



nest

# Statement of investment principles

March 2020 – March 2023

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# Contents

<b>Introduction</b>	<b>3</b>	<b>Investment beliefs</b>	<b>11</b>
		(default and non-default)	
<b>Governance of the Nest Trustee</b>	<b>4</b>	<b>Investment aims and objectives for the default strategy</b>	<b>11</b>
<b>Day-to-day management of Nest's assets</b>	<b>6</b>		
(default and non-default)		<b>Delivering the investment objective for the default strategy</b>	<b>11</b>
<b>Policy in relation to the Trustee's arrangement with existing asset managers</b>	<b>7</b>		
(default and non-default)		<b>The default strategy glide path</b>	<b>12</b>
<b>Types of assets held</b>	<b>9</b>	<b>Responsible investing</b>	<b>13</b>
(default and non-default)		(default and non-default)	
<b>The balance between different types of investments</b>	<b>9</b>	<b>Responsible investing - stewardship</b>	<b>14</b>
(default and non-default)		(default and non-default)	
<b>Liquidity</b>	<b>10</b>	<b>Policy on divestment</b>	<b>15</b>
(default and non-default)		<b>Additional investment fund strategy choices</b>	<b>15</b>
<b>Risk</b>	<b>10</b>	<b>Compliance with this SIP</b>	<b>15</b>
(default and non-default)		<b>Annex 1</b>	<b>16</b>
<b>Expected return on investments</b>	<b>10</b>	<b>Annex 2</b>	<b>17</b>
(default and non-default)		<b>Version record</b>	<b>18</b>
<b>Realisation of investments</b>	<b>11</b>		
(default and non-default)			

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## Introduction

### 1.1

The Trustee of the National Employment Savings Trust (Nest) has produced this Statement of investment principles (SIP), which sets out how the Trustee invests the assets of Nest for the scheme's default investment strategy and the additional investment fund choices scheme members can make.

### 1.2

This SIP has been prepared in accordance with all relevant legislative and best-practice guidelines. It outlines the principles and policies governing investment decisions made by or on behalf of the Trustee for the management of Nest's assets, in respect of the default arrangement and the additional investment fund choices scheme members can make. It should be read in conjunction with our latest [quarterly investment report](#).

### 1.3

This SIP will be reviewed by the Trustee, the Members' Panel and Employers' Panel every three years, and without delay after any significant change in the investment approach or the demographics of the scheme.

### 1.4

Before revising this SIP, the Trustee will obtain and consider the written advice of a person who is reasonably believed by the Trustee to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of trust-based pension schemes. The Trustee will also consult with the Members' Panel and Employers' Panel on proposed revisions to the default investment strategy and additional investment fund choices scheme members can make before any SIP revisions.



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## Governance of the Nest Trustee

### 2.1 Investment powers and compliance with the Pensions Act 1995

The Nest Order 2010 gives the Trustee the sole power to invest the assets of Nest.

**2.2** Nest's assets, representing the balances on members' pension accounts, will be invested in the best interests of Nest's members and beneficiaries both for the default strategy and for any other investment choices members may make. In the event of a potential conflict of interest the assets will be invested in the sole interest of members and beneficiaries.

**2.3** The Trustee's policy for securing that assets are invested in members' best interests is determined following extensive and continuing research into scheme member characteristics, circumstances and attitudes. This research is a mixture of quantitative data on socio-economic characteristics of the scheme's membership, qualitative research into members' attitudes and aspirations for their retirement savings, and, increasingly, management information about our members' savings patterns and behaviour.

**2.4** Where significant changes to the scheme membership are detected the Trustee reviews the appropriateness of the default strategy and additional investment fund choices accordingly. Details of our member investment research can be found on our website.

**2.5** With the Trustee's understanding of members' best interests, it has decided upon an investment approach that provides:

- a default fund (through a series of Nest Retirement Date funds) designed to provide appropriate outcomes for members retiring in different years
- a choice of other investment funds for scheme members who do not wish to invest in the default fund.

**2.6** Nest Corporation as Trustee is responsible for the governance and investment of Nest's assets but may delegate certain powers to appropriate committees, Board members, employees and investment fund managers. Nest Corporation has established a Financial Conduct Authority (FCA) authorised and regulated investment subsidiary, Nest Invest, to provide investment services and advice, as set out in an Investment Management Agreement between the Trustee and Nest Invest.

**2.7** The Trustee is satisfied due to regular reporting, Trustee skills' audits, ongoing training and continuous professional development, that it, the respective committees and Nest Invest, have sufficient expertise, information and resources to carry out their roles effectively.

**2.8** In preparing this SIP for both the default arrangement and the additional investment fund choices scheme members can make, the Trustee has considered written advice from the Chief Investment Officer (CIO) of Nest Invest who is qualified to provide this advice by his ability and practical experience of financial and pension scheme matters.

**2.9** The Trustee has established an investment committee to consider, make decisions and provide oversight on investment issues. The delegated powers provided by the Trustee to the investment committee comprise of both issues on which the committee can make decisions, and issues on which it makes recommendations to the Trustee. The terms of reference can be found on our website.

## 2.10

The Trustee has delegated certain powers in relation to investment decisions and oversight to the investment committee. These include the asset allocation strategy, fund manager selection and responsible investment, as well as the monitoring of investment performance and risk.

Nest Invest is also delegated responsibility to ensure and report to the investment committee that its investment powers are exercised in a manner calculated to ensure security, quality, liquidity, and profitability.

## 2.11

The following sections, except where explicitly referenced, sets out the Trustee's policies in relation to the types of investment, the balance between such investments, the associated risks and the expected return on those investments in the context of both the default arrangement where most of Nest members reside, and the other investment fund choices scheme members may make.



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## Day-to-day management of Nest's assets

### (default and non-default)

#### 3.1

The day-to-day management of Nest's assets is performed by external professional fund managers and from time to time, Nest Invest. The investment committee are satisfied that the appointed fund managers and Nest Invest have sufficient expertise and experience to carry out their role.

#### 3.2

Fund managers are monitored on a regular basis and performance is reported to the investment committee quarterly. The appointment, and dismissal of fund managers is the ultimate responsibility of the investment committee, based on recommendations from Nest Invest. The monitoring of fund managers is the responsibility of Nest Invest with oversight by the investment committee.

#### 3.3

Their activities are defined and constrained by detailed agreements. Fund managers have discretion to buy and sell investments within the terms of their agreements. Fees are negotiated individually when a fund manager is appointed and are reviewed periodically to provide ongoing value for money for members.

#### 3.4

Fund managers are listed in the scheme's **annual report and accounts**, which also contains information about investment performance, asset allocation and major investment decisions taken during the year.

#### 3.5

The fund managers are selected through an open and transparent process. The process aims to achieve best value for money for members. Professional advice from either Nest Invest or the Trustee's external and FCA-authorized and regulated investment advisers is obtained and considered in the selection of these funds and fund managers. As part of this selection, a due diligence process is performed to ensure that the assets are invested with sufficient security and liquidity and that each of the fund managers is of the appropriate quality and calibre to ensure the quality and profitability of the assets. The ongoing monitoring of these funds and fund managers is delegated to Nest Invest, to ensure all investments are undertaken in accordance with the Trustee's powers of investment.



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## Policy in relation to the Trustee's arrangement with existing asset managers (default and non-default)

### 4.1

Nest's approach to constructing its investment strategy is to use a 'fund-of-funds' model. We work with multiple fund managers with multiple mandates for different asset classes. We are not reliant on any one fund manager to deliver the investment objectives of the default strategy or in most cases the fund choices that members can make.

### 4.2

Each manager is procured through an open competition, to find the most suitable fund manager for each asset class. A thorough procurement process and regular ongoing monitoring ensures that each fund manager is fully aware of Nest's particular objectives for any given asset class in order to align its investment approach with that of Nest and to ensure each manager is appropriately incentivised.

### 4.3

Nest shares a summary of its Standards on issues such as responsible investment; engagement and voting; divestment; unit pricing and fair value; and the use of derivatives, with fund managers as part of the procurement process, and provides to managers updates to these standards when relevant.

### 4.4

As part of our procurement process we set out the detail of our responsible investment Standards, and prospective managers are evaluated on their approach to being long term and responsible stewards of the assets they manage on behalf of Nest members where relevant. We share with our managers our SIP, within which we set out investment beliefs about the importance of making decisions with a long-term mindset.

### 4.5

Nest Invest conducts regular manager monitoring and meets in person with each of the managers at least once a year, and more frequently for active managers. Manager performance is reported to the investment committee on a quarterly basis. As part of our regular evaluation of our managers to ensure they are delivering in line with the objectives for which they were appointed, we monitor fees and charges in the context of our ongoing market evaluation of the price of fund management services.

Our contractual relations with fund managers are open ended (subject to termination provisions which are negotiated as part of the appointment terms) as we believe in building long term partnerships with fund managers. Where managers are no longer delivering on the objectives for which they were appointed, we will move assets to an alternative manager, or re-procure for that particular asset class – there are no contractual impediments to doing this.

### 4.6

Nest Invest monitors the costs of portfolio turnover as part of its regular manager monitoring. When selecting a new fund manager or new asset class Nest Invest makes an assessment as to our expectations of turnover range for any given asset class or manager style. Where relevant for a particular asset class or manager style, as part of our regular manager review, we monitor levels of turnover to ensure they remain in line with our expectations for that particular mandate.

#### 4.7

Nest requires its fund managers to vote on all resolutions of shares managed on behalf of Nest members – this includes voting and engaging on a company’s capital structure. Where there is a potential for any conflict of interest between a fund manager and the way they vote, we expect these conflicts to be managed in accordance with the FRC’s stewardship code. Nest can override the voting position of our main equity fund manager for the securities managed on behalf of Nest.

#### 4.8

As part of Nest’s Standards on responsible investing, Nest and Nest’s fund managers collaborate with other institutional investors and asset managers. Nest is a signatory to the PRI and other relevant shareholder initiatives. We report engagements undertaken with our fund managers and other stakeholders in our annual responsible investment report.





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## Types of assets held (default and non-default)

### 5.1

The Trustee invests in a mix of real and monetary assets and a mix of pooled and direct investment vehicles, deemed suitable for pension schemes, balancing expected returns against volatility. The investment committee regularly monitors Nest's funds to ensure that:

- they invest primarily in regulated markets
- investment in non-regulated markets is kept to a prudent level
- derivatives are used in a prudent and appropriate way to manage risk or manage the portfolio more efficiently and without excessive risk exposure to a single counterparty or other derivatives.

### 5.2

The Trustee carries out due diligence and takes advice from Nest Invest and may also take advice from its investment advisers to ensure new areas of investment are appropriate.

### 5.3

The investment committee has approved a set of asset class ranges within which investments can be made. Any proposal to amend these ranges must be agreed in advance with the investment committee and the relevant schedules of the Investment Management Agreement updated accordingly.

### 5.4

The detail of the current asset allocation for the scheme's default investment strategy and the additional investment fund choices scheme members can make, is published via the [quarterly investment report](#) on the Nest website.

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## The balance between different types of investments (default and non-default)

### 6.1

Long-term strategic asset allocation is driven by the specific characteristics of the scheme, in particular its demography, and members' capacity and appetite for risk. The Trustee also considers long-term projections of the likely performance of different types of investments in different economic conditions.

### 6.2

The scheme's strategic asset allocation is reviewed on an annual basis. The methodology for changing the strategic asset allocation is periodically revisited to ensure that changes to the strategic asset allocation are appropriate.

### 6.3

The investment committee is responsible for ensuring both the default strategy and the additional investment fund choices scheme members can make are, as far as practicable, sufficiently diversified so as not to be reliant on any particular asset class, issuer or group of undertakings. The investment committee is responsible for ensuring that investments in assets issued by the same issuer or by issuers belonging to the same group do not expose Nest members to excessive concentration of risk.

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## Liquidity (default and non-default)

### 7.1

The liquidity profile of Nest's investments is regularly reviewed. The majority of the scheme is invested in liquid assets. Some investments, such as property, are less easy to sell. Such illiquidity normally allows the Trustee to capture an improved return and is not expected to constrain its investment decisions.

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## Risk (default and non-default)

### 8.1

The Trustee recognises that the scheme is exposed to a number of investment and operational risks. It gives qualitative and quantitative consideration to these risks when deciding investment policy, strategic asset allocation, the fund manager structure, choice of fund managers, the terms of their agreements and other aspects of the ongoing management of the scheme.

### 8.2

The scheme maintains a risk register of the key risks, including investment risks, to which it is exposed. The register rates the impact and likelihood of the risks, and summarises existing mitigations and additional actions. It is reviewed quarterly by the investment committee. Further details on the types of risks identified are shown in Annex 1.

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## Expected return on investments (default and non-default)

### 9.1

The types of investment chosen by the scheme are selected and combined with the aim to achieve the specific objectives of the default strategy and the additional investment fund choices scheme members can make.

The Trustee seeks to take account of financially material considerations in the selection, retention and realisation of investments. The key inputs in setting the investment strategy are the long-term capital market assumptions of expected return and expected (volatility) risk. These capital market assumptions incorporate long-term forecasts of the key drivers of risk and return including economic growth, inflation and asset values.

Nest Invest reports to the investment committee on a quarterly basis the risk and return characteristics of the Retirement Date Funds and additional investment fund choices, and how each fund manager is delivering against their specific mandates.

### 9.2

Risks and opportunities are assessed for materiality and impact within a broader risk management framework, which takes account of the Trustee's investment time horizon for a diverse member demographic. While our focus is predominantly long-term, as is appropriate for a pension scheme, the risk management framework allows us to consider a variety of risks including the short to medium term outlook for economic growth and inflation as well as currency, interest rate and political risk.

## Realisation of investments (default and non-default)

### 10.1

The Trustee will realise assets following member requests on retirement or earlier where required. In selecting assets, the Trustee considers the liquidity of the investments in the context of the likely needs of members.

## Investment beliefs (default and non-default)

### 11.1

The Trustee has established a set of investment beliefs to provide an objective and transparent framework for consistent decision-making. These beliefs act as a guide to enable effective delivery of all investment functions. The beliefs can be found in Annex 2.

## Investment aims and objectives for the default strategy

### 12.1

The Trustee's overarching investment objective for the default strategy is to target investment returns in excess of the Consumer Price Index (CPI) after all charges over the long term.

The Trustee has selected types of investments and the balance between these investments to meet this return objective.

### 12.2

To support this overarching objective the Trustee has also agreed the following sub-objectives:

- to maximise the pension income and other pension benefits at retirement by taking appropriate risk
- to seek to deliver similar outcomes for cohorts of scheme members who have similar contribution histories
- to aim to dampen volatility in members' pension accounts.

The Trustee recognises that there will at times be tensions between these supporting objectives and will seek to find an appropriate balance between them.

## Delivering the investment objective for the default strategy

### 13.1

The Nest scheme and its default investment approach have been designed to ensure that scheme members who do not wish to take an active role in how their contributions are invested can do so in confidence. The availability of a well-constructed default strategy is an essential part of auto enrolment and is central to Nest's investment approach.

### 13.2

Investment risk should be taken in varying amounts throughout a member's time saving with Nest. The Trustee has therefore adopted a series of target date funds called the **Nest Retirement Date Funds** to deliver the default investment strategy. Each Nest Retirement Date Fund has an asset allocation that is consistent with the expected amount of risk that is appropriate for the age of a member and/or their expected retirement date and the amount of return required to meet the investment objectives of the Nest Retirement Date Funds.

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## The default strategy glide path

### 14.1

The varying allocation between return-seeking and income-seeking assets through time is known as the glide path. The Trustee has split the glide path into four phases:

- the foundation phase
- the growth phase
- the consolidation phase
- the post-retirement phase.

### 14.2

The foundation phase refers to the early years of younger scheme members' working lives as they develop the savings habit. This phase typically lasts five years. The objective for the foundation phase is to keep pace with CPI after all charges.

### 14.3

The growth phase is where the maximum growth in assets is being targeted through investing in asset classes that are expected to grow in value relative to inflation more than other investments. The objective for this phase is to outperform CPI plus 3 per cent a year after all charges over the long term.

### 14.4

The consolidation phase prepares a scheme member's assets for retirement and typically begins ten years before their Nest Retirement Date Fund matures. Investments in this phase are progressively switched out of higher risk assets. The primary objective of the consolidation phase for funds maturing after 2020 is to outperform CPI after all charges while aiming to progressively dampen volatility as a scheme member's fund approaches maturity. For Nest Retirement Date Funds maturing through 2020, the consolidation phase objective is to manage the risks associated with converting a member's accumulated savings into a cash lump sum.

### 14.5

The post-retirement phase is for those members who have not chosen to withdraw all their savings when their Nest Retirement Date Fund matures. Those members whose pot size is below £10,000 will be automatically moved into the Nest Post Retirement Date Fund. This fund will invest in asset classes with low volatility in order to minimise conversion risk, as we expect members to access their pots and take one, or a number of uncrystallised funds pension lump sums, relatively quickly.

Those members who are aged between 60 and 70 and whose pot sizes are £10,000 or more, will be automatically moved to the Nest Guided Retirement Fund. This is an investment strategy consisting of four sub-funds. Members will have different allocations in each of the sub-funds depending on their age. As they get older and progress through the strategy they will be gradually de-risked from a sub-fund which has an objective of outperforming CPI after all charges, to a sub-fund that is predominantly invested in liquid low volatility assets, or assets that reduce conversion risk for the purchase of a later life annuity at the age of 85.

Nest manages and invests the members' pot with the aim of providing them with sustainable withdrawals until age 85. The remaining pot can then be used to purchase a lifetime income from age 85, if the member wishes.

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## Responsible investing (default and non-default)

### 15.1

The Trustee considers sustainable investment factors, such as (but not limited to) those arising from environmental, social and governance (ESG) considerations, including climate change, in the context of the broader risk management framework. One of the Trustee's investment beliefs is that, as long-term investors, integrating ESG considerations into the investment management process improves risk-adjusted returns.

### 15.2

The Trustee requires its fund managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process. Fund managers are monitored on a regular basis by Nest Invest in this regard. On an annual basis the investment committee receives a report on the fund managers' voting performance and approach to responsible investing more generally.

### 15.3

The Trustee expects fund managers, where appropriate, to have integrated climate risk into their risk analysis and investment process and, where appropriate and practical, we will take it into account in the selection of new fund managers. When monitoring the performance of our fund managers, we will also regularly consider how they are performing with reference to climate risk issues.

### 15.4

The Trustee has an active policy of soliciting members' views on non-financial matters in their investment decision making for one of the non-default investment funds – the Nest Ethical Fund choice strategy. These views are taken into account in the selection, retention and realisation of investments in the Nest Ethical Fund. The Trustee does not currently take into account members' views on non-financial matters in the selection, retention and realisation of investments for the other additional investment fund choices.

### 15.5

The Trustee does not currently take into account members' views on non-financial matters in the selection, retention and realisation of investments for the default investment strategy, as they have provided additional investment fund choices where members' views on non-financial matters can be sought and expressed.

### 15.6

The Trustee surveys members about its responsible investment approach in general and provides to members and stakeholders an **annual report** on its responsible investment activities.

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## Responsible investing - stewardship (default and non-default)

### 16.1

The Trustee has a duty to act responsibly with regards to the assets it owns on behalf of Nest members. The Trustee believes that in order to fulfil this duty and to protect and enhance the value of Nest's investments over the long term, it must act as a responsible and vigilant asset owner and market participant.

### 16.2

As part of this duty the Trustee, or its agents on its behalf, exercises its ownership rights, including voting and engagement with investee companies on matters including performance, strategy, risks, social and environmental impact and corporate governance in order to safeguard sustainable returns in the long term. How the Trustee expects its voting and engagement rights to be exercised is set out in a scheme specific **voting and engagement policy**.

### 16.3

Nest takes its responsibilities as an asset owner seriously. As clients, we work closely with our fund managers to help us support good corporate behaviour. Part of our procurement process for choosing fund managers involves ensuring their voting policies are well thought out and documented. Having our own policy enables Nest to document our position and expectations to our fund managers on good corporate behaviour. We use it to monitor and hold our fund managers to account on the decisions they make. Having our own established policy in place helps us have healthy discussion and debate with our fund managers. We always seek to vote and engage in the interest of our members and encourage our fund managers to consider our voting policy in their voting decisions.

### 16.4

Where we have direct voting rights we work closely with our proxy voting agent to ensure Nest's voting intentions are delivered in line with Nest's voting policy.

### 16.5

Each year we publish a voting summary report setting out how all our fund managers have voted and how this compares to Nest's voting policy. We report the votes our fund managers make every quarter.

### 16.6

In addition to engaging directly with companies, Nest also undertakes joint engagements with our fund managers, and other pension schemes. Nest works to engage with public, industry and regulatory bodies in the various markets in which the scheme invests to promote better practices.

### 16.7

Given the systemic nature of climate change, we seek to discharge our duties by robust engagement alongside our fund managers with investee companies to encourage alignment with a low carbon economy and with policy-makers and governments to advocate for the same.

### 16.8

The Trustees have signed up to the UK Stewardship Code and the UN supported Principles for Responsible Investment (PRI).

### 16.9

The Trustee reports to its members and stakeholders on its stewardship activities through its annual **responsible investment report**.



## Policy on divestment

### 17.1

In general, divestment or exclusion goes against our principles of stewardship and responsible investment. However, in certain rare circumstances we believe it's merited for the reasons set out in our divestment policy.

Further detail of our [divestment policy](#) and how it is implemented can be found on our website.

### 17.2

Nest supports internationally recognised norms of corporate practice. As such we actively seek to avoid investing in companies such as those directly involved in the production or sale of cluster weapons, anti-personnel landmines or chemical and biological weapons.

## Additional investment fund strategy choices

### 18.1

Some members may wish to choose an alternative to the default strategy. The Trustee provides a focused choice to meet the identified member needs. The fund choice strategies currently include:

#### **Nest Higher Risk Fund**

Invests in return-seeking assets

#### **Nest Lower Growth Fund**

Invests in very low volatility assets

#### **Nest Ethical Fund**

Invests primarily in ethical securities and ethical property

#### **Nest Sharia Fund**

A fund with an investment approach based on Islamic law

#### **Nest Pre-retirement Fund**

Invested for those who wish to buy an annuity in the near future.

## Nest Guided Retirement Fund

A fund designed for members who:

- are aged between 60 and 70;
- have at least £10,000 in their retirement pot; and
- want to start taking money from their Nest pot in retirement while still being invested in a proportion of growth seeking assets.

Nest members who are in the default strategy (Nest Retirement Date Funds) or the Higher Risk lifestyled strategy and have passed their Intended Retirement Date (IRD) without making a retirement choice, and meet the age and amount criteria, will be automatically moved into this fund.

### 18.2

The Trustee may add, change or remove any fund choice strategies in accordance with the terms set out in Nest's [Order and Rules](#).

### 18.3

The Trustee endeavours that, for members who choose an alternative fund choice strategy, the risk being taken in the fund also takes into account the expected retirement age of the member, where this is applicable and practicable.

## Compliance with this SIP

### 19.1

The investment committee monitors compliance with this SIP on a quarterly basis. The Trustee reviews the investment strategy is in line with the SIP on an annual basis and receives a written report from the CIO of Nest Invest to this effect.

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## Annex 1

### Risks

#### Inflation risk

The Trustee invests in a diversified range of assets which are likely to grow in real terms.

#### Pension conversion risk

In the consolidation phase, the Trustee increases the proportion of assets that more closely match how we expect scheme members to use their pots in retirement. This is particularly important in light of the changes introduced by 'Freedom and choice'.

#### Market risk

The Trustee manages market risk primarily through investing in a diversified range of assets.

#### Counterparty risk

The Trustee, with Nest Invest, its advisers and its fund managers, assesses and manages its counterparty risk.

This is done through a rigorous approach to the procurement of a variety of investment services, regular monitoring of Nest's funds, regular reports of the funds' underlying holdings and the fund manager's approach to managing risk.

For relevant asset classes the Trustee and those it delegates to, carefully monitors credit risk where there is a risk of corporate default. In addition, the Trustee has indemnities in place with fund managers for certain activities.

#### Operational risk

The Trustee, with its suppliers, assesses and manages its operational risks.

#### Liquidity risk

As far as is practicable and necessary, the Trustee invests primarily in liquid assets which can be quickly realised as required.

#### Valuation risk

The Trustee invests primarily in liquid quoted assets in order to manage the valuation risk.

#### Environmental and social risks

These risk factors can have a significant effect on the long-term performance of the assets Nest holds. Where applicable these factors will be considered in the investment process.

#### Governance risk

This can have a significant effect on the long-term performance of the companies we hold. Where applicable governance risk factors will be considered in the investment process.

#### Currency Risk

Investments denominated in currencies other than the scheme's base currency carry the risk of adverse exchange-rate movements. Nest looks to manage currency risk by hedging a proportion of its foreign currency exposure back into sterling.

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## Annex 2

### Investment beliefs

#### Governance

**Good governance, including an appropriately resourced investment function, is in the best interests of Nest's members.**

It is important to be clear about investment objectives for the funds, risk tolerance, and the timeframe over which results are measured.

Furthermore, the investment outcomes experienced by our members are determined by the investment relationships we develop with our fund managers, key partners, within our team, and how together we promote long-term wealth creation.

We believe that the culture and governance structure surrounding these are also vital to success.

#### 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 should invest resources in stewardship, consider ESG risks in asset allocation decisions and seek out sustainable investment opportunities.

We should also seek to improve the functioning of financial markets. The ESG change we seek in our members' best interests is slowly emerging, and we believe the conditions for successful change require continuous effort from us and many like us.

**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.**

Companies are more sustainable investments and are more likely to sustain their performance when they meet their customers' needs, treat their employees equitably, pay fair taxes and respect their environment and community. There is also read across into infrastructure and property investments.

#### Asset allocation and risk management

**Our members will be saving with us for many years and we believe that should be used as a source of advantage by fostering a long-term investment horizon.**

Investors with a long-term horizon can outperform more short-term focused investors over the long run. As long-term (patient) capital is rewarded, setting the risk budget and the associated strategic asset allocation are the key investment decisions, taking account of assets' fundamental values and market prices, economic conditions and long-term market developments.

**We believe, however, there are times when we need to manage shorter term risks.**

We should be very selective and do so where we believe there is the risk of significant or permanent loss of capital.

**Risk and return are strongly related. There are varied investment risks that carry compensations or premiums. Illiquidity risk is one such premium which, as a long-horizon investor, our members can benefit from. Following a diversified investment approach improves the risk-adjusted returns of our member funds.**

We will avoid or seek to manage risks that we believe are uncompensated. We look to diversify across a range of asset classes and across the risk factors driving their performance.

#### Manager selection and manager relationships

**We believe that disciplined and rigorous manager selection is a source of value.**

We think carefully about how to access each asset class, taking into consideration cost, how best to capture the asset class beta and the extent we can evaluate and access alpha opportunities. Managing fees and other expenses and ensuring efficient implementation can prevent unnecessary cost to our members.

We look to build partnerships with managers as this is a source of value.

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## Version record

Version	Change	Date implemented
1	Document created	1 October 2019
2	Governance section updated to reflect the creation of Nest Invest. Update to investment beliefs following triennial review.	28 January 2020
3	Updated to reflect the introduction of Nest's new fund – the Nest Guided Retirement Fund, and to reflect new regulations for SIP content.	26 March 2020

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