

Responsible investment

Conflicts of interest policy

Introduction

As Nest's assets under management grow, our activities as a responsible and active owner of the securities we manage on behalf of our members are set to increase. The more we engage with corporations, vote at AGMs, vote on shareholder resolutions and work with regulators and standard setters in the jurisdictions within which we invest, the greater the potential for conflicts of interest or the perception of them to arise.

These conflicts relate to potential tensions between our fiduciary role as owners of securities on behalf of our members, our role as a commercial provider of pension services to UK corporates, and our role as a government arms-length body.

The objectives of this document are to:

- › demonstrate where potential conflicts of interest may arise
- › demonstrate how Nest plans to manage these conflicts
- › show responsibility and alignment with our members' likely values and interests.

Our policy

Nest is a signatory to the Financial Reporting Council's (FRC) [UK Stewardship Code](#). The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. There are seven principles that make up the code. The second principle relates to managing conflicts of interest:

Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

An institutional investor's duty is to act in the interests of its beneficiaries. For Nest, these are the members of the scheme on whose behalf we invest their pension contributions.

Conflicts of interest will inevitably arise from time to time, which may include when voting on matters affecting a parent company or client. Institutional investors should put in place, maintain and publicly disclose a policy for identifying and managing conflicts of interest with the aim of taking all reasonable steps to put the interests of their client or beneficiary first. The policy will also address how matters are handled when the interests of clients or beneficiaries diverge from each other.

Nest recognises both the potential for conflicts of interest as well as the perception of a conflict, through its various roles as an institutional investor, service provider, and public body with specific statutory responsibilities as part of the automatic enrolment reforms.

For the Nest scheme, the primary areas where the potential for conflicts to arise are:

- › Voting and engaging on matters affecting one of our corporate clients using, or prospective clients planning to use, Nest to fulfil their automatic enrolment duties
- › Engaging with UK government and regulatory bodies on issues relating to the activities and regulation of UK businesses, and our role as a Public Corporation with financial backing from the UK government in the form of a loan
- › Investment in government securities, such as gilts or infrastructure projects.

In order to manage these conflicts, Nest has a clearly articulated statement of how it will act as an institutional investor in the form of Nest's [voting and engagement](#) policy. This policy is reviewed every three years, and approval for any changes is strictly the responsibility of Nest's Investment Committee, made up of trustees of the pension scheme.

The day-to-day delivery of the voting and engagement activity in line with Nest's policies is delegated to the chief investment officer (CIO) of the investment team. The CIO is accountable to the Investment Committee of the scheme for all matters relating to Nest's stewardship activity.

Decisions about voting and engagement activity are agreed within the investment team. Influence on voting and engagement approaches from other areas of Nest Corporation is not permitted. In particular there is no oversight or input from those parts of Nest Corporation with responsibility for client relationships and client acquisition.

The voting and engagement policy and our voting records are published on Nest's [website](#) each quarter. Each year Nest publishes a summary voting report, which provides details of the year's voting activity and how voting is aligned to our published policy.

From time to time Nest responds to consultations from the UK government and UK regulators in relation to corporate governance and stewardship activity. This is part of Nest's responsible investment objective to be an active participant in supporting the efficient functioning of markets and promoting higher standards of corporate governance, reporting and transparency. Engagements and representations will be in line with our public policy on corporate governance and stewardship as found in our engagement and voting policy. Decisions about how to apply Nest's stewardship responsibilities when engaging with government and regulators are delegated to the CIO.

There will be instances where the interests of Nest's clients (employers), beneficiaries (members) and Nest's sponsoring government department diverge. In these instances when exercising our stewardship responsibilities only the interests of Nest's beneficiaries will be taken into account.

Where the issue is not clearly articulated in our published voting and engagement policy or where there is dispute across Nest Corporation as to the interpretation of those policies, the investment team will revert to the Investment Committee to determine how to resolve the conflict in accordance with their trustee responsibilities to act in beneficiaries' best interests. The Investment Committee may seek additional independent and expert advice from one of Nest's external investment consultants to support them in resolving any conflicts. The final decision of how to proceed will remain with the Investment Committee.

This conflict of interest policy was approved by the trustee of Nest in September 2017. It's due to be next reviewed in 2020.