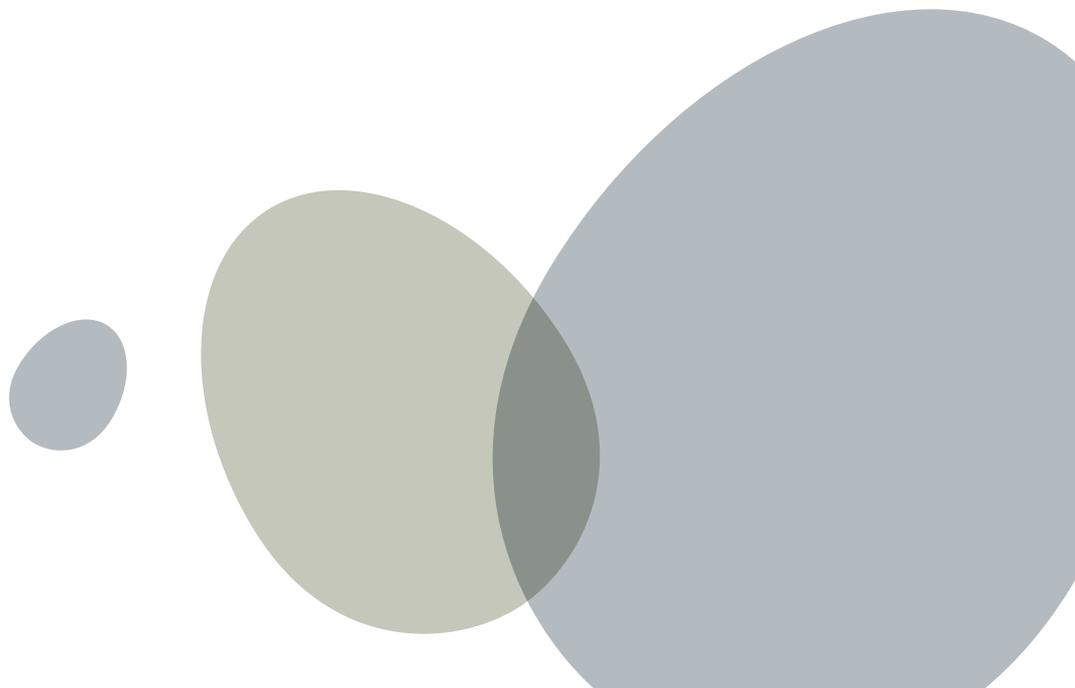


Governance statement

NEST Corporation, as the appointed trustee of the NEST pension scheme, is pleased to present this governance statement. As trustee of the NEST scheme we have reviewed and assessed whether our systems, processes and controls across key governance functions are consistent with those set out by the Pensions Regulator (TPR) in the **Code of practice No. 13: Governance and administration of occupational defined contribution (DC) trust-based pension schemes** and **Regulatory guidance for DC schemes**.

We seek to comply with best practice in corporate governance in the round and more information about our approach is included in our **Annual Report and Accounts for 2013/2014**. This describes the make up of NEST Corporation and our approach to diversity, to taking decisions and to delivering good member outcomes, drawing on behavioural research undertaken by us, which seeks to better understand our members' needs and drivers.

Our approach to corporate responsibility and responsible investment is also set out in our **Corporate Responsibility Statement** and **Statement of Investment Principles (SIP)**. We're pleased to present this governance statement which has been drafted in the spirit of openness, addressing not only the presence of TPR's quality features but also acknowledging the challenges we face and which are faced by all large automatic enrolment schemes. Following on from this governance statement, we plan to produce an independently audited assurance report in 2015 in accordance with the Institute of Chartered Accountants in England and Wales AAF 02/07 framework.



1 Governance

We have a Chair, a Deputy Chair and up to 13 other members who we call 'Trustee Members' and collectively have a range of legal duties. We're committed to high standards of corporate governance in order to serve the interests of scheme members. As Trustee of the NEST pension scheme, we must act in accordance with the powers and duties set out in **NEST's Order and Rules** and other pensions legislation, the common law obligation to act in the interests of members, and other trustee duties.

To help us take the views of employers and members into account, we've established (as required by legislation) an Employers' Panel and a Members' Panel. We can seek their assistance or advice in connection with the operation, development or amendment of the scheme, and they can provide such advice proactively. Consultation with the panels is also part of our governance process when making decisions in specific areas such as amending the **SIP**, agreeing to changes to **NEST's Order** and changing the **NEST Rules**.

We have a formal schedule setting out what our reserved powers are and what powers are delegated to our formal committees and executive. We maintain appropriate oversight of how those powers are exercised.

As the trustee we, and the formally constituted committees, meet regularly throughout the year to develop and agree strategy, monitor performance, discuss and explore issues relevant to the governance and administration of the scheme and to make decisions. The trustee and committee meetings are agreed up to a year in advance and follow a formal agenda, for which the executive prepares detailed papers. Twice yearly, a two-day meeting is held, with one day reserved for strategy.

Trustee Members identify, monitor and manage conflicts of interest in accordance with their conflicts of interest policy and the statutory provisions. We also maintain a register of interests.

Value for money is at the heart of NEST and has been built into the scheme's processes and systems from the outset. We've been particularly conscious to ensure that all expenditure is incurred in members' interests.

2 Know your scheme

All Trustee Members are currently appointed by the Secretary of State for Work and Pensions (the SOS) who has due regard to the fitness and propriety of Trustee Members and benefits of a diverse membership. The SOS seeks to ensure that NEST Corporation's size and composition, including the skills and knowledge, and experience is sufficient to provide effective direction and control of the scheme. Trustee Members are conversant with relevant scheme documentation and with the scope of their powers under **NEST's Order and Rules**. The Trustee Members acknowledge that they are responsible for ensuring the scheme has sound systems of internal financial and non-financial controls to safeguard member's interests. We carry out a thorough 'board effectiveness' review of our own performance and that of our committees each year. An external facilitator will carry out the review at least every three years.

Newly appointed Trustee Members are expected to complete TPR's Trustee toolkit and also undergo formal induction training. These measures aim to fully equip them to make the decisions with which they might be faced and to give them the necessary skills to undertake their role effectively as soon as practicable. We have also put arrangements in place to assess and address the ongoing training requirements of Trustee Members, to ensure that Trustee Members keep up to date with new and changing issues regarding the scheme's operations and the legislative environment in which it operates. Trustee Members undertake and report continuous professional development activity relevant to their roles and undergo a formal appraisal annually.

3 Risk management

We've established an extensive risk management framework designed to identify, evaluate and manage all risks including business and commercial risks. This is updated annually and approved by the risk committee, which is also responsible for recommending the risk appetite to us for approval. We maintain a detailed risk register which enables the committee to challenge the control strategies surrounding key risks. They also undertake 'deep dive' analysis of specific areas of operational and strategic risk as a method of gaining assurance that risks are being managed effectively and resources are appropriately focused.

Strategic risks are reviewed as part of the standard risk review process, and substantial changes are taken to the risk committee for approval. On at least a three-yearly basis, or as and when required, the strategic risks will undergo a zero-based review with Trustee Members to ensure the risks remain fresh and current. Operational risks are reviewed regularly and kept up to date with a risk log for each area of the business. This log contains details of risks and their controls and mitigations. In addition, an annual risk maturity benchmarking exercise is undertaken by the risk directorate, to identify areas for improvement.

Through the audit committee, we annually review the effectiveness of the system of internal controls and the risks they address, including those of an operational, regulatory and compliance nature, as well as financial controls. Assurance over the effectiveness of internal control is provided through our established monitoring and reporting arrangements, constructed around the three lines of defence model, where line management provides the first line of defence, risk and compliance functions provide the second line and audit the third line. These arrangements include reports from line managers, including monthly operational business performance reports, finance and HR reports, reports from risk and compliance teams and independent assurance from internal and external audit. The audit committee approves the audit plan and is the key interface with external audit, internal audit and compliance.

The audit committee aims to ensure we have effective risk management and audit and control procedures across NEST Corporation and our outsourced functions.

Each year, members of the executive team provide a personal assurance statement on corporate governance in relation to the adequacy and effectiveness of internal controls in operation within their area of responsibility. Additionally, the introduction of a key policy process requires policy owners to provide attestation concerning regulatory requirements, compliance obligations, monitoring processes and the management of key risks addressed in their policies. The statements also highlight any significant internal control issues.

4 Investment

We've set the investment objectives for NEST funds and documented them in NEST's **SIP**. These objectives are reviewed by the investment committee on our behalf at least once a year. The investment objectives were arrived at on the basis of our key fiduciary duty to act in members' best interests. To fulfil this duty we first had to develop and maintain a thorough understanding of the key features of our current and expected membership and then develop a good understanding of their needs, attitudes and expectations in order to make reasonable judgements as to what members' best interests could reasonably be expected to be. We continue to review these each year. The Members' and Employers' Panels are fully consulted on changes to the SIP.

In addition to understanding the risk capacity, risk need and risk appetite of the scheme membership, we have conducted research into the suitability of a variety of different investment objectives, default strategies and fund choices. The combination of

substantial member information, expert industry input and extensive modelling of a variety of different investment strategies fed into the decision on appropriate investment return objectives, appropriate risk budgets for these return objectives and the number and type of fund choices beyond the default investment strategy. We review every year whether the default funds and the other fund options remain suitable and appropriate for the target membership.

We invest in pooled funds and as a trust-based occupational pension scheme the scheme assets are segregated from NEST Corporation and the employers participating in the scheme. Our investment committee approves the selection of these funds and fund managers through a competitive tender process. A due diligence exercise as part of this selection process ensures that the assets are invested with sufficient security and liquidity. The investment committee receives appropriate independent investment advice before the selection of these funds. The investment committee regularly monitors our fund managers to ensure that:

- they are regulated by the Financial Conduct Authority and/or the Prudential Regulation Authority in the UK or appropriate regulatory body if not in the UK
- they invest primarily in regulated markets
- investment in non-regulated markets is kept to a prudent level
- derivatives are used in a prudent and appropriate way to manage risk or manage the portfolio more efficiently and without excessive risk exposure to a single counterparty or other derivatives.

We've put in place what we consider to be a robust process designed to ensure that our members' money is managed responsibly. It combines in-house expertise with that of leading data providers and fund managers and is subject to checks, balances and regular monitoring designed to ensure that sound decisions are made on good information and that these decisions are implemented efficiently. The investment team oversees members' money from day-to-day. They regularly monitor the performance of our fund managers, consider the opportunities available in different asset classes and assess our responsible investment requirements.

With our advisers and fund managers, we assess and manage our counterparty risk through what we believe is a rigorous approach to the procurement of a variety of investment services, regular monitoring of NEST's fund managers, regular reports of investments managed by fund managers and their approach to managing risk. For relevant asset classes we carefully monitor credit risk where there is a risk of corporate default.

5 Administration

We operate an outsourced business model. A vital mechanism of this business model is how we appoint, monitor and manage these key suppliers to assist in delivering a quality pension scheme. The day to day management of these key suppliers is delegated to the chief executive.

NEST's scheme administration is delivered by Tata Consultancy Services (TCS), part of the Tata Group. TCS's role includes managing employer participation, enrolling members, collecting contributions, managing accounts, passing funds to and from the fund administrator, and managing retirement processes. We receive quarterly reports on key aspects of scheme administration and regularly discuss a variety of issues relating to the administration of the scheme.

On an annual basis we engage with TCS to produce a data quality report in line with TPR's record-keeping guidance, focusing on common data items - to uniquely identify a member - and conditional data items - data items specific to the operation of the NEST

scheme. Output from the report is reviewed and, where there are identified deficiencies in the data, an action plan to address the data issues is agreed with TCS. Results from the report and the proposed action plan are presented to the audit committee for discussion.

The gradual shift in employer profile as well as the steep increase in employers who are entering the automatic enrolment arena for the first time, poses a particular challenge to the quality and accuracy of data the scheme receives. We communicate as clearly as possible to employers the need for accurate information and explain when this information is required.

Employers contract with us that in meeting their legal duties they will provide accurate data when enrolling members and take steps to ensure it is kept up to date while members remain in their employment. Similarly, we rely heavily on members who are no longer employed - and the self-employed - to continue to keep their data up-to-date and accurate throughout their time in the scheme. We have no direct knowledge of our members and are therefore not in a position to validate the data we are given.

We give employers the flexibility to contribute more than the minimum employer contributions required under the automatic enrolment legislation. Members' regular contributions are generally set by the employer but we give them the flexibility to make additional contributions to their retirement pot.

The scheme continues to experience a significant level of errors and delays in the receipt of some contributions, particularly in the early months of employers joining the scheme, and notwithstanding the communication and administration processes in place. Our focus is to ensure that only the cases that reflect actual late payments become subject to regulatory reporting.

We've established internal controls designed to ensure that administration services are managed effectively and the integrity of financial information and member data is maintained. We have service level agreements in place with TCS, which set out the standards for accuracy, timeliness of processes and escalation processes if these are not met. In conjunction with the scheme administrator - TCS - there are business continuity disaster recovery plans in place for both NEST Corporation and the scheme administrator. We also monitor the TCS capacity plan to support operational readiness for the challenges of scale facing NEST over the next year and through to when all employers have met their duties.

In any organisation, things can unfortunately go wrong. We believe we have robust and effective incident reporting and resolution processes in place to identify, monitor and correct incidents as soon as possible. Where failings or shortcomings are identified, as a learning organisation we, together with our colleagues from TCS, look to learn and put in place processes and procedures to prevent them from recurring. We are always interested in the views of members or employers, especially if they have concerns about the way the scheme is managed. To enable this kind of feedback, we have a number of mechanisms in place to hear members' and employers' views, comments and complaints. These include a two stage internal dispute resolution procedure for members as well as a formal employer dispute resolution procedure which mirrors that legally required for members. We take action from all lessons learnt and continue to refine systems, controls and processes to maintain a quality pension scheme for members and employers alike.

6 Communications

We strive to produce clear and concise communication materials to serve our target market. We provide a range of materials, from a basic level of information through to documents containing a greater level of detail, such as our fund fact sheets and **NEST phrasebook** to demystify pension jargon. We have also produced **NEST's Golden Rules**

of communication, a set of guidelines which underpin all NEST communications with the aim of improving employers' and members' understanding of automatic enrolment and helping them make informed decisions about how to manage retirement savings.

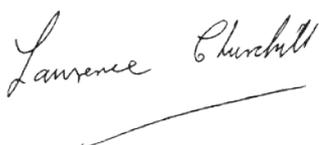
We provide employers with a suite of workplace communications. These aim to support employers in meeting their duties, raise awareness of automatic enrolment, enhance general levels of understanding and emphasise the importance of saving. In addition our website provides a range of explanatory material to help employers understand 'what to do and when'. We keep employer communications under review with the aim of best supporting our changing employer profile.

Throughout the member's journey, we provide a range of communications. These include information for members on NEST's costs and charges, about the age at which they can take their retirement savings and the different ways they'll be able to access their pension pot. This information is designed to assist members in understanding the impact of their decisions. We tell members about NEST's Retirement Date Funds and options in their annual benefit statements, which we view as an effective communication format for our members. Our website also provides additional information on what is meant by retirement and the different retirement options.

We write to each member six months before their NEST retirement date to provide information about the different ways they can access their pension pot and outline their options based on their specific circumstances. We review our communications, and have done so recently in light of TPR's guidance on ensuring members receive effective communications as they approach retirement.

We currently provide limited information to members of the protection available under the UK's statutory schemes. We are consulting the relevant authorities to establish the current position, and will communicate this when the position is clarified.

We see excellent and effective member communications as vital in providing the right information to members at the right time without overloading people who are new to saving.



Lawrence Churchill CBE
Chair NEST Corporation