiversity, deforestation and land use, our expectation is for our managers to follow the below principles, or be working towards equivalent policies, for the funds and/or companies they manage for our members:

- Act and manage the Scheme’s investments with the aim to finance no gross deforestation, no gross land conversion and respect human rights.
- Engage with companies on their deforestation, land use and conversion activities, including in their supply chains. There may be some circumstances where explicit exclusion is more appropriate than engagement.
- All geographies and commodities are included in the scope of these principles. The Trustee notes the following key commodities as high forest risk; palm oil, pulp and paper, soy and beef, cocoa, coffee and rubber.
- Managers should be able to demonstrate engagement with investee companies in relation to their deforestation and biodiversity impact, noting some may have no exposure to the high-risk commodities stated.
- No tolerance for human rights abuses associated with commodity-driven deforestation and land conversion or use. These rights include, but are not limited to; Free, Prior, and Informed Consent (FPIC) of Indigenous Peoples and local communities, customary rights of indigenous peoples and local communities to land, resources, and territory, zero tolerance for threats and attacks against environmental and human rights defenders and International Labour Organisation’s labour rights of workers.

The Trustee expects managers to consider whether companies address these issues

throughout their supply chains and encourage more transparency. We expect managers who do not have a policy in line with the above to be working towards this. Please see the appendix for existing policies of our managers.

To monitor the above, we will follow the process set out in our Statement of Investment Principles, to monitor and engage with our external managers, including their policies and their actions, on behalf of the Scheme. We also look to use external sources, our investment consultants and our own engagement channels with companies, with the aim to encourage progress. Our escalation process is set out in our Voting and Engagement Policy.

Exclusions

The Trustee also seeks to minimise and manage the greatest financially material risks to protect long-term returns by excluding companies which are considered the “worst offenders” this includes those that are involved in the manufacturing of controversial weapons as defined by the United Nations and violate the United Nations Global Compact standards on human rights, labour, the environment and corruption. Our exclusions are set out in our Responsible Investment Policy.

We aim to select funds which do not invest in companies deriving the majority of their revenues from fossil-fuels and which do not allocate to companies which are making new investments in coal, gas and oil exploration or production.

We have a preference for managers that have set out a clear Paris-aligned plan to phase out coal by 2030 in Organisation for Economic Co-operation and Development (OECD) countries, and by 2040 in non-OECD countries. In addition, our managers will use engagements and monitor companies in relation to their activities related to fossil fuels, with the aim of ensuring a phaseout of fossil fuels with a just transition. Where no progress is being seen in companies, managers should have clear escalation measures, including voting against transition plans, against the Chair and management, and ultimately divestment. We monitor our managers, their engagements and voting activities on a regular basis. See our Voting and Engagement Policy for more details.

Advocate for change

Where possible, we will be a part of organisations and initiatives that are aligned with the views and strategy we set out in this policy. We recognise that a “just” transition in a timely manner requires policies, regulation and real changes to industries and while we cannot guarantee national and global efforts, we will look to influence these where we can. We are members of Climate Action 100+ and Nature Action 100, which are global investor engagement initiatives focused on driving greater corporate ambition and action to combat climate change and reverse nature and biodiversity loss, respectively.

We have signed up to the Institutional Investors Group on Climate Change (IIGCC), which feeds into the Paris Aligned Investment Initiative's (PAII) net zero framework, and we have committed to the Impact Investing Institute's Impact Investing Principles, to support and progress our investment solutions in light of climate change and nature and biodiversity loss.

Find out more about our road to net zero [here](#).

Appendix

Manager specific policies

[AXA Deforestation Policy](#)

[Mirova ESG Principles and Policy](#)

[Legal and General Investment Management Climate Impact Pledge and Deforestation Policy](#)

Glossary

Biodiversity

Biodiversity refers to the variety of living species on Earth, including plants, animals, bacteria, and fungi, and their interactions with each other.

Biodiversity solutions

Projects or companies which support the sustainable use of natural resources and ecosystem services, as well as technologies, products and services to help reduce biodiversity loss, threats or restore natural habitats.

Climate

Climate refers to the composite or general prevailing weather conditions of a region, as temperature, air pressure, humidity, precipitation, sunshine, cloudiness, and winds, throughout the year, averaged over a series of years.

Climate solutions

Investments which look to help the conservation, restoration and improved land, water and waste management actions that increase carbon storage or avoid greenhouse gas emissions. Classified as climate change mitigation and climate change adaptation categories of the EU taxonomy standards.

Conversion

The change of a natural ecosystem to another land use or profound change in a natural ecosystem's species composition, structure or function.

Deforestation

Deforestation is the intentional clearing of forested land, usually for commodity-driven reasons to make space for agriculture and animal grazing or to obtain wood for fuel, manufacturing, and construction. It can greatly change our physical land, our climate and our economies.

Deforestation-free or no deforestation

Commodity production, sourcing or financial investments that do not cause or contribute to deforestation. Minimal levels of deforestation may be included which refers to a small amount of deforestation or conversion that is negligible in the context of a given site because of its small area and because it does not significantly affect the conservation values of natural ecosystems or the services and values they provide to people. As described by the Accountability Framework.

Economy (economies)

The state of a country or region in terms of the production and consumption of goods and services and the supply of money.

Global warming

The long-term heating of Earth's climate since the pre-industrial period (between 1850 and 1900) due to human activities, primarily fossil fuel burning.

Greenhouse gases

There are four greenhouse gases linked to global warming: carbon dioxide (the majority), methane, nitrous oxide and fluorinated gases. "Carbon dioxide equivalent" or "CO₂e" is a term for describing different greenhouse gases in a common unit. For any quantity and type of greenhouse gas, CO₂e signifies the amount of CO₂ which would have the equivalent global warming impact.

Impact Investing Institute

Launched in 2019 with a simple mission: to accelerate the growth and improve the effectiveness of the impact investing market in the UK and internationally – as set out in the United Nations' Sustainable Development Goals.

Institutional Investors Group on Climate Change (IIGCC)

The European membership body for institutional investor collaboration on climate change. Its work supports and helps to define the public policies, investment practices and corporate behaviours that address the long-term risks and opportunities associated with climate change.

Intergovernmental Panel on Climate Change (IPCC)

The United Nations body for assessing the science of climate change and to report on its implications and potential future risks, as well as to put forward adaptation and mitigation options.

Material sectors

Material sectors are outlined in the European Commission's Nomenclature of Economic Activities ("NACE") under codes A-H and J-L and any other sector the Trustee believes to be material to the climate transition and protecting biodiversity, in the context of the Scheme's investments.

Natural Capital

The stock of renewable and non-renewable natural resources (e.g., plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits to people.

Nature

Nature refers to the natural world, with an emphasis on the diversity of living organisms (including people) and their interactions among themselves and with their environment.

Net Zero

The balance between the amount of greenhouse gases produced and the amount removed from the atmosphere. We reach net zero when the amount we add is no more than the amount taken away. It will help limit global warming.

Paris Agreement

A legally binding international treaty on climate change to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels. Countries communicate actions they will take to reduce their Greenhouse Gas emissions and they will take to build resilience to adapt to the impacts of rising temperatures.

Paris Aligned Investment Initiative (PAII)

Established in May 2019 by the Institutional Investors Group on Climate Change (IIGCC), it has grown into a global collaboration supported by four regional investor networks – AIGCC (Asia), Ceres (North America), IIGCC (Europe) and IGCC (Australasia).

Principles for Responsible Investment (PRI)

A United Nations-supported international network of investors working together to use responsible investment to enhance returns and better manage risks.

Task Force on Climate-related Financial Disclosures (TCFD)

A Task Force which has developed consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information.

UK Stewardship Code

High stewardship standards for those investing money with the aim for responsible allocation,

management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Disclaimer: This policy refers to the main section of the Smart Pension Master Trust ("SPMT"). Smart Pension has a number of third party arrangements. Please see your member account and investment guide for further details on these funds.

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