Smart Pension

Smart Pension Master Trust Implementation Statement for the year ending 30 June 2020

Welcome to our Statement of how we implemented the policies and practices in the Smart Pension Master Trust (the Scheme) Statement of Investment Principles during the year ending 30 June 2020 (the Scheme Year)

Why do the Scheme's investments matter to me?

The Scheme provides you with benefits on a defined contribution (DC) basis (sometimes called money purchase benefits). This means that the size of the benefits paid to you when you retire will depend on how much the funds where your savings are invested grow over the years.

What is the Statement of Investment Principles ('SIP')?

The SIP sets out the investment principles and practices we follow when governing the Scheme's investments. It describes the rationale for the investment options which you can choose (including the default arrangement if you don't make a choice), explains the risks and expected returns of the funds used and our approach to responsible investing (including climate change).

The last review of the Scheme's SIP was completed on 17 December 2020 and the next review will take place no later than 30 June 2021.

The following changes were made to the SIP during the last Scheme Year:

- The SIP was updated in September 2019 to address new regulations which came into force from 1 October 2019.
- Details of the ex-Tesco default investment arrangement were added to the SIP in May 2020.
- The SIP was updated in May 2020 to reflect changes to the default investment approach and increased focus on responsible investment.

Changes were also made after the Scheme Year end, mainly to reflect new regulations which came into force from 1 October 2020 and further enhancements to the default arrangement. These will be reported on in the next statement.

If you want to find out more, you can find a copy of the Scheme's SIP (and the Scheme's Chair Statement) at www.smartpension.co.uk/governance/scheme-governance

What is this Implementation Statement for?

In line with new requirements, we must prepare an Implementation Statement setting out how we have complied with the Scheme's SIP during the last Scheme Year. The Implementation Statement will cover our review of the SIP, with an explanation of any changes made and describe the voting behaviour of our asset managers.

How the Scheme’s investments are governed

As Trustee, we have overall responsibility for how the Scheme’s investments are governed and managed in accordance with the Scheme’s Trust Deed and Rules as well as Trust Law, Pensions Law and Pension Regulations.

We have established an investment sub-committee which focuses on investment issues and makes recommendations to the full Trustee Board.

The following changes to the Trustee and the governance processes were made during the last year:

- The Chair of the Investment Sub-Committee changed at the end of March 2020 due to the resignation (for affiliation reasons) of the Trustee Director who was acting as Chair (Kate Jones). Andy Cheseldine was appointed as Chair in her place and another Trustee Director, David Brown joined the sub-committee.
- In April 2020, due to the Covid-19 pandemic, the Trustee Board started to meet via video conference on a weekly basis. This continued until August, following which we moved to a monthly meeting basis.

We have delegated day-to-day investment decisions, such as which investments to buy and sell, to Legal & General Investment Management - LGIM - (our investment platform provider and investment manager), as well as to HSBC and JP Morgan (additional investment fund managers).

We undertook the following during the last Scheme Year to ensure that our knowledge of investment matters remains up to date:

- The Investment Sub-Committee met six times.
- Discussed investment issues at 11 full board Trustee meetings.
- Received investment training and discussed specific investment issues including decumulation, lifestage glidepath and risks, asset allocation, alternative investment opportunities.
- Reviewed the performance and ongoing suitability of the investment fund range.

We monitor how well our investment advisers meet the objectives agreed with them. During the last year the investment advisers agreed the following objectives with us:

- Deliver an investment approach for the default option that maximises risk-adjusted real returns for members and reflects members’ likely benefit choices at retirement, reflects our beliefs and is agreeable with the Scheme strategist. Note that the concept of risk can change throughout a member’s career.
- Provide advice in relation to self-select range that incorporates sufficient choice for members to meet their own needs in terms of investment return, investment risk and retirement choices, reflecting member feedback where relevant.

- Provide advice on cost-efficient implementation of new strategies as required.
- Develop our knowledge and understanding of investment matters.
- Provide services to support our ongoing governance that are proportionate and competitive in terms of costs relative to their peer group.
- Provide relevant and timely advice that reflects our own policies and beliefs, including those in relation to Responsible Investment.
- Ensure their advice complies with relevant pensions regulations, legislation and supporting guidance.

We have also established measures to judge the performance of our investment advisers on an annual basis and will periodically review the appropriateness of the objectives.

How the default arrangement and other investment options are managed

The objectives and rationale are set out in the SIP on pages 4 to 6 for the default arrangement and for the other investment options on pages 6 to 8.

We have carried out our annual high-level review of the default arrangement and other investment options to ensure they remain suitable for most members. This involved:

- Ensuring that the default arrangement complies with the charge cap.
- Monitoring the investment performance of each fund.
- Monitoring the turnover of the assets in which each fund is invested.
- Considering whether the funds still meet the investment objectives we have set for the default arrangement and other investment options.
- Checking whether there have been any significant changes in the demographic profile of the Scheme's membership, members' choices of investment options and members' choices of benefits when they retire.

We also carried out an in-depth review of the strategic asset allocation of the default arrangements and the term of the de-risking 'glidepath' (the period over which investments are automatically switched from higher to lower risk asset classes as a member nears their selected retirement age). This involved:

- Looking at the demographic profile of the Scheme's membership.
- Looking at the members' investment choices and what choices of benefits they make when they retire.
- Considering market conditions and developments in investment thinking.
- Considering the time over which members will be invested in the investment options.
- Deciding whether any changes to the default arrangement are necessary.

- Monitoring the investment performance of each fund component.
- Monitoring the turnover of the assets in which each fund is invested.
- Considering whether the design of the default arrangement still meets its investment objectives.
- Considering whether the default arrangement still represents good value for members.
- Obtaining investment advice on any changes to the default arrangement.

We decided to make the following changes to ensure that the default arrangement continues to meet the needs of a majority of members:

- Changes to the asset allocation of the main default arrangement to target strong long-term returns and improve diversification (spread of assets).
- Increased the length of the de-risking glidepath from four years to eight years, to reduce risk for members closer to retirement.

We decided to make the following changes to ensure that the other investment options also continue to meet the needs of members:

- To switch a cohort of members invested in an alternative default arrangement (the ex-GenLife default) from the alternative arrangement to the main default arrangement (see below).
- We introduced a further default arrangement for a specific cohort of members being transferred to the Scheme from another pension arrangement (the ex-Tesco default).

Implementation of these changes started from April 2020 and were expected to take around 12 months to complete. The ex-Tesco default arrangement was set up from March 2020.

Other default arrangements

The Scheme has two additional default arrangements which are used by different categories of members. These have come about due to the take-on and merging into our Scheme of other DC pension arrangements (and their members) which have closed, or where sections within the arrangement have been closed. We undertake ongoing governance and monitoring of these other default arrangements alongside the main investment strategy. One of these additional default arrangements was established during the Scheme Year (ex-Tesco). The other additional default (ex-GenLife) was established in 2016.

We have carried out an in-depth review of the ex-GenLife default arrangement to ensure it remains suitable for the closed group of members using it. The findings of this review were that the arrangement no longer fully meets the requirements of the membership and that the funds for these members be transferred to the main Smart default arrangement. This transition will take place early in 2021.

The ex-Tesco default arrangement was set up from March 2020 following investment advice from our investment consultant and we are satisfied that the ex-Tesco default arrangement remains suitable for those members.

The Trustee's investment beliefs

We have developed a set of investment beliefs which are set out in the SIP on page 8 which we use as a guide when making investment decisions.

We have started to review our investment beliefs following the Scheme Year and will report further on this in the next statement.

The expected risks and returns on your savings in the Scheme

The investment risks relating to members' benefits are described in the SIP on pages 8 to 12 and the expected returns from each type of investment used by the Scheme are set out in the SIP on page 13.

During the last year, with the help of our investment advisers, we reviewed the appropriateness of the default arrangement for different cohorts of members in the light of the market volatility brought about by the global Covid-19 pandemic. We found that the default arrangement and that the level of investment risk taken by members remained appropriate for a majority of members.

Our views on the expected levels of investment risks and returns inform decisions on the strategic asset allocation (i.e. what types of assets and areas of the world the Scheme invests in over the longer-term) for the Scheme's lifestage options (which gradually change the funds in which your savings are invested as you approach retirement).

We implemented changes to the strategic asset allocation of the Scheme's default arrangement to target strong long-term returns and improve diversification. We further reduced risk by extending the period over which the lifestage de-risking would take place (extended from four to eight years) for members closer to retirement.

Platform providers and fund managers

Choice of platform providers and funds

We monitor the service of the platform provider used by the Scheme by:

- Receiving and reviewing quarterly updates from Legal & General regarding service levels and standards.
- Receiving and reviewing assurance reports from Legal & General on internal controls of service.

There have been no changes to the platform provider during the last year.

We monitor the performance of the funds used by the Scheme by:

- Receiving and reviewing monthly fund performance data from Smart Pension Limited.
- Receiving and reviewing fund performance data prepared and presented by our professional investment advisers on a quarterly basis.

There have been no changes to the platform provider and funds during the last year.

Ability to invest / disinvest promptly

It's important that your contributions can be invested promptly in the default arrangement or the investment options you have chosen and that your investments can be sold promptly when you want to change where they are invested, transfer your pension pot to another scheme or your benefits are due to be paid out when you retire.

We are satisfied that money can be invested in and taken out of the Scheme's funds without delay as set out in the SIP.

Changes in where funds are invested

We will monitor the volume of buying and selling of the assets carried out by the fund managers for each fund members invest in. This is delegated to our investment advisers on a day-to-day basis. Any unexpected changes or issues of concern will be brought to our attention for relevant action.

Short-term changes in the level of turnover of the assets in which a fund is invested may be expected when a fund manager alters its investment strategy in response to changing market conditions. However, a change in the level of portfolio turnover or the time the fund invests in an asset might indicate a shift in the amount of risk the fund manager is taking, which could mean that a fund is less likely to meet the objectives for which it was chosen by us.

Such fluctuations form part of the broader research and monitoring process adopted by the investment adviser in communications with the fund managers, providing the opportunity to identify potential concerns and challenge these directly. In instances where this research process reveals a material concern, this will be raised with the us for further consideration and potential action.

We also assess the impact of trading in individual funds on an annual basis as part of our overall assessment of transaction costs (which are the costs incurred by fund managers as part of their day-to-day management of funds). Such assessments will lead to further action in instances where it is identified that transaction costs are higher than anticipated for particular funds. Over the course of the year, no such concerns were identified.

We are satisfied that the level of trading of the funds' assets carried out by the fund managers has been consistent with the funds' objectives as set out in the SIP.

Security of your savings in the Scheme

In addition to the normal investment risks faced investing in the funds used by the Scheme, the security of your savings in the Scheme depends upon:

- The financial strength of the investment platform provider used by the Scheme.
- The financial strength of the fund managers used by the investment platform.
- The legal structure of the funds the Scheme invests in.

The financial strength of the platform provider and the fund managers has a bearing on the risk of losses to the Scheme's members caused by the remote chance of one of these institutions getting into financial difficulties. The legal structure of the funds used has a bearing on the degree to which the funds' assets are "ring-fenced" from the rest of the provider's or fund managers' business in the unlikely event that the provider or manager becomes insolvent. We also review, at least annually, the eligibility of members' funds for protection under the Financial Services Compensation Scheme.

During the last year, with the help of our investment advisers, we have considered information from the platform provider on the provider's financial health and the structure of the funds used by the Scheme.

There have been no changes to the structure of the funds used by the Scheme during the last year. We are not aware of any material reduction in the financial strength of the investment platform provider or the fund managers used by the platform in the last year.

Conflicts of interest

As described on page 17 of the SIP, we consider potential conflicts of interest:

- When choosing fund managers.
- When monitoring the fund managers' investment performance and the fund managers' approaches to investment stewardship and responsible investing.
- When the fund manager is making decisions on where each fund is invested.

We expect the fund managers to invest the Scheme's assets in the members' best interests. During the last year we considered the fund objectives when implementing the ex-Tesco default arrangement and selecting JP Morgan as a new fund manager and Natixis as a strategic partner. As the funds used by the Scheme are held at arms-length from the Trustee via an investment platform, we receive assurance reports from the platform provider on its own investment governance of the funds including potential conflicts of interest.

The partners noted above are also investors in Smart Pension Limited which gives rise to a perceived conflict. In reality, the material objectives for the investors and Trustee are aligned and so do not give rise to a significant concern, although this position is monitored on an ongoing basis. Conflicts of interest are declared at the outset of all formal Trustee, and sub-committee meetings.

We are satisfied that there have been no material conflicts of interest during the year which might affect members' benefit expectations.

Manager incentives

As described on page 19 of the SIP, we seek to ensure that the fund managers are suitably incentivised to deliver investment performance in keeping with the funds' objectives.

The funds used by the Scheme are held at arms-length from the Trustee via an investment platform. While the detail may be subject to commercial confidentiality, we believe it is in the platform provider's best commercial interests to ensure that the fund managers are suitably incentivised to meet their funds' investment objectives.

In line with requirements that came into force following the Scheme Year, we will (with the help of our advisers) implement plans to monitor manager incentives on an ongoing basis.

Responsible Investment

We believe that responsible investing covers both sustainable investment and effective stewardship of the assets the Scheme invests in.

Over the course of the Scheme Year and beyond, we have continued to develop our policies and beliefs in relation to responsible investment. During the Scheme Year, the SIP was updated to reflect our policy for addressing financially material factors (including climate change) and non-financial matters. Shortly after the Scheme Year, the SIP was further updated to articulate our policy on stewardship, including voting and engagement. We continue to evolve our policies to ensure they draw on the latest available evidence, views on best practice and the anticipated needs of members. For example, during the following Scheme Year, we have focussed the development of our policies on:

- Addressing climate risk.
- Considering the societal and environmental impact of our decisions.
- Establishing a longer-term set of aims and expectations for the investment strategy to address sustainability challenges.

Sustainable Investment

We believe that investing sustainably is important to control the risks that environmental factors (including climate change), social factors (such as the use of child labour) and corporate governance behaviour (collectively called "ESG" factors) can have on the value of the Scheme's investments and in turn the size of your retirement benefits.

We have considered the length of time members' contributions are invested in the Scheme when choosing and reviewing the funds used in the investment options. The Scheme potentially has members joining from age 16 who could therefore have savings invested for 50 years.

We periodically review the platform provider's and fund managers' approaches to sustainable investing. We receive quarterly reports from the fund managers on how they have handled these risks.

During the Scheme Year, we agreed to evolve our investment approach to increase the sustainability focus and reduce carbon footprint. This was achieved by moving from traditional index-tracking funds to LGIM's 'Future World' funds. In short, the Future World funds increase the focus on companies and underlying assets that demonstrate good environmental, social and governance efforts. LGIM's approach continues to evolve to capture latest thinking and innovation in assessing the credentials of companies and underlying assets from a sustainability perspective. The move leads to the exclusion of companies whose primary function is to mine coal, manufacturers of controversial weapons and perennial offenders of the UN Global Compact (for example, those involved in human rights, bribery or environmental violations).

During the next Scheme Year, we will continue to evolve our policies, establishing formal long-term goals for addressing societal and environmental challenges. We will also consider specific sustainable investment themes and identify how these are being treated by our fund managers. In addition, we will develop our governance process to embed the assessment of sustainability themes (including climate change) through the reporting received from our fund managers and investment adviser.

Investment stewardship

As described on page 16 of the SIP, we believe it is important that the fund managers as shareholders or bond holders take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with the management on major issues which affect a company's financial performance (and in turn the value of the Scheme's investments).

As the Scheme's investments are held at arms-length from the Trustee and members through an investment platform operated by LGIM, we are not able to instruct the fund managers how they should vote on shareholder issues. We nevertheless:

- Choose fund managers whose voting policy are consistent with the Scheme's objectives.
- Expect fund managers to vote in a way which enhances the value of the funds in which the Scheme invests.
- Monitor how the fund managers exercise their voting rights. Currently this is delegated to our investment advisers.

During the Scheme Year, we enhanced the explicit link between sustainable investment and effective stewardship. This was achieved through the evolution of the investment strategy to focus on LGIM's Future World funds. These funds embed stewardship and engagement at the core of the process. For example, the outcomes from LGIM's engagement with underlying companies informs their assessment of the environmental, social and governance standards. This assessment then informs the weighting of individual companies in portfolios. Within the engagement process, LGIM add focus to companies deemed critical for meeting the aims of the Paris Agreement to limit climate change.

How do we monitor this?

We periodically review the platform provider's and fund managers' approaches to stewardship including voting and engagement policies.

Our investment advisers receive quarterly reports from the fund managers on how they have voted at shareholder meetings and what topics fund managers have discussed with the companies in which they invest. Where appropriate, our advisers bring any voting, issues or concerns to our attention.

The Smart Growth Fund is used in the default arrangement and during the Scheme Year a majority of members were invested in this fund. The most significant shareholder votes and how the fund manager (LGIM) voted during the last year for this fund were as below (JPM manages a Bond Fund which has no attaching voting rights):

Date	Company	Subject	Manager's vote
7 May 2020	Barclays	Approve Barclays' Commitment in Tackling Climate Change and proposals by ShareAction	LGIM voted for the proposals, after significant engagement in this area. The outcome of the vote was successful.
27 May 2020	Amazon	Shareholder proposals 5 to 16 **Proposal 5 -** Report on Management of Food Waste **Proposal 6 -** Report on Customers' Use of its Surveillance and Computer Vision Products or Cloud-Based Services. **Proposal 7 -** Report on Potential	Of the 12 shareholder proposals, LGIM voted to support 10. The Manager looked into the individual merits of each proposal, and identified two main areas which drove their

		Human Rights Impacts of Customers' Use of Rekognition (Amazon's software service which provides fast and accurate face search for individuals in photos and videos) regarding threats to privacy/civil rights, use by authoritarian governments, good will and financial risks. **Proposal 8 -** Report on Products Promoting Hate Speech and Sales of Offensive Products. **Proposal 9 -** Require Independent Board Chairman. **Proposal 10 -** Report on Global Median Gender/Racial Pay Gap. **Proposal 11 -** Report on Reducing Environmental and Health Harms to Communities of Colour. **Proposal 12 -** Report on Viewpoint Discrimination evaluating the range of risks and costs associated with discriminating against different social, political, and religious viewpoints. **Proposal 13 -** Report on Promotion Velocity which assesses the time it takes from the date of hire to promotion, or between one promotion and the next. **Proposal 14 -** Reduce Ownership Threshold for Shareholders to Call Special Meeting **Proposal 15 -** Human Rights Risk Assessment **Proposal 16 -** Report on Lobbying Payments and Policy	decision-making: 1. Disclosure to encourage a better understanding of process and performance of material issues (resolutions 5, 6, 7, 8, 10, 13, 15 and 16) and 2. Governance structures that benefit long-term shareholders (resolutions 9 and 14). The Manager voted against proposals 11 and 12. Neither proposal received support from shareholders as it was viewed that the company already had policies in place and is actively addressing these issues.
27 May 2020	Exxon Mobil	Elect Director Darren W. Woods	LGIM voted against, reflecting commitments as part of their climate pledge to hold the board to account on climate issues.

We are satisfied that the fund managers' voting record on the companies in which their funds invest was aligned with the stewardship policy described in the SIP for the Scheme Year.

During the next Scheme Year, we will build on our approach for monitoring our fund managers' stewardship activities, incorporating key engagement themes.

Impact Investing

Impact investing relates to investments that are intended to have a positive and measurable environmental or social impact, alongside a financial return. For instance, investing in businesses and projects which benefit the local community or investing globally in companies and projects which are expected to have a positive impact on greenhouse gas emissions. We are of the view that impact investing can be of financial benefit to the Scheme's members and consistent with the investment objectives of the Scheme's investment options.

Following the Scheme Year end, we have explored the potential role of impact investing in the Scheme. Changes to the Scheme's investment approach will be reflected in the SIP and reported in next year's Statement.

Ethical Investing

We recognise that some members will have strong views on where their pension savings should be invested.

The Scheme offers members a choice of funds which cover a wide variety of asset classes and blends, including a Sharia Fund and an ethical global equity fund.

Nevertheless, we recognise that it is not possible to cater for everyone's views on non-financial/ethical matters.

We monitor the investments held by the Scheme's ethical investment options. We also monitor developments in ethical investing funds which could be appropriate to the Scheme's members.

Our approach to ethical investing has not changed during the last year and the Scheme continues to offer ethical investment options for members in accordance with the SIP.

More information

We hope this Statement helps you understand how the Scheme's investment of your savings for retirement has been managed in the last year. If you have any questions or feedback, please contact us by email or post:

Email: trustees@smartpension.co.uk

Post: The Trustee of the Smart Pension Master Trust, c/o Smart Pension Ltd, 10 Eastbourne Terrace, London. W2 6LG.

Andrew Cheseldine **Date:** 29/01/2021

for Capital Cranfield Pension Trustees Limited,

Chair of the Trustee

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