



Smart Pension Master Trust Implementation Statement for the year ending 31 December 2021

Smart Pension Master Trust

Implementation Statement

for the year ending 30 June 2021

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 2021 (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 June 2021 and the next review will take place no later than 30 June 2022.

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

- The SIP was updated in September 2020 to address new disclosure requirements which came into effect from 1 October 2020 in relation to additional information on the Trustee's stewardship policy and their arrangements with their asset managers.
- Temporary amendment to the SIP in December 2020 to include the default arrangement for the Weplan Pension Scheme which was subsequently removed following the Welplan Pension Scheme transfer to the main default arrangement.
- The SIP was updated in March 2021 to reflect the inclusion of the MV Dual Credit Fund within the Smart Growth- Moderate Risk fund, the growth phase of the default arrangement and to include the Barclays investment strategy (default arrangement and self-select fund range).
- In June 2021, the SIP was updated to include investment options available in Smart Retire and to reflect updates to the Trustee's climate change policy.

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?

The Implementation Statement sets 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:

- A new Trustee Director, Nikesh Patel was appointed in April 2021. Following year end, in July 2021, he joined the investment Sub-committee and took on the role of Chair from Andy Cheseldine (who remains on the sub-committee alongside David Brown).

The Trustee Directors continued to meet monthly via video conference, with full Board meetings being held every quarter.

We have delegated day-to-day investment decisions, such as which underlying investments to buy and sell, to Legal & General Investment Management - LGIM (our investment platform provider and investment manager), as well as to HSBC, JP Morgan, MV Credit and Barclays (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.
- Investment issues are a standing agenda item on all quarterly meetings and a feature of many of the other meetings held in the year.
- Received investment training and discussed specific investment issues including investment management stewardship, Task Force on Climate Related Disclosures, climate change and net zero, responsible and social impact investing, fund structures and pricings, tactical asset allocation and investing in post-Covid markets. .
- Reviewed the performance and ongoing suitability of the investment fund range.
- An ESG Working Group was set up after the scheme year end in July 2021 to address all requirements relating to the compliance with the TCFD regulations and later

expanded to cover broader ESG issues including, but not limited to, developing ESG strategy and policies, an impact investing framework, a net zero transition roadmap, and various ESG industry commitments and regulatory requirements. More details on the work carried out by the ESG Working Group will be included in next year's statement.

We monitor how well our investment advisers meet the objectives agreed with them. The following objectives for the investment advisers remain in place:

- 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. The triennial review of the Trustee's scheme investment advisers was carried out after the Scheme year to 30 June 2021. The outcome of the review was to retain the Trustee's current adviser, Hymans Robertson. This will be reported on in the next statement.

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.

With support from our advisors we reviewed the ongoing suitability of the default arrangement, including asset allocation boundaries and elements of the underlying investment funds in September 2020. As part of this review we identified scope to improve financial outcomes for our members from the Smart Growth Fund by revising the asset allocation tolerances around the core strategic asset allocation and through the introduction of a blended illiquid and liquid credit fund to help improve diversification. These changes were implemented during Q4 2020 and Q1 2021 respectively. This review also identified scope to improve both financial outcomes and engagement with members through the introduction of an impact investment fund. We are taking a considered approach to implementation, and have decided to adopt the Impact Investing Principles for Pension Schemes to guide our approach. As part of this we are considering our beliefs and wider industry practice. We currently expect to implement an allocation to impact investment in the first half of 2022.

As reported last year we continue to progress the implementation of our new asset allocation which incorporates climate and ESG insight into the listed equity assets. After considering advice around the potential climate-related risks associated with transitioning to the new asset allocation, we decided to accelerate the completion of this process ahead of COP26. The new strategic asset allocation was fully implemented on 23 September 2021.

We continue to assess the suitability of our wider fund range for members. We received formal advice in Q1 2021 confirming the current approach remains suitable, and that there are potential opportunities to enhance the range of choices for members in future. We plan to consider suitability of the wider fund range again by the end of 2021 and will progress potential opportunities to enhance this in 2022.

Over the scheme year we made the following changes to ensure that the default arrangement continues to meet the needs of a majority of members:

- Introduced an allocation to the MV Dual Credit Fund in the Smart Growth - Moderate Risk fund, used in the growth phase of the default arrangement. The fund offers diversification benefits with the aim to improve the potential risk-adjusted returns for members in the long-term. The MV Dual Credit Fund blends European leveraged loans with a global multi asset credit strategy providing liquidity as well as access to private credit.

Over the scheme year we made the following changes to ensure that the other investment options also continue to meet the needs of a group of members:

- We introduced an investment arrangement with Barclays for members introduced via their advisers, which is built using Barclays Wealth investment funds.

Implementation of these changes and additional investment solutions occurred in March 2021.

Other default arrangements

The Scheme has three 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, where sections within the arrangement have been closed, or where we have created new arrangements. 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 (Barclays). The ex-Tesco default arrangement was established in 2020 and the ex-GenLife default arrangement in 2016.

We have previously 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 is due to take place at the start of 2022, postponed from the originally planned transition in early 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 Barclays default arrangement was set up from March 2021 following investment advice from our investment consultant and we are satisfied that this also 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 more widely and will be looking to create more defined investment beliefs which can feed into our investment reviews and any changes we are looking to make

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, we believe that the default arrangement, with the allocation to the MV Dual Credit Fund, provides a suitable level of investment risk and return for the 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 lifestyle 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.

Platform providers and fund managers

Choice of platform providers and funds

We and our advisers 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 and our advisers 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 the fund range 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 to monitor on an ongoing 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 Trustee 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. The assessment of charges including transaction costs is set out in our annual Chair's Statement.

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. 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

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 pages 17-18 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 Barclays arrangement and selecting MV Credit as a new fund manager. As the funds used by the Scheme are held at arm's-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 fund managers referred to 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 pages 19-20 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 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. 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.

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 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.

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 our investment adviser on the performance of the fund range and how fund managers have handled these risks.

During the Scheme Year, we continued to evolve our investment approach to increase the sustainability focus and reduce carbon footprint, 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 ‘Future World’ funds exclude 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).

We have gone some way to consider specific sustainable investment themes and identify how these are being treated by our fund managers. A particular area of focus we will be considering over the next Scheme Year is impact investing and how we can align our investment strategy with making a positive change as well as the UN’s Sustainable Development Goals. We are continuing to look to 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, where they can.

Over the scheme year, we also pledged alignment to Make My Money Matter’s net zero pension schemes campaign, and joined the Occupational Pensions Stewardship Council.

Investment stewardship

As described on pages 16-17 of the SIP, we believe it is important that the fund managers as shareholders or bondholders 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 via 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 policies 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.

LGIM's Future World funds embed stewardship and engagement at the core of their investment 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.

As part of our annual review process we looked at our fund managers' stewardship policies and practices. This review, which was supported by our investment advisers, included manager questioning and presentations from some of the Scheme's largest fund management involvements including LGIM and Natixis. This process provided us with comfort on the approaches being taken by our fund managers in line with the expectations above, but also provided opportunities for us to work with our advisers to improve our fund managers' stewardship capabilities.

We have also engaged with all of our fund managers to understand their readiness to support our TCFD reporting requirements, and will comment further in next year's statement.

How do we monitor this?

We periodically review the platform provider's and fund managers' approaches to stewardship including voting and engagement policies, at least on an annual basis.

Our approach is to focus on one or more of their fund managers each quarter to consider how they have voted at shareholder meetings and what topics they have discussed with the companies in which they invest. We also focus on areas for development identified from reviews of stewardship activity, which could include a fund manager's approach for addressing climate change or how they report on the success of their approach.

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 Red Line Voting policies set out minimum voting standards for environmental, social and governance issues and are expected to be applied to votes in relation to UK companies. We expect our fund managers to either vote in line with Red Line Voting policies, or explain where this is not the case. From a climate perspective, Red Line Voting generally suggests voting against chair's of management boards where there has been inadequate action to address climate change. There were no such instances over the year.

LGIM, BlackRock (as the underlying investment manager used within the Barclays Wealth funds), JP Morgan, MV Credit and HSBC are all responsible for managing funds in which members' assets are invested. The LGIM, BlackRock and HSBC funds have voting rights attached and are available to members as part of the default fund range or the self-select fund range. The full range of default and self-select funds available to members is set out from page 24 of the SIP.

The Smart Growth Fund is used in the default arrangement and during the Scheme Year a majority of members were invested in this fund.

We consider 'significant votes' to be either companies with relatively large weightings in the funds members invest in, where there were shareholder issues that members are expected to have an interest, or where the subject of the resolution is expected to be financially material, such as climate change.

The most significant shareholder votes and how the fund managers (LGIM, BlackRock and HSBC) voted during the last year for this fund were as below (JP Morgan and MV Credit manage fixed income funds which have no attaching voting rights):

Company	Facebook	Exxon Mobil	Alphabet	Royal Dutch Shell
Resolution	Approve Recapitalisation Plan for all stock to have one-vote per share	Election of Gregory Godd and Kaisa Hietala (proposed by Engine No. 1)	Approve Recapitalisation Plan for all stock to have one-vote per share	Set and publish targets for greenhouse gas (GHG) emissions
Date	26 May 2021	26 May 2021	2 June 2021	18 May 2021
LGIM	For	For	For	For
BlackRock	For	For	For	Against
HSBC	For	For	For	Against
ISS recommendation	For	For	For	Against
Red Line Voting	n/a	n/a	n/a	n/a The previous Chairman stood down, so voting against in line with Red Line Voting was

				not applicable in this instance.
Comments	The current ownership structure does not provide equitable voting rights reflecting ownership, with one individual controlling around 60% of the voting rights, but owning around 14% of the stock. All fund managers voted for an equitable one-vote per share approach.	This was a landmark vote which saw the appointment of two directors proposed by activist fund manager Engine No.1 to drive sustainability standards on Exxon's board. All fund managers voted in favour.	The current ownership structure does not provide equitable voting rights reflecting ownership, with two individuals controlling just over 50% of the voting rights, but own around 11% of the stock. All fund managers voted in favour.	Although the vote was not passed, there was an increase in support from the previous year from 14% in 2020 to 30% in 2021. Those voting against generally viewed that progress was already being made, whereas those voting for felt that tougher action was required.

Source: ProxyInsight. Red Line Voting policies apply to UK companies only.

All fund managers responsible for investing in UK companies are asked to confirm whether their voting was aligned with the Red Lines set out in the Red Line Voting initiative. The Trustee was not aware of any instances where the Red Lines were triggered and the fund managers voted differently over the scheme year.

How do our fund managers implement their votes?

Our fund managers often make use of proxy voting to inform their decision making, with ISS. LGIM uses ISS to place its electronic votes through ISS ProxyExchange. LGIM has a custom voting policy in place which incorporates their specific stances on issues such as climate change, as implemented through their climate impact pledge. BlackRock uses ISS for vote instruction and they also use proxy research firms for custom recommendations. HSBC makes use of ISS to assist with global application of their voting guidelines. ISS provides recommendations highlighting resolutions which contravene HSBC's voting guidelines.

Our stewardship process is refined for each of our fund managers to reflect distinct asset class considerations and distinctions between listed and private markets investments. Although non-equity assets do not have voting rights attached, our non-equity fund managers are all expected to support the delivery of their performance objectives and sustainable value through engagement and dialogue with parties they invest in.

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. We are also satisfied that the stewardship practices implemented by managers of non-equity assets was in line with expectations.

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.

We continue to explore the potential role of impact investing in the Scheme. Any changes to the Scheme's investment approach will be reflected in the SIP and reported in this 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.

Approved by the Trustee of Smart Pension Master Trust

17 December 2021

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:

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