

# Nest's objectives for investing responsibly



February 2022

## Nest's objectives for investing responsibly

Like many pension schemes, Nest has a set of investment beliefs that helps us make better decisions about how we invest members' money. Two of these set out our beliefs on responsible investment:

- › As long-term investors, we believe that integrating environmental, social and governance (ESG) considerations into the investment management process improves risk-adjusted returns.
- › We believe that long-term returns to investors are likely to be more sustainable if companies consider the interests of wider stakeholders – customers, employees and the wider public as well as shareholders and lenders.

We have developed four objectives for investing responsibly that follow from these investment beliefs. These responsible investment objectives help guide and prioritise our activities and give purpose to what we do. They are reviewed every three years to ensure they continue to support our evolving investment approach and remain fit for purpose in a changing market environment.

### Our responsible investment objectives

We seek to identify and manage ESG-related risks and opportunities across our portfolio where we believe doing so leads to lower risk and/or enhanced returns.

#### Better functioning markets:

We want to improve market transparency and how markets operate and are regulated in jurisdictions where we invest. We also seek to manage and help to mitigate systemic risks which have the ability to impact the real-world economy and in turn our portfolio.



#### Long-term wealth creation:

We want to encourage companies and our fund managers to successfully manage and be clear about the risks and impacts of their activities on the environment and wider stakeholders in order to deliver sustainable performance to support good returns for our members over many years.

#### Manage reputational risks:

We want to protect Nest's reputation and grow trust with our members by encouraging companies to act in ways our members can feel confident about.

## 1. Better risk-adjusted returns

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We seek to identify and manage ESG-related risks and opportunities across our portfolio where we believe doing so leads to lower risk and/or enhanced returns

The implications of this are:

- › We use and encourage the development of good-quality and timely ESG data to be able to identify risks across our portfolio.
- › We ensure that material ESG risks and opportunities are addressed in our asset allocation, manager selection, risk measurement, monitoring and stewardship activities.
- › We actively hold companies to account – either directly or through our managers – on the most material risks and opportunities affecting their businesses in the long-term.
- › We advocate for meaningful corporate reporting and high-quality data to help inform investment decision making and stewardship activity.

## 2. Better functioning markets

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We want to improve market transparency and how markets operate and are regulated in jurisdictions where we invest. We also seek to manage and help to mitigate systemic risks which have the ability to impact the real-world economy and in turn our portfolio.

The implications of this are:

- › We engage with our peers, policymakers, and standard setters to help mitigate systemic risk and push for stronger standards where needed.
- › We engage with companies globally on systemic issues like climate change, biodiversity and health and push for transparency on how they are managing risks that impact their businesses and the real-world economy.
- › We actively engage with fund managers to encourage them to exert a positive influence in the markets and companies in which they invest.
- › We advocate for meaningful regulatory reporting frameworks to help identify risks and opportunities, inform investment decision making and stewardship activity.

## 3. Long-term wealth creation

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We want to encourage companies and our fund managers to successfully manage and be clear about the risks and impacts of their activities on the environment and wider stakeholders – in order to deliver sustainable performance to support good returns for our members over many years.

The implications of this are:

- › We engage with companies to manage and report on the impacts of their business activities on people and the planet.
- › Through our investment and stewardship activities we seek to make a positive impact on wider society and the environment in order to create and sustain value for members over the long term.
- › Where necessary we selectively divest from companies, sectors and even countries whose activities and practices are misaligned with generating long-term value for members.

## 4. Manage reputational risks

We want to protect Nest's reputation and grow trust with our members by encouraging companies to act in ways our members can feel confident about.

The implications for this are:

- › We are transparent to members and stakeholders about what we invest in on their behalf.
- › We encourage better corporate and market behaviour to help bolster trust and confidence amongst our members.
- › We are transparent and open in our communications to members on our investment activities and report regularly and in an accessible way.
- › We will look to canvas and understand our members' views on issues relating to ESG and investment.
- › We will act to manage issues that may heighten reputational risk for Nest and long-term savings in general.

### Document history

| Version | Date implemented | Summary of changes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---------|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1       | November 2018    | Last review date                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 2       | February 2022    | Sub-text changes: <ul style="list-style-type: none"> <li>› Better risk-adjusted returns:<br/>Refined language to demonstrate clearly that ESG risks and opportunities are identified and managed to enhance returns and/or lower investment risk.</li> <li>› Better functioning markets:<br/>Included language on market transparency and systemic risk which can impact the real-world economy and in turn our portfolio.</li> <li>› Long term wealth creation:<br/>Included language to reflect that companies we invest in should be clear about and manage the impacts of their activities on the environment and wider stakeholders.</li> </ul> |
| 3       | November 2024    | Next review date                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |