



## NEST's strategic asset allocation

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### Introduction

NEST is committed to good governance and transparency in its approach to investing on behalf of its members.

As part of this ongoing commitment, NEST commissioned an independent review of our investment governance processes in 2016. This was to ensure the processes remained appropriate as the scheme's assets under management grew.

Following the review, NEST implemented a modification to its strategic asset allocation framework, in line with best practice at some of the world's largest institutional investors. The strategic asset allocation framework is agreed each year by the Investment Committee of NEST Trustees.

### Delivering NEST's funds

Most NEST members are invested in our NEST Retirement Date Funds. We also offer a choice of alternative funds for members who wish to invest according to different risk appetites and moral or religious beliefs. These are the:

- NEST Ethical Fund
- NEST Sharia Fund
- NEST Higher Risk Fund
- NEST Lower Growth Fund
- NEST Pre-Retirement Fund.

The strategic asset allocation framework provides the ranges of different asset class groups. According to our long-term assumptions of how different investments are likely to perform, these ranges are most likely to achieve the investment objectives of the different NEST funds. Each year the Investment Committee reviews both the ranges of the asset class groups and the long term neutral position. This neutral position represents a portfolio of different asset class groups that is expected to achieve the long-term investment return objectives of the NEST funds at an appropriate level of risk. The in-house investment team can move away from this reference portfolio within the permitted ranges in order to dynamically manage investment risk.

The asset class groups are:

- equities
- growth credit
- investment grade bonds

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- real assets (currently only real estate)
  - cash (money market investments).

You can read more about the asset classes that NEST currently invests in within each of these groups [here](#).

Our in-house investment team decides how to invest within the strategic asset allocation framework. It meets every quarter to review NEST's funds based on a comprehensive review of what's happening in economies and markets around the world. The team monitors the performance of our fund managers and considers the risks and opportunities available in different asset classes. They also manage the integration of environmental, social and governance risk factors. This allows us to reduce or increase exposure to particular asset classes and risks at certain times and understand when asset classes are under or over valued.

The reference portfolios for our NEST Retirement Date Funds and NEST fund choices can be found in Annex A.

## Annex A

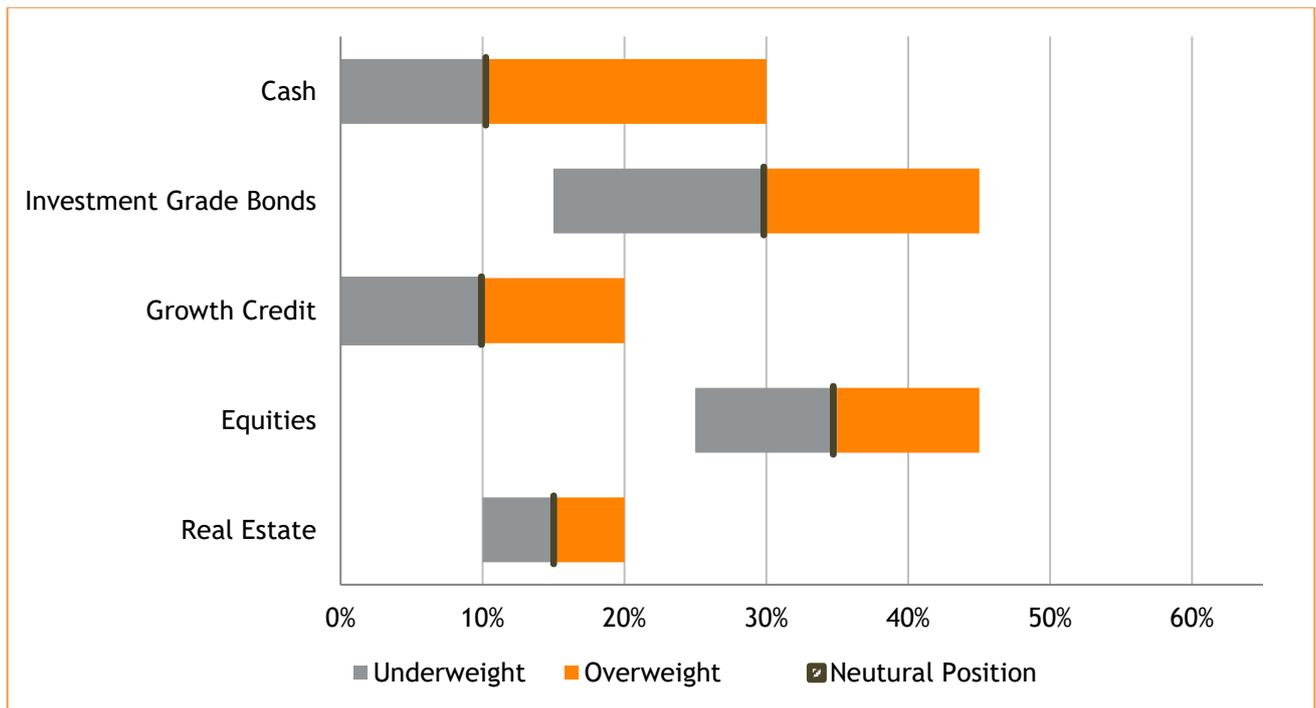
### NEST Retirement Date Funds

NEST's default strategy provides a fund for each year a member could retire, known as the NEST Retirement Date Funds. We aim to maximise the value of members' pots by taking the right investment risk on their behalf at different periods throughout their time saving. We manage members' assets according to their age and how markets are performing. If members join in their early twenties they'll go through three, dynamically managed investment phases.

#### Foundation phase objectives

This phase is designed for younger members typically in their 20s. The aim is to grow members' pots by at least inflation (CPI) after charges, while avoiding sharp falls as they get used to pension saving. The foundation phase lasts for up to five years, at which point members' pots are transitioned over a further five years into the growth phase.

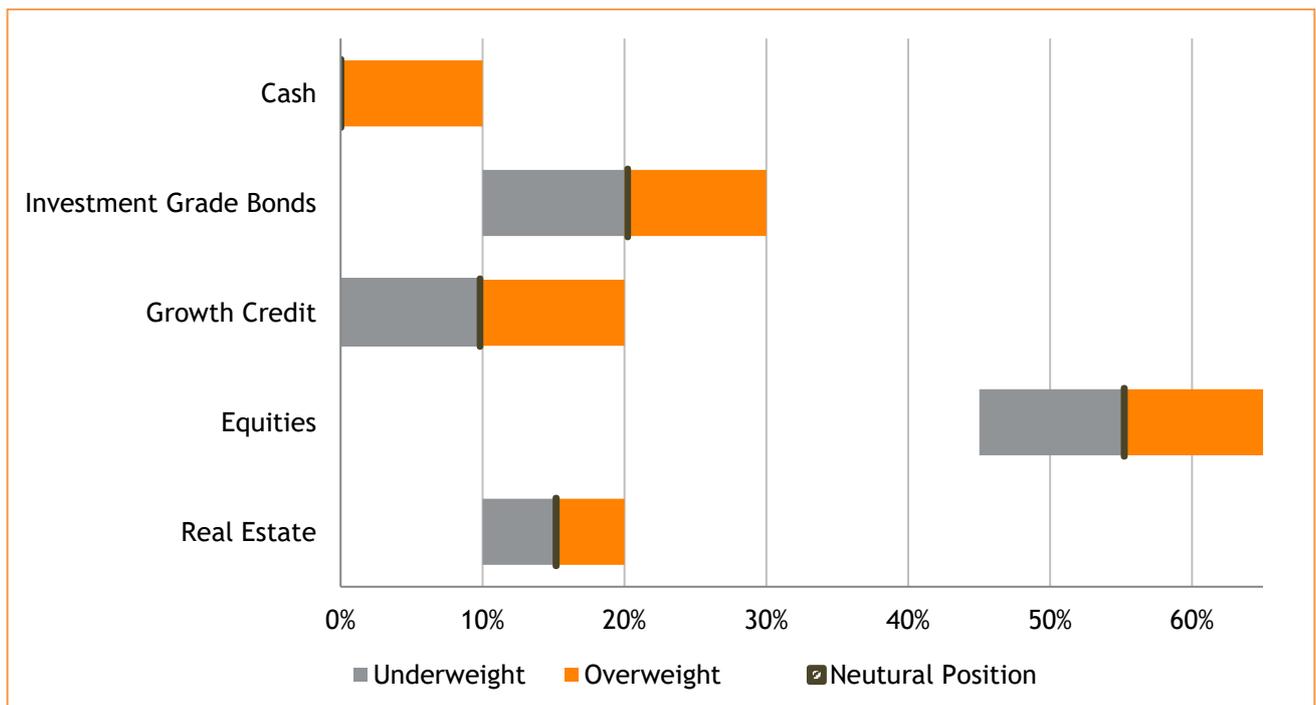
### Foundation phase reference portfolio



### Growth phase objectives

The growth phase lasts for approximately 30 years. During this phase, we focus on growing a member's retirement pot much more quickly. The objective is to outperform inflation by 3 per cent after all charges over the long term. We believe this is the right time to take more investment risk, while members are still some years away from retirement.

### Growth phase reference portfolio

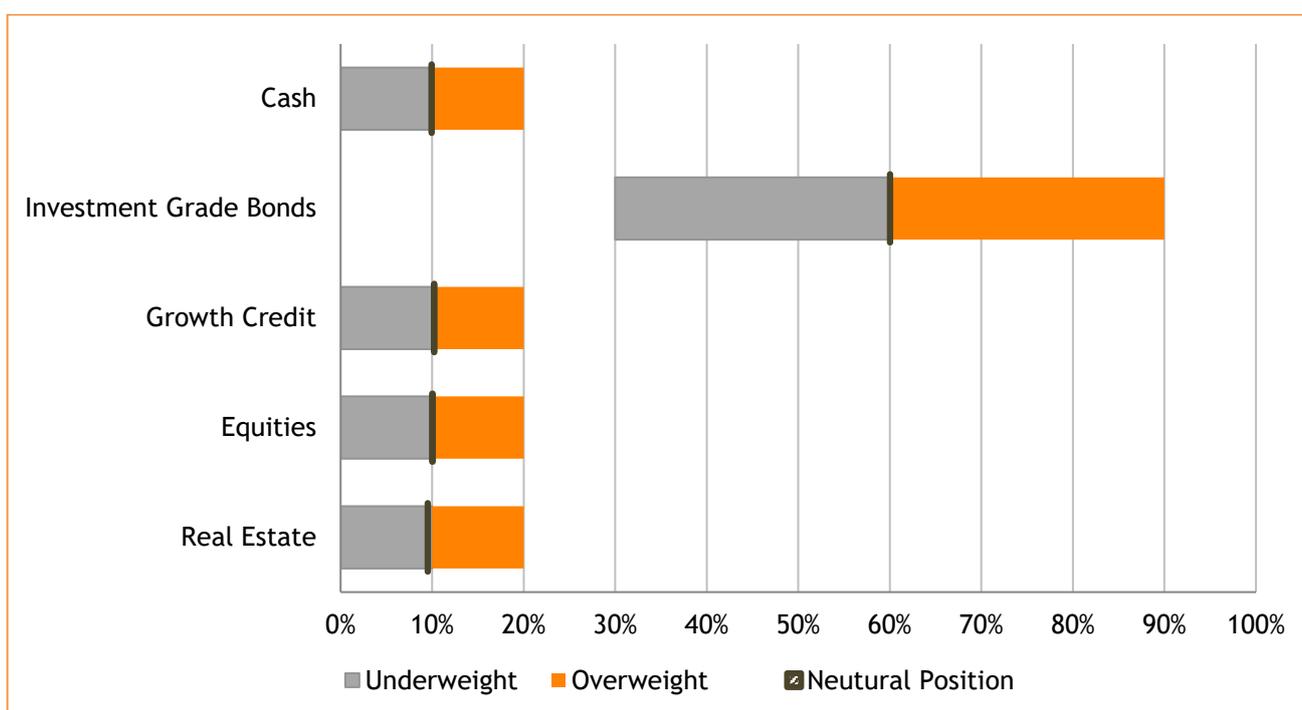


## Consolidation phase objectives

The consolidation phase aims to get members' retirement pots ready for withdrawal. At this point, we start gradually de-risking the pot, to help protect it from the possibility of big falls in value close to retirement. The funds gradually change the focus from capital growth to a capital protection portfolio, designed to at least match CPI after charges over a ten year de-risking period. For example, a higher percentage of the investment allocation might move to bonds, which are generally less risky than equities.

The reference portfolio below represents the at retirement target asset class portfolio. This is the expected portfolio at the end of the ten year consolidation phase, when we expect members to access their savings.

## At retirement reference portfolio



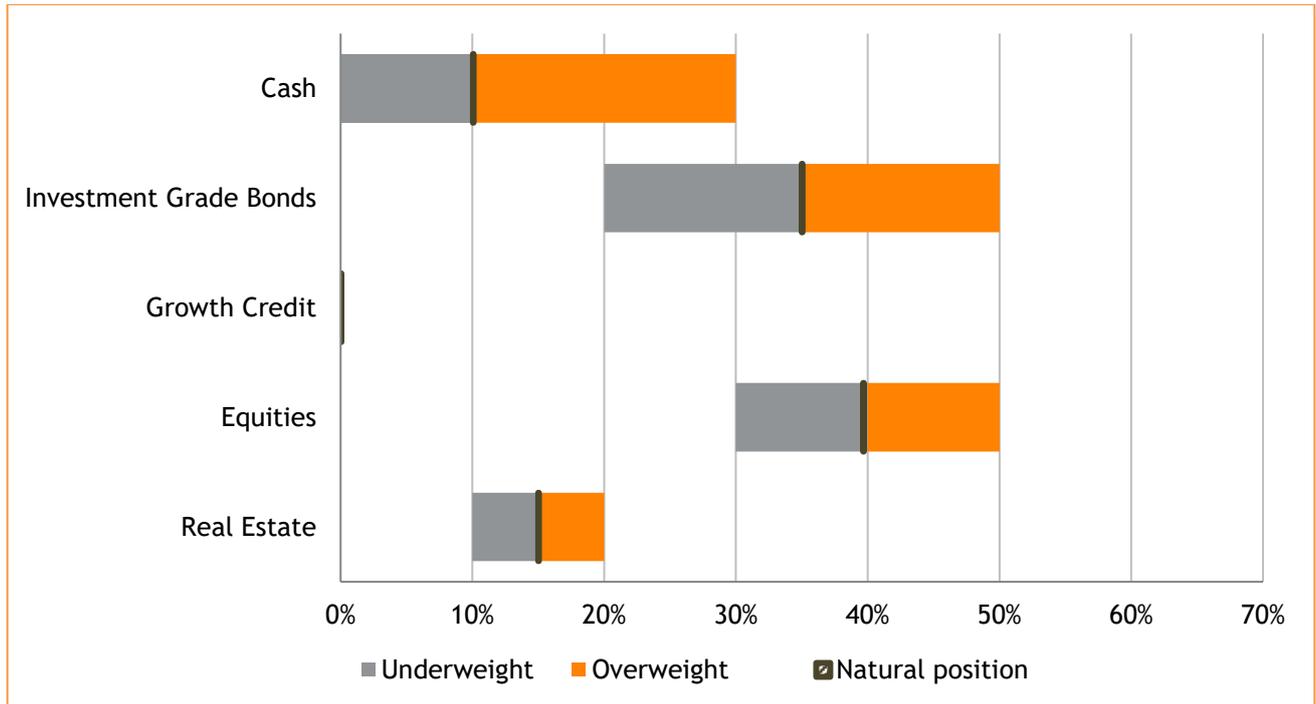
## NEST Ethical Fund

The NEST Ethical Fund is for people who want to invest in line with specific ethical or moral concerns, for example in areas such as human rights and fair trade. It follows a three stage glide path in a similar way to our flagship NEST Retirement Date Funds.

## Foundation phase objectives

The foundation phase of this fund is intended for younger members typically in their 20s. The aim is to grow members' pots by more than CPI after all charges, while protecting against sharp falls that may discourage young members from saving. After the first five years the fund is transitioned into the growth phase over a five year period through a life styling mechanism.

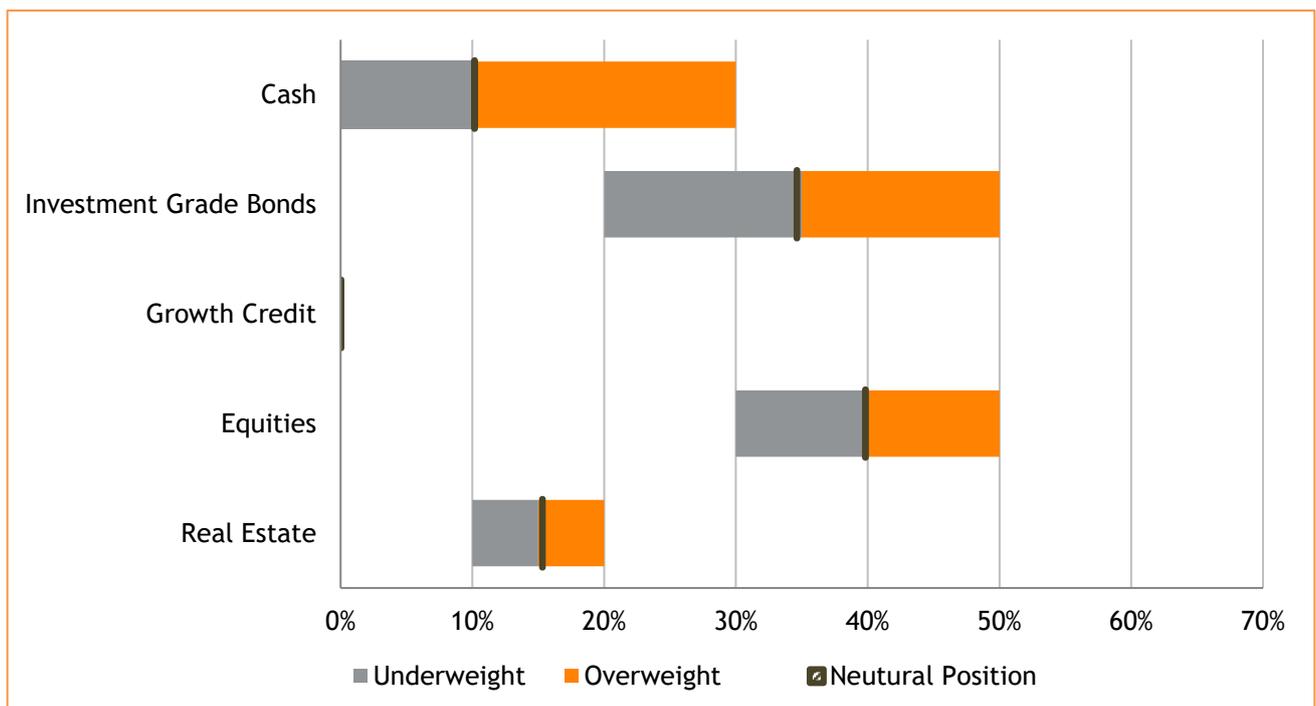
## Foundation phase reference portfolio



## Growth phase objectives

The growth phase aims to grow members' pots significantly faster than inflation, while adhering to the fund's ethical policy. The objective is the same as the growth phase of the NEST Retirement Date Funds, to outperform CPI by at least 3 per cent after all charges over the long term.

## Growth phase reference portfolio:

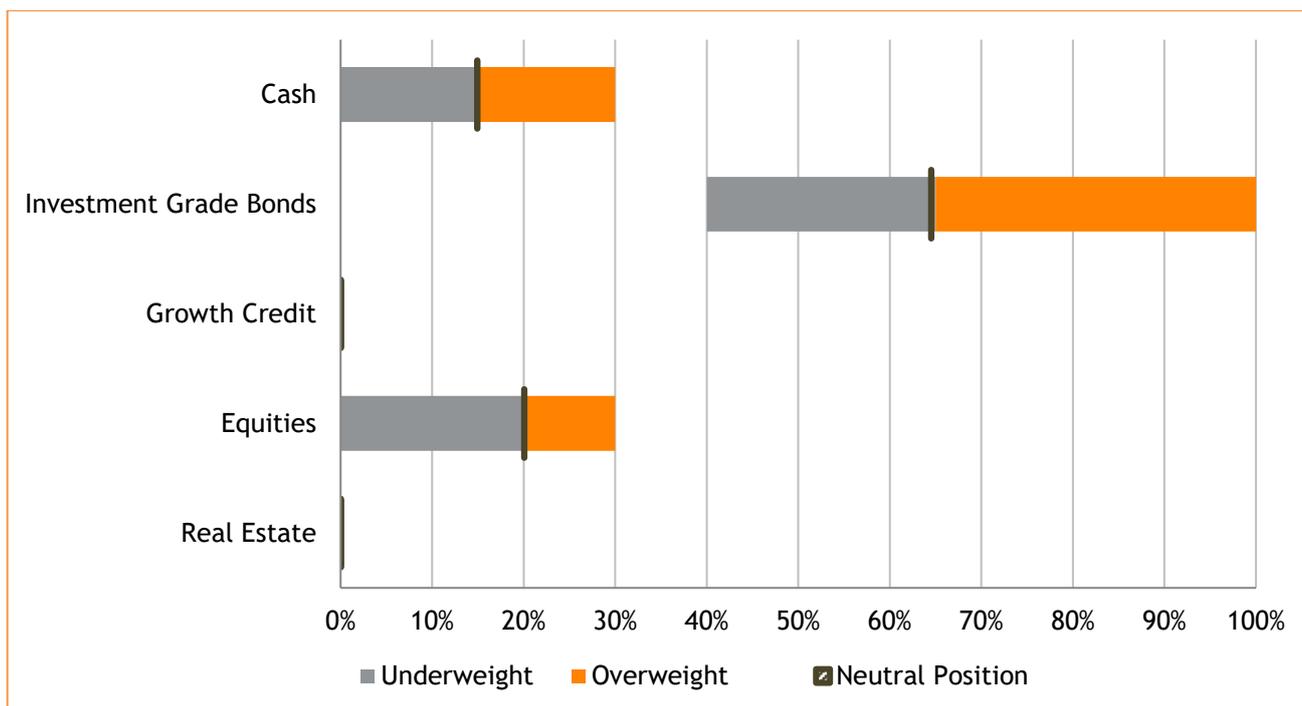


### Consolidation phase objectives

Through the consolidation phase, the focus on members' funds gradually changes from capital growth to capital protection, designed to at least match inflation after charges over a ten year de-risking period, while adhering to the fund's ethical policy.

The reference portfolio below represents the Ethical at retirement target asset class portfolio. This is the expected portfolio at the end of the ten year consolidation phase, when we expect members to access their savings.

### Ethical at retirement reference portfolio:



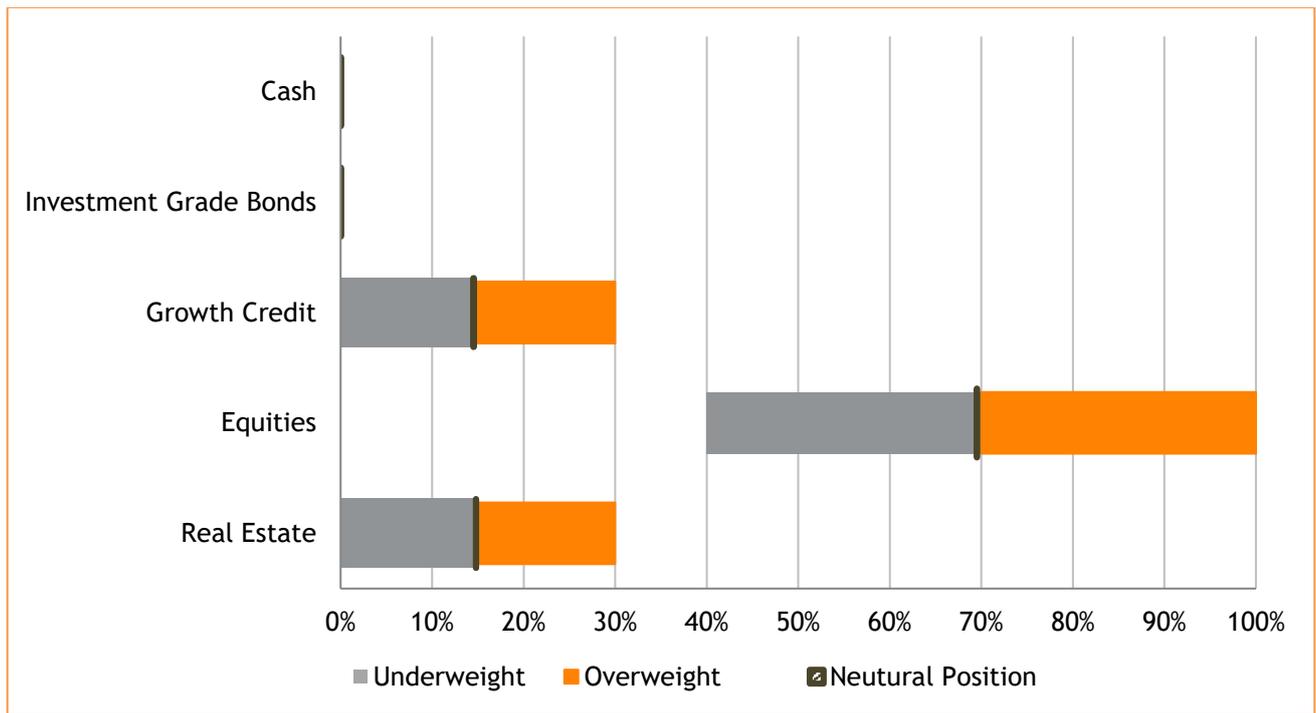
### NEST Higher Risk Fund

The NEST Higher Risk Fund is for people who are more confident about taking investment risk in the expectation that their retirement pot will grow faster. The fund is made up of investments expected to have high returns, which means there will be more investment risk. When members are ten years from their expected retirement date, they will be automatically switched into the corresponding NEST Retirement Date Fund.

### Fund objectives

The fund aims to take more investment risk than the NEST Retirement Date Funds in pursuit of potentially higher returns, while reducing the likelihood of extreme investment shocks by diversifying across a range of return-seeking assets.

**Fund reference portfolio:**



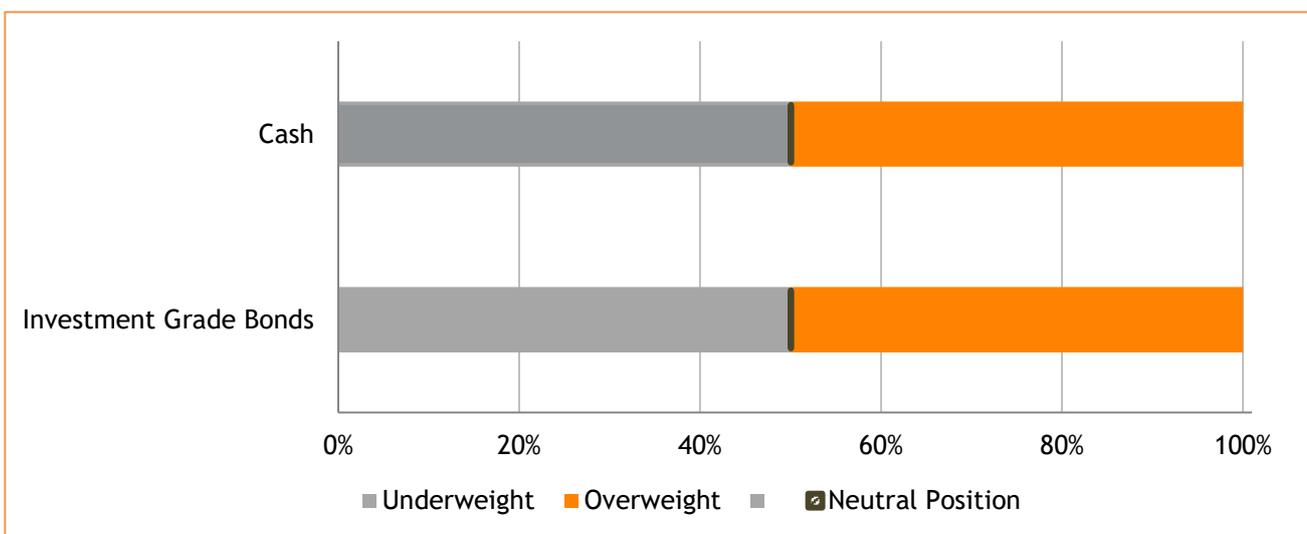
**NEST Lower Growth Fund**

This fund adopts a very cautious approach to investing. Members selecting this fund are informed that returns may not keep up with inflation.

**Fund objectives**

The objective of this fund is to maintain the nominal value of members' savings after charges.

**Fund reference portfolio:**



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## NEST Sharia Fund\*

The investments in this fund are screened by Islamic scholars to meet Sharia standards. Life styling and diversification at the asset allocation level are not currently possible for this fund, as it invests entirely in a single asset class.

## NEST Pre- Retirement Fund\*

This fund provides a savings vehicle for members close to retirement, who expect to buy a retirement income through an annuity and, take 25 per cent of their pot as a cash lump sum.

\*These funds do not have a reference portfolio, as they each invest entirely in a single asset class or with a pre-determined asset allocation.

The reference portfolios and ranges were last reviewed by the Investment Committee in February 2018. This document was uploaded in March 2018. The next review will be in February 2019. Details of the actual asset allocation within the asset class group ranges can be found in [NEST's quarterly investment reports](#).

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