



Smart Pension Master Trust Statement of Investment Principles

September 2025

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Introduction

This is the Statement of Investment Principles prepared by the Trustee of the Smart Pension Master Trust (the “Trust” / “Master Trust” / “Fund”). It replaces the statement dated December 2024. This statement sets down the principles which govern the decisions about investments that enable the Trust to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010 and the Occupational Pension Schemes (Charges and Governance) Regulations 2015
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019

In preparing this statement the Trustee has obtained advice from Hymans Robertson LLP, the Trustee’s investment consultant. Hymans Robertson is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

The Trust has been set up to service multiple employers. The Trustee has consulted with the nominated person, Smart Pension Limited, in the preparation of this statement and has complied with the employer consultation requirement. This body has been nominated by all employers to act as their representative in this regard.

The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement or the demographic profile of members.

The Trustee is solely responsible for the investment of the assets of the Master Trust, including decisions regarding the design and selection of the default arrangements. The investment powers of the Trustee are set out in Rule 3 of the latest version of the Trust Deed. This statement is consistent with those powers. To assist in its decision making about investment, the Trustee established an Investment Sub-Committee with the objectives of:

- implementing and overseeing the Trustee’s investment strategy within any guidelines set by the Trustee and the powers delegated to the sub-committee
- monitor compliance with the Statement of Investment Principles and recommend any changes to it by the Trustee.

The Investment Sub-Committee meets on a quarterly basis and reports to the Trustee Board at each quarterly Trustee meeting, and at other times as necessary.

For the majority of employers offering their pension arrangement through the Master Trust, employers delegate all the fiduciary and governance responsibilities to the Master Trust Trustee e.g. design/selection of the main default arrangement and other investment funds.

Therefore, in the main members are offered a default fund and a range of self-select funds as selected by the Trustee and this does not differ between employers.

In some instances, employers wish to retain control over the investment strategy and receive their own advice. More details are provided in Section 1.3 Other default arrangements.

Statement of Investment Principles

To simplify this Statement of Investment Principles, the Statement is split into three sections covering different aspects of investments.

The Trustee's Statements of Investment Principles for the Trust contained in this document include the:

1. Statement of the aims and objectives for the default arrangements
2. Statement of the aims and objectives for investment options outside the default arrangements
3. Statement of investment beliefs, risks and policies

The Statement of Investment Principles for the Trust comprises items 1, 2 and 3.

The Statement of Investment Principles for the Scheme's default arrangement comprises items 1 and 3.

This statement was agreed by the Trustee and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the investment managers, and the Trust auditor and members of the Trust upon request.

The Trustee will publish an Implementation Statement each year from 1 October 2020 describing how these statements have been followed in the last year. This will be included within the Trustee's Report and Accounts.

Investment Policy Implementation Document

- A. A separate Investment Policy Implementation Document ("IPID"), dated June 2024, sets out the details of the Scheme's investment arrangements, based on the principles set out in this SIP.

Appendix

The Appendix sets out an overview of the Trustee's policies in relation to the Trust's investments.

Approved by the Trustee of Smart Pension Master Trust

September 2025

1. Statement of the aims and objectives for default arrangements

The Trustee's policy is to offer suitable investment arrangements having regard to the characteristics of the Trust's membership. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

1.1 Reasons for the default arrangements

The Trustee is responsible for the design of the governed default arrangements. The Trustee has decided that the Trust should have a main default investment arrangement. The main default arrangement is offered to new members. In some cases an employer, or third party, may decide to offer a different default arrangement. These are considered and approved by the Trustee, following their policies and processes. Default arrangements are offered for the following reasons:

- The Trust is a qualifying scheme for auto-enrolment purposes and so must have a default arrangement; and
- The Trustee is aware that many members of the Trust will either not wish to choose how their contributions are invested or do not have the confidence to make such investment decisions. Therefore, the availability of suitable default investment options for the Trust's members is key to the Trustee's investment approach.

1.2 Choosing the main default arrangement

The Trustee believes that a lifestyle arrangement represents a suitable default investment option for members who do not make a choice about how their contributions (and those made on their behalf by their employer) are invested. Therefore, the Trustee has implemented a lifestyle as the main default arrangement for members. Full details of the main default arrangement can be found in the IPID.

A lifestyle arrangement is an investment option which involves gradually switching members' assets from higher-risk investments, with a higher growth asset allocation to lower-risk investments as the investor approaches retirement.

The main default arrangement takes into account:

- Demographic profile;
- Likely benefit choices at retirement;
- The level of income in retirement that members are likely to need;
- Members' likely benefit choices at and into retirement;
- Investment risks;
- Expected return on investments;
- Realisation of investments; and
- Responsible investment, corporate governance and voting rights.

1.3 Objectives for the main default arrangement

The Trustee has discussed key investment objectives for the Trust as well as the constraints the Trustee faces in achieving these objectives.

The Trustee's main investment aims, and objectives are:

- to provide a suitably governed default investment option that is likely to be suitable for a typical member who is expected to utilise drawdown at retirement;
- to maximise member outcomes;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the value of members' pension pots; and
- to reduce the risk of the assets failing to meet projected retirement income levels.

The Trust focuses on pension provision to small to medium sized employers ("SMEs") and their employees. The expectation is that the majority of these members will partially access their retirement savings by taking a cash lump sum via pension freedoms and then use the balance for a mixture of income and protection in retirement. This expectation is reflected in the design of the Trust's retirement solution, Smart Retire and the approach for the default glidepath which transfers members' assets seamlessly into that solution.

In light of this consideration, the Trustee has adopted a default investment strategy that seeks to obtain a long-term, inflation-protected return through investment in equities, fixed-income and alternative assets funds whilst the member is considered in the growth accumulation phase of their saving journey. As they approach retirement, members begin to de-risk from higher risk assets and diversify into generally lower risk assets including government bonds and other fixed income products reflecting the underlying investment approach used to support Smart Retire. This de-risking journey begins 8 years prior to retirement (at 57 for a retirement age of 65).

The expected levels of investment returns (after the deduction of charges) and risks for the funds used are consistent with the Trustee's objectives for the default arrangement. The expected investment returns and approach to managing investment risks including financially material considerations such as climate change and nature and biodiversity loss are described in Section 3.

Given the Trust's focus on SMEs and the expectations about members intentions at retirement, the Trustee considers that their investment beliefs and policies (set out in full in Section 3) and their aims and objectives for the default arrangements are intended to ensure that the assets are invested in the best interest of the members.

Full details of the main default arrangement are given in IPID, in the section "Investment implementation for the default arrangement".

1.4 Other default arrangements

In some cases, an employer or third party may decide to offer its pension arrangement through the Master Trust. In addition, if the employer is actively involved in their pensions arrangement

they may wish to take their own investment advice and retain the responsibility of setting a suitable investment strategy for their members, and reviewing this at least every three years.

The Master Trust Trustee retains ongoing responsibility to govern these arrangements in line with their fiduciary duty, including the policies the Trustee has set. As part of any proposed other default arrangement and changes to the investment strategy, the Master Trust Trustee will be asked to approve these.

Full details of other default arrangements are given in the IPID, in the section “Investment implementation for the default arrangement”.

In addition to other default arrangements, the Trustee has set up the Smart Cash Fund as a ‘temporary’ default arrangement.

The Trustee’s rationale for a temporary default arrangement is to mitigate market risk and avoid unnecessary volatility when members are transferred across to the Trust. In particular, when the expectation is that a significant number of members may access their benefits shortly after a transfer into the Trust, e.g. a DB AVC repatriation exercise. This will only be offered and assessed on a case-by-case basis.

2. Statement of the aims and objectives for investment options outside the default arrangements

For Trust members that wish to make their own investment options, a range of alternative lifestyle arrangements and “self-select” funds have been made available. The Trustee obtained and considered professional advice from its investment consultant in the selection of these funds.

2.1 Reasons for the investment options

In addition to the main default arrangement, the Trust offers members a choice of investment options because members will have different views, attitudes to risk and different aims for accessing their retirement savings, and so it is not possible for a single default arrangement to be suitable for all.

2.2 Choosing the investment options

Membership analysis

The Trustee believes that understanding the Trust’s membership is important to maintaining an appropriate range of investment options and have taken into account a number of aspects including:

- Likely benefit choices at retirement
- The level of income in retirement that members are likely to need
- Members' likely benefit choices at and into retirement
- Investment risks
- Expected return on investments
- Realisation of investments
- The number of members who are likely to want responsible, ethical or faith-based investment
- The output from industry and other relevant surveys. For example, surveys on member choice generally suggest that:
 1. Too little choice is viewed negatively by members
 2. Too much choice can prove confusing and deter members from making decisions
 3. Some members will not regularly review their choices.

Costs of investment options

The investment costs are borne by members and so a balance needs to be struck between choice and costs.

2.3 Objectives for the alternative investment options

For members who wish to use an investment lifestyle arrangement but personalise it to better suit their views and needs, they can do this in a number of ways. Members can choose from two different growth funds which have a lower or higher allocation to active investments with a specific environmental and social positive impact aim, versus the growth fund in the main default arrangement. Members can also choose a different retirement target, which will change how the investment arrangement allocates funds, as the member approaches retirement.

The main objective of the alternative lifestyle arrangements is to offer members a choice of growth phase and retirement target and continue to give good member outcomes, recognising that members may have different views, needs and objectives.

Additional alternative fund options are provided in the self-select fund range, including funds based on different levels of risk, thereby catering for members' differing risk appetites. These funds do not have a lifestyle arrangement applied to them.

Self-select funds

The objectives of the self-select fund range are to:

- Provide a choice of individual funds for members who want to be more closely involved in choosing their investments
- Provide a broader choice of levels of investment risk and return

- Provide a broader choice of investment approaches including responsible investing, ethical and faith-based funds
- Help members more closely tailor their investments to their individual needs

Whilst the Trustee aims to provide sufficient choice to cover the majority of the needs of members, the self-select fund range cannot cover the specific investment needs of all members.

Risk and return

The expected levels of investment returns (after the deduction of charges) and risks for the lifestyle arrangements and self-select funds used are consistent with the Trustee's previously stated objectives for these investment options. The expected investment returns and approach to managing investment risks including financially material considerations such as climate change and nature loss are described in Section 3.

Full details of the current investment options available outside of the main default arrangement are given in the IPID, in the section "Investment implementation for the investment options outside the default arrangement".

2.4 Other investment options

Where an employer or third party offers a different default arrangement to the main default arrangement, they may also choose to offer different additional investment options.

The Master Trust Trustee retains ongoing responsibility to govern these in line with their fiduciary duty and policies. As part of any proposed investment options and changes, the Master Trust Trustee will be asked to approve these.

Full details of other investment options are given in the IPID, in the section "Investment implementation for the investment options outside the default arrangement".

3. Statement of investment beliefs, risks and policies

This Statement sets out the investment beliefs and policies which guide the Trustee's decision making.

3.1 Kinds of investments to be held

The Trust is able to invest in a wide range of assets including equities, bonds, cash, property and alternatives.

For Trust members that wish to make their own investment arrangements, a range of pooled "self-select" funds have been made available. The Trustee obtained and considered professional advice from its investment consultant in the selection of these funds. A due

diligence exercise as part of this selection process ensures that the assets are invested with sufficient security and liquidity and that each of the funds is of the appropriate quality and calibre to ensure the quality and profitability of the assets.

3.2 The balance between different kinds of investment

The Trustee has made available different sections of the Trust to suit the varying requirements of the Trust’s members and employers.

For Trust members, this includes offering a lifestyle arrangement, whereby a member’s assets are automatically invested in line with a pre-determined strategy that changes as the member gets closer to accessing their retirement savings. Emphasis is placed on medium to higher risk funds (i.e. investment largely in growth assets) in search of long-term, inflation-protected growth whilst the member is a long way off accessing their retirement savings, switching progressively to “protection” assets over the years preceding the member’s target retirement date so as to protect the retirement savings of the member relative to the way in which they are expected to access these savings.

Alternatively, it may be possible for Trust members to choose to invest in one or more of the funds used to construct the above lifestyle arrangement if they wish to make their own investment asset allocation decisions.

Where members do not choose where their contributions, and those made on their behalf by their employer, are invested, the Trustee will invest these contributions according to the default arrangement set out in the relevant section in the IPID.

The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and the asset allocation may change as the membership profile evolves.

The Trustee considers the merits of both active and passive management and may select different approaches for different arrangements and asset classes.

3.3 Risks

Investment risk lies with the members themselves. However, the Trustee has considered a number of risks when making available suitable investment choices. Some of these risks will be more relevant to particular cohorts of members. The Trustee believes that the three principal investment risks most members will face are:

Risk	Description
Inflation risk	The risk that the investments do not provide a return at least in line with inflation, thus eroding the purchasing power of the retirement savings. The Trustee makes available investment options that are expected to provide a long-term real rate of return.
Volatility	The risk that falls in fund values prior to retirement lead to a reduction in a member’s retirement benefits. Funds investing in bonds or a mix of assets or

	investment techniques intended to manage short-term risks may be expected to be subject to lower levels of short-term fluctuations in values - although there may be occasions when this does not hold good.
Conversion risk	The risk that fluctuations in the value of assets held, particularly in the period before retirement savings are accessed, lead to uncertainty over the benefit amount likely to be received. In the lifestyle arrangement made available to members, the Trustee increases the proportion of assets that more closely match how it expects members to access their retirement savings.

Other investment risks

The Trustee believes that other investment risks members may face include:

Risk	Description
Retirement income risk	The risk that a member’s retirement income falls short of the amount expected, whether this is due to lower investment returns than expected or insufficient contributions being paid. The Trustee periodically reviews the appropriateness of the fund range offered to members to ensure member outcomes can be maximised.
Investment manager risk	The Trustee monitors the performance of the underlying investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary. The investment platform provider has a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Regulatory risk	Changes in legislation and regulations governing investments, as well as tax implications, could affect their value and/or cost to investors. The Trustee stays informed of regulatory updates and developments via a range of sources which should allow for enough lead time to consider this risk effectively.
ESG including climate and nature risks	The risk that environmental, social and governance issues including climate change and nature and biodiversity loss will not be managed effectively in the portfolio, resulting in poor performance in individual investments and for the portfolio as a whole. The Trustee carefully reviews the approach of the underlying investment managers to ensure that they address ESG risks in the selection of investments and engagement with companies in their portfolios.
Concentration risk	This is the risk that the Fund has excessive exposure to a single institution or institutions that share a common risk factor, for example by operating in the same industry. Additionally, concentration risk can occur if the scheme has excessive exposure to individual asset classes or geographical regions. Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.

Currency risk	This is the risk of market loss as a result of adverse movements in foreign exchange rates. The Trust limits this risk and monitors the aggregate of these positions. The Trust may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.
Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Trustee will also undertake a review of the internal controls and processes of each of the investment managers where necessary.
Counterparty risk	This risk arises when the Fund (or a fund manager appointed by the Trust) enters a financial contract with a third party which then fails, probably through default, to fulfil its obligations. This risk also applies to derivative financial instruments where credit risk of an issuer or counterparty is involved. The Trust controls this risk by choosing managers who set an appropriately high minimum credit rating of counterparties it will transact with and limiting the exposure to any single counterparty. Investment Management Agreements with fund managers similarly contain provisions to limit counterparty risk to the Fund. In addition, when choosing which investment vehicles are appropriate for the scheme, the Trust considers the security of assets policy of the investment manager and of the underlying vehicles. Please see the Investment Policy Implementation Document for further details on where this risk applies.
Complexity risk	Less traditional asset classes or asset classes with derivative overlays and financial instruments can be complex, with additional terms, contractual periods and payout structures. The Trustee ensures appropriate training, due diligence and advice is received in relation to these investments prior to introducing them to the Scheme. Please see the Investment Policy Implementation Document for further details on where this risk applies.
Liquidity risk	The risk that the investments of the Trust are held in assets that are not accessible in a timely manner. The Trustee ensures that investments are generally held in assets that are realisable at short notice and managers have appropriate processes in place for a suitable level of liquidity, which may differ by asset class. The Trustee holds 100% of its assets in funds with daily liquidity at the blend level. The underlying funds held within each blend fund may not feature daily liquidity as it is invested in some private, illiquid assets. However, whenever the Trustee agrees to invest in assets of this nature, appropriate measures are taken to ensure redemption is possible within reasonable timeframes.

Managing risks

The Trustee has developed and maintained a framework and register for assessing the impact of all risks for members, including investment risks and their impact on long-term investment returns and member outcomes.

Time horizon

The Trustee monitors the age profile of the Master Trust's membership to arrive at an appropriate investment horizon for different groups of members when considering all investment and financially material risks:

- The Master Trust is potentially open to new members from age 16.
- As a result, given the likelihood of increases in retirement ages in the future, investment risks need to be considered over a multi-decade time horizon exceeding 50 years.
- A majority of members are expected to take income drawdown in retirement.
- As a result, investment risks for a majority of members who are approaching retirement, need to be considered over a time horizon in the range of 10-20 years; i.e. the period from retirement to when annuity rates may become attractive.
- Some members may choose to buy an annuity from age 55 and investment risks for this group need to be considered carefully. There may be a difference between the member's time horizon and the time horizon for underlying investments which are expected to reflect the maturity profile (and interest rate sensitivity) of the assets backing an insurer's annuity business.

Principal investment risks

The default arrangements manage the three main investment risks as members grow older by automatically switching from funds which are expected to give long-term growth relative to inflation into funds whose values should fluctuate less in the short-term relative to the benefits members are expected to take at retirement.

The self-select fund range provides members with a choice of funds with differing risk and return characteristics which are expected to meet the investment needs of a majority of members.

Ability to invest/disinvest promptly and realisation of assets

The Trustee has delegated the responsibility for buying and selling investments to the investment managers. The Trustee expects that the investment platform provider and the fund managers will normally be able to sell the funds within a reasonable timescale. There may, however, be occasions where the investment platform or fund managers need to impose restrictions on the timing of sales and purchases of funds (most notably for funds investing in unlisted investments) in some market conditions to protect the interests of all investors in that fund. Moreover, certain redemption restrictions, or lockup-periods, may be imposed on illiquid assets within our private market funds.

Nevertheless, the Trustee has considered the risk of liquidity and recognises that most members' investments have a long investment timeframe, during which assets which are less easily traded (such as property or infrastructure) can be managed to deliver good long-term returns while avoiding the impact of liquidity issues at retirement.

The Trustee recognises that it is important that members' contributions can be invested promptly in selected investment funds, and that these can be sold promptly for example when members wish to change where they are invested, transfer to another arrangement or if they wish to draw on their pension pot. The Trustee manages this risk by selecting pooled investment funds which can be dealt on a daily basis. The platform provider is responsible for monitoring the ability for members to invest and disinvest promptly and is expected to notify the Trustee if a situation develops whereby there is any restriction on the ability for members to do so. For example, this situation could occur in the event of significant economic uncertainty impacting on the ability for fund managers to value the underlying assets.

Other investment risks

The Trustee manages the other investment risks as part of the process for selecting and ongoing monitoring of the funds used by the Master Trust.

The funds used give a good spread of investments which will help manage risks associated with market conditions, fund manager actions and default.

In accordance with its Responsible Investment Policy and Climate and Nature Policy, the Trustee has made explicit allowance for climate change and nature loss within the development and implementation of its investment strategy. The Trustee has a stated belief, encapsulated in its Climate and Nature Policy, that climate change and nature loss, and policies to address the negative impacts of these on the transition to a lower carbon future will have a material impact on the value of investments over the time horizon of its members' pension savings.

Additionally, the interests of its members are best served if its investment strategy takes full account of the risks and opportunities related to climate and nature. As such, the Trustee discusses the potential impact of climate and nature risks with its adviser when reviewing the investment strategy, and with managers on a periodic basis, and invests in a number of specialist low carbon transition and biodiversity funds within the default investment strategy, as well as monitoring developments in this area including the availability of solutions to mitigate climate and nature-related risks.

The Trustee uses derivatives to obtain exposure in certain asset classes. The risks for this are detailed in the table above. Given the nature of these investments and the additional complexity and risks this brings, more regular and in-depth oversight is undertaken by the Trustee versus the more traditional asset classes. This additional oversight includes additional reporting from the parties involved in the structure. Further detail on where this applies is provided in the Investment Policy Implementation Document.

3.4 Expected returns on investments

The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisers on these matters, who they deem to be appropriately qualified experts.

The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation and charges when making decisions and comparisons.

Asset class	Expected long-term investment returns relative to inflation	Expected shorter- term volatility in fund values
Equities (i.e. public company shares)	Strong return relative to inflation	Most volatile in the short-term
Private equities (i.e. shares in privately held companies, not publicly traded)	Strong return relative to inflation, higher potential than public equities	Most volatile in the short-term, but tend to have lower observed volatility than public equities
Private Real Assets (i.e. shares in privately held infrastructure and property)	Strong return relative to inflation, higher potential than public equities, but lower than private equities.	Most volatile in the short-term, but tend to have lower observed volatility than public equities
Property (e.g. offices, shops and warehouses)	Strong return relative to inflation, but lower than public equities	Lower than equities
Infrastructure (e.g. transportation, renewable energy, healthcare)	Strong return relative to inflation, but lower than public equities	Lower than equities
Private credit (e.g. direct lending to companies)	Positive, higher than corporate bonds but lower than equities	Lower than equities but higher than traditional bonds
Corporate Bonds (i.e. loan stocks issued by companies)	Positive, but lower than equities, property and infrastructure	Lower than equities or property
Fixed Interest Government Bonds (e.g. UK Gilts)	Positive, but lower than equities, property, infrastructure and corporate bonds	Lower than equities, property or corporate bonds
Index-Linked Government Bonds (e.g. UK Index-Linked Gilts)	In line with inflation	Lower than equities, property or corporate bonds
Cash (and other short-term interest-bearing investments)	Return may not keep pace with inflation	Minimal with high degree (but not complete) of capital security

Having established the investment strategy, the Trustee monitors the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions. The Trustee meets the Trust’s investment managers as frequently as is appropriate in order to review performance.

3.5 Realisation of investments

The Trustee has delegated the responsibility for buying and selling investments to the investment managers. The Trustee expects that the investment platform provider and the fund managers will normally be able to sell the funds within a reasonable timescale. There may, however, be occasions where the investment platform or fund managers need to impose restrictions on the timing of sales and purchases of funds (most notably for funds investing in unlisted investments) in some market conditions to protect the interests of all investors in that fund.

Nevertheless, the Trustee has considered the risk of liquidity and recognises that most members' investments have a long investment timeframe, during which assets which are less easily traded (such as property or infrastructure) can be managed to deliver good long-term returns while avoiding the impact of liquidity issues at retirement.

3.6 Financially material considerations

Given the Trust uses pooled funds, the Trustee has delegated day to day investment decisions including the management of financially material considerations to the fund managers.

The Trustee recognises that the ongoing consideration of financially material considerations, including ESG factors including climate and nature risks, are relevant to the development, selection and monitoring of the Master Trust's investment options. The Trustee has developed a separate policy on Responsible Investment issues and also a separate Climate and Nature Policy which they actively take into account in terms of the monitoring and selection of investment managers and funds. The Trustee expects that the fund managers will have members' financial interests as their first priority when choosing investments.

Responsible Investment and Climate and Nature Policies

The Trustee strongly believes that the interests of its members are best served if its investment strategy is implemented in a sustainable and responsible manner, carefully taking account of ESG including climate and nature issues in investment decisions. Therefore, its approach is to ensure effective and integrated management of these ESG risks and opportunities, to support the Trustee's desire to protect and enhance value of its member assets over the long term and explore how to engage with its members to understand any specific ESG, climate and nature issues that they want to see reflected in the investment strategy. The Trustee's full Responsible Investment Policy is available [here](#), and its Climate and Nature Policy is available [here](#).

3.7 Policy on illiquid asset investment

Main default arrangement

Investments held for the purposes of the main default arrangement include investments in illiquid assets. These illiquid assets are:

- held throughout the glidepath, with the majority of exposure occurring during the growth phase. Assuming a typical retirement age of 65, members under the age of 57 (who are 8 years from the retirement age) invested in the default arrangement are expected to hold up to 15% of their portfolio in illiquid assets. Once the member reaches age 57, this allocation will start to gradually reduce to c. 2% by the time they reach age 65. It should be noted that these allocations are subject to change, as the default investment strategy is kept under regular review and may be updated over time. This policy will be updated in line with any changes;
- held via a collective investment scheme;
- investments into areas such as private credit, renewable infrastructure, and private equity, including venture capital and;
- held due to their strong risk-adjusted return characteristics and/or their diversification benefits against public market movements.

The Trustee is planning to increase their investment in illiquid assets, up to the 15% noted above. The illiquid assets invested will be split equally at 5% across private debt, private equity and private renewable infrastructure. Any new investment requires analysis and a sign-off process, including advice from their investment advisers.

As the Trustee is planning to increase illiquid assets up to 15% of the default growth fund, The Trustee has agreed to establish a Private Markets Working Group, in which both members of the Investment Sub-Committee and Smart Investment team will sit, supported by the Trustee's investment advisor, Hymans Robertson. The main objective of the Private Markets Working Group is to define and implement the approach for the Trustee's private market allocations. This includes performing due diligence on investment managers, establishing policies and governance frameworks, and integrating ESG considerations into the process. The Working Group shall have no powers of delegated decision-making but will make recommendations to the ISC and/or the Trustee.

Other default arrangements

There are currently no illiquid assets in any of the other default arrangements. The Trustee views investments in illiquid assets positively, and is considering how to best approach investment in illiquid assets for these alternative arrangements.

3.8 Implementation

The Trust uses standard pooled funds offered by investment platform providers and fund managers. This gives access to a range of funds while keeping down costs to members, but means that the Trustee cannot adopt an approach to managing financially material considerations specific to the Trust. However, as outlined in the bullet points below, the Trustee nevertheless seeks to manage financially material considerations to protect long-term returns by:

- Choosing fund managers who have clearly articulated policies for managing financially material considerations. Managers are expected to have policies in place that cover

issues relating to climate change, no fossil fuel expansion and eliminating commodity-driven deforestation.

- For actively managed funds (where the fund manager decides where to invest), expecting the fund managers to take financially material considerations into account when selecting which companies and markets to invest in.
- For passively managed funds, the Trustee recognises that the funds' objectives are to deliver returns in line with its benchmark which take into account ESG including climate and biodiversity factors), which the Trustee believes will deliver appropriate risk adjusted returns.
- Utilising a robust and credible approach to evaluating companies' performance on environmental, social and governance issues, both in terms of management of ESG risk and identification of opportunities arising from future responsible investment trends.
- In particular, taking account of climate and nature-related risks and opportunities in investment strategy.
- Engaging with the companies in their portfolio in order to reduce the negative environmental and social impact of their activities and enhance the positive; and
- Actively looking to exclude investments in companies that:
 1. are involved in the manufacturing of controversial weapons (chemical weapons, biological weapons, nuclear weapons, anti-personnel mines and cluster munitions);
 2. derive the majority of their revenues from coal mining;
 3. violate the UN Global Compact standards on human rights, labour, the environment and corruption for three years or longer.

3.9 Non-financial factors

The Trustee recognises that a number of members will have strong personal views or religious convictions that influence where they believe their savings should, or should not, be invested.

The Trustee continues to seek opportunities to actively engage with members to understand the issues that are of particular interest and concern. Member complaints and feedback on all pension schemes matters, including investments, are shared with the Trustee on a regular basis. Among other things this helps to inform the Responsible Investment policy and its effect on the investment strategy.

The Trust offers a choice of ethical, environmental and faith-based funds for members who are likely to hold stronger views in these areas than the majority of members.

The Trustee notes that non-financial factors can affect various investment risks which are borne by members and may under-perform other funds with broader-based investment approaches.

Fund managers are otherwise only expected to take non-financial factors into account when these do not conflict with the financial interests of members and the Scheme's investment objectives.

3.10 Stewardship

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment platforms and fund managers and the monitoring of compliance with agreed policies.

The Master Trust offers members the default arrangements and a choice of alternative lifestyle options and self-select funds. The Trustee's stewardship activities are focused on the main default arrangement which is used by the largest number of members and accounts for the majority of the Master Trust assets.

Members' financial interests

The Trustee expects that the investment platform provider and fund managers will have the members' financial interests as their first priority when choosing investments.

Voting and engagement

The Trustee believes that engagement with the companies in which the Trust invests, including the proactive use of shareholder voting rights, can improve the longer-term returns on the Trust's investments. The Trustee has a Voting and Engagement Policy, available [here](#), which provides further information on the Trustee's approach to voting and engagement. This policy is provided to all investment managers used by the Scheme.

Whilst the investments are held in pooled funds, and the Trustee does not therefore have any equity voting rights or the ability to engage directly with equity and debt issuers, the Trustee will review and engage with investment managers on their stewardship, particularly on the priority topics highlighted in the policy above.

The Trustee believes it is appropriate to actively encourage the fund managers directly or through the platform provider to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments in order to improve corporate behaviours, improve performance and mitigate financial risks. The Trustee expects the investment platform provider to adopt similar practices with regards to the inclusion and ongoing oversight of fund managers on their platform.

The Trustee also expects the platform provider to be able to evidence their own governance practices on request, as well as monitor adherence of their investment managers to stated voting and engagement policies, engaging with managers where concerns are identified.

Monitoring

The Trustee aims to meet with all fund managers and providers of third party arrangements on an annual basis. The Trustee will provide the fund managers with an agenda for discussion, including as appropriate relevant matters relating to performance, strategy, risks, conflicts of interest, individual holdings and ESG considerations including climate and nature issues. Managers are challenged both directly by the Trustee and by their investment advisers on the

impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio, as well as backwards and forward looking voting activity, as detailed above.

The Responsible Investment, Climate and Nature and Voting and Engagement Policies provide further detail on the areas in which the Trustee monitors and engages with investment managers.

The Private Markets Working Group (see 3.7 Policy on Illiquid asset investment) will also retain monitoring responsibilities on private market managers in the strategy, in the same monitoring approach as we have with our public asset managers. However, due to the different nature of illiquid private assets, a slightly different approach will be taken where necessary, such as exploring more opportunities for direct stewardship with holding companies via deal documentation and exit strategies, consider member impact from performance fees, more scrutiny on due diligence of investments that will involve long lock-up periods.

3.11 Structure of the investment arrangements

The Master Trust invests contributions for members through an investment platform provider. Contributions buy units in the provider's funds. The provider in turn backs the value of its funds by buying units in funds from a selection of fund managers where investments are pooled with other investors. This enables the Master Trust to invest in a range of funds giving a good spread of investments in a cost-effective manner.

The Master Trust's asset, and the Trustee's contract with the provider, is the policy of insurance issued by the provider. As a result, the Trustee does not have any contractual arrangement with the investment managers or title to the underlying funds' assets.

Delegation of investment decisions

The investment of contributions through the provider's investment platform means that the Trustee has delegated day to day investment decisions including the management of financially material considerations to the provider, who has in turn delegated these investment decisions to the investment managers. Part of an investment manager's day to day responsibilities include consideration, where relevant, of the capital structure of investments and the appropriateness of any investment made. Where managers are investing in new issuance, the Trustee requires the investment manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

Selection of funds

The Trustee will invest in funds on the provider's platform which in turn invest in the investment managers' pooled funds. The objectives of the funds and the policies of the investment managers will be evaluated by the Trustee to ensure that they are appropriate for the needs of the Master Trust.

The Trustee's choice of funds, and hence choice of approaches to aspects such as responsible investment and shareholder engagement, are constrained by the choice of funds available on the provider's platform. While the Trustee will endeavour as far as possible to select a platform provider and funds on that provider's platform which are consistent with the Master Trust's investment objectives and the Trustee's investment beliefs, this needs to be balanced against the wider benefits of access to the other funds on the platform and the other services from the platform provider as well as taking into consideration the costs of change to the Master Trust and its members.

The Trustee will seek to engage with the platform provider to obtain funds which meet the Trustee's investment beliefs, and are expected to improve outcomes for members, but this is subject to being commercially viable for the provider and consistent with the charge cap for the default arrangements. The Trustee expects the provider to encourage the investment managers to adopt appropriate practices for responsible investment and shareholder engagement.

The Trustee will periodically review the choice of platform provider, at which time the suitability of the provider's fund range and effectiveness of its governance of the investment managers on its platform will be key criteria.

Manager incentives

The basis of remuneration of the investment managers by the platform provider may be subject to commercial confidentiality, however, the Trustee will seek transparency of all costs and charges borne by members. Nevertheless, the Trustee expects that it will be in the interests of both the platform provider and the investment managers on the provider's platform to produce growth in asset values in line with the funds' investment objectives. For passively managed funds this should be within an acceptable margin of the index the fund tracks. For actively managed funds the investment return should be commensurate with the level of investment risk implied by the fund's objectives.

The Trustee expects, where possible, that the investment managers will make decisions based on assessments about medium to long-term, financial and non-financial performance of an issuer of debt or equity. The Trustee acknowledges that investment managers for passively managed funds are restricted to invest in a manner consistent with a specific benchmark index and so they are not responsible for day to day selection of shares or securities. The Trustee also expects investment managers to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

When selecting funds, the Trustee will ask their investment advisor to consider the investment managers' remuneration strategies and appropriateness of each fund's investment guidelines to ensure that there is no inducement or scope to take an undue level of risk and that the investment managers will act in line with the interests of the Master Trust's members.

In accordance with the 2015 Regulations, the Trustee conducts an annual Value for Members assessment and will take action should the provider be found to be giving poor value. In addition, in accordance with guidance from the Pensions Regulator, the Trustee will periodically review the Master Trust's choice of provider to ensure their charges and services

remain competitive. The Trustee believes that these steps are the most effective way of incentivising the provider to deliver Value for Members, of which investment management charges and investment performance are key considerations.

The Trustee also undertakes a review at least every three years in which the appropriateness of the investment options at which time the suitability of the Master Trust's investment management arrangements are also considered.

The Trustee monitors the investment managers on a quarterly basis over rolling time horizons of up to 5 years, and believes this approach is consistent with determining whether the investment manager is making decisions based on an appropriate time horizon. As part of their monitoring process, the Trustee will consider the following information:

- performance of their funds' respective benchmarks or performance targets
- relative tracking error where appropriate
- non-financial matters, including the exercise of stewardship responsibilities (along with engagement with issuers)
- whether the investment manager is investing in a manner consistent with the stated objectives of the fund, including types of investments to be held and dealing requirements
- the management of risks

The platform provider or investment managers are expected to provide explanations for any significant divergence from a fund's objectives. A material deviation from performance and risk targets or approach to portfolio management is likely to result in the fund being formally reviewed.

Portfolio turnover

The Trustee does not expect investment managers to take excessive short-term risk and will monitor the investment manager's performance against the benchmarks and objectives on a short, medium and long terms basis.

For passively managed funds the turnover of holdings is driven by changes in the index a fund seeks to track and hence is outside the control of the investment manager except where a fund's total assets under management are relatively small where the investment manager does not fully replicate the index or where a fund invests in less liquid stocks.

When selecting actively managed funds, the Trustee will consider, with the help of their investment advisers, the expected level of turnover commensurate with a fund's investment objectives, the investment manager's investment processes and the nature of the fund's assets.

Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee will ask the investment platform provider or investment managers on the platform to report on at least an annual basis on the underlying assets held within fund with details of any transactions and turnover costs incurred over the Trust's reporting year. The Trustee will seek to compare portfolio turnover and the resultant costs against peer groups or portfolio turnover and costs for an appropriate index.

Where a fund has significantly under or outperformed its benchmark, the Trustee will seek to ascertain where necessary whether higher or lower than normal turnover has been a contributory factor. The Trustee will challenge the platform provider and/or investment managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

Portfolio duration

The Trustee recognises the long-term nature of defined contribution pension investments and chooses funds which are expected to deliver sustainable returns over the Master Trust members' investment horizon. The Trustee will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the objectives for the related investment option.

The Trustee expects that each fund will be used for at least three years, this being the period over which performance of the fund can be appropriately evaluated and the costs of change amortised, although all funds are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy.

Balance of investments

The Trustee reviews the nature of the Master Trust's investment options on a regular basis, with particular reference to suitability and diversification. The Trustee considers written advice from a suitably qualified person when determining the appropriateness of each investment manager and fund for the Master Trust, particularly in relation to diversification, risk, expected return and liquidity.

Overall, the Trustee's intention is that the Master Trust's investment options:

- provide a balance of investments
- are appropriate for managing the risks typically faced by members

Security of assets

The funds offered to members are provided through a policy of insurance issued to the Trustee. As a result, the value of members' funds may be affected in the event of the provider getting into financial difficulties. The Trustee has considered the financial strength of the providers and believes that it offers members a high degree of security. This position will be kept under review on a regular basis. As part of the process to become an authorised Master Trust, Smart Pension had to fulfil very stringent requirements, including in relation to financial stability, and the Trustee draws comfort from the fact that the Master Trust is now fully authorised by the Pensions Regulator.

The underlying funds used by the provider's platform are accessed through a variety of different investment structures and are managed by a range of different fund managers. In the

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unlikely event of a fund manager getting into financial difficulties, the values in these underlying funds will depend upon the nature of the contract between Smart Pension and the fund vehicles used by the fund managers' funds. The Trustee has reviewed the structure of the funds offered to members and is comfortable that the structure is appropriate when compared with other options available in the market.

For the record

The Trustee obtains and considers proper advice from suitably experienced and qualified persons when choosing investments and preparing the Statement of Investment Principles.

Funds are chosen by the Trustee to give an expected level of return with an appropriate level of investment risk which meets the objectives of each default arrangement and other investment options.

The funds used at each stage of the default arrangement and the alternative lifestyle options are intended to deliver good member outcomes at retirement from an appropriate balance of investment growth relative to inflation and the then pertinent investment risks.

The investment platform uses a life insurance company based legal vehicle for its funds. The fund managers used by the platform use a variety of different legal vehicles for their funds. The funds may invest in quoted and unquoted securities traded in regulated UK and overseas markets:

- equities (company shares, including of investment trusts)
- fixed interest and index-linked bonds issued by governments and companies
- cash and other short-term interest bearing deposits
- commercial and residential property
- illiquid assets including infrastructure, forestry, private equity and private debt
- commodities through collective investment vehicles
- derivatives to facilitate changes in where funds are invested or to help control investment risks

Funds provided through a life insurance company must comply with the Financial Conduct Authority ("FCA") "Permitted Links" rules, which place limits on the degree of leverage a fund can use. Fund managers using other fund vehicles subject to the European "UCITS IV" and the FCA's "Non-UCITS" regulations have to meet requirements on the security and concentrations of assets. Exchange Traded Funds may be used directly or indirectly to gain access to less easily traded and illiquid asset classes.

Subject to the funds' benchmarks and guidelines, the fund managers are given full discretion over the choice of securities and, for multi-asset funds, choice of asset classes. Fund managers are expected to maintain well-diversified and suitably liquid portfolios of investments.

The Trustee considers that these types of investments are suitable for the Trust. The Trustee is satisfied that the funds used by the Scheme provide adequate diversification both within and across different asset classes.

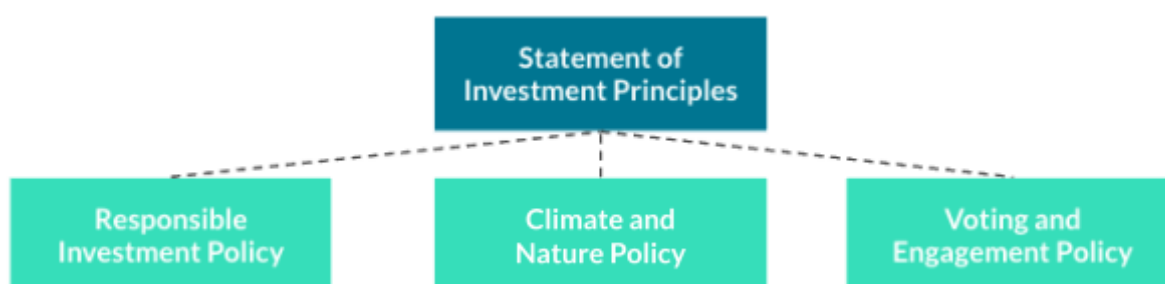
Appendix

Trustee investment policy overview

The Trustee has the following policy documents in relation to investments in place:

- Responsible Investment Policy
- Climate and Nature Policy
- Voting and Engagement Policy

These policies are summarised and referred to within this Statement of Investment Principles, as shown below.



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