

# Nest's stewardship conflicts of interest standards



October 2020

## Introduction

Being a responsible investor and an effective steward of our members' assets is core to Nest's investment approach.

We believe voting on the shares in companies held by the scheme's funds, and engaging with the companies in which our members' money is invested, can help us to encourage organisations to make positive changes in the way they do business to the benefit of our members. Being an active investor in these ways also helps us to build good relationships and trust with companies.

At the same time, the more we engage directly with companies, vote on shareholder resolutions at their annual general meetings (AGMs) and work with regulators and other standards setters in the various jurisdictions within which Nest scheme funds are invested, there is greater potential for conflicts of interest, or the perception of such conflicts, to arise.

These conflicts of interest relate to potential tensions between Nest's fiduciary role as an institutional investor which owns securities on behalf of our members, our role as a commercial provider of pension services to UK employers, including some publicly traded corporations, and our role as a public corporation that operates at arm's length from the government and which has specific statutory responsibilities as part of the UK auto enrolment system.

The objectives of this document are to:

- › demonstrate where potential conflicts of interest may arise
- › demonstrate how we plan to manage these conflicts
- › show our commitment to acting responsibly and aligning our decision-making with our members' likely values and interests

## Our policy

Nest Corporation, as Trustee of the Nest scheme, is a signatory to the **UK stewardship code** issued by the Financial Reporting Council (FRC). The 2020 stewardship code aims to promote 'the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society'.

The code is made up of 12 principles. The third principle relates to managing conflicts of interest:

**Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.**

An institutional investor's duty is to act in the interests of its beneficiaries. For Nest, our beneficiaries are the members of the Nest scheme on whose behalf we invest pension contributions. Our clients are the employers who choose Nest as the pension scheme for their employees.

## Where conflicts may arise

Conflicts of interest will inevitably arise from time to time, for example when voting on matters affecting one of our clients or a parent company of a client.

An institutional investor should have 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 beneficiaries and clients first. These standards address how matters are handled when the interests of our clients and beneficiaries diverge from each other.

We recognise both the potential for conflicts of interest as well as the perception of such conflicts, in relation to Nest's roles as an institutional investor, service provider and public body.

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

- › voting and engaging on matters affecting one of our corporate clients using, or prospective clients planning to use, the Nest scheme 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
- › investing in government securities, such as gilts or infrastructure projects

## How we manage potential conflicts

In order to manage these conflicts, we have a clearly articulated statement of how we will act as an institutional investor in the form of Nest's **voting and engagement standards**. Those standards are reviewed every three years. Approval for any changes to them is the responsibility of Nest's investment committee.

Ensuring that day-to-day delivery of Nest's voting and engagement activities is in line with Nest's policies is delegated to the Chief Investment Officer (CIO) of Nest Invest, the Financial Conduct Authority (FCA) approved occupational pension scheme firm which, as a wholly owned subsidiary of Nest Corporation, provides regulated investment advice to the Trustee of the Nest scheme. The CIO is accountable to the scheme's investment committee for matters relating to Nest's stewardship activity.

Decisions about voting and engagement activities are agreed within Nest Invest. Influence on Nest's voting and engagement activities from other areas of Nest Corporation is not permitted. The parts of Nest Corporation with responsibility for client relationships and client acquisition have no input into Nest's voting or engagement activities.

There may be times when we choose to make information about our engagement with companies public. We do this as part of our stewardship approach to raise awareness across the industry about an issue, reinforce the need for behavioural change at companies or commend the progress companies have made after engaging with investors. We have developed a process to notify, only for their awareness, Nest's customer experience team ahead of each public engagement with a UK company.

We publish Nest's voting and engagement standards and our voting records on **our website** each quarter. Each year we also publish a summary voting report, which provides details of our voting activity over the past year and shows how our voting is aligned to our published standards.

As part of Nest's responsible investment approach, we respond to consultations from the UK government and UK regulators in relation to corporate governance and stewardship activity. One of our responsible investment objectives is to be an active participant in supporting the efficient functioning of markets and promoting higher standards of corporate governance, sustainability, reporting and transparency. These engagements and representations are in line with our public policy on corporate governance and sustainability as published in our engagement and voting standards. Decisions about how we apply our stewardship responsibilities in our engagements with government and regulators are delegated to the CIO of Nest Invest.

## Our commitment to our members

There will be instances where the interests of our beneficiaries (our members), clients (the employers choosing Nest as the pension scheme for their employees) and sponsoring government department (the Department for Work and Pensions) diverge. In these instances, when exercising our stewardship responsibilities only the interests of Nest's beneficiaries, our members, will be taken into account.

Where the issue is not clearly articulated in our published voting and engagement standards, or where there is dispute across Nest Corporation as to the interpretation of those policies, Nest Invest will revert to the investment committee to determine how to resolve the conflict in accordance with their responsibilities to act in our 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 Nest's investment committee.

## Reporting on conflicts of interest

Each year we will explain how we have identified and managed any instances of actual or potential conflicts of interest related to our stewardship activities, and disclose examples of how we have addressed them, in accordance with the annual reporting requirements of the FRC stewardship code.

## Policy review

These stewardship conflicts of interest standards were approved by the investment committee of the Nest scheme in September 2020. They are due to be next reviewed in 2023.

## Version control

Version	Change	Date implemented
1	Document created	October 2020

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