



NEST pension
scheme annual
report and accounts

18 July 2011 to 31 March 2012

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Chair's statement

This is the first annual report and accounts for the NEST pension scheme, for our members' savings. In this statement I would like to highlight the main achievements during the year and comment on some of the risks and challenges NEST has faced.

Far and away the most significant achievement was admitting our first members from a small number of volunteer employers. These employers were seeking a new pension scheme in advance of their new legal duties as part of the workplace pension reforms starting in 2012. Employers and their staff were able to use NEST to provide them with a low-cost pension scheme offering good governance, plain language communications, and an investment approach specifically designed for its members.

For NEST this has been a chance to further improve its new systems and business operations while volumes are still low. We have learned a great deal from our engagement with our customers in this period. We have progressively accepted more members into the scheme and by 31 March 2012, the end of our financial year, had around 100 employers registered, with over 800 members and net assets of around £500,000. We are working with over 200 employers in total, who vary in size from the very small to the very large.

Clearly we would not have been in a position to accept members if our business operations had not already been developed and tested. For this I would like to thank our partners Tata Consultancy Services (TCS) for their excellent work in building and operating the scheme administration services. At NEST's contact centre in Peterborough, the other Trustee Members and I have seen first-hand TCS's commitment to excellent customer service.

Our stakeholders and members expect NEST to demonstrate exemplary corporate governance and we have built in best practice for long-term governance from the start. During the year the Secretary of State appointed four new members of our corporate trustee board. We also established NEST Corporation's advisory panels, appointing ten members to our Employers' Panel, and six members to our Members' Panel under the chairmanship of Paul Jagger MBE and Museji Takolia CBE respectively.

On diversity, the corporate trustee board already demonstrates the gender balance of at least 25 per cent female representation which Lord Davies proposed in his report *Women on Boards* as a goal for large corporations by 2015. We have formally reviewed the powers reserved for the corporate trustee board and each of its committees, and the schedule of delegations to the chief executive (CE). In addition we have, with the help of an external consultant, reviewed the effectiveness of the board. In terms of investment governance, we have formally signed up to the Financial Reporting Council's (FRC) Stewardship Code and become a member of UK Sustainable Investment and Finance (UKSIF), and a signatory to the United Nations backed Principles for Responsible Investments (UNPRI).

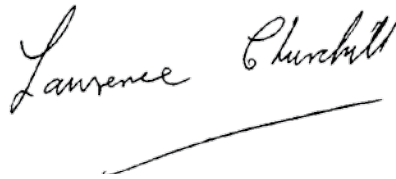
I would like to pay tribute to the dedication and enthusiasm of all NEST staff, who have worked diligently on developing, supporting and operating our service to members. It has been a tough year, with staff turnover above both industry norms and the Trustee's risk appetite. We are looking at ways of tackling this, including consulting with the Department for Work and Pensions (DWP) on how this can be addressed for the future. Turnover at these levels has added to the challenge faced by our CE, Tim Jones, and his executive team.

With regard to our current and prospective governing regulations, the government has decided in light of current economic circumstances to delay the enrolment dates of smaller employers to give them more time to prepare. This increases interest costs for members and will result in smaller pension pots for those future members impacted by the delay. The Work and Pensions Select Committee recommended in its recent report that the current restrictions placed on NEST should be lifted urgently if state aid allows. We do not regard the restrictions as being in our members' interests. We have submitted a response to DWP's consultation on small pension pots. In Europe, we also responded to the European Insurance and Occupations Pensions Authority (EIOPA) consultation on the revision of the Institutions for Occupational Retirements Provision (IORP) directive. Here we support their direction on good governance and member communications but express caution on establishing reserves, which may direct our members' contributions away from providing their pensions.

We are pleased to have received notifications from a number of employers with their duty dates in the year 2012/13 of their intention to use NEST for some of their workers. Our policy is that it is for each employer to decide if and when they want to make public their use of NEST. It is in everyone's interest that automatic enrolment starts smoothly and we are working with the employers to that end. We expect to make some joint announcements later in 2012.

We are delighted to be working in partnership with many of the insurance companies involved in occupational pensions. Our joint aim is to ensure that each worker gets the pension scheme which is right for them – be it NEST or another workplace pension scheme.

The coming year promises to be a watershed year, with the start of automatic enrolment and the rapid build-up of member numbers as the largest employers come on stream. Meanwhile the economy is struggling to pick up growth momentum, and investment markets remain challenged and volatile. What is beyond doubt however is that making and maintaining contributions to a pension plan is an excellent way of securing an income in retirement.



Lawrence Churchill CBE
Chair
NEST Corporation
9 July 2012

Far and away the most significant achievement was admitting our first members from a small number of volunteer employers

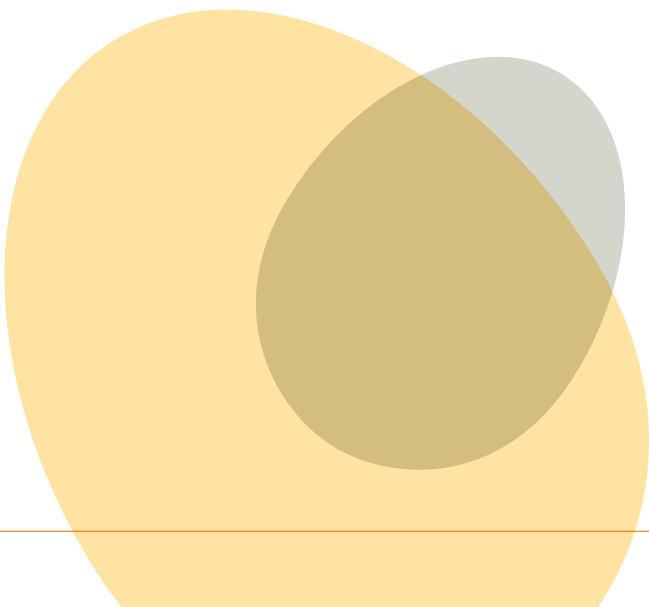
Trustee Members and advisers

Trustee and Trustee Members

NEST Corporation is the Trustee of the scheme. The Trustee has a Chair and ten Trustee Members whose profiles are on pages 9 to 12.

Professional names of advisers, banks, custodians and others retained by the Trustee

Scheme administrator	Tata Consultancy Services (TCS)
Fund administrator	State Street Bank and Trust Company
Bank	HSBC Bank Plc
Investment managers appointed in year	BlackRock F&C Investments HSBC Global Asset Management State Street Global Advisors UBS Global Asset Management
Investment managers appointed post year end	Royal London Asset Management
Lawyers	General Counsel NEST Corporation DLA Piper Field Fisher Squire Saunders Wragge & Co (until December 2011)
Auditors	Independent external auditors KPMG LLP



Trustee Members' report

Introduction and constitution of the scheme

The scheme¹ was established by The National Employment Savings Trust Order 2010 which was made on 22 March 2010 and came into force on 5 July 2010. The scheme is a 'registered pension scheme' for tax purposes under the Finance Act 2004 and received approval by HM Revenue and Customs on 21 January 2011. As such, most of the scheme's income and investment gains are free of direct taxation.

NEST Corporation is a non-departmental public body (NDPB) established by statute – schedule 75 of the Pensions Act 2008 (the 'Act'), which came into force on 5 July 2010. It was appointed Trustee of the scheme, under NEST's order which was made on 22 March 2010 and came into force on 5 July 2010. The Trustee currently has a Chair and 10 other Trustee Members who have a fiduciary duty to act in the interests of scheme members. The Trustee Members were approved by the Secretary of State for Work and Pensions as provided for under schedule 1 of the act.

The Trustee Members set the strategic direction and objectives for NEST, overseeing the running of NEST to ensure it delivers value for scheme members' money.

Trustee Members are appointed for a term of no more than five years. Trustee Members can be reappointed for a further term by the Secretary of State for Work and Pensions. Trustee Members can resign by letter to the Chair. The Chair may resign by letter to the Secretary of State. The requirement for member-nominated trustees (MNTs) has been disapplied for the scheme (SI 2010/09). The scheme complies with the spirit of the MNT requirements through a Members' Panel and an Employers' Panel that were required to be established by section 69 of the act and NEST's order.

Key scheme events in 2011/12

2011/12 has been a very important year for the development of NEST, as it is the year we launched the scheme. This has been a year of firsts. We have accepted our first employers, enrolled our first members and invested our first contributions.

We have taken the opportunity of launching the scheme substantially in advance of the start of employer's duties to learn from the experience of our volunteer employers. This has provided an opportunity for us to further improve our systems and our operations in advance of the onset of employer duties. We have made changes to the design of the scheme to reflect the changes made by Parliament through the Pensions Act 2011. This will help ensure the scheme is ready for the largest employers to meet their duties in October 2012.

¹ Where we use 'scheme' in this document we mean 'the pension scheme known as National Employment Savings Trust (NEST)'.

Beyond the launch and testing of the scheme, we have delivered a number of other important projects such as signing up to the United Nations backed Principles for Responsible Investment (UNPRI) and updating our guide to simplifying the language of pensions, *The NEST Phrasebook*.

Looking ahead

The next year will be very important for NEST, as from the start of employer duties in October 2012 the largest employers in the country will start to enrol their workers into qualifying schemes. NEST will be ready to be used by large employers, who employ 40 per cent of NEST's target population of low to moderate income workers, and will build on the experience of the last year by continuing to offer a high-quality operational service to our members.

To ensure that we have a clear line-of-sight to a self-funding business model we will need to see sufficient volumes of members enrolled in NEST in 2012/13. We must also ensure that there are high levels of awareness and positive perceptions of NEST among employers whose duties fall in 2013/14.

The programme of work to address these challenges is set out in NEST's Corporate Plan for 2012-15. This is published on our website

www.nestpensions.org.uk

Organisation structure

NEST's corporate trustee board comprises eleven Trustee Members (consisting of a Chair and 10 other Trustee Members) whose responsibility it is to set the strategic direction and objectives for NEST Corporation.

The appointments of the Chair and the initial seven Trustee Members were made by the Secretary of State for Work and Pensions. Although those appointments did not come within the remit of the Commissioner for Public Appointments, they were made using a process which took into account the Commissioner's Code of Practice.

During the year, four Trustee Members were appointed by the Secretary of State bringing the number to 11. The recruitment activity ensured that the appropriate breadth of knowledge and skills is maintained.

All our Trustee Members have completed or are working towards The Pensions Regulator's (TPR) Trustee Toolkit certification. They are responsible for their own continuous professional development (CPD) and are assisted in this by a series of briefings on trustee knowledge and understanding including aspects specific to NEST Corporation, such as NEST's order and rules.

The corporate trustee completed an effectiveness review during the year with the help of an external facilitator.

There are a number of sub-committees of the corporate trustee board, each chaired by a Trustee Member, which focus on key aspects of monitoring and control. These are audit, risk, investment, nominations and governance, and remuneration committees. Their remits include, respectively:

- seeking assurance on the accuracy of the accounting records and processes
- overseeing the management of risk
- preparing our investment strategy and principles
- ensuring our compliance with regulatory obligations
- developing the appropriate culture and remuneration practices.

The terms of reference for the Trustee Member meetings and each of their committees are published on our website at

www.nestpensions.org.uk/terms-of-reference

Trustee Member profiles



Lawrence Churchill CBE, Chair, NEST

Chair, nominations and governance committee

Lawrence is chair of the Financial Services Compensation Scheme and a member of the board of BUPA. He is also a trustee of the International Longevity Centre, UK and a governor of the Pensions Policy Institute.

Previous appointments have been as chairman of the Pension Protection Fund, a member of the Board for Actuarial Standards, chief executive of Zurich Financial Services UK and International Life, executive chairman of UNUM and CEO of NatWest Life and Investments.

Lawrence has also served in a non-executive capacity on the boards of the Association of British Insurers, the Employers' Forum on Disability and the Financial Ombudsman Service, and has been a trustee of the Royal Society of Arts.



Iraj Amiri, Trustee Member

Iraj was a partner with Deloitte LLP for over 20 years. He led the National Internal Audit Group of Deloitte and was one of the firm's recognised experts in Internal Audit and Risk Management.

In the public sector, his clients included numerous organisations in central government, health, education and local government, and many public bodies, such as the Financial Services Compensation Scheme, The Pensions Regulator, National Savings and Investments, and the European Investment Bank. He also has extensive private sector experience at a senior level, serving such organisations as Schrodgers plc and The Wellcome Trust.

As well as being an FCA, Iraj is a fellow of the Royal Statistical Society and was a member of the Internal Audit Task Force of the Institute of Chartered Accountants in England and Wales for a number of years.

**Tom Boardman, Trustee Member**

Tom has been involved in the pensions and insurance industry with Prudential and Nationwide for more than 35 years in a wide variety of roles. Before taking up his appointment at NEST Corporation, he was director of retirement strategy and innovation at Prudential UK.

He is a fellow of the Institute of Actuaries, honorary visiting professor at the Cass Business School, a trustee of the International Longevity Centre, UK and a governor of the Pensions Policy Institute. Tom is also a life insurance senior advisor at the Financial Services Authority.

**Sharon Darcy, Trustee Member**

Sharon is a qualified accountant with a very strong background in the consumer movement.

She is a non-executive director of Consumer Focus and was previously on the board of energywatch, an organisation which both helped consumers deal with problems with their energy suppliers and campaigned on fuel poverty. She is also a non-executive director of the Hyde Group, a large housing association.

In the past Sharon was a consumer director of TrustMark, an organisation which promotes reputable traders in the home maintenance and repair sector, a non-executive director of Sutton and Merton Primary Care Trust and the chair of Sutton Borough Citizens Advice Bureau.

**Laurie Edmans CBE, Trustee Member**

Laurie is deputy chairman of MGM Assurance. This is a long-established mutual that has become a specialist annuity provider.

He is on the council of the Pensions Policy Institute and is a director of Bdifferent, a specialist financial services branding and research agency. He is chairman of the trustees of the Trinity Mirror Pension Plan and a trustee of two charities, the Quest School for Autistic Children and the Family and Parenting Institute where he is treasurer. Laurie is a non-executive director at the MAS and was until recently the chairman of SHIP, the trade association for equity release products.

Before joining NEST Corporation, Laurie was a non-executive director of The Pensions Regulator, following three years on the board of its predecessor, OPRA.



Paul Hewitt, Trustee Member

Chair, audit committee

Paul is currently non-executive chairman of a number of companies including RJ Kiln, The Good Care Group and Four Times Enterprises. Paul is also non-executive director of Collins Stewart, The Co-operative Banking Group and Shop Direct Financial Services.

Paul was previously a non-executive director of NEST Corporation's predecessor the Personal Accounts Delivery Authority (PADA).

He joined the Co-operative Group in 2003 where initially he was chief financial officer before becoming acting chief executive of Co-operative Bank, CIS and Smile and later, deputy group chief executive.

In his earlier career, after qualifying as a chartered accountant, Paul worked as finance director in a number of private equity-backed and quoted companies.



Chris Hitchen, Trustee Member

Chair, investment committee

Chris is the chief executive of the Railways Pension Trustee Company and its operating company RPMI Ltd, which runs the industry-wide pension arrangement for the UK's railways. This covers 350,000 people and around 100 employer groups.

The scheme has assets of £17 billion and Chris also chairs the group's FSA-authorized investment subsidiary Railpen Investments. Before joining the rail scheme as chief investment officer in 1998, he worked for 12 years as an investment consultant and actuary to a number of UK pension plans.

Chris is the immediate past chairman of the National Association of Pension Funds (NAPF) and chairman of the Pensions Quality Mark, an initiative to give recognition to good defined contribution pension provision. Chris is a past chairman of both the NAPF Investment Council and the Institutional Shareholders Committee.



Julius Pursaill, Trustee Member

Chair, risk committee

Julius retired from full-time employment in 2001 and has since acted as a non-executive director and consultant for a number of technology-based companies. These have predominantly been in the financial services sector including Barrie & Hibbert and Capita. Julius also sits as an independent member on both the Heineken pension scheme advisory board and the Scottish Life investment advisory committee. Julius is vice chair of governors at Mid Kent College.

Julius spent his early career in the retail financial services industry in sales management and designing financial services products.

In 1994 Julius joined the investment management company Mercury Asset Management and was appointed to head its defined contribution pensions business.

In 1998 he was appointed head of e-Business for the Europe, Middle East and Africa global region at Merrill Lynch Investment Management.



Enid Rowlands, Trustee Member

Enid Rowlands has a background in change management, organisational transition and development. A psychologist by qualification, she has chaired public sector bodies with budgets in excess of £1.2 billion and is a companion of the Chartered Management Institute.

In recent years Enid has specialised in governance in public and not-for-profit sectors. She is currently a board member and chair of HR/Remuneration of the General Medical Council, Consumer Focus and the Information Commissioner's Office.

She has served with a range of organisations and Ministerial Advisory Groups concerned with marginalised and disadvantaged groups in the workforce, including women returning to work and people with sensory impairment. She is also chair for Victim Support.



Sue Slipman, Trustee Member

Chair, remuneration committee

Sue has been the chief executive of the Foundation Trust Network since October 2004. She was previously chair of the Financial Ombudsman Service and was also executive director with Camelot Group where she was responsible for social responsibility and external affairs.

Sue's previous roles include chief executive of the Gas Consumers Council, the London Councils Transport and Environment Committee and the National Council for One Parent Families.

She has also held a number of public appointments. These include chair of the Department for Trade and Industry's working group on corporate social responsibility, and chair of the National Consumer Council's policy commission on public services.

She has also chaired the Financial Services Authority's schools working group on financial capability and was a non-executive director of Thames Water until 2008.



Nigel Stanley, Trustee Member

Nigel has been head of campaigns and communications at the TUC since May 1997, where he has led much of the TUC's work on pensions reform following the report of the Pensions Commission.

He joined the TUC as its first ever parliamentary officer in 1994. From 1992 to 1994 he freelanced in public affairs, research and journalism where his client list included the Shopping Hours Reform Council, the European Commission, the Labour Party and a number of MPs.

Nigel also worked at the House of Commons from 1983 to 1992, first for Robin Cook and then for Bryan Gould on research, press relations and campaign management.

The table below sets out the membership of NEST Corporation committees and provides details of meetings attended by Trustee Members during the year:

	Trustee Member meetings	Audit committee	Investment committee	Nominations and governance committee	Remuneration committee	Risk committee
Number of meetings	10	5	8	5	7	9
Lawrence Churchill (LC)	10	-	-	5	4*	-
Iraj Amiri (IA)	6*	2*	4*	-	-	-
Tom Boardman (TB)	10	4	7	-	-	-
Sharon Darcy (SD)	7*	-	5*	-	-	5*
Laurie Edmans (LE)	10	-	-	-	4	8
Paul Hewitt (PH)	9	5	-	-	-	8
Chris Hitchen (CH)	9	-	8	4	-	-
Julius Pursaill (JP)	9	5	8	-	-	9
Enid Rowlands (ER)	5*	-	-	3*	2*	-
Sue Slipman (SS)	9	-	3*	5	7	-
Nigel Stanley (NS)	7*	-	4*	-	3*	-

*Notes

Trustee Members

IA appointed as Trustee Member 20 June 2011 – eligible to attend 8 meetings
SD appointed as Trustee Member 20 June 2011 – eligible to attend 8 meetings
ER appointed as Trustee Member 11 July 2011 – eligible to attend 7 meetings
NS appointed as Trustee Member 20 June 2011 – eligible to attend 8 meetings

Audit committee

IA only eligible to attend 2 meetings

Nominations and governance committee

ER only eligible to attend 3 meetings

Investment committee

IA only eligible to attend 5 meetings
SD only eligible to attend 5 meetings
SS only eligible to attend 3 meetings
NS only eligible to attend 5 meetings

Remuneration committee

LC only eligible to attend 4 meetings
NS only eligible to attend 3 meetings
ER only eligible to attend 3 meetings

Risk committee

SD only eligible to attend 5 meetings

The Pensions Regulator's six principles for good workplace defined contribution schemes

In December 2011, The Pensions Regulator (TPR) published six high-level principles as part of its ongoing engagement with the pensions sector to improve standards of defined contributions (DC) provision and ensure that the pensions sector is ready to support automatic enrolment.

The six principles span the lifecycle of a DC scheme from the design and set-up phases through to the ongoing management. TPR will invite the pensions sector to take part in a dialogue on the six principles for good design and governance of workplace DC pension provision. This will form the basis of its regulatory approach going forward.

In support of TPR's approach NEST agreed to disclose how it was complying with each of the principles. The table below provides an overview of NEST's compliance with the principles.

Principle	TPR: 6 Principles for DC	NEST's summary response
1	<p>Schemes are designed to be durable, fair and deliver good outcomes for members.</p> <p>This principle covers the features necessary in a scheme to deliver good outcomes for members, including features such as the provision of a suitable default fund, transparent costs and charges, protected assets and sufficient protection for members against loss of their savings.</p>	<p>NEST has been designed for its target market, specifically with the approach and design of the investment offering, including the design of a default option that manages a range of risks throughout each member's time saving with NEST in a sophisticated and tailored way.</p> <p>Details of our charges are explained in a clear and straightforward way to our members and their employers. Examples can be seen online. NEST is transparent about the way it operates and what it does with members' money. We also make available on our public website the research that has led to the design of the investment approach, including the Member Research Brief.</p>
2	<p>A comprehensive scheme governance framework is established at set-up, with clear accountabilities and responsibilities agreed and made transparent.</p> <p>This includes identifying key activities which need to be carried out, and ensuring each of the activities has an 'owner' who has the necessary resources to carry out the activity.</p>	<p>NEST's dual status as Trustee and NDPB, combines best practice and guidance from pensions and the corporate governance world. Please see the governance statement.</p>
3	<p>Those who are accountable for scheme decisions and activity understand their duties and are fit and proper to carry them out.</p> <p>This principle ensures that those who are given accountability or responsibility for a key governance task are able to carry this out. The principle will cover definitions of fitness and propriety for accountable parties and also conflicts of interest that may arise.</p>	<p>NEST's governance structure ensures that there are clear lines of accountability and decision making.</p> <p>There is a scheme of reserved powers and delegated authorities.</p> <p>All Trustee Members are appointed on merit for their knowledge and expertise. They undertake and report continuous professional development (CPD) activity.</p> <p>NEST's Corporate Governance Statement is available online at www.nestpensions.org.uk/corporate-governance-statement</p>

Principle	TPR: 6 Principles for DC	NEST's summary response
4	<p>Schemes benefit from effective governance and monitoring through their full lifecycle.</p> <p>This principle looks at the ongoing governance and running of the scheme, including the internal controls and monitoring needed to ensure that the scheme continues to meet its objectives, and continues to be run with the best interests of its membership in mind.</p>	<p>Although the scheme is immature at this stage, the Trustee Members have given consideration to longer term strategy, the identification of critical success factors and the investment risks over the lifecycle including at the point of converting their pension pot into a retirement income.</p> <p>Trustee Members and committee effectiveness reviews, forward planning, regular reporting, risk management.</p>
5	<p>Schemes are well-administered with timely, accurate and comprehensive processes and records.</p> <p>This principle is informed by our previous work on record keeping, looking specifically at the administration processes required in a DC scheme.</p>	<p>NEST's scheme administration is delivered by Tata Consultancy Services (TCS), part of the Tata Group and a top ten global IT services, business solutions and outsourcing company.</p> <p>Operational performance is monitored by the executive team and reported to the Trustee Members.</p>
6	<p>Communication to members is designed and delivered to ensure members are able to make informed decisions about their retirement savings.</p> <p>This includes all communications to members during their time with the scheme – from joining through to making decisions about converting their pension pot into a retirement income, including promotion of the open market option.</p>	<p>There is a clear member journey online from joining NEST to taking their retirement pot. See the <i>NEST for savers</i> section of our website. NEST also has a UK contact centre where all staff receive thorough training on supporting scheme members and employers.</p> <p>Our commitment to communicating to members in a way they understand is at the centre of our communications development. NEST has developed a phrasebook which is about how NEST will talk to employers, members and future members about pensions, using words and phrases that have been designed with them in mind.</p>

TPR believes that if schemes follow these principles in their design, set-up and ongoing operations it will help them to deliver the six elements necessary for members to receive good outcomes, which we have previously identified:

- appropriate decisions with regard to pension contributions
- appropriate investment decisions
- efficient and effective administration of DC schemes
- protection of scheme assets
- value for money
- appropriate decisions on converting pension savings into a retirement income.

Risk management approach, structure and accountability

Trustee Members are responsible for ensuring that there is a continuous process for identifying, evaluating and managing any material risks faced by the organisation and for ensuring that it is effectively implemented and managed. As such, Trustee Members are responsible for overseeing risks including:

- the extent and categories of risk the Trustees Members regard as acceptable for the organisation to bear
- the likelihood of those risks materialising
- the organisation's ability to reduce the incidence or impact of any risks that do materialise
- the costs of operating particular controls relative to the benefit from managing the related risk
- reviewing and approving the risk management framework
- reviewing and approving the organisation's risk appetite
- monitoring the organisation's risk profile and recommending actions as they see appropriate.

In common with best practice in financial services, NEST Corporation operates the 'three lines of defence' model. Business management provides the first line of defence and is responsible for the identification and assessment of risks and controls. The second line is provided by the risk and compliance function together with risk policy owners who provide support and challenge the completeness and accuracy of risk assessment and the adequacy of mitigation plans. Internal audit constitutes the third line, by providing independent and objective assurance on the robustness of the risk management framework and the appropriateness and effectiveness of internal controls.

Further details of NEST Corporation's approach to risk management are given in NEST Corporation's annual report and accounts.

Governance

The Trustee Members adopted a governance framework, which continues to be refined to ensure it remains appropriate for the scheme. Fundamental to the scheme's governance is the work undertaken by the five committees established by the Trustee Members. Full reports on committee decisions and actions are reported to the Trustee Members' meetings. The work of each of these committees is presented below.

The Trustee has delegated the day-to-day operations of running the scheme to the chief executive (CE) of NEST Corporation, who manages the contract with Tata Consultancy Services and the scheme's advisers (shown on page 6).

Trustee Members held 10 meetings during 2011/12. These meetings have focused on:

- the strategic direction of NEST and its programme of work
- key investment strategies
- the financial arrangements for NEST Corporation
- ensuring appropriate governance
- providing support, challenge and guidance to the executive team
- actively reviewing scheme operations
- overseeing the management of risk.

As Trustee of the scheme, NEST Corporation has a legal duty to act in the interests of its scheme members and other beneficiaries and to comply with all legal and regulatory requirements relating to pension schemes. The Trustee Members of NEST Corporation are responsible for the strategic direction of NEST Corporation and the scheme. Trustee Members also ensure that NEST Corporation complies with its duties as a non-departmental public body. For further information on the governance framework and Trustee Members' attendance at meetings see page 8 and 13 respectively.

Strategy and plan

Over the course of the year Trustee Members have considered strategic issues at each of their regular Trustee meetings and have also held three specific workshops to initiate discussions on the long-term strategic challenges.

The Trustee Members approved the Corporate Plan for 2012-2015 incorporating the business plan for 2012/13. This is published on our website at www.nestpensions.org.uk/library

In the spring of 2012, Trustee Members agreed the budget for 2012/13 and this is set out in the business plan for 2012/13.

Audit committee

The audit committee has provided an independent oversight, review and advisory role to the Trustee Members on all audit and control issues across NEST Corporation. The committee has also advised on the structure of internal audit and compliance and has been actively involved in assuring Trustee Members on these issues. Key areas of focus for the committee included:

- the appointment of KPMG as statutory auditors of the scheme and review of their audit strategy for 2011/12
- review of the 2010/11 NEST Corporation's annual report and accounts
- review of the assurance framework prior to scheme launch
- approval of the internal audit methodology and framework
- approval of the internal audit plans for 2011/12 and 2012/13 and oversight of their delivery
- approval of the compliance framework and the 2011/12 and 2012/13 compliance plans
- review of NEST Corporation's finance and treasury policy and procedures
- review of the committee's effectiveness.

*Paul Hewitt
Chair, audit committee*

Investment committee

The Trustee approves the NEST Statement of Investment Principles (SIP). The role, responsibilities and delegations of the investment committee and the chief investment officer are detailed within the governance structure detailed in Appendix A of the SIP.

The investment committee chaired by Chris Hitchen, together with the NEST chief investment officer, share a set of responsibilities and delegations to consider and implement investment decisions on behalf of the Trustee Members and the committee reports to the Trustee.

The key decisions and activities of the investment committee in the last year include:

- approval of the initial asset allocations for all NEST retirement funds
 - approval of a dynamic risk management framework
 - oversight of developing the responsible investment approach including becoming signatories to the United Nations-backed Principles for Responsible Investment and FRC Stewardship Code
 - approval of the selection of a sterling corporate bond fund manager.
-

The day-to-day management of NEST's assets is performed by professional fund managers, each of whom is authorised and regulated by the Financial Services Authority.

The investment committee has overall responsibility for approving fund manager selection, ongoing monitoring and removal and has appointed the fund managers listed on page 6.

The investment committee is the recipient of regular reporting to enable it to review and monitor NEST's assets, fund managers and other third party providers and investment costs.

More on the management of NEST's investment assets is included in the investment report on pages 27 to 35.

Chris Hitchin
Chair, investment committee

Nominations and governance committee

This committee has responsibility for the development and oversight of the governance structure which delivers a well run and controlled organisation, ensuring that it is adequate, appropriate and operating effectively. In the past year, the nominations and governance committee:

- oversaw the effectiveness review of the Trustee and its committees
- monitored the progress of the Trustee Members' knowledge and understanding
- responded to the European Insurance and Occupational Pensions Authority (EIOPA) committee on the revision of the IORP directive, Institutions for Occupational Retirement Provision (IORPs)
- further developed the approach to Continuous Professional Development (CPD)
- undertook the recruitment of the members for both the Employers' Panel and the Members' Panel and recommended candidates to the Trustee.

Lawrence Churchill
Chair, nominations and governance committee

Remuneration committee

The remuneration committee has provided oversight, review and advice to the Trustee Members on the approach to corporate responsibility, organisational culture and remuneration of senior executives and staff. The committee is not responsible for reviewing the remuneration of the Trustee Members, which is determined by the Secretary of State in accordance with schedule 1 to the Pensions Act 2008.

During the year the committee:

- agreed pay policy principles
- reviewed the performance of the executive team
- agreed the plan for the programme on corporate responsibility
- oversaw the programme of cultural change.

Sue Slipman
Chair, remuneration committee

Risk committee

The risk committee is responsible for oversight of the risk management framework. The committee has:

- provided an independent review of all aspects of risk management and in particular has been active in developing a statement of risk appetite
- overseen the further development of strategic risks
- developed a risk taxonomy which has an integrated view of risk
- provided challenge to the executive through a series of deep dives into specific areas of risk.

Further information on risk is provided in NEST Corporation's annual report and accounts available at www.nestpensions.org.uk/library

Julius Pursaill
Chair, risk committee

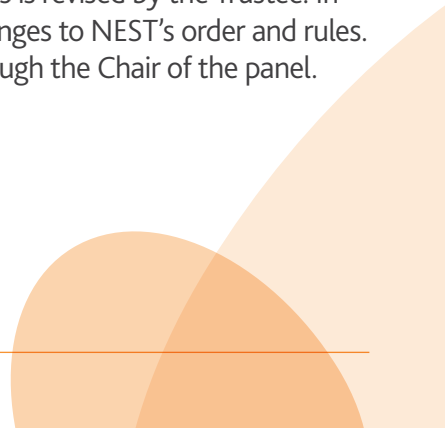
Employers' Panel and Members' Panel

The Employers' Panel and Members' Panel were established in summer 2011 in line with requirements under the Pensions Act 2008 and NEST's order and rules.

Employers' Panel

Paul Jagger MBE was appointed as Chair of the Employer Panel which was established in the summer of 2011 with nine panel members.

The Employers' Panel provides an advisory role to NEST Corporation on the operation, development or amendment of the scheme from a participating employer perspective (section 69, Pensions Act 2008). The panel is consulted whenever the Statement of Investment Principles is revised by the Trustee. In addition, the panel is consulted on proposed changes to NEST's order and rules. The Employers' Panel reports to the Trustee through the Chair of the panel.



Since the Employers' Panel was established it has met three times and it has agreed its terms of reference and objectives with the Trustee. In addition, the panel has been consulted on revisions to the Statement of Investment Principles and provided further feedback and input on a number of areas in relation to the development of the scheme from an employer's perspective.

Further information on the Employers' Panel, including details of the members can be found at www.nestpensions.org.uk/employer-panel

Members' Panel

Museji Ahmed Takolia CBE was appointed as Chair of the Members' Panel when it was established in summer 2011 with five panel members. Details of these members can be found on our website. Two further members were appointed in June 2012 and recruitment is underway to find a further member.

The Members' Panel provides advice to NEST Corporation on the operation, development or amendment of the scheme from a scheme member's perspective (section 69, Pensions Act 2008). Since the panel was established it has met four times. The panel is consulted whenever the Statement of Investment Principles is revised by the Trustee. In addition, the panel is consulted on proposed changes to NEST's order and rules and issues such as charges, opt-out process, communications, complaints monitoring and customer services and researching members' needs. The Members' Panel reports to the Trustee through the Chair of the panel.

The Members' Panel submits a separate report to the Secretary of State. A copy of the report will also be available on NEST's website at www.nestpensions.org.uk/member-panel

Executive team

The day-to-day management of NEST Corporation is the responsibility of the CE who is supported by the executive team. Tim Jones is also the accounting officer for NEST Corporation.

The CE receives his powers through a schedule of delegations from the Trustee Members. In turn the CE delegates authority to and holds each member of the executive team accountable for delivery of their specific objectives. In addition there are advisory committees which are used to explore issues and consult with colleagues. The scheme steering group, which includes TCS, is the senior forum for discussing programme and operational issues. Lower level scheme-related issues are discussed either in the customer services governance group, if they relate to operating the scheme, or in the programme delivery governance group, if they relate to the setting up of the scheme. Both these groups include TCS representatives.

Alongside the scheme steering group are the information security committee, the product management group and (when necessary) the procurement committee. These forums focus, respectively, on information security issues, the nature of the NEST service offering and procurement exercises.

The weekly executive team meetings are used by the CE to communicate key issues and provide an escalation route for matters that benefit from discussion between all executives.

NEST Corporation executive team	Position
Tim Jones	Chief executive
Nick Carter	General counsel
Helen Dean	Managing director of scheme development
Mark Fawcett	Chief investment officer
Paul Greening	Finance director
Sam Hainsworth	Chief of staff
Simon Richards	Business delivery director
Will Sandbrook	Director of strategy, research and analysis
Clare Smithson	People, property and corporate social responsibility director

Appointment of professional advisers and others retained by the Trustee

The scheme uses a wide range of professional advisers to provide advice and support its activities. As part of the scheme design and implementation NEST Corporation appointed the following partners and advisers to help support the scheme and to perform specific tasks.

Tata Consultancy Services (TCS) was appointed in March 2010 as the scheme's administrator. TCS is responsible for the day to day administration of the scheme. This includes receiving and processing of contributions and allocations to members' retirement pots. TCS is also responsible for dealing with members. TCS uses HSBC as bankers for members' funds.

NEST has detailed service level agreements (SLAs) in place with each of the scheme's suppliers which are regularly monitored. These include the following SLAs for TCS which ensure employers and members are able to access the scheme through the web or to speak with one of our contact centre operators.

Web and interactive voice response (IVR):

- systems normally available 24 hours a day, 365 days a year.

Contact Centre availability:

- 8am to 8pm Monday to Sunday
- 10am to 4pm on bank holidays
- closed five days a year (Christmas Day, Boxing Day, New Year's Day, Easter Sunday and Easter Monday).

Response times:

- calls answered by IVR system within 5 seconds
- calls forwarded to contact centre answered within 60 seconds.

These service levels were achieved by the scheme over this period.

State Street Bank and Trust Company was appointed in October 2010 as the fund administrator to ensure that our members' money is managed in line with our investment strategy. This includes maintaining the asset allocation of the funds, deal placement and trade settlement, calculating the net asset value and unit prices of the funds, daily reconciliations, and reporting to the scheme administrator.

Investment managers – the initial five investment managers, as listed on page 6, were appointed between February and April 2011 to invest members' funds into a range of underlying asset classes. The latest investment manager to be appointed was in April 2012. As explained in the investment report on page 27 the individual managers have been appointed to invest in specific asset classes and investment markets.

Lawyers DLA Piper, Field Fisher and Squires Saunders were appointed as the scheme's legal advisers in July 2011, March 2011 and January 2011, respectively. They provided support for the in-house General Counsel for NEST Corporation in considering all legal aspects of the scheme and the impact of changes in legislation. Wragge & Co also provided advice, who were appointed from November 2010 to December 2011.

KPMG LLP were appointed in June 2011 as external auditors. They are responsible for providing assurance that the annual report and accounts have been properly prepared and that the financial statements are a true and fair reflection of the transactions in the period and the net assets as at 31 March.

Financial highlights

The financial movements in the year are summarised below and provided in detail in the financial statements and notes to the financial statements on pages 37 to 43. The financial statements have been prepared and audited in accordance with section 41 (1) and (6) of the Pensions Act 1995.

	£
Assets at start of period 18 July 2011	-
Income – contributions receivable	481,250
Expenditure – benefits paid out on behalf of members and beneficiaries	(2,016)
Charges payable to NEST Corporation	(6,973)
Change in value of members' retirement pots	8,514
Closing assets at 31 March 2012	480,775

Scheme commencement

The scheme opened to new members with effect from 18 July 2011.

The membership in the period 18 July 2011 to 31 March 2012 was:

	Members
New members enrolling in the period	850
Members opting out in the period	-
New members joining in the period	850
Less	
Members deceasing in the period	(1)
Members as at 31 March 2012	849
Types of members as at 31 March 2012	
Members enrolled by participating employers and still in pensionable service	844
Members who are self-employed	5
Total members as at 31 March 2012	849

Contributions and charges

Employers can choose their rate of contributions and that of their workers. The contribution rates chosen must meet the minimum limits set by the scheme. Employers also set their payment frequency for making contributions within statutory limits and their payment due date for each payment period. Once set, all employers must make payments each period by this due date. If the scheme is not in receipt of both a contribution schedule and a payment which matches this schedule by the due date, NEST will investigate the status of the payment with the employer.

Until 31 March there have been two instances which have required further investigation with employers. The breaches have not been considered material and have not been reported to TPR.

The value of payments which remain outstanding from the scheme year end to 30 April 2012 is £442.

The Trustee is required by law to report late payments of contributions which are of material significance to TPR. The Trustee takes the collection of contributions very seriously. Any breaches of the regulations deemed significant by the Trustee will be reported in accordance with both applicable law and TPR's Code of Practice and Guidance.

NEST levies a 0.3 per cent annual management charge (AMC) on members' total funds under management, plus a charge on contributions of 1.8 per cent.

For many types of NEST members, our charges work out as broadly equivalent to a 0.5 per cent AMC across their time saving with us. An AMC of 0.5 per cent is a good benchmark for the kind of low charges currently enjoyed by members of large workplace schemes.

Taking money out of NEST

When members take their money out of NEST they can use NEST's Retirement Panel to buy a retirement income or they can use the open market option if they prefer. Once the retirement pot has been used for this, members leave the scheme and the scheme will have no further responsibility to the members in respect of that retirement pot.

Transfers

There is limited scope for NEST to accept transfers in or pay transfers out, as explained in NEST's order and rules.

There were no transfers in or out during the year.

Deaths

Members of the scheme can nominate who they would like to get their retirement pot should they die before taking their money out of NEST.

This could be their partner, a family member, a charity or a combination of people and organisations. Nominations are legally binding.

If no nomination is made the scheme will, in most cases, pay the pot into the member's estate for distribution in line with a member's will, or if there is no will, in line with the law. In some cases the member's pot may be paid to a member's next of kin.

NEST does not provide members with death in service benefits.

Statement of Trustee's responsibilities

The Trustee is responsible for the audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP). The Trustee, in line with pension scheme regulations, needs to make audited accounts for each scheme year available to scheme members, beneficiaries and certain other parties, which:

- show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition at the end of the scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year
-

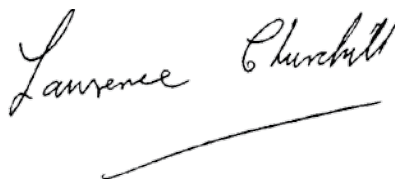
-
- › contain the information specified in the schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice, 'Financial Reports of Pension Schemes'.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. It is also responsible for making available each year, commonly in the form of a Trustee's annual report, information about the scheme prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The Trustee has a general responsibility for:

- › ensuring that adequate accounting records are kept
- › taking such steps as are reasonably open to them to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities, including the maintenance of appropriate internal controls.

The Trustee report was signed on behalf of NEST Corporation by:



Lawrence Churchill CBE
Chair
NEST Corporation
9 July 2012

Investment report

Statement of Investment Principles

The investment objectives of the scheme are set out in its Statement of Investment Principles (SIP) which the Trustee Members are required to prepare under section 35 of the Pensions Act 1995.

The SIP includes NEST's investment beliefs. These are a set of guiding principles established by the Trustee to provide an objective and transparent framework for consistent decision-making and to support all investment functions. These principles include well-evidenced concepts such as:

- diversification is the key tool for managing risk and return
- risk-derived asset allocation is the biggest determinant of long-term performance
- analysis of both economic conditions and market regimes should be used to drive strategic decisions.

Allowing our members and stakeholders to see why investment decisions are made and how we operate helps build trust and increases the chances of the Trustee making good investment decisions consistently.

NEST's SIP is available to download from www.nestpensions.org.uk/library. Hard copies are available to members on request. During the year and at year end all investments were in accordance with SIP.

NEST funds

Based on our understanding of the diverse needs of our target group, we have aimed to develop an approach to investment that offers:

- a well-constructed default strategy – the NEST Retirement Date Funds – with clear return objectives and a carefully managed risk profile
- a selection of fund choices for those who want a different level of risk, or an approach that matches their beliefs or faith.

There are 47 NEST Retirement Date Funds, which are a series of yearly target date funds through which we invest members' contributions. Members are enrolled into the fund that targets the year we expect them to want to take their money out of NEST. We have assumed members will retire when they reach State Pension age, but if an individual wants to retire at a different date, they can select a different NEST Retirement Date Fund.

The over-arching investment objective is to target investment returns in excess of inflation after all charges over the long term. This keeps both NEST and our members focused on actual outcomes, not stand-alone investment return figures that do not take account of the impact of charges and inflation.

Each NEST Retirement Date Fund operates as a fund of funds and has an asset allocation appropriate to its target date. We blend return-seeking asset funds and income-seeking asset funds. Our return-seeking asset funds are currently a global developed equities fund and a diversified beta fund. Our income-seeking asset funds are currently a gilts fund, an index-linked gilts fund, a liquidity (money market) fund and, from April 2012, a corporate bond fund. This enables us to carefully manage the risk profile of each NEST Retirement Date Fund.

We expect up to 90 per cent of our members to invest in the NEST Retirement Date Funds, either through choice or as the result of not making a fund choice. However our member research identifies that some members have specific needs that we believe should be met through offering a focused range of additional fund choices, specifically:

- **NEST Ethical Fund**, which aims to achieve similar above-inflation returns as the NEST Retirement Date Funds over a whole savings career while investing in companies that meet ethical criteria. It will be delivered through an ethical global equity fund along with the UK gilt fund and UK index-linked fund. The NEST Ethical Fund is likely to be slightly more volatile than the Retirement Date Funds but we look to manage risk throughout the savings careers of those members choosing the NEST Ethical Fund.
- **NEST Sharia Fund**, which has an investment approach based on Sharia principles.
- **NEST Higher Risk Fund**, which seeks higher returns through investing in a diversified portfolio of return-seeking assets with higher volatility. This is designed to meet the needs of those members who have higher risk appetites.
- **NEST Lower Growth Fund**, which aims to preserve the nominal value of capital invested and to grow that money in line with low risk money-market investments.
- **NEST Pre-retirement Fund**, which aims to meet the needs of members retiring in the early years of NEST who expect to buy a retirement income. It invests 75 per cent in a fund that aims to track level retirement income (annuity) prices, and 25 per cent in the liquidity fund.

Investment managers

All our funds are constructed from building block mandates supplied by leading fund managers. We awarded our first five investment mandates on 3 February 2011 as follows:

- Passive Global Developed Equities – awarded to UBS Global Asset Management
 - Passive UK Gilts – awarded to State Street Global Advisors
 - Passive UK Index Linked Gilts – awarded to State Street Global Advisors
 - Sterling Liquidity (Money Market Investments) – awarded to BlackRock
 - Diversified Beta – awarded to BlackRock.
-

In April 2011 we awarded investment mandates for our NEST Ethical Fund and NEST Sharia Fund:

- Global Ethical Developed Equities – awarded to F&C Investments
- Sharia compliant Global Developed Equities – awarded to HSBC Global Asset Management.

In April 2012 we also procured an actively-managed sterling corporate bond building block fund from Royal London Asset Management in order to refine our ability to manage risk throughout members' time saving with NEST.

Approach to investment risk management

NEST views investment risk management as a strategic function. We will have a large and diverse membership and we manage their investment risks throughout their time saving in NEST in a holistic way. This has led us to three main design characteristics:

- We employ three phases of risk management as members build up their pots to recognise that members' needs are different at different ages. These are the Foundation, Growth and Consolidation phases.
- We manage risk through diversification, spreading money wherever possible across a wide variety of assets to spread the risk and smooth the returns. This helps us navigate through many different economic and market environments.
- We set and operate within a risk budget. Therefore we seek to take the appropriate risk at the appropriate time in order to achieve the long-term objectives efficiently.

Intrinsically linked with our risk management procedures is our process for both understanding the market and economic regimes under which we operate and setting appropriate strategic asset allocations.

The strategic asset allocations for the NEST Retirement Date Funds, the NEST Higher Risk Fund and the NEST Ethical Fund are set using widely-used modelling techniques and well-researched inputs and assumptions from our investment advisers.

We also focus on identifying the best options for delivering against strategic and long-term goals over achieving short-term results. This reflects NEST's focus on the needs of our members and is necessarily long term.

The underlying data we consider provides a long-term perspective and recognises current market conditions. This supports NEST's investment team in making dynamic adjustments and to create circumstances where there is a good chance that both short and long-term market expectations are appropriately reflected within portfolios.

Of the many risks NEST takes into account, capital protection risk, inflation risk and conversion risk are our key focus. NEST's investment team dynamically manages these investment risks throughout members' saving lifetime, rather than adopting a mechanical 'set and forget' approach.

Capital protection risk – Foundation phase

Younger members could spend more than 40 years investing in a NEST Retirement Date Fund and over that time their fund will go through three phases. Our research indicated younger members could stop saving if they see falls in the value of their savings.

For this reason, members joining in their 20s will typically spend up to five years in the Foundation phase. Here their pot is split between growth assets and capital-protection assets, as we target positive real returns after charges, while managing downside risk.

Inflation risk – Growth phase

In the Growth phase we concentrate on growing the pot more quickly by investing in higher proportions of return-seeking assets within our given risk limits.

Members could spend up to 30 years in this phase, where we target 3 per cent above inflation after all charges.

Conversion risk – Consolidation phase

The Consolidation phase starts around 10 years before retirement. We gradually move members' pots into assets that broadly reflect the way we expect they will want to take their money out of NEST.

For funds at the start of the Consolidation phase we will be looking to at least match inflation after charges, but our primary focus is on securing the member's retirement income, as well as protecting it from sharp falls in equities and other growth assets.

Managing investment risk – understanding risk

In 2011 NEST procured and integrated a sophisticated risk system from MSCI Barra International and developed an in-house modelling platform. This allows us to constantly monitor and manage investment risks so we can look to achieve better outcomes for our members without taking undue risk.

Taking the appropriate amount of risk for NEST members is fundamental to all of NEST's strategic and dynamic investment decisions. For each fund NEST has determined a risk budget that relates to the amount of risk the fund will be managed to when meeting the return objectives. Each risk budget is based on research into both the opportunities offered by capital markets and members' risk capacities, needs and appetites.

Further details on the way NEST manages investment risk – including by considering volatility and comparative risk – for individual funds can be found on our adviser fund factsheets. These factsheets can be downloaded at the NEST for advisers section at www.nestpensions.org.uk/nest-for-advisers

Approach to asset allocation

NEST invests in a broad range of assets including money markets, global developed equities, gilts, index-linked gilts, liquidity, investment grade bonds, both emerging and developed market sovereign bonds and emerging market equities.

Further details on asset allocations for individual funds, including the global breakdown of equity, can be found on our adviser fund factsheets available at the NEST for advisers section at www.nestpensions.org.uk/nest-for-advisers

Custodial arrangements

The scheme only invests in pooled funds. This means that the custody, or safekeeping, of the underlying assets in the pooled funds is carried out by the underlying investment manager's custodian. The funds and the respective custodians are detailed in the table below.

Underlying funds and custodian

Underlying fund	Custodian
UBS Life World Equity Tracker Fund	J P Morgan
Blackrock Aquila Life Market Advantage Fund	J P Morgan
SSgA UK Conventional Gilts All Stocks Index Fund	State Street Bank and Trust
SSgA UK Index Linked Gilts over 5 Years Index Fund	State Street Bank and Trust
Blackrock Aquila Institutional Sterling Liquidity Fund	J P Morgan
F&C Stewardship International Fund	State Street Bank and Trust
HSBC Life Amanah Pension Fund	HSBC Securities Services

State Street Bank and Trust Company (SSB) provides fund administration services to ensure that our members' money is managed in line with our investment strategy. It administers the NEST Retirement Date Fund and the additional fund choices.

NEST Corporation reviews the internal control reports produced by the investment managers and SSB on a regular basis. SSB reconciles the investment and cash to the investment managers' records on a daily basis.

Responsible investment

NEST owns equities, corporate bonds and other asset classes on behalf of NEST members. We believe that in order to protect and enhance the value of our investments over the long term on behalf of our members we must act as a responsible asset owner and market participant.

We will integrate the consideration of environmental, social and governance (ESG) issues across all asset classes and markets where practical. In particular, NEST will exercise its ownership rights, including voting and engagement rights, in order to protect members' interests.

We adopt a robust, responsible investment policy across all of our funds to improve corporate standards and ensure all investments are carried out responsibly and sustainably.

The fund managers we have selected are committed to taking a serious approach to investing responsibly and active ownership.

Codes and initiatives

In 2011 NEST signed the Financial Reporting Council's UK Stewardship Code, which is a set of good practice principles that aim to improve the way companies and shareholders work together in the long-term interests of shareholders.

NEST has also become a signatory to the United Nations-backed Principles for Responsible Investment (UNPRI). These encourage consistent standards for responsible investment around the world.

Responsible ownership partners

In December 2011 NEST procured EIRIS to provide information that gives NEST a richer understanding of the ESG risks and opportunities contained within our investments. EIRIS will also support NEST in monitoring underlying portfolios and informing our voting and engagement activities.

In January 2012 NEST procured The Co-operative Asset Management as its responsible ownership partner. The services it provides help NEST engage with the companies we invest in and meet our responsibilities as an active and prudent asset owner.

Market commentary

Investment markets have been extremely volatile in the period since the scheme started to take contributions in July 2011. In particular, investors have been concerned about the risk of default in Greece and other southern European countries and the uncertain outlook for global growth.

Central banks around the world have responded with continued and concerted loose monetary policy, notably the low-rate refinancing of European banks by the European Central Bank. This has led to bouts of improved investor sentiment, but the above concerns haven't gone away.

NEST's Retirement Date Funds have generally been cautiously positioned. Relatively high allocations to short-term money markets and the gilt market served well to protect members' money from the sharp falls in equity markets over the summer of 2011.

The outlook remains uncertain while global imbalances are worked through, but NEST's investment committee will remain alert to investment opportunities.

Mark Fawcett
NEST chief investment officer
31 May 2012

Fund performance

NEST Retirement Date Funds have performed as we would have expected. They are delivering above-inflation returns within our given risk budgets while protecting members from excessive volatility in uncertain conditions. Like our members, NEST is investing for the long term, rather than focusing on data related to short periods.

There are currently more than 50 separate funds, inclusive of NEST Retirement Date Funds and alternative funds in the different phases of risk management.

Below we show performance for three NEST Retirement Date Funds in the three different stages – NEST 2055 Fund in the Foundation phase, NEST 2040 Fund in the Growth phase and NEST 2021 Fund in the Consolidation phase – and for the five alternative fund choices.

Performance of NEST funds

Fund	Fund performance since 1 August 2011	Benchmark performance since 1 August 2011	Benchmark
	%	%	
NEST 2055 Retirement Fund	4.89	2.34	*CPI
NEST 2040 Retirement Fund	4.59	2.34	*CPI
NEST 2021 Retirement Fund	4.57	2.34	*CPI
NEST Ethical Fund	7.61	2.34	CPI
NEST Sharia Fund	7.66	9.31	Dow Jones Islamic Market World Index
NEST Higher Growth Fund	4.48	4.52	88% Global Equities/12% Global Bonds
NEST Lower Growth Fund	0.41	0.33	7 DAY STERLING LIBID RATE
NEST Pre-retirement Fund	6.27	6.22	75% FTA All Stocks/25% 7 Day LIBID

*The overarching investment objective of the NEST Retirement Date Funds is to target investment returns in excess of inflation after all charges over the long term. The chosen measure of inflation is the Consumer Price Index (CPI). NEST Retirement Date Funds in the Foundation phase target investment returns equivalent to CPI and cover all scheme charges. NEST Retirement Date Funds in the Growth phase target investment returns equivalent to CPI plus 3 per cent and cover all scheme charges.

Performance of underlying funds against their benchmarks

Fund	AUM £000s	Fund performance since 1 August 2011 %	Benchmark performance since 1 August 2011 %	Benchmark
UBS Life World Equity Tracker Fund	128	4.59	4.54	FTSE All World Developed Index
Blackrock Aquila Life Market Advantage Fund	106	3.21	4.92	60% MSCI World/40% Barcap Global Aggregate Index
SSgA UK Conventional Gilts All Stocks Index Fund	36	8.27	8.23	FTSE Actuaries British Government All Stocks
SSgA UK Index Linked Gilts over 5 Years Index Fund	24	11.51	11.75	FTSE Actuaries UK Gilts British Gov Index Linked Over 5 Years
Blackrock Aquila Institutional Sterling Liquidity Fund	58	0.40	0.33	7 DAY STERLING LIBID RATE
F&C Stewardship International Fund	6	7.05	5.10	MSCI World TR
HSBC Amanah Fund	1	9.17	9.31	Dow Jones Islamic Market World Index
Total	359			

Departures from Statement of Investment Principles (SIP)

There were no departures from the SIP.

Employer-related investments

There were no employer-related investments.

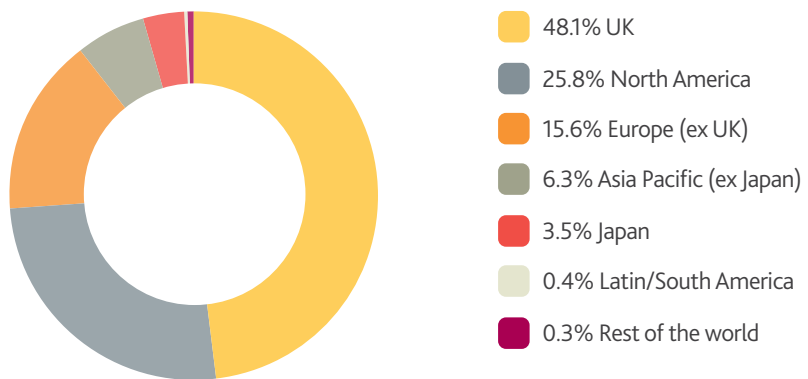
Top ten scheme holdings as a percentage of total investments

	% of investments
0% UK treasury bill maturity 23 April 2012	1.2
0% UK treasury bill maturity 10 April 2012	1.1
5.25% treasury gilt maturity 7 June 2012	0.9
Apple Inc	0.8
0% UK treasury bill maturity 2 April 2012	0.8
FMS Wertmanagement floating rate notes maturity 23 March 2013	0.7
0% UK treasury bill 3 maturity 30 April 2012	0.7
Barclays Bank PLC 1.08% certificate of deposit maturity 11 May 2012	0.7
2 1/2% UK index linked stock maturity 16 April 2020	0.7
ING Bank 1.08% certificate of deposit maturity 08 May 2012	0.7

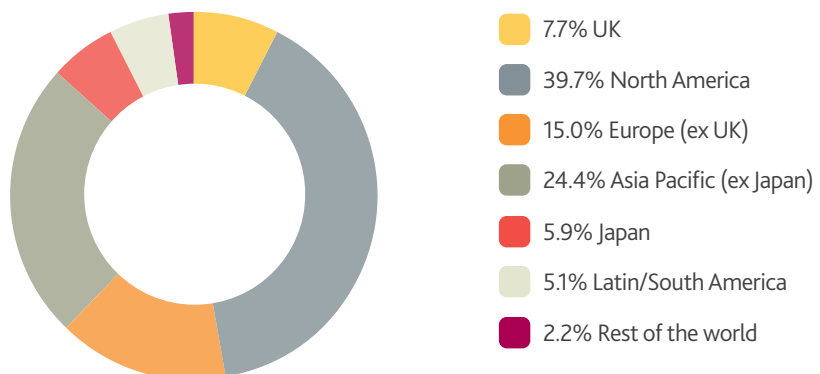
Note: Included in appendix 1 is the top 100 investments held through the underlying funds.

Geographical breakdown of investments

Geographical breakdown of total investments



Geographical breakdown of equities



Independent auditor's report to the Trustee of the NEST pension scheme

We have audited the financial statements of the scheme for the period ended 31 March 2012 which comprise the fund account, the net assets statement and the related notes. This financial reporting framework that has been applied in their preparation in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the scheme Trustee, in accordance with the Pensions Act 1995 and regulations made thereunder. Our audit work has been undertaken so that we might state to the scheme Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the scheme Trustee for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Trustee and auditors

As explained more fully in the statement of Trustee's responsibilities on pages 25 and 26, the scheme Trustee is responsible for the preparation of financial statements which show a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice). These standards require us to comply with the Auditing Practices Board's (APB's) ethical standards for auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the scheme during the scheme period ended 31 March 2012 and of the amount and disposition at that date of its assets and liabilities (other than liabilities to pay pensions and benefits after the end of the scheme year)
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995.



Kevin Clark

For and on behalf of KPMG LLP, statutory auditor

Chartered Accountants, 15 Canada Square, London E14 5GL

NEST pension scheme financial statements

Fund Account

for the period 18 July 2011 to 31 March 2012

	Note	18 July 2011 to 31 March 2012 £
Contributions and benefits		
Contributions	3	481,250
Benefits	4	(2,016)
Administrative expenses	5	(6,973)
Net additions from dealings with members		472,261
Returns on investment		
Investment income and management fee rebates	6	48
Change in market values of investments	7.1	8,466
Net returns on investments		8,514
Net increase in the fund during the year		480,775
Net assets of the scheme at 31 March 2012		480,775

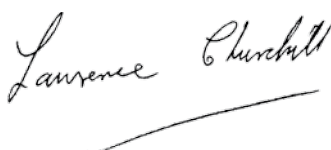
NEST Asset Statement

as at 31 March 2012

	Note	31 March 2012 £
Assets and liabilities allocated members		
Investments		
Pooled investment vehicles	7.1/7.2	358,934
Other invested assets	7.3	3,504
Other invested liabilities	7.3	(3,660)
Total investments		358,778
Net current assets	8.1	
- Current assets		133,583
- Current liability		(11,586)
Total net assets allocated to members		480,775
Total assets and liabilities not allocated to members		
Net current assets	8.2	
- Current assets		14
- Current liability		(14)
Total net assets not allocated to members		-
Net assets of the scheme at 31 March 2012		480,775

The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the Trustee. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the scheme year.

The financial statements on pages 37 to 38 including the notes to the financial statements on pages 39 to 43 were signed on behalf of NEST Corporation on 9 July 2012 by:



Lawrence Churchill CBE
Chair, NEST Corporation



Paul Hewitt
Chair, audit committee

Notes to the financial statements for the period 18 July 2011 to 31 March 2012

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with the guidelines set out in the Financial Reports of Pension Schemes (the revised SORP), Statement of Recommended Practice (revised May 2007).

2. Accounting policies

The principal accounting policies of the scheme are as follows:

2.1 Contributions

Contributions from members and employers are accounted for in the period they are due under the payment schedule.

Contributions made directly by members or other permitted parties are accounted for when received.

Amounts due from HMRC in respect of tax rebates on member contributions are accounted for in the same period as the related member contribution.

Amounts received in excess of the annual contribution cap are not recognised as contributions. They are held in current liabilities until the end of the year when they are either refunded or accepted as contributions for the following year.

Refunds of contributions in relation to members who opt out are accounted for in the period the member notifies NEST of their intention to opt out.

2.2 Transfers

Individual transfers in and out are accounted for on a cash basis.

2.3 Benefits

NEST may pay benefits to members in the form of:

- pension commencement lump sum
- purchase of an annuity via NEST retirement panel or an open market option
- trivial commutation.

Benefits are accounted for upon notification to NEST of a member's decision to exercise their option, or upon certification in the case of a death.

2.4 Other income and expenses

Where material other income and expenditure is accounted for on an accruals basis.

2.5 Charges

Contribution charges of 1.8 per cent are accounted for when contributions are invested. Annual management charges of 0.3 per cent of the value of members' funds under management are accounted for on a daily accrual basis by deduction in the unit price.

2.6 Investments

Investments are included at market value. Pooled investment vehicles are stated at single price as provided by the investment manager.

2.7 Change in market value of investments

Change in market value of investments comprises realised gains and losses on investments sold in the period and unrealised gains and losses on investments held at the period end.

Investment income from the underlying investments of the pooled investment vehicles is reinvested within the pooled investment vehicles and reflected in the respective unit prices. It is reported within 'change in market value'.

3. Contributions

	18 July 2011 to 31 March 2012
	£
Contributions from:	
- participating employers	277,291
- members	163,152
- HM Revenue and Customs	40,807
	<u>481,250</u>

4. Benefits

	18 July 2011 to 31 March 2012
	£
Death benefits to beneficiaries	<u>2,016</u>

5. Administrative expenses

	18 July 2011 to 31 March 2012
	£
Contribution charge	6,776
Annual management charge	197
	<u>6,973</u>

These charges are paid to NEST Corporation, see note 9 on related parties.

6. Investment income and management rebates

	18 July 2011 to 31 March 2012
	£
Interest income	13
Management fee rebates	35
	<u>48</u>

7.1 Investments

	B/fwd as at 18 July 2011	Purchases	Sales proceeds	Change in market value	C/fwd as at 31 March 2012
	£	£	£	£	£
Pooled investment vehicles	-	357,986	(7,518)	8,466	358,934
Other investment balances (see note 7.3)					(156)
Total investments					<u>358,778</u>
Represented by					
Allocated to members					358,778
Not allocated to members					-
Total investments					<u>358,778</u>

7.2 Investment assets allocated to members

The scheme investments are held in either a NEST Retirement Date Fund or a member-focused range of other funds. As explained in the investment report on pages 27 to 35 the funds are invested through underlying funds which are managed by the underlying investment managers, as shown by total investments in note 7.1 above. When members' contributions are invested and allocated in accordance with their fund selection contributions are invested into the relevant funds below.

	31 March 2012
	£
NEST Higher Risk Fund	21,962
NEST Retirement Date Funds	325,818
NEST Ethical Fund	9,583
NEST Sharia Fund	1,415
Total assets allocated to members	<u>358,778</u>

7.3 Other investment balances

	31 March 2012 £
Investment cash including cash in transit	3,463
Reimbursement due from investment managers	35
Sundry	6
Non-invested assets	3,504
Amount to be invested	(3,463)
Annual management charge to be transferred to NEST Corporation	(197)
Non-invested liabilities	(3,660)
Total – other investment balances	(156)

7.4 Employer related investments

There were no employer related investments during the year or at the year end.

8.1 Current assets and liabilities allocated to members

	31 March 2012 £
Contributions due from:	
- participating employers	53,766
- members	26,345
- HM Revenue and Customs	24,774
Cash - to be invested	28,698
Current assets	133,583
Benefits payable	(2,016)
Amounts to be invested	(7,539)
Contribution corrections and limit breach repayable	(2,031)
Current liabilities	(11,586)
Net current assets allocated to members	121,997

With the exception of £442, all outstanding contributions at the end of 31 March 2012 were received by the dates on the underlying contribution schedules.

8.2 Current assets and liabilities not allocated to members

	31 March 2012
	£
Cash	14
Current assets	14
Amounts payable to NEST Corporation	(14)
Current liabilities	(14)
Net current assets allocated to members	-

9 Related parties transactions

The NEST pension scheme's Trustee is NEST Corporation, which is a non-departmental public body accountable to the Secretary of State for Work and Pensions. The scheme pays the Trustee the contribution charge and annual management charge shown in note 5 above. The total amount for the year was £6,973.

NEST Corporation is a participating employer in the scheme. Contributions of £178,023 were paid by NEST Corporation to the scheme during the period 18 July 2011 through to 31 March 2012.

Remuneration and pay for Trustee Members is set by the Secretary of State for Work and Pensions.

Julius Pursaill, a Trustee Member, is a contributing member to the scheme on standard business terms.

Tom Boardman, a Trustee Member, is one of the directors of a participating employer to the scheme. The participating employer makes contributions to the scheme on standard business terms.

The Trustee pays for all of the running costs of the scheme including the payment of fees for the investment managers, investment fund administrators and the scheme administrators TCS. The details of these fees can be seen in the annual report and accounts for NEST Corporation for the year ended 31 March 2012.

Other useful information

NEST's public website is www.nestpensions.org.uk

If you are a member or an employer already using NEST, contact us at:

Email: support@nestpensions.org.uk

Phone: **0300 020 0090** 8am to 8pm Monday to Sunday and 10am to 4pm on bank holidays. Closed on Christmas Day, Boxing Day, New Year's Day and Easter Sunday and Monday.

Postal address:

**NEST
Nene Hall
Lynch Wood Business Park
Peterborough
PE2 6FY**

Regulation and disputes

The Pensions Regulator

The Pensions Regulator (TPR) has powers to regulate occupational pension schemes.

It works with trustees, employers, pension specialists and business advisers to protect members' benefits and encourages high standards in running pension schemes.

TPR is able to intervene in the running of schemes where trustees, providers or employers have failed in their duties.

You can find helpful information about TPR at

www.thepensionsregulator.gov.uk

You can contact TPR at:

**The Pensions Regulator
Napier House
Trafalgar Place
Brighton
East Sussex
BN1 4DW**

Telephone: **0845 600 1011**

Email: customer.support@thepensionsregulator.gov.uk

Directgov

Directgov offers impartial UK government information on state and private pensions. It has a tracing service to assist individuals wishing to contact a previous employer's pension scheme.

NEST pension scheme's registration number is 12004537.

Website: www.direct.gov.uk

The Pensions Advisory Service

The Pensions Advisory Service (TPAS) provides free independent advice and can help both members and beneficiaries of NEST if they are experiencing problems related to NEST or any other pension scheme.

You can contact TPAS at:

TPAS
11 Belgrave Road
London
SW1V 1RB

Telephone: **0845 601 2923** (Pensions Helpline)

Email: enquiries@pensionsadvisoryservice.org.uk

Website: www.pensionsadvisoryservice.org.uk

Pensions Ombudsman

The Pensions Ombudsman investigates and determines any complaint or dispute of fact or law, in relation to an occupational pension scheme, which cannot be settled through the Pensions Advisory Service and the Internal Disputes Resolution Procedure.

You can contact the Pensions Ombudsman at:

The Office of the Pensions Ombudsman
11 Belgrave Road
London
SW1V 1RB

Telephone: **020 7630 2200**

Fax: **020 7821 0065**

Email: enquiries@pensions-ombudsman.org.uk

Website: www.pensions-ombudsman.org.uk

Appendix

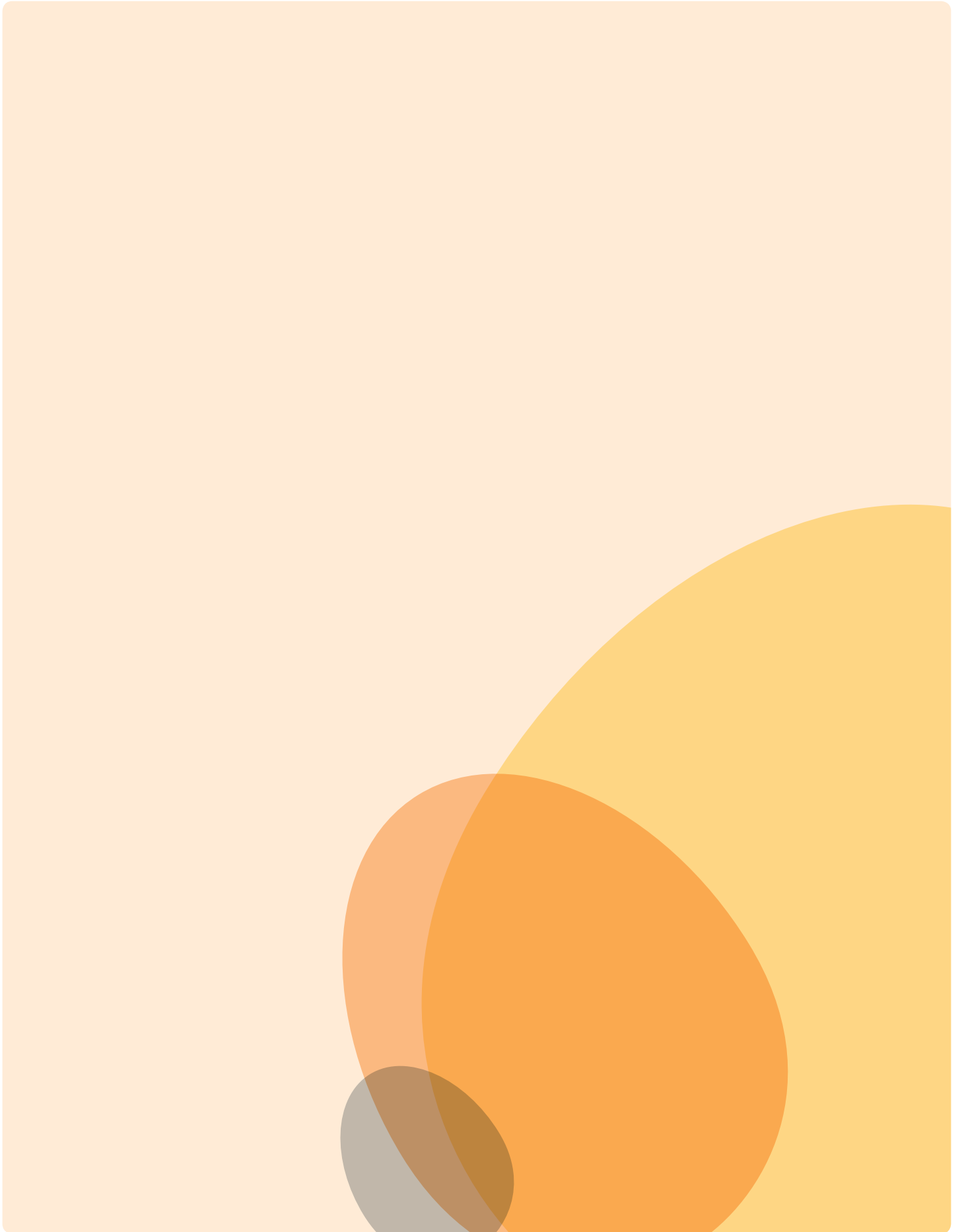
Schedule of the top 100 investments

The top 100 investments have been calculated on a look-through basis to underlying holding of the pooled funds invested in by the scheme.

Number	Investments	% of investments
1	0% UK treasury bill maturity 23 April 2012	1.2%
2	0% UK treasury bill maturity 10 April 2012	1.1%
3	5.25% treasury gilt maturity 7 June 2012	0.9%
4	Apple Inc	0.8%
5	0% UK treasury bill maturity 2 April 2012	0.8%
6	FMS Wertmanagement floating rate notes maturity 23 March 2013	0.7%
7	0% UK treasury bill 3 maturity 30 April 2012	0.7%
8	Barclays Bank PLC 1.08% certificate of deposit maturity 11 May	0.7%
9	2 1/2% UK index-linked stock maturity 16 April 2020	0.7%
10	ING Bank 1.08% certificate of deposit maturity 08 May 2012	0.7%
11	Treasury FLT index-linked STK 22/Nov/2027	0.7%
12	Treasury VAR TSY gilt 22/Nov/2022 GB	0.7%
13	Treasury 0% treasury bill 16/Apr/2012 GBP	0.6%
14	UK (govt of) 2.5% I/L STK 17/Jul/2024 GBP	0.6%
15	Lloyds TSB Bank PLO.500000% due 02/Apr/2012 T.D.	0.6%
16	Treasury 3.75% gilt 07/Sep/2021 GBP	0.6%
17	Treasury 0% treasury bill 23/Jul/2012 GBP	0.6%
18	Exxon Mobil	0.6%
19	HSBC Bank FR MTN 08/Nov/2012	0.6%
20	Treasury 1.125% index-linked gilt 22/Nov/2037	0.6%
21	Treasury index-linked gilt VAR 22/Nov/2032	0.6%
22	Erste Abwicklungs FRN MTN 17/Sep/2012 GBP	0.6%
23	National Australia Bank 0.7% CT OF DEP 12/Sep/2012 GBP	0.5%
24	Treasury VAR index-linked gilt 22/Nov/2017	0.5%
25	Deutsche Bank AG, Great Winche ZCP 02/May/2012	0.5%
26	Treasury 4 1/8% index-linked STK 22/Jul/2030	0.5%
27	Treasury 2% I/L 2035	0.4%
28	Rabobank Nederland FRN GMTN 09/Nov/2012 GBP	0.4%
29	Treasury 0.625% index-linked treasury gilt 22/Nov/2042	0.4%
30	UK treasury index-linked gilt UKTI 0.75 11/47	0.4%
31	Treasury 0% treasury bill 13/Aug/2012 GBP	0.4%
32	Treasury 5 2014	0.4%
33	UK (govt of) 0.5% index-linked 22/Mar/2050 GBP	0.4%
34	Microsoft Corporation	0.4%
35	Treasury 4 % 2015 AUCA	0.4%
36	Treasury 4.75% gilt 07/Mar/2020	0.4%
37	Treasury 4% STK 07/Sep/2016	0.4%
38	Treasury 0% treasury bill 24/Sep/2012 GBP	0.4%
39	Bank of Tokyo-Mitsubishi UFJ 0% CD 08/May/2012 GBP	0.4%
40	Treasury 0% treasury bill 17/Sep/2012 GBP	0.4%

Number	Investments	% of investments
41	Credit Suisse First Boston 0.9% CT OF DEP 17/Apr/2012 GBP	0.3%
42	Credit Suisse First Boston 0.88% CT OF DEP 19/Apr/2012 GBP0.01	0.3%
43	Bank of Nova Scotia 0.300000% DUE 02/Apr/2012 T.D.	0.3%
44	Treasury 5% gilt 07/Mar/2018 GBP	0.3%
45	Treasury 0% treasury bill 18/Jun/2012 GBP	0.3%
46	Treasury 2.25% gilt 07/Mar/2014 GBP	0.3%
47	Treasury 4% gilt 07/Mar/2022 GBP	0.3%
48	Rabobank Nederland FR GMTN 14/Dec/2012 GBP	0.3%
49	DNB Bank ASA ZCP 23/Apr/2012	0.3%
50	Treasury 4 1/2% 2013	0.3%
51	Nederlandse Waterschapsbank NV ZCP 06/Sep/2012	0.3%
52	Treasury 4.25% STK 07/Dec/2027	0.3%
53	Treasury 2% gilt 22/Jan/2016 GBP	0.3%
54	International Business Machines	0.3%
55	Treasury 0% treasury bill 30/Jul/2012 GBP	0.3%
56	Treasury 4.25 % 2032	0.3%
57	Treasury 4.5% gilt 07/Mar/2019 GBP	0.3%
58	Chevron Corporation	0.3%
59	Treasury 4 3/4% 2030	0.3%
60	UKT Treasury 4.75% 12/07/2038	0.3%
61	Treasury 2 3/4% 2015	0.3%
62	Nestle	0.3%
63	General Electric	0.3%
64	Treasury 0.375% index-linked gilt 22/Mar/2062 GBP	0.3%
65	Treasury index-linked gilt 0.75% 22/Mar/2034 GBP	0.3%
66	Nordea Bank Finland 0% CD 23/Aug/2012 GBP	0.3%
67	Samsung Electronic	0.3%
68	Kreditanstalt fur Wiederaufbau ZCP 13/Jul/2012	0.3%
69	Treasury 4.25% gilt 07/Dec/2040	0.3%
70	Treasury 4.25% gilt 07/Dec/2055 GBP	0.3%
71	Treasury 1.75% gilt 22/Jan/2017	0.3%
72	Procter & Gamble	0.3%
73	Treasury 3.75% gilt 07/Sep/2020 GBP	0.3%
74	Treasury 4.25 % 2036	0.3%
75	Treasury 4.5% gilt 07/Dec/2042 GBP	0.3%
76	Johnson & Johnson	0.3%
77	Treasury 4.5% gilt 07/Sep/2034 GBP	0.2%
78	NRW.BANK ZCP 12/Apr/2012	0.2%
79	AT&T	0.2%
80	Pfizer Inc	0.2%
81	Coca-Cola	0.2%
82	Wells Fargo	0.2%
83	JP Morgan Chase	0.2%
84	Treasury 4.25% gilt 07/Dec/2046	0.2%
85	DBS Bank LTD ZCP 18/Apr/2012	0.2%

Number	Investments	% of investments
86	Google	0.2%
87	Treasury 4.25% gilt 07/Dec/2049 GBP	0.2%
88	Nordea Bank AB (PUBL) ZCP 09/Aug/2012	0.2%
89	Wal Mart Stores	0.2%
90	Treasury 4.25% gilt 07/Sep/2039 GBP	0.2%
91	Philip Morris	0.2%
92	DNB Markets 0.500000% due 02/Apr/2012 T.D.	0.2%
93	Treasury 0% treasury bill 11/Jun/2012 GBP	0.2%
94	DBS Bank LTD ZCP 24/Apr/2012	0.2%
95	Oracle	0.2%
96	HSBC Bank PLC FRN 04/May/2012 GBP	0.2%
97	Intel	0.2%
98	Vodafone	0.2%
99	Treasury 4% gilt 22/Jan/2060 GBP	0.2%
100	Novartis	0.2%

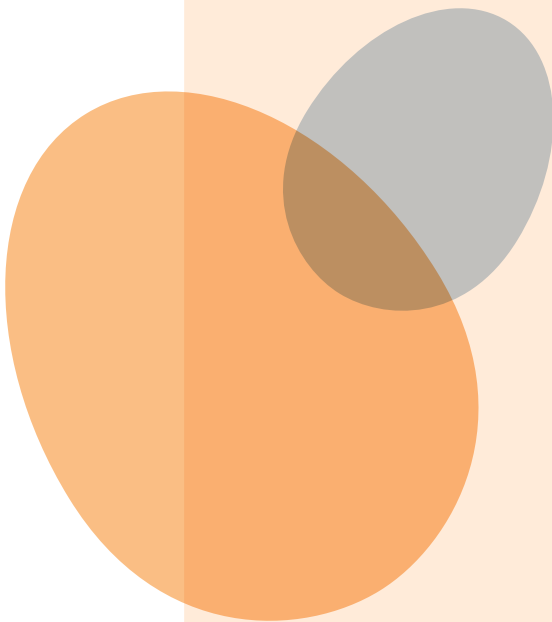


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www.nestpensions.org.uk

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