

# Statement of investment principles



## Implementation statement 2022/23

This statement shows how the Trustee followed and acted on the principles contained in our [Statement of investment principles](#) (SIP).

Every three months, our investment committee carefully checks we're investing for our members in a way that matches what we've set out in our SIP. The Board also conducts a high-level review each year, confirming the investments we're managing are in line with the investment strategy outlined in the SIP.

The SIP was reviewed by the Board in March 2020 and a smaller ad-hoc review took place in May 2022. It was formally reviewed again in March/April 2023 as part of our three-year cycle of assessing whether the default strategy and fund choices remain suitable for our membership, with publication of the new SIP expected in July 2023.

The SIP has been updated in the last year to reflect:

- › changes to the Consolidation phase
- › the removal of the Pre-retirement fund choice

The Trustee is satisfied all investments during the year were made in accordance with the SIP. This includes the activities listed in this report. Where there may be unfamiliar concepts or terms, we've included a glossary at the end of this document.

## Day-to-day management of assets

This part of the SIP aims to ensure the Trustee has clearly defined processes in place to select and monitor external fund managers. The objective of these arrangements is to achieve good outcomes and better value for money for Nest Scheme members.

Nest is confident the management of assets and Nest's arrangement with fund managers is sound and continues to operate in members' best interests.

- › Nest conducts quarterly monitoring of all external fund managers to review performance and, where appropriate, renegotiate fees to get better deals for members. Performance against targets is reported to the investment committee.
- › Nest has rigorous governance processes in place to reflect Nest's position as a publicly accountable Scheme. This ensures our stewardship activities and processes are supported and overseen formally by the bodies overseeing Nest's investment activities – the Board and investment committee.
- › In 2021/22, Nest undertook a procurement exercise to appoint fund managers covering private equity, a new type of asset for our portfolio. The procurement followed a thorough process of reviewing written bids and meeting fund managers to identify those most likely to meet our members' needs. The shortlisted fund managers were tested on their investment approach and commitment to, and the quality of, their approach to responsible investing. Two fund managers,

HarbourVest and Schroders Capital, were selected. Both mandates are now live and investing on behalf of Nest members.

- › In October 2022, the global high yield (bond) portfolio, managed by JP Morgan, was moved from the previous pooled fund to a segregated mandate following approval from the investment committee. This means we have moved to a fund which is owned solely by Nest and not jointly owned with other investors where our money is 'pooled' together.
- › Nest has undertaken a market warming exercise to consider whether natural capital, particularly forestry, could play a role within the Scheme's investment strategy. This is ongoing and the Scheme will consider whether to proceed with a formal procurement.
- › The Scheme's investment team holds a quarterly fund manager monitoring meeting to discuss managers' performance, update each other on key meetings and review any potential breaches to the mandates, including to environmental, social and governance (ESG) criteria. Where we have concerns, managers are placed on a watchlist and prioritised for engagement. The watchlist is reviewed every quarter and if concerns persist, we may ultimately decide to terminate a mandate. As of 31 March 2023, one fund manager is on this watchlist for issues around their reporting and we are discussing our concerns with them.
- › Nest has decided that in addition to the three-month review, a systematic 'deep dive' of individual fund managers should take place. This manages risks associated with having long-term partnerships with fund managers – some of which have been in place for more than a decade – and ensures the mandate in place continues to be adhered to and Nest members are getting best value for money.

As of 31 March 2023, 64% of Nest's total investments were held in segregated accounts. This has helped to drive down investment costs, improve our control over how the investment fund mandates operate and improve the way we can achieve the objectives of our climate change policy.

## Types of assets held

This part of the SIP aims to ensure that when the Trustee invests in different types of assets and financial instruments, they are suitable for all Nest Scheme members at different stages of saving for a pension.

The Trustee is confident the Scheme's assets are mainly invested in regulated markets and that investments in non-regulated markets have been done so for sensible reasons.

- › As of 31 March 2023, the majority (84%) of Nest's total investments were in regulated markets.
- › Since January 2020, Nest Invest has provided authorised advice to Nest about new types of assets and the suitability of new fund managers we have appointed.
- › In 2022, we appointed a fund manager to help us manage our asset allocation more efficiently through the limited use of derivatives. Our new Efficient Portfolio Management (EPM) fund is using short-term contracts to minimise a drag on performance for cash we've set aside for deployment in private markets, trades which often require larger contributions. A performance drag may happen because the cash isn't being invested which could minimise investment returns. By introducing this EPM, we are putting all members' money to work rather than having it sitting idle in a fund waiting for deployment. In the autumn of 2022, we ran a successful derivative test trade to ensure the process runs smoothly. The mandate has not been fully used to date.
- › The use of derivatives is set out in the investment management agreement between Nest Corporation and Nest Invest, and Nest Invest continues to monitor the use of derivatives within the Scheme's overall portfolio.
- › Some external fund managers used derivatives in the 12 months to 31 March 2023, but this was primarily for foreign currency management and not leveraging of investment positions.
- › In the next financial year, the process of re-underwriting our current managers will begin, starting with our largest mandates by assets under management (AUM). The goal of this exercise will be to review the mandates of some of our long-term fund managers and whether they continue to meet our members' needs.

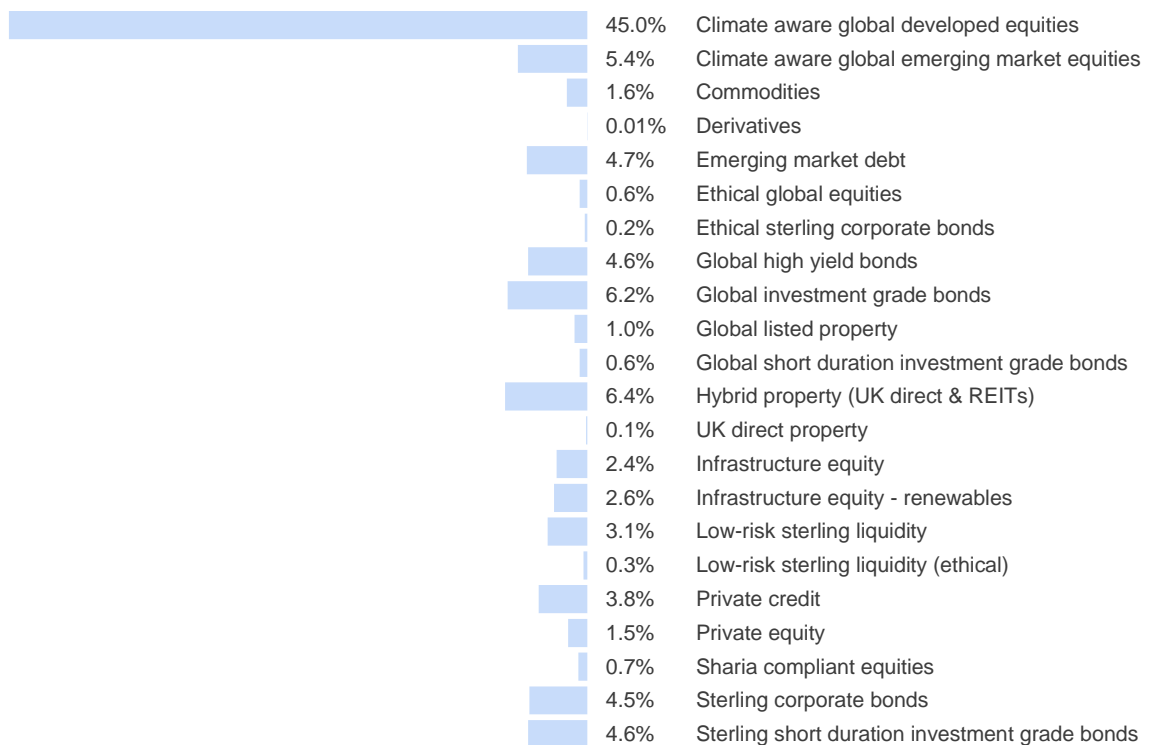
## The balance between different types of investment

This part of the SIP aims to ensure that the Trustee considers the investment strategies for each of Nest Scheme's default fund strategies and the fund choices that members can make away from the default approach. This includes ensuring the funds aren't overly concentrated in one or similar types of assets.

The Trustee is confident the Scheme's portfolio remains appropriately diversified across asset classes, geographical regions and fund managers. It monitors this based on a range of measures.

To demonstrate the diversification, the graph below illustrates the asset allocation of Nest's total portfolio. Figures accurate as of March 2023.

### Our portfolio, asset classes and investment mandates\*



*\*All Nest's developed market credit is hedged, along with 50 per cent of developed market equity*

Over the last few years, Nest has further diversified the way we invest for members by increasing the Scheme's allocation to private markets. This allows members to benefit from the additional expected returns available to investors in illiquid assets. Nest holds roughly 16% of the total amount of money we're managing on members' behalf in private markets. We plan to increase that to around 30% over the coming years.

## Liquidity

It is important Nest has access to enough liquid assets to fulfil requests from members who want to withdraw from their pension pots, either because they're retiring, transferring to another scheme, or choosing a different Nest fund. This part of the SIP aims to ensure there is sufficient management of the liquidity of the Scheme's assets.

The Trustee is confident the Scheme's assets are mostly invested in liquid markets and there is sufficient liquidity to manage any member requests to take money out of the Scheme. Although the

Scheme will continue to increase its investment into illiquid funds to benefit from the typically strong, long-term performance these can provide, this will be balanced against the need for sufficient liquidity.

- › Nest has good liquidity through a consistently strong cashflow, receiving around £450 million a month in member and employer contributions.
- › The investment objectives of the SIP have recently been reviewed to consider if we provide the right mix of a growing proportion of illiquid assets for members at different stages of their investing lifecycle. This is to maximise the benefit we can leverage in allowing members to save more in private and illiquid assets early on in their savings journey, maximising the illiquidity premium they could access when their need for liquidity should be minimal. A new overarching investment objective is also being considered as part of the review which is expected to be agreed in 2023. Further details of the changes will be included in next year's SIP implementation statement.
- › Nest has also committed to reviewing the Scheme's investment beliefs every three years. While these beliefs don't often change, our size and capacity has prompted us to consider key parts, including investment budget and proportion of the portfolio allocated to illiquid assets.

## Realisation of investments

This part of the SIP aims to ensure the Trustee has considered members' long-term needs for later life.

The Trustee is comfortable Scheme funds are positioned appropriately for the level of demand from Nest members approaching retirement who are likely to withdraw their money from the Scheme.

- › The number of members taking their money at retirement remains very low. This is to be expected given the young age profile of the Scheme's membership.
- › There was little member transfer activity in proportion to the Scheme's membership. Requests for transfers both in and out of the Scheme are being managed effectively.
- › The Nest Guided Retirement Fund (NGRF) is where eligible members are automatically transferred when their Retirement Date Fund closes if they have not selected an alternative option. Nest has undertaken research to estimate the demand of the NGRF, to ensure it remains fit for purpose.
- › The total number of members in NGRF is expected to grow beyond 4,000 by July 2023, 10,000 by July 2024, and more than 15,000 by July 2025.

## Risk

This part of the SIP identifies the investment risks the Scheme faces. The Trustee reviews these risks annually and sets out how comfortable we are to take different types of investment risk on behalf of our members. The Trustee has also created an investment risk committee which meets quarterly to oversee investment risk management activities across the investment process.

As an asset owner invested across many asset classes, sectors, and geographies, we prioritise key ESG issues so that our resources are put to the best possible use. Our investment team has identified seven priority areas that guide our current work:

- › climate change
- › natural capital
- › human capital
- › human rights
- › big tech
- › diversity
- › food

These ESG risks are derived using our prioritisation framework and based on research and analysis.

Further information on how Nest manages our ESG priorities can be found in the latest [responsible investment report](#).

The Trustee is confident investment risks are being monitored and managed appropriately in accordance with the Scheme's stated risk appetites. The annual review of the investment performance principal risks has been completed and Nest is satisfied the Scheme is managing these risks appropriately.

Here's how the Trustee is specifically managing ESG risks:

- › Our investment team, led by Nest's Chief Investment Officer, meets every quarter to review how our portfolios in different asset classes are performing, how the markets are performing, and what investment risks and opportunities exist or could emerge, including those we monitor through our asset class dashboard. As part of this, we monitor the net zero alignment of the asset classes we invest in (except for some fixed income and private markets mandates), as well as how each asset class might be impacted by ESG factors and what we might do to mitigate them. If we've identified an asset class with heightened ESG risk, we discuss the best way to approach the issue. This may include asking the external fund manager to conduct further research to assist the responsible investment team in evaluating our position. In the case of managers not fulfilling this duty effectively, they could be placed on a watchlist, ultimately leading to the termination of the mandate in serious cases
- › Nest sees climate change as a key risk facing all aspects of the Scheme's approach to investing for members. The [climate change policy](#) was first implemented in 2020/21 with the aim to align the Scheme's entire investment portfolio with the goals of the Paris Agreement. The policy has since been updated in December 2022 to reflect Nest setting short-term climate change targets, and climate change scenario projections, impacting Nest's asset allocation. Both the policy's implementation and ongoing suitability is reviewed annually by Nest and is due for review at the end of 2023.
- › [The climate change roadmap](#) outlines the progress in reducing the carbon footprint of the Scheme's investment portfolio. The roadmap also sets out future targets and activities to help the Scheme become net-zero by 2050 or sooner.
- › 62% of Nest's total investments are now in climate-aware mandates.
- › In October 2021, new statutory regulation came into force relating to reporting in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations to improve both the quality of governance and action taken by trustees to identify, assess and manage climate risk. This year we also undertook climate scenario analysis to assess the impacts of physical and transition climate risks on our asset classes' returns under different temperature scenarios over the short, medium to long term. Nest's latest [TCFD report](#) is on our website.
- › In line with TCFD requirements, scenario reporting is a statutory requirement for pension schemes. Nest has procured climate scenario data from Aon consulting that uses various models to predict how our investments will be impacted by different degrees of warming, over different time periods. It's also used to generate debate within the Scheme about how to best manage climate related risks and opportunities. We will carry out scenario analysis at least once every three years.
- › The Scheme has joined a number of new initiatives as part of our stewardship and active ownership practices, which help Nest review and monitor other ESG risks facing our portfolio, which can affect long-term investment performance. These initiatives cover issues including human rights, deforestation, diversity and inclusion, and responsible technology innovation and implementation.
  - At the start of 2022, the Scheme joined [Global Canopy's deforestation-free pension fund guidance](#) working group to help develop guidance for pension funds on how to start tackling deforestation risks across their portfolios. Joining this working group helped us to gain a better understanding of the risks of deforestation and associated human rights abuses. It also allowed us to contribute and shape the guidance to meet the challenges faced by most pension funds. We have completed the first step in the deforestation guidance through a mapping exercise to identify the holdings most exposed to deforestation risk within our equity portfolios. We have started the second step by engaging with fund managers on how they are integrating deforestation considerations within the investment process and working to measure and monitor deforestation risk exposure within our portfolios.



- › The Scheme has further screens in place for specific industries, markets, and companies across our whole portfolio. These include:
  - Nest applies a controversial weapons screen to its portfolio, meaning we do not invest in companies directly involved in the production or sale of cluster weapons, anti-personnel landmines or chemical and biological weapons. Over the last year, all the Scheme’s fund managers were asked to review their approach to screening out controversial weapons. One fund manager updated their screening criteria. There were no other significant changes required and we’re satisfied our fund managers are complying with the agreed exclusion policies.
  - Nest has implemented a divestment from companies that derive more than 20% of their revenues from thermal coal production and/or power generation, oil sands and arctic drilling. This has excluded 126 companies from our portfolio. Nest will step up this level of divestment to include all companies with more than 10% of revenues from these activities by 2023. We do not believe these activities are compatible with a transition to 1.5C, and that companies deriving significant revenues from these activities will struggle to transition quickly enough to the low carbon economy.
  - A portfolio-wide exclusion on companies deriving 10% of their sales from the sale of tobacco. The annual review of our [tobacco position](#) and the letters of assurance from relevant fund managers ensure Nest is confident the Scheme’s tobacco exposure remains at zero weight.
  - Following the invasion of Ukraine, Nest convened the investment committee and decided Russian assets were no longer suitable investments for Scheme members. The Scheme’s segregated account fund managers have been sent amendments which contains a provision that they cannot purchase Russian securities and were to sell any remaining Russian assets as soon as possible. This exclusion remains in place.
- › In 2021, five energy companies – Exxon Mobil, Imperial Oil, Kepco, Marathon Oil, Power Assets – were removed from the Scheme’s developed markets public equities fund, which is managed by UBS Asset Management. UBS’s decision follows a three-year engagement programme it led as part of its Climate Aware framework, with 49 oil and gas companies identified as lagging on climate change performance. The five companies remain excluded from the UBS fund and will only return once they demonstrate clear progress in preparing for the low carbon economy.
- › Each year, Nest reviews our controversial weapons policy to ensure that it continues to be fit for purpose. This year we considered whether we should include nuclear weapons within the controversial weapons exclusion policy. We analysed the financial impact of divesting from nuclear weapons, researched international law and treaties on nuclear weapons, industry standards, other pension policies and considered member views. The investment team’s final recommendation not to include a nuclear weapons screen was presented to and approved by Nest’s investment committee.

## Expected returns on investments

The Trustee sets the investment strategy and objectives for the default Nest Retirement Date Funds and the Scheme’s other fund choices for members. This part of the SIP describes how the investment strategy is monitored and assessed against longer and shorter-term time horizons.

The Trustee is satisfied the Scheme’s funds have been invested in a way that has a reasonable expectation of meeting the Scheme’s objectives over the long-term.

- › Every year Nest considers and carries out a review examining the various types of assets invested in via our default strategy and other fund choices. This incorporates long-term capital market assumptions provided by J.P. Morgan Asset Management. The review helps form the strategic asset allocation for the investment building blocks for the default funds and fund choices. It explored any risks in meeting long-term investment objectives in the current market and considered whether a diversified approach is likely to yield better results over the long-term than a highly concentrated portfolio. Nest is satisfied with the current investment approach in place for the Scheme’s members.
- › An ongoing review by Nest into the challenge of finding consistent investment returns to meet investment objectives for members, has led to a strategic decision to invest more of our members’ money into illiquid assets, and in particular equity infrastructure and private equity.

## Responsible investing and stewardship

This part of the SIP sets out the Trustee's beliefs and policies with regards to managing ESG risks. It also sets out where we seek to incorporate Scheme members' views, and how we act as a responsible and watchful asset owner on behalf of our members.

The Trustee is satisfied relevant ESG issues were taken into account in 2022/23. Four people within the investment team directly research and manage Nest's responsible investment activities – but increasingly all Nest investment team members are integrating ESG factors within their areas of responsibility.

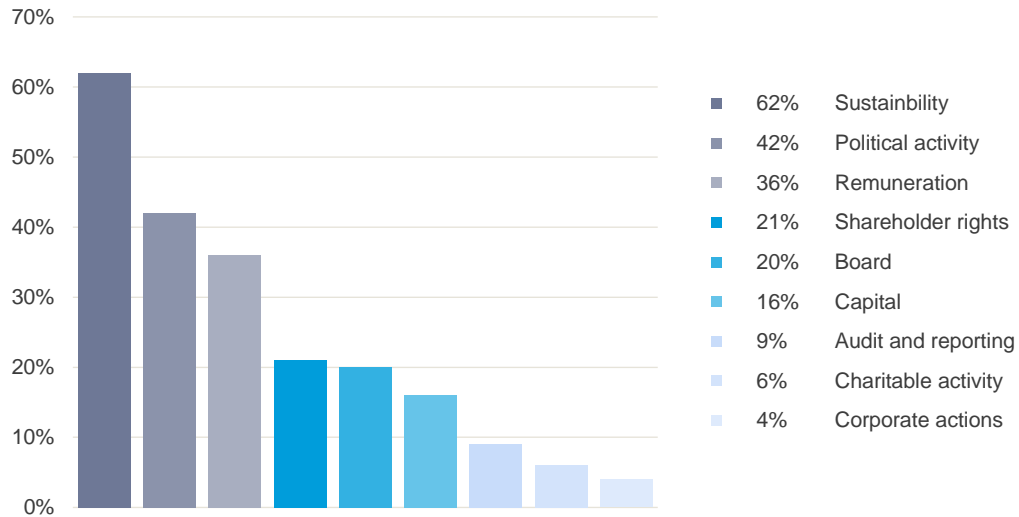
A full breakdown of how the Trustee manages ESG risks in the portfolio, including how the Scheme implements our voting and engagement policy and acts as an active steward of members' money, can be found in the latest annual [responsible investment report](#). A selection of this wide-ranging activity is outlined below.

### Voting

- › Buying shares gives Nest's membership part ownership of that company and usually gives us the right to vote at their annual general meeting (AGM) where key issues on how the company is run are discussed. Nest continues to employ the proxy voting service, Minerva Analytics, to best utilise the voting rights available to the Nest Scheme. Its vote management tools allow the Scheme to efficiently identify shareholder and management resolutions of concern or interest and allow us to vote electronically on them.
- › Minerva Analytics also helps us monitor the voting intentions of our fund managers so we can check they are voting in line with our views, as set out in our voting and engagement policy. The exercise of these votes is published quarterly on our website and annually in our responsible investment report.
- › Every year Minerva Analytics Ltd carries out a review of Nest's shareholder voting. The last one was published in September 2022 and covered the period 1 January to 31 December 2021.
- › Given the short period in which AGMs occur, it's not possible to provide detailed analysis for every vote where our fund managers' voting intentions differ from our own policy. We therefore focus on our largest holdings to scrutinise how our fund managers are exercising votes on issues that are most significant to us. UBS Asset Management (UBS) also leads on engagement with the worst-performing companies in our climate-aware world equity fund, based on carbon emissions. This helps us maximise the effectiveness of our involvement to help reduce the carbon risk our members face.
- › The three yearly review of Nest's voting and engagement policy was undertaken in February 2023. There are a few areas where Nest is proposing to have higher expectations of investee companies, where we think it aligns with Nest's investment objectives and Nest's purpose. The voting policy is shared with the relevant fund managers to make clear our expectations.
  - Say-on-climate votes (advisory votes on companies' climate transition plans): We have set stricter minimum requirements for say-on-climate votes in our UK voting policy. Companies will need to commit to net zero, disclose scope 1,2, and 3 emissions, as well as short-, medium-, and long-term emission reduction targets and a description of how targets link to business planning and capital allocation decisions
  - Natural Capital: We engage with and then vote against companies in the Forest 350 list with a score below 40. The Global Canopy Forest 350 list is a list of the 350 companies with the greatest exposure to tropical deforestation risk with scores from 0 (worst) to 100 (best)
  - Diversity: Updated our UK policy to match the new Financial Conduct Authority's listing rules on board gender diversity to report annually on a 'comply or explain' basis:
    - At least 40% of the board are women
    - At least one of the senior board positions (Chair, CEO, Senior Independent Director, or CFO) is a woman

- Over the last year, 49,711 votes were cast on our behalf at company AGMs, with 16.1% being against management. The graph below shows the Scheme’s votes against management by category.

Percentage vote against management



- During the last voting season (2022), Nest overrode our fund managers’ voting intentions 119 times to better align our votes with our policy and beliefs. If we override our fund managers to vote against management recommendations, we engage with the company directly. In the last year, we wrote letters to companies to explain our voting decisions and areas of concern, seeking resolution or ongoing dialogue.
- Examples of Nest’s voting activity can be found in the latest Responsible Investment report. Notable high-profile votes cast by Nest include:
  - Nest co-filed a Shareholder resolution at Sainsbury’s 2022 annual general meeting (AGM), asking them to pay all direct staff the real living wage by 2023 and commit to ensuring their third party contractors are paid the equivalent of the living wage by 2026. This was the first time Nest co-filed a resolution and pre-declared our intentions through the media, to encourage other shareholders to support us. Following our announcement, Sainsbury’s agreed to a pay increase for Sainsbury’s and Argos retail store colleagues in outer London, matching the real Living Wage for London. This is one of the key asks from our engagement with Sainsbury’s and helped around 19,000 more Sainsbury’s employees receive a wage that more closely matches the cost of living.
  - This year we overrode our fund managers and voted against Barclays’ climate strategy, targets, and progress report for 2022. Barclays is the UK’s largest financier of fossil fuels. To limit warming to below 1.5 degrees, scientists state that developed markets must phase out coal by 2030, while Barclays planned to phase out financing to US clients engaged in thermal coal mining and coal-fired power generation by 2035 (suggesting coal power will be in use well beyond 2035). The resolution received 19% of votes against, signalling to management significant concern from shareholders. Barclays has since changed its coal policy to phase out coal in all OECD countries by 2030.

### Stewardship

- Over the year Nest engaged directly, such as through correspondence or attending meetings with management, with 23 companies.
- The Scheme participates in wider initiatives to help fulfil our stewardship responsibilities, including being a member of, or signatory to, ShareAction’s Good Work Coalition, the Asset Owner Diversity Charter, 30% Club UK Investor Group, Workforce Disclosure Initiative and Global Canopy’s deforestation-free pensions guidance working group.



- › In the last year, the Scheme has also joined the Financing a Just Transition Alliance (FJTA), an investor group on the Just Transition that is led by the LSE Grantham Research Institute. Our association will help the Scheme benefit from the resources FJTA have available, helping us further develop our policies on the Just Transition. A full list of new initiatives Nest has joined can be found in the latest responsible investment report.
- › The Scheme was among the first signatories of the Financial Reporting Council's (FRC) new UK Stewardship Code 2020. The Code comprises 12 principles on reporting stewardship activities and outcomes that asset owners like Nest must demonstrably meet. The Scheme received confirmation from the FRC in February 2023 that we have again met the expected standard of reporting and we continue to remain signatories to the FRC Stewardship Code.
- › Nest believes our role in the newly formed Occupational Pension Scheme Council (OPSC), of which the Scheme is a founding member, will help promote and facilitate high standards of stewardship across UK pension funds which will benefit the millions of members.
- › Nest is willing to escalate engagement with companies we feel are not managing specific risks to their business and are not suitably engaging with us, or our fund managers, on how they're managing the issue. Examples of Nest's stewardship engagement can be found in the latest Responsible Investment report. Some noteworthy examples of this escalation include:
  - The Scheme publicly supported ClientEarth's litigation case, filed February 2023, against Shell's Board of Directors over their management of material and foreseeable risks posed to the company by climate change. Our involvement was intended to send a signal to the energy sector that investors expect to see action on climate risk to ensure their own long-term sustainability, and we will challenge those who aren't doing enough to transition their business and mitigate risks for our members.
  - Last year Nest signed three investor letters of support for deforestation-free legislation bills in the US: the FOREST act which would prohibit agricultural commodities entering the US market from being sourced on land that was illegally deforested and require traceable supply chains, and California and New York public procurement laws would require products purchased by state governments to be deforestation-free and respect human rights.

### Other activities

- › The responsible investment team has established a training programme for our Board members, covering the fundamentals of responsible investment and key ESG themes, including training on management of climate change risk. In the last year the responsible investment team conducted training sessions for the Board on Impact and thematic investing.
- › Nest has made it easier for Scheme members to review the companies they're invested in through Tumelo, a technology platform embedded within the Scheme's public website. The pilot ran for 12 months and based on the success of the trial it has been procured for another year.

## Additional investment fund strategy choices

This part of the SIP makes provision for the establishment and oversight of other fund choices within the Scheme.

- › Nest is continuing work to review the overall fund choice available to members, with a view to ensuring our additional fund choices (outside of the Scheme's default offering) meet our member needs. Nest recognises some Scheme members will want to prioritise ethical and religious beliefs or want to take a different level of investment risk, in how their pension is invested. Alternative funds offered by the Scheme include the Ethical fund, Sharia fund, Higher Risk fund and Lower Growth fund. Any member can switch between these funds, free of charge.
- › Following careful review, Nest decided to close the Nest Pre-Retirement Fund choice. It concluded it was no longer a suitable option for Scheme members, particularly following Pension Freedoms and Choice and the movement away from savers having to purchase an annuity. The SIP has been changed accordingly to reflect the change in fund options.

- › In the last year Nest undertook a ‘deep dive’ into the ethical equity mandate operated by Columbia Threadneedle, which is used as a key building block for the Scheme’s Ethical fund. The session allowed Nest to better understand the screens in place in the portfolio and how the fund manager approaches voting and engagement with the fund’s holdings.

Nest consults with its members to ascertain their views on a range of topics, including how they feel about being invested in certain types of industry. Last year Nest reviewed the exclusions in place for the Ethical fund, using member research on their views and attitudes to certain industries to help inform its decision. This year Nest has not made further changes to the exclusions in place for the Ethical fund or the Retirement Date Funds.

# Glossary

### **Asset**

Something of economic value that an individual, an organisation, a corporation or a government owns, for example, a piece of property, a share in a company or a building or machinery.

### **Annual general meeting (AGM)**

Most shares in publicly traded companies give their owners a right to vote on some company decisions, including on issues like whether to take over another company or to approve the amount senior executives are paid.

Voting usually takes place at each company's AGM, the yearly gathering of a company's interested shareholders where directors of the company present the company's financial performance and shareholders vote on issues at hand.

### **(the) Board**

The Board members of Nest Corporation are collectively referred to as the Board of Nest Corporation, or simply the Board. They're supported by an executive team and a range of specialists who aim to make sure Nest works in the way it should. Board members are currently chosen by the Secretary of State for Work and Pensions in line with public appointments guidance that promotes selection on the basis of merit, fairness, and openness.

### **Climate risk**

The potential negative impacts of climate change on an organisation. It includes the potential for adverse effects on lives, livelihoods, health status, economic, social and cultural assets, services (including environmental), and infrastructure due to climate change.

### **Controversial weapons**

The production or sale of cluster weapons, anti-personnel landmines or chemical and biological weapons.

### **Custodian**

This is a financial institution that holds customers' investments for safekeeping. Nest's custodian, State Street, works closely with us to allocate the right savings to the right fund, ensuring all information on what has been invested is accurate.

### **Default fund**

A pension fund into which members are automatically enrolled.

Our default funds, the Nest Retirement Date Funds, are target-date funds where the investment objectives follow a glide path based on how far away the member is from their expected retirement date, year by year.

### **Diversification**

The spreading of investments across different asset classes, markets, sectors, countries, etc. This is done to minimise investment risk. This is an investment application of the everyday term 'don't put all your eggs in one basket'.

### **Engagement**

The process by which investors leverage their position to influence corporate decision-making. An individual or organisation with shareholder ownership has more opportunities for engagement, particularly through voting at company AGMs.

Outside of voting, investors can take a more informal approach by having a dialogue with senior management behind closed doors or making public declarations with open letters, press releases, and collaboration with other investors in industry or issue-specific working groups, like ShareAction.

### **Environmental, social and governance factors (ESG)**

ESG factors are a set of standards used to evaluate a company's behaviour, typically used to screen potential investments.

Environmental factors consider how a company treats the environment, such as their policies on a transition to a low carbon economy. Social factors examine how the company manages relationships with the people it works with, including employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

We believe that well-run organisations with sound environmental, social practices and good governance have a better chance of long-term success and profitability.

### **FCA**

The Financial Conduct Authority is a financial regulatory body in the United Kingdom. It works to ensure financial markets are honest, fair and effective.

### **Fund manager**

A third party that is responsible for implementing an investment strategy in an asset class or classes and for managing the portfolio of assets in which members' money is invested on their behalf.

### **Global high yield bonds**

A category of bonds based on their credit rating. These bonds generally pay higher interest rates because they have lower credit ratings than investment-grade bonds. They are also known, somewhat disconcertingly, as junk bonds.

### **Illiquid assets**

An illiquid asset is one that can't be quickly resold without a significant loss in value, for example property or infrastructure projects. Conversely, a liquid asset can be quickly sold without a significant loss in value, like stocks and shares.

### **Investment management agreement (IMA)**

This agreement gives fund managers the authority to invest capital on behalf of investors, and detail a set of investment beliefs that are to be used to guide day-to-day investment decisions and the manager's investment strategy.

Nest's investment beliefs are set out in our [Statement of investment principles](#).

### **Investment committee**

A group that oversees the overall investment strategy and approach of an organisation as well as the investment team.

The Board delegates these powers to Nest's investment committee, whose membership includes members of the Board and independent investment specialists.

### **Investment return**

The amount gained or lost on money invested in assets, usually expressed as a percentage. Annualised investment returns over several years help to demonstrate the longer-term performance of an investment.

### **Investment risk**

Investment risk is the possibility of losing the money you invest. There's a risk than you might not get back what you put in or that you might not earn what you expect to.

### **Investment risk committee**

Nest's investment risk committee meets quarterly to oversee investment risk management activities across the investment process. The committee makes decisions on risk mitigation measures or resolutions, proposals for changes to existing risk limits/targets and the risk management process.

The committee aims to support a holistic investment risk management approach. It therefore monitors investment risk management activities across the different teams within our investment risk governance structure and ensures adequate checks and balances are embedded consistently within those activities. Its remit includes reviewing key ESG issues including climate-related risks for Nest portfolios first identified by the responsible investment team, and recent developments in the responsible investment space which could have negative impacts on Nest portfolios.



### **Investment strategy**

The guidelines that lay out future investment goals and the rules and procedures to be used when making investment decisions. Investment strategy evolves in response to changes in the economy and investors' needs. We also prioritise members' needs when evolving our investment strategy.

### **Leveraging**

Leveraging refers to the use of borrowed funds, usually through derivative contracts, to increase the amount of money invested in the performance of an asset. It can help increase investment returns but also raises the level of risk taken by the investor, since the borrowed money will need to be repaid and there is no guarantee the underlying investment will be profitable.

### **Liquidity**

The ability to move cash into and out of other assets. The liquidity of an asset refers to how easily and how often it can be traded or exchanged. It also means the ability to trade an asset in exchange for cash.

### **Minerva Analytics**

Our proxy voting advisor. They help us monitor the voting intentions of our fund managers and to vote in line with our views set out in our voting and engagement policy. We take investment considerations, research and analysis, and our engagement history into account to inform our voting decisions. We have no hesitation in overriding our fund managers' votes if we disagree with their views.

### **Nest Ethical Fund**

A pension fund for Nest members who have specific concerns about the impact that organisations have on the environment and society, for example in areas such as human rights and fair trade.

### **Nest Invest**

Nest Invest Limited, referred to as Nest Invest, is the name of Nest's investment subsidiary, which was authorised by the FCA as an occupational pension scheme firm in January 2020. It can act on behalf of its client, Nest Corporation, to provide regulated advice, arrange deals and provide instructions to fund managers with regards to the investments in the Scheme's portfolio. The investment team at Nest Invest manages the investment of our members' money. They monitor the performance of our fund managers, consider the opportunities available in different asset classes and assess and implement our responsible investment requirements.

### **Occupational pension scheme**

Occupational pension schemes are regulated by The Pensions Regulator. They're set up to provide retirement benefits for employees.

### **Pooled funds**

A set of money from many individual investors that has been combined for investment purposes. The collective, or 'pooled', investment account lets the investors be treated as a single account holder, enabling them to buy more shares collectively than they could individually. They will often benefit from economies of scale, leading to better prices.

### **Private equity**

Not all companies are listed on the stock market. These are known as privately held companies, with household names like Aldi, IKEA and Mars, the chocolate manufacturers, all falling under this banner, as well as many innovative and growing businesses.

Private equity is a way of investing in these companies, and helps them to raise money for new technology, to acquire other businesses, or just to boost their balance sheet. Privately held companies use this injection of cash to grow and develop without the quarterly scrutiny of the stock markets, which can put pressure on senior management to achieve short term results. Money is typically invested for medium to long periods of time, with private equity managers working closely alongside company management to make the business more profitable in the long-term. As they're not listed publicly, they're less easy to invest in than ordinary stocks and shares.

### **Responsible investment**

A strategy and practice to incorporate ESG factors in investment decisions.

### **Securities Class Action (SCAs)**

A securities class action, or securities fraud class action, is a lawsuit filed by investors who bought or sold a company's publicly traded securities within a specific period and suffered economic damage because of violations of securities laws.

### **Securities lending**

A mature, well-regulated practice that can be a source of revenue for institutional investors. Investors temporarily lend their securities to borrowers in return for a fee. The 'lender' receives pre-agreed collateral, typically with an additional margin, in the form of other securities or cash before transferring the title of the securities to the borrower. A legal agreement protects the lender's entitlement to all the economic benefits of the lent securities (such as dividends) and, in the unlikely event of the borrower defaulting, the collateral is used to fund the replacement of the securities borrowed.

### **Segregated mandate**

A fund run exclusively for a client, as opposed to a pooled fund.

### **Statement of investment principles (SIP)**

Nest's policies and principles that guide all decisions when managing members' money.

### **Stewardship**

This is the responsible allocation, management and oversight of assets to create long-term value, which also helps bring about sustainable benefits for the economy, the environment and society. Asset owners, like Nest, can sign up to The UK Stewardship Code which sets a certain expectation on how organisations will look after money invested on behalf of their members.

### **Task Force on Climate-related Financial Disclosures (TCFD)**

An organisation that provides a framework on the types of information that companies should disclose to support investors and other stakeholders to allow them to appropriately assess climate risks.

### **Target-date funds (TDFs)**

An age-based fund, where the members invested in each fund are expected to retire in the same year. This approach allows investors to effectively implement an investment strategy that matches the different life stages members go through.

### **Trustee**

A person, group of people or a company that acts in a specific interest. Nest Corporation is a Trustee of the Nest Scheme and acts in a sole interest of the Scheme's members.