Nest, the National Employment Savings Trust

Scheme annual report and accounts 2021/22

Scheme registration number: 12004537



Nest,
the National Employment Savings Trust

Scheme annual report
and accounts 2021/22



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Chapter 1

Board report



Chair's introduction



Brendan McCafferty, Chair, Nest Corporation

After two years of a global pandemic, Nest Scheme members and their employers are facing a cost-of-living squeeze, and investment markets continue to be volatile. Our members can be assured that we stand alongside them in helping them to secure greater financial stability and resilience in later life.

I was appointed by the Secretary of State as Chair of Nest in February 2022, succeeding Otto Thoresen for a term of five years. I am delighted to be leading the board of such a Purposeful organisation. I have a background in the insurance sector and have led a number of large and complex financial services businesses as CEO, and have been passionate about the role of business as a force for good in society for many years. I live in the north west of England.

The year in review

People and businesses are experiencing economic and wider uncertainty. Inflation and interest rates are rising. Public investment markets have been up and down. Events such as the war in Ukraine and disruptions in the global supply chain for raw materials and manufactured goods have had, and will continue to have, a significant impact on all of us.

As economies continue to recover from the worst days of the Covid-19 crisis, we're also beginning to see changes in the types of work people are doing, where and how they're doing their work and the areas of business activity which are growing versus those which are shrinking. The need to transition to a low-carbon economy is increasing in urgency, and that will reshape industries as well.

We're aware that these aren't merely issues that affect the economy in an abstract way. For many people, including our members and their employers, the pressures on everyday life are profound.

The current economic pressures also have an impact on the work we do at Nest Corporation as Trustee of the Nest Scheme.

When prices go up, it affects how the Scheme's investments perform against our objectives, since we seek to achieve returns that beat inflation. We recognise that our members are looking to us to help them grow their retirement savings enough to outpace the increasing cost of living.

When prices go up, some of the costs of delivering our services go up too. This is why we've focused intently on ensuring that our scheme administration platform will provide value for members over the coming decade, building in efficiency by design.

We centre everything we do on our purpose – to help millions enjoy a better retirement. This has provided direction for us, to make progress towards all of our strategic priorities and deliver value for our members despite the economic environment which framed our activities in 2021/22.

How we performed

As Nest Corporation and the Nest Scheme enter our second decade, we have achieved even greater benefits of scale than were envisioned at our founding.

At the end of 2021/22, we were investing pension savings for 11.1 million Scheme members – about one in three workers in the UK. Each month on average we received £477 million in new contributions for members' pots. Whether these members have contributions going into their pot every pay period or only now and then, or they have a pot from a previous employment in our safekeeping, we know they're counting on us to be a good steward of their savings.

A wealth of economic research and historical data shows that people achieve better retirement outcomes when they persist in saving over many years. We've worked hard to earn our members' trust by delivering among the best risk-adjusted returns over the long term from a UK workplace pension. This means we have exceeded targets for long-term performance, and we've done so while reducing the 'ups and downs' of the investment portfolio when compared to the general market.

Nearly 99% of Scheme members remain in our default investment strategy, the Nest Retirement Date Fund series. The 2040 Nest Retirement Date Fund, for members expecting to retire in 2040, is representative of the phase when we seek growth for our members' savings, with a long-term objective of achieving investment returns of at least 3% above inflation as measured by CPI. With inflation rising rapidly in early 2022, the 2040 fund's one-year annualised returns of 9.3% as at 31 March 2022 fell short of our long-term objective, which was 10.2%.

Our ambition for the fund, however, is to deliver the advantages of world-class investment management and consistent returns for our members, not just in the short term but over the many years they'll be saving with us. The 2040 fund's annualised returns over 10 years of 9.2% outperformed our objective of 5.1%.

Developing our investment strategy

As at 31 March 2022, we were managing £24.4 billion on behalf of the Scheme's members. Our investment strategy has been designed and evolved with an awareness that public markets can sometimes become volatile, as they are now.

Our scale now allows us to access ever more attractive and diverse investment opportunities for Scheme members. Indeed, we've been able to deliver strong risk-adjusted returns for members because of the work we've done to extend the range of asset types that we have in the Scheme's investment portfolio.

It's been a busy year for us on this front. We were one of the first DC workplace pension providers to diversify into more illiquid assets such as privately owned companies and infrastructure like solar and biomass energy farms. Illiquid investments provide long-term returns which aren't subject to the same timings or pressures as markets for shares or bonds in publicly traded companies, or for government bonds.

Having appointed three private credit investment managers in 2019, in April 2021 we launched three new investment mandates focused on private infrastructure equity and announced our commitment to invest nearly £3 billion in these types of assets by 2030. As at 31 March 2022, 2.6% of the Scheme's assets under management were invested in private infrastructure equity, including projects in the UK.

To support further diversification, we also invited private equity investment managers to tell us how they would manage members' money for the Scheme and considered how these would fit into our diversification strategy. These new mandates, which were finalised in the first quarter of 2022/23, will allow us to invest in innovative, privately owned companies which are growing and seeking new capital to help fund their expansion, both in the UK and globally.

Investing responsibly

This year we've also made major steps towards our commitment to be a 'net-zero' investor by 2050 at the latest, with a shorter-term target of halving the carbon footprint of the Scheme's investments by 2030. Companies will increasingly need to adapt to a low-carbon economy, and we believe those that change their operations to reduce real-world carbon emissions towards a net value of zero will prove to be more sustainable and better long-term investments for our members. Based upon surveys of our members and the general public, we also believe that most of our members want us to be investing their money in climate-aware companies that have medium-term and 2050 targets of their own.

We've worked closely with our investment managers for equities in both developed and emerging markets to design a climate aware investment strategy that manages climate risk and helps us to align with a low carbon economy. As at 31 March 2022, 59.9% of the 2040 fund was in climate-aware equities. We've also considered and modelled for the first time the potential effects of different climate transition scenarios including a 'disorderly' and 'orderly' transition to 2050, on our investments. This has further sharpened our focus on reducing climate change risk where it's most needed.

Addressing environmental issues like climate change across our members' investments is a key priority for us but so too are social and governance issues. We believe that the companies we invest in will be more successful over the long term if they are well governed, look after their workforce, and manage the impacts they make on their wider stakeholders and the environment. To this end, we engage with companies encouraging them to improve in these areas.

Over this last year, we have written to companies asking them to accredit with the Living Wage foundation. We have used our voting rights, where possible, to vote against excessive executive remuneration.

We have joined the Investor Alliance for Human Right's initiative for tech companies and are making efforts to understand how large companies collect and use customer data. We wrote to the chairs of 26 companies calling for them to be more diverse and have at least one director from an ethnic minority background in line with the Parker review's recommendations. In all of these endeavours, our goal is to help our members achieve a bigger pension in a better world.

Serving our customers

We know from academic and industry research, including our own, that members who save persistently typically see better retirement outcomes. So we believe that ensuring our services remain easy for members and employers, and engaging members through communications, is a vital part of what we do.

We've improved the help we provide to employers and intermediaries such as payroll providers and advisers. We've also run campaigns encouraging members to activate their secure online account and providing clear information about how we're responsibly investing their money. We believe these campaigns can help to demystify pensions and build our members' trust in saving.

One of the most fundamental ways we can help ensure our members realise better retirement outcomes is by protecting their assets and data. For this reason, we strongly support The Pensions Regulator (TPR) pledge to combat pension scams, to which we are a signatory. We have robust controls in place to assure that our processes and systems are secure, but we must all remain vigilant against threats from scammers and fraudsters. So we have made scam alerts part of our ongoing engagement campaigns and point our members to information about the steps they can take to protect themselves.

Our commitment to delivering a reliable service has helped us to maintain good customer satisfaction in 2021/22, with 76% of members and 71% of employers saying we deliver good to excellent service.

Looking forward

Over the past year we've also been planning for how we might evolve our services to further support our members' needs. We're grounding this work in gaining a fuller understanding of our members' lives and experiences, particularly in these times of change.

Supported by strategic partners Invesco and BlackRock, our public-benefit research and innovation centre, Nest Insight, continues to do cutting-edge work with policymakers, industry and academics to understand the challenges facing those who may be at risk of missing out on the full benefits of persistent saving.

For example, Nest Insight's exciting research on 'sidecar savings', where pension scheme members are able to add payroll contributions to a savings account that can be accessed for near-term needs, is surfacing ways in which the industry could help improve people's financial resilience. It's also looking at ways to increase member engagement and help employers support their people.

Among the things we continue to explore is how we can develop our services to members once they reach retirement age. We're curious to learn more about when and how people might wish to access their savings in the future, and how the changing nature of retirement is shaping this.

Over the next two years, we'll be making some changes to our services platform as part of the transition to our next scheme administrator, which works in the background to help us to deliver all of our services, online and by phone, to members as well as employers using the Scheme for their workers. The new service is designed to bring down costs and deliver an increasingly better customer experience, keeping pace with people's evolving service needs and expectations. The changes will also underpin several initiatives to increase member engagement in pensions. These include the important Department for Work and Pensions (DWP) pensions dashboards, which will give workers a view in the round of their retirement savings.

Governance and stewardship

When I became Chair in February 2022, I was struck by how strongly purpose and member focus were threaded through the organisation. We work hard to continually evaluate, challenge and improve our governance, with an eye to ensuring our practices are always in line with delivering value for members and our strategic priorities. Everything is underpinned by accountability to members. We aim always to exceed standards of good governance and follow best practice.

The members of the Board, the advisory members of our investment committee and our Members' Panel and Employers' Panel have been instrumental in overseeing the successful growth of Nest Corporation and the Scheme from start-up to one of the largest pension providers in the UK. In particular I want to thank the outgoing Chair, Otto Thoresen, and outgoing Board members Ian Armfield and Ron Jarman, for their years of service and stewardship.

I am keenly aware that we would not be able to deliver on our purpose without our key business partners – our scheme administrator, Tata Consultancy Services (TCS) Ltd, and our fund administrator, State Street Bank and Trust Company (SSB). They have ensured that our customers continued to have dependable access to the Scheme, day after day, throughout the pandemic.

I am also grateful to the great team of people at Nest Corporation. We rely on our employees' experience, expertise and skills to translate our strategic priorities into value for all the Scheme's customers. As a new Chair, I've been impressed by the organisation's consciousness, candour and progress around issues of diversity, equality and inclusion. There's a real commitment to addressing these issues. Doing so helps us to develop solutions that meet people's needs across the diversity of our membership.

We care about how our work will shape the future for the pensions industry and, most importantly, for Scheme members. As the Scheme continues to grow, we remain singularly focused on our members' best interests, and delivering a pension they continue to have good reason to trust.

Brendan McCafferty
Chair, Nest Corporation

> **"We've worked hard to earn our members' trust by delivering among the best risk-adjusted returns over the long term from a UK workplace pension."**

Scheme facts and figures

Introduction and constitution

The Nest Scheme, or simply the Scheme as it will be referred to in this report, was established by the National Employment Savings Trust Order 2010, known as the Nest Order. The Nest Rules document sets out how the Scheme is designed and operates. The Trustee of the Scheme is Nest Corporation (see 'About the Trustee' on **page 20**).

Together these two documents make up the Nest Order and Rules[1] and are the legal framework that governs the Scheme and Nest Corporation as the Trustee of the Scheme.

The Scheme is a registered pension scheme for tax purposes under the Finance Act 2004 and was registered with HM Revenue & Customs on 21 January 2011. As such, most of the Scheme's income and investment gains are free of direct taxation.

In 2019 the Scheme received master trust authorisation from TPR. A master trust is a pension scheme used by two or more employers to provide money purchase benefits on retirement.

Master trust authorisation and master trust supervisions were introduced as part of the Pension Schemes Act 2017. Authorisation requires all master trust pension schemes operating in the UK to meet TPR's standards in the areas of governance, operations, planning, funding and future sustainability.

1 **nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/order-and-rules.html**



Key figures as at 31 March 2022

About the Scheme

Scheme members



11.1m members

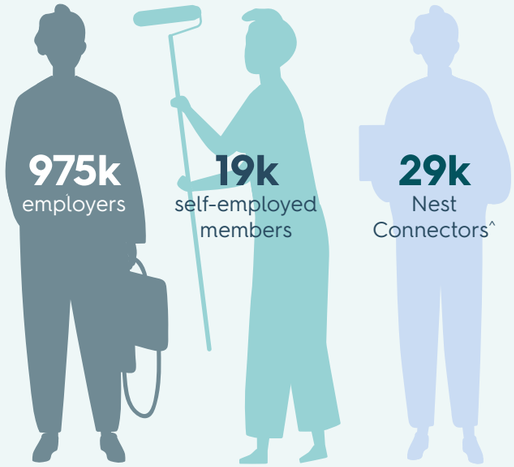
6.5m are inactive**

4.6m are active*



0.12% of Scheme membership did not have a gender listed on their Scheme enrolment.

Scheme employers



98% of employers using Nest have less than 50 employees



* Active members are members that have contributed into the Scheme, and the Scheme has not been notified by either the employer or the member that they no longer wish to pay in contributions in the future, have opted out or have exited the Scheme (retired, died or transferred out).

** Inactive members are members of the Scheme who have not retired, died or opted out but have either left their employment or have chosen to stop contributing.

^ These are intermediaries, such as accountants and payroll providers, using the Nest Connect service and delegated by an employer to perform some or all of the employer's Scheme account management for them.

Managing members' money

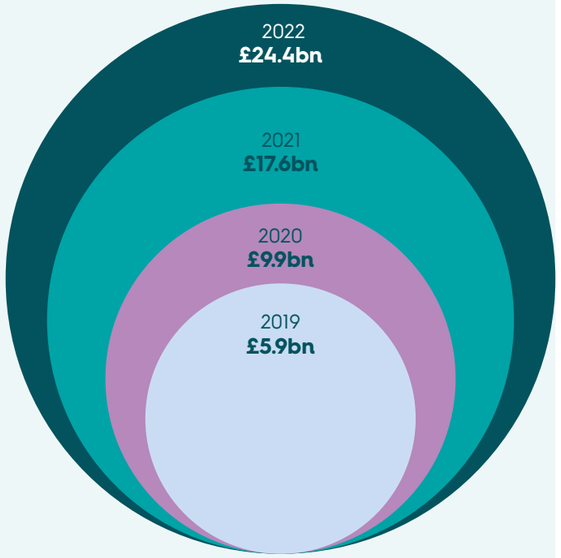
Total annual contributions of £5.7bn





7.5%
Five-year rolling annualised returns in the 2040 Nest Retirement Date Fund* after annual management charges to 31 March 2022

Total net assets



Delivering customer services



99%
Service channels were available more than 99% of the time in 2021/22



76%
Member satisfaction†
(from the 'Voice of the customer' survey December 2021)



71%
Employer satisfaction†^
(from the 'Voice of the customer' survey March 2022)

* The Scheme's default fund series, the Nest Retirement Date Funds, is 'lifestyled', where members' assets are managed according to their age as well as how markets are performing. There are four main phases in the lifestyled investment strategy: foundation, growth, consolidation and post retirement (see 'Nest Retirement Date Funds' on **page 45**). The 2040 fund, for members expected to retire in 2040, is currently representative of the growth phase, which is where most members' money is invested for the longest period of time.

† Satisfaction scores are based on those giving a 7–10 score on a 10-point scale and excludes those responding 'don't know'. They are drawn from the most recent annual survey of employers or members. Quarterly surveys, with a smaller respondent base, are also conducted.

^ Due to a majority of UK employers working from home (WFH) during the pandemic, the annual employer survey in March 2022 was conducted using an online survey method. In previous years this survey was conducted by telephone. The change in method means that differences in scores year on year may reflect population sample differences rather than a change in employer sentiment.

Trustee and Board members

The Trustee is comprised of the Board members and employees of Nest Corporation. The Board members are collectively referred to as the Board of Nest Corporation, or simply the Board (see 'The Board and committees' on **page 22**.

Service providers and advisers retained by the Board

Scheme administrator
Tata Consultancy Services Ltd
Investment funds administrator
State Street Bank and Trust Company
Custodian
State Street Bank and Trust Company
Bank
National Westminster Bank plc (joint tri-party contract between NatWest, Nest Corporation and Tata Consultancy Services)
Investment managers
Allspring Global Investments (UK) Ltd* Amundi (UK) Ltd BlackRock Inc BMO Global Asset Management Ltd** BNP Paribas Asset Management Nederland NV CBRE Investment Management Inc± CoreCommodity Management LLC HSBC Global Asset Management (UK) Ltd J.P. Morgan Asset Management (UK) Ltd Legal & General Investment Management Ltd Local Pensions Partnership Investments Ltd Northern Trust Global Investments Ltd Octopus Investments Ltd Royal London Asset Management Ltd UBS Asset Management (UK) Ltd
Investment advisers
Nest Invest Ltd
Lawyers
Eversheds Sutherland (International) LLP
Pinsent Masons LLP
Travers Smith LLP
External auditors
KPMG LLP
Internal auditors
Ernst & Young LLP

* Before 26 July 2021 Allspring was known as Wells Fargo Asset Management (International) Ltd.

** From 1 July 2022 BMO Global Asset Management will be known as Columbia Threadneedle Investments.

± Before 22 September 2021 this investment manager was known as CBRE Caledon Capital Management Inc.

Membership

The Scheme's membership in 2021/22 grew as follows:

Member numbers

	Year ended 31 March 2022	Year ended 31 March 2021
Members at the beginning of the year	**9,901,752**	**9,062,244**
New members[1]	1,511,905	1,110,246
Members opted out or de-enrolled	(170,863)	(157,759)
New members joining in the year	**1,341,042**	**952,487**
Less		
Members retired	(73,953)	(56,823)
Members transferred out	(69,223)	(50,587)
Members deceased	(5,962)	(5,569)
Members at the end of the year[2]	**11,093,656**	**9,901,752**
Contributing members[3]	3,655,608	3,459,641
Non-contributing members	7,438,048	6,442,111
Members at the end of the year	**11,093,656**	**9,901,752**

1 New members enrolled by employers and self-employed registrations during the reporting period, 1 April 2021 to 31 March 2022. This includes members who subsequently de-enrolled or opted out in the same period.

2 This includes 362,509 members who have a zero pot (compared to 328,302 in 2020/21).

3 Contributing members are those who made a contribution in March of the year under review.

Contributions and charges

Employers choose a contribution rate which must match or exceed the minimum amounts set by the Secretary of State for Work and Pensions. The employer also decides how the contribution rate will be divided between the employer and the Scheme member, subject to legal minimum contribution levels.

Employers set a payment frequency for making contributions and their payment due date for each payment period. Employers then make payments each period by their chosen date. If the Scheme does not receive both a contribution schedule and a payment to match this schedule, the Trustee has appropriate procedures for reminding the employer that a payment is due.

If member or employer contributions are not paid on time and the Trustee has reasonable cause to believe that the late payment is material, the Trustee must report the matter to TPR and to the member concerned within a reasonable period after the due date. During the financial year running from 1 April 2021 to 31 March 2022, 459,073 of contribution events were reported to TPR (compared with 324,528 in 2020/21). This equates to 4.6% of contribution events (compared with 3.5% in 2020/21) and is in line with the growth in the Scheme's membership.

The Scheme deducts a 0.3% annual management charge on the total value of a member's pension pot and deducts a 1.8% charge on the value of each new contribution paid into a member's pot.

The majority of Scheme members are aged 16 to 39 and will be saving into their pension pot for an extended period, these two charges together broadly equate to an effective annual management charge of 0.5% over the long term.

As such the Scheme's charges are within the charge cap set by the government, which is currently 0.75% of fund value.

Services at retirement

Although the Trustee is not authorised to provide financial advice, the Scheme members are supported in the years immediately before retirement with appropriately tailored information and simple processes. When a member gets close to their State Pension age or other selected retirement age, the Trustee gives them information on their options for changing how their money is invested, or for taking their money out of the Scheme.

Members' options include:

- Deferring their retirement date.
- Taking their whole pension pot as cash, either as a single withdrawal in full or as a series of partial withdrawals.
- Transferring their pot into one of the Scheme's other fund choices.
- Allowing their pot to be rolled over automatically into one of the Scheme's post-retirement funds, either the Nest Guided Retirement Fund (when eligibility requirements are met) or the Nest Post Retirement Fund.
- Transferring to another registered pension scheme.
- Transferring to a retirement income (annuity) provider.



Governance report

Chair's governance statement for the year ended 31 March 2022

This governance report has been prepared in accordance with the provisions of regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996.

Organisational structure

The organisational structure of the Scheme's Trustee is described in this section.

About the Trustee

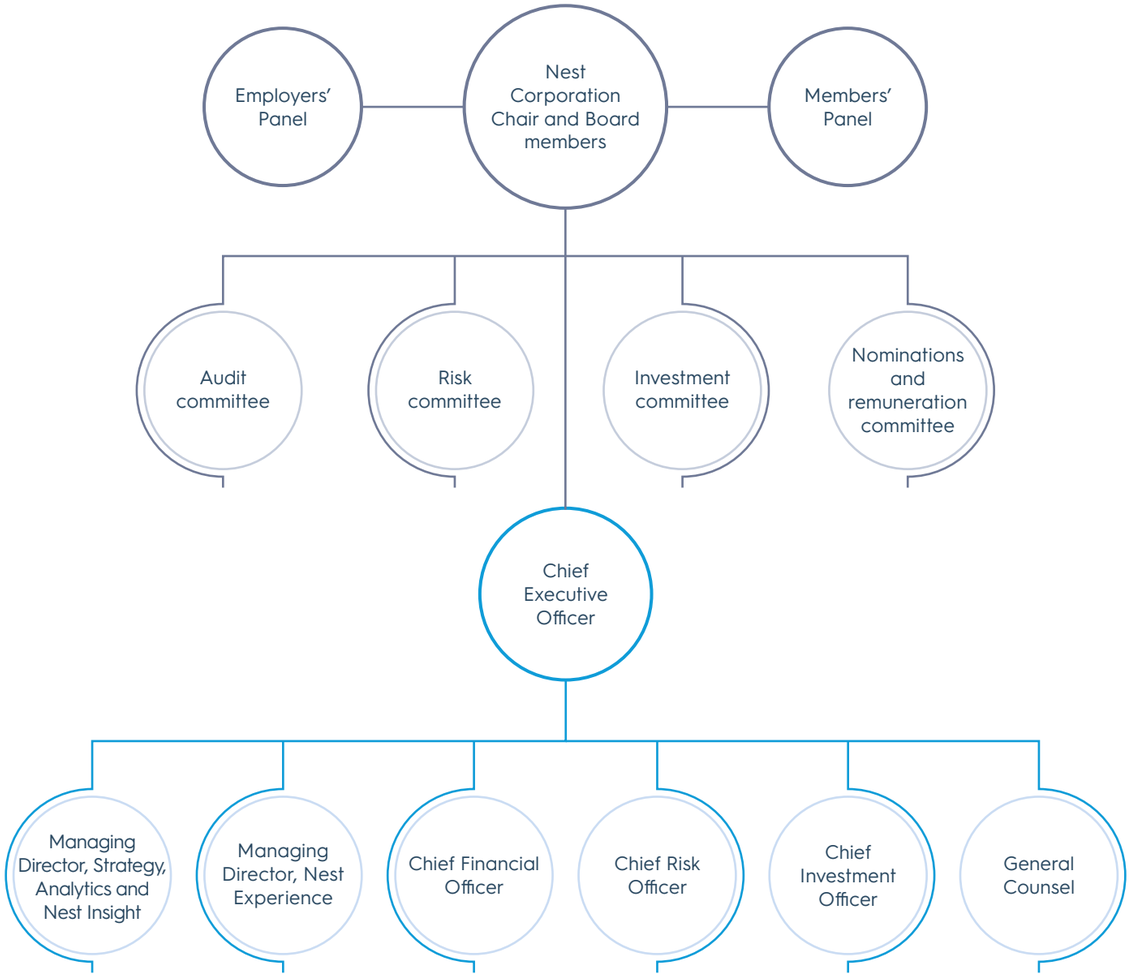
The Scheme is run by Nest Corporation. The Trustee's role is to develop and operate the Scheme.

Nest Corporation was established on 5 July 2010 to be the Trustee of the Scheme. Nest Corporation's function is set out in the Pensions Act 2008. The Nest Order and Rules set out how the Scheme will operate (see 'Scheme facts and figures' on **page 13**).

Nest Corporation is a public corporation sponsored by the DWP as a key component of the government's workplace pensions auto enrolment policy. The Trustee's working relationship with the DWP is set out in a framework document. The 'Corporation annual report and accounts' is produced separately from this document and can be found on the website.[2]

2 **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html**

Organisational chart



Executive team

Biographies of the Trustee's executive team are available online at **nestpensions.org.uk/schemeweb/nest/nestcorporation/who-runs-nest/executive-team.html**

The Board and committees

The Trustee is comprised of up to 15 Board members and the employees of Nest Corporation. The Board members are collectively referred to as the Board of Nest Corporation, or simply the Board.

As at 31 March 2022, the Board had 11 members, consisting of the Chair of Nest Corporation and 10 other Board members, two of whom have day-to-day executive responsibilities. During 2021/2022, there were also three other Board members who were no longer on the Board at the end of the financial year (see 'The Board' on **page 25**).

Collectively the Board is responsible for setting the strategic direction and objectives for Nest Corporation as the Trustee of the Scheme and representing Scheme members' interests.

For more information about the Board members, visit **nestpensions.org.uk/schemeweb/nest/nestcorporation/who-runs-nest/trustee-members.html**

Appointments

Since Board members are appointed by the Secretary of State for Work and Pensions, Nest Corporation works with the Public Appointments' team to undertake recruitment processes in line with public appointments guidance which promotes selection on the basis of merit, fairness and openness. A broad range of skills, experience and knowledge are required collectively on the Board. Appointments are also made in line with the Commissioner for Public Appointments' 'Principles of public appointments' and Cabinet Office guidance.

Provisions are in place within Board members' terms and conditions which give appropriate controls for the removal from office of Board members. The provisions also specify the conditions in which this can be done.

All Board members, including the Chair, were non-affiliated at the time of appointment and continue to be so throughout their term of appointment. This means they have had no current or previous material relationship with Nest Corporation or the Scheme as an employee, officer or contractor and have no connection to a service provider in respect of the Scheme. This is with the exception of the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), who are employees of Nest Corporation, and Chris Hitchen, who previously served as a Board member of Nest Corporation between 2010 and 2015.

During 2021/22 a new Chair of Nest Corporation and two new Board members were appointed to the Board, and the outgoing Chair and two Board members left the Board.

The new Chair and Board members were appointed in line with the codes for public appointments described above and are non-affiliated with Nest. Biographies of all individuals who were Board members at any point during 2021/22 can be found on **page 25**.

Experience and skills

Board members bring a range of experience and skills. Collectively these include investment, pensions, risk, member representation, finance, audit, procurement, supply, digital transformation, governance and business management. As noted above, biographies for Board members are on **page 25**.

As at 31 March 2022, every Board member with the exception of the new Chair, Brendan McCafferty, had completed TPR's trustee toolkit, an online learning programme. New Board members must complete this within their first six months in addition to a detailed induction programme tailored to their requirements, skills, qualifications and experience. The new Chair was appointed with effect from 1 February 2022 and is on track to complete the trustee toolkit within the six month time frame.

The induction process familiarises all new Board members with several key areas, including the Scheme's governance structure, governing documentation and pensions and trust law. It also provides opportunities for new Board members to meet key staff across Nest Corporation.

The Board has a full working knowledge of the Nest Order and Rules, 'Statement of investment principles' (SIP)[3] (see **page 44**), governing documentation and policies as they apply to the Scheme. This is provided as part of the induction process and through appropriate approval processes surrounding these documents. Board members also receive regular refresher training on legal authorities and responsibilities, including those set out within the Order and Rules and governing documentation of Nest Corporation. This knowledge is monitored through analysis of the annual skills and experience questionnaire. In addition, where necessary, the Board has sought guidance and advice from internal and/or external advisors on the application of the provisions and powers of the Nest Order and Rules, SIP and/or relevant policy documents, which includes advice and applicable regulatory guidance and clarity on the resultant legal obligations.

During the induction process Board members are also provided with training on the Trustee's investment approach. This knowledge is monitored through the skills and experience analysis.

3 **nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/statement-of-investment-principles.html**

Each year Nest Corporation's secretariat team carries out a full skills and experience analysis of Board members. Board members are requested to complete a questionnaire detailing their essential and desired skills. Any requirements are met through briefing sessions and individual commitment to ongoing education and training. During 2021/22, Board members received briefings or training on a number of topics including Board members' legal duties and responsibilities, the transition in scheme administrator from Tata Consultancy Services (TCS) to Atos BPS in 2023, and governance of this transition. Information on the transition in scheme administration can be found in the 'Corporation annual report and accounts 2021/22'.[4]

The Trustee has two investment specialists serving on the investment committee but not the Board. This helps to ensure continued appropriate oversight and challenge of the Scheme's investment strategy.

The investment objectives for the Scheme are set out in the Trustee's SIP. On a quarterly basis, the investment committee (see **page 24**) meets to review the Trustee's investment approach. The investment committee reviews the SIP on an annual basis and assesses whether it continues to meet members' needs. The committee reports its recommendations to the Board. Both the investment committee and the Board receive regular updates from the Chief Investment Officer of Nest Corporation (see 'Resources available to the Board' below). On an annual basis, the Board reviews whether the Trustee's investment approach remains aligned with the SIP.

Effectiveness reviews

Effectiveness reviews for the Board and its committees take place annually. In line with best practice in the master trust sector and in corporate governance more generally, the Trustee engages an external facilitator for this review once every three years. These reviews contribute to the assessment of how the combined knowledge and understanding of Board members enables them to properly exercise the Board's collective functions and responsibilities for the Trustee.

The nominations and remuneration committee (see **page 24**) are responsible for overseeing the implementation of each review's recommendations.

The last externally-led review was conducted by OE Cam LLP in 2020/21. Over the course of the year since this review, the nominations and remuneration committee has implemented certain OE Cam's recommendations.

4 **nestpensions.org.uk/library**

Following on from this, the Board and its committees conducted an annual internal effectiveness review in the last quarter of 2021/22. No material recommendations were made.

Resources available to the Board

The combined knowledge and understanding of Board members, and the diversity of their background, skills and experience, is supplemented by a range of advice available to them when making decisions. This includes, for example, access to legal advice from Nest Corporation's general counsel and investment advice from Nest Invest, as well as advice from external advisers.

Nest Invest is the Trustee's investment subsidiary which is authorised by the Financial Conduct Authority (FCA) as an occupational pension scheme (OPS) firm. The Chief Investment Officer of Nest Corporation, who is also Chief Investment Officer of Nest Invest, is authorised under the FCA's Senior Managers and Certification Regime. As an OPS firm, Nest Invest can act on behalf of the Trustee to provide regulated advice, arrange deals and provide instructions to investment managers with regards to the investments in the Scheme's portfolio.

Collectively, such resources enable the Board to properly exercise its functions for the Trustee with respect to the Nest Order and Rules, the SIP and other relevant laws and legal obligations.

Nest Corporation's secretariat function provides ongoing oversight of the resources available to the Board, along with the Board's overall diversity. These are also monitored and assured annually through the skills and experience analysis of Board members.

To support effective and robust decision-making, the Board is supported by four standing committees as at 31 March 2022 (see **page 24**). The Board and its committees take decisions that affect the Scheme and ensure that Nest Corporation fulfils its obligations as a public corporation and as Trustee of the Scheme. The terms of reference for the Board and its committees are published on the website.[5]

Article 8 of the Nest Order 2010 sets out the remit for the Employers' Panel and the Members' Panel (see **page 32**) in accordance with the requirements of the Board under the Pensions Act 2008. As requested by the Board, these panels must give assistance and advice about the operation, development or amendment of the Scheme. Further details of the work carried out by the committees and panels during the year can be found in the 'Corporation annual report and accounts'.[6]

5 **nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/policy-and-procedures.html**
6 **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html**

Member views and feedback

In addition to feedback received from the Members' Panel and the Employers' Panel, the Board reviews research about customers of the Scheme. The Trustee conducts research aimed at understanding what Scheme members think and feel, and how the Scheme and Nest Corporation's services are performing against the Trustee's objectives.

The 'Voice of the customer' research programme annually surveys approximately 3,000 members and 1,000 other people who are eligible for auto enrolment. Surveys are sent four times a year to track indicators such as support for auto enrolment, overall satisfaction with the Scheme, engagement with the Scheme, retirement plans and contact frequency.

The Trustee also proactively seeks member views by:

- Surveying Scheme members who have experienced a key process, such as a transfer in or out of the Scheme, to assess satisfaction and ease of use of the process.
- Surveying a random selection of members who have used the contact centre to assess their level of satisfaction with the interaction.
- Maintaining an online member research community called 'Your way' through which the Trustee's product and investment teams are able to carry out research directly with the Scheme's membership and hear member feedback.

The Trustee also has reactive channels through which Scheme members provide feedback at their convenience:

- A survey link is included in the member help centre on the website.
- Social media platforms like Facebook and Twitter are monitored, and the Nest Corporation service delivery team actively responds to this feedback.

The Trustee analyses any changes in the demographic characteristics of the Scheme's membership.[7] This data is used to help design better communications and identify ways to improve the Scheme. The Trustee is always looking to grow the Scheme in the right direction for its customers and is committed to helping Scheme members achieve their retirement goals.

7 **nestpensions.org.uk/schemeweb/dam/nestlibrary/member-evidence-research-report.pdf**

Delegations

A scheme of reserved matters and delegations outlines the matters reserved to the Board and delegations to the committees. Decisions which are not reserved to the Board or a committee are delegated to the CEO, who is responsible for the day-to-day operations and management of Nest Corporation and the Scheme.

The CEO delegates authority to each member of the executive committee and holds them accountable for delivery in their remit. To provide oversight of the operations of Nest Corporation and the Scheme, and to provide advice to the CEO on key issues within the CEO's delegated authority, the executive committee meets at least monthly and the CEO provides formal reports at Board meetings.

Audit committee

The audit committee is responsible for monitoring the integrity of the financial statements for Nest Corporation and the Scheme, and the validity of the assurance given on them. It monitors the internal controls framework and the effectiveness of internal audit and compliance functions.

Risk committee

The risk committee is responsible for advising on overall risk strategy and risk appetite. It considers all aspects of risk, and the management and oversight of those risks, that could affect the Scheme customers, the Scheme and Nest Corporation.

Investment committee

The investment committee is responsible for overseeing the Scheme's investment strategy and any changes to the investment approach or the funds made available to members. The committee also monitors investment performance and operational investment risks.

Nominations and remuneration committee

The nominations and remuneration committee is responsible for overseeing Nest Corporation's remuneration strategies and organisational culture to enable it to attract and retain talented staff with the right capabilities. It also provides oversight of the corporate governance processes within Nest Corporation by assessing whether governance arrangements are adequate, appropriate and operating effectively. This committee also monitors corporation culture, capability and capacity risk.



Brendan McCafferty

Chair, Nest Corporation from 1 February 2022

Brendan was appointed Chair of the Board of Nest Corporation by the Secretary of State for Work and Pensions effective 1 February 2022.

He has been at the forefront of public body collaborations between industry and government. He has also successfully led major transformational strategic change in regulated financial institutions deploying new digital technologies and data analytics. Most recently, he led the transformation and sale of an insurance business for a private equity shareholder, and was CEO at AXA Insurance UK plc. He was also the founding CEO of Flood Re Ltd, an innovative venture between the government and the insurance industry that was set up to help households at risk of flooding.

A qualified accountant, Brendan has also been a trustee of two registered charities – Blueprint for Better Business, which encourages companies to be a force for good in society, and the Catholic dioceses of Salford – for many years.



Otto Thoresen

Chair, Nest Corporation from 1 February 2015 to 31 January 2022

Otto stepped down as Chair of the Board of Nest Corporation on 31 January 2022, having served for seven years.

He has extensive experience in pensions, financial services and consumer issues across a range of private and public sector organisations, including periods as Director General of the Association of British Insurers and as the CEO of Aegon UK. He is Chair of the BT Pension Scheme and abrdn Life and Pensions Ltd as well as Chair of the Board at Aviva International Insurance. He is a governor of the Pensions Policy Institute.

The Board

Biographies of Board members are available online at **nestpensions.org.uk/schemeweb/nest/nestcorporation/who-runs-nest/trustee-members.html**



Ian Armfield

Board Member from 1 April 2014 to 30 June 2021

Ian left the Board on 30 June 2021 after serving for seven years.

A former partner of PwC LLP, providing audit services to investment managers and risk assurance services to the wider investment industry, he is a non-executive director of Keystone Positive Change Investment Trust plc and Managed Pension Funds Ltd, an insurance company providing pooled investment management services to pension schemes. He is also Chair of the audit and risk committee for the Pearson Pension Plan.

He has expertise in FCA-regulated asset management, financial accounting and audit, responsible investment, independent assurance reporting and internal audit and controls.



Myfanwy Barrett, CB

Board Member from 1 July 2021

In addition to her role on the Board, Myfanwy was appointed as a non-executive director at The Pensions Ombudsman (TPO) in May 2021.

She is a qualified accountant (CPFA) and her executive career was in public finance. She was Corporate Director of Finance at Harrow Council and, more recently, Managing Director of Corporate Services at the House of Commons. She has experience of leading a wide range of services, including the MPs' pension scheme and the Local Government Pension Scheme (LGPS), as well as strategic planning, people and portfolio management.

Myfanwy is currently also a board member of Ocean Housing, Chair of the Tate St Ives Members Committee and Treasurer of Morrab Library and Newlyn Art Gallery & The Exchange.

In 2018 she was awarded the Most Honourable Order of the Bath, Companion (CB).



Karen Cham

Board Member from 1 July 2019

Karen is Professor of Digital Transformation Design at the University of Brighton and professorial lead for the Connected Futures research and enterprise programme, which includes digital economy, digital health, complex systems and immersive, simulation and virtualisation. As part of this, she is also academic lead of the Digital Catapult Centre 5G Brighton project, part of the government's 5G strategy.

Karen is an internationally recognised expert in user experience design and engineering behaviour change. Her research concerns designing for persuasion, emotion and trust, and she specialises in the digital transformation of values and ethical practice. She has worked in e-commerce, fintech, health and care, arts and heritage, games, e-learning, military and defence. In her 25-year career in human-centred design and build her clients have included PlayStation, Diesel, ITV, Topshop, Which?, Ernst & Young (EY) and ?What If! Innovation.

She is a fellow of the RSA, the royal society for arts, manufactures and commerce.



Helen Dean, CBE

Board Member from 1 June 2018

Chief Executive Officer, Nest Corporation

Helen has been a leading player in delivering pension reform, having worked at the DWP to design a solution to the UK's problem of chronic under-saving in pensions. She has worked in pensions for 20 years, firstly from inside government as a regulator and then as a policy maker.

She led the product marketing and operations arms of Nest Corporation before becoming CEO in September 2016. She is a mentor to women in the pensions industry and has established a senior leadership programme to cultivate the next generation of diverse leaders for Nest Corporation's future.

Helen is also a non-executive director of the debt charity StepChange, Vice Chair of the Stewardship Stakeholder Group of HM Treasury's Asset Management Taskforce and a governor of the Pensions Policy Institute.



Clive Elphick

Board Member from 1 June 2018

Chair, Audit Committee from 29 January 2019

Clive is an independent director of National Grid Gas plc. Previously, he was an independent director of National Grid Electricity Transmission plc, a member of the Competition Appeal Tribunal and a board member of the Environment Agency, where he chaired the pension fund. He is a past Chair of the Confederation of British Industry for the North West of England, and is a former board member of a UK department of state, a regional development agency, a utility regulator and the National Museums Liverpool.

From 1991 to 2009 Clive worked for United Utilities Group plc, most recently as Managing Director of Asset Management and Regulation. Prior to joining United Utilities, he qualified as an accountant with ICI and then worked as a management consultant with Deloitte.



Chris Hitchen

Board Member from 1 June 2018

Chair, Investment Committee from 28 May 2019

Chris rejoined the Board in 2018, having previously served as a Board member from 2010 to 2015. He has over 30 years' experience in investment and pensions.

He is Chair of the Border to Coast Pensions Partnership, investing money for 12 Local Government Pension Scheme (LGPS) pension funds with assets under management totalling £43 billion, as well as Chair of Scheme Committees for The Pensions Trust's industry-wide housing association pension schemes with assets totalling £5 billion. Previously, he was Chief Investment Officer and then CEO of the 350,000-member UK Railways Pension Scheme.

Chris is a board member for the Toronto-based International Centre for Pensions Management and for the UK's Investor Forum, which promotes strategic dialogue between companies and investors. He chaired the Pensions and Lifetime Savings Association (PLSA) from 2007 to 2009 and was the inaugural Chair of the Pensions Quality Mark, raising standards in defined contribution (DC) pensions.

Chris is an actuary and an honorary fellow of the CFA Society of the UK.



Ron Jarman

Board Member from 1 July 2016 to 30 June 2021

Chair, Nominations and Remuneration Committee from 28 May 2019 to 30 June 2021

Ron left the Board on 30 June 2021 after serving for five years.

As a former President and Chair of the Chartered Institute of Procurement and Supply, Ron has extensive supply chain and procurement experience from working with many private and public sector organisations. He is currently Board Chair at World at Play, an international development charity, and a trustee of Tempo Time Credits, a charity dedicated to recognising the value of contributions to communities of volunteering.

Ron contributed his knowledge of oversight, public procurement, change management, stakeholder engagement and managing conflicts of interest to the Board.



Sarah Laessig

Board Member from 1 September 2021

Sarah is a seasoned non-executive director who brings experience in financial services, government, higher education, international development and technology, data and digital to her role on the Board.

She serves as a non-executive director of United Trust Bank and Local Pensions Partnership Investments. She is a member of the Board of Advisors of data. world, a cloud-native enterprise data company, and a past director of CG Pension Trustees Ltd, the trustee for Citi (UK) Pension Plans. She is also Ambassador for Women on Boards UK.

Sarah was previously an executive at Citigroup, managing businesses across developed and developing markets. She also served a five-year term as a Civil Service Commissioner, chairing open recruitment competitions for senior posts in the civil service for HM Government. She was previously a non-executive director of Valoot Technologies, a fintech company specialising in payments.



Richard Lockwood

Board Member from 1 September 2018

Chief Financial Officer and Deputy CEO, Nest Corporation

Richard has been part of Nest Corporation's executive team since 2014. From the controls environment to the culture, he has been involved in helping the organisation to mature from a start-up to one of the UK's biggest workplace pension providers. He initially managed the finance and procurement teams. More recently, he has added people and development, IT and facilities, internal communications and central change into his remit, while also becoming Deputy CEO.

As executive champion for diversity and inclusion, Richard has led a programme of work that is helping to increase staff awareness of, and openly discuss and tackle, biases and barriers. He is a member of the Advisory Board of the Diversity Project, a cross-company initiative working to create a more inclusive culture in the financial sector.

Richard is a chartered management accountant. His career over the last 30 years includes roles in a number of blue-chip UK retail and consumer product companies including Home Retail Group plc, BAA plc, Kingfisher plc, Whitbread plc and BP plc.



Mutaz Qubbaj

Board Member from 1 June 2018

Mutaz is a technology entrepreneur, most recently as CEO of Squirrel, a money management fintech start-up of which he was a founder. He has extensive financial services experience as an investment banker in both the US and the UK.

He brings to the Board his knowledge of strategy formulation, customer technology solutions development and customer services insight.



Martin Turner

Board Member from 1 June 2018

Chair, Risk Committee from 21 February 2019

Martin has 37 years' experience working in financial services across Barclays plc and Lloyds Banking Group plc. He has had a broad range of roles, both in the UK and overseas, ranging from front-line customer service and relationship management through to strategy and transformation and IT and operational service delivery. More recently, he has had group-level accountabilities in the second-line risk function including operational risk, regulatory compliance, internal risk reporting and external risk disclosures. This has included overseeing significant structural reform programmes driven by regulatory and legislative and state aid commitments.

Martin retired from full-time executive roles at the end of 2016. He is currently a non-executive director and trustee with AQA Education, where he chairs the audit, risk and compliance committee.



Jill Youds

Board Member from 1 April 2015 (reappointed for second term from 1 July 2019)

Senior Independent Director from 25 July 2017

Chair, Nominations and Remuneration Committee from 1 July 2021

After a successful senior leadership career focusing on transformation, operations, finance and culture in the commercial sector, Jill decided to devote her time to her main interest – the importance of pensions in supporting financial wellbeing.

She is Chair of the pension trustee boards for the Bank of Ireland Group UK, Senedd Cymru/Welsh Parliament, Dŵr Cymru/Welsh Water and the Legal Services Commission. Previously she chaired the pension boards for the Ministry of Justice and the Northern Ireland Department of Justice and was a non-executive director for the Local Pensions Partnership. She chairs or is a member of the investment committee for all the pension schemes she works with.

Jill champions the importance of effective operational delivery and the quality of customer experience. She is strongly focused on governance and oversight to ensure that the right things are done in the right way to serve members' long-term interests.

She is a professionally accredited pensions trustee and has achieved the diploma in pension trusteeship from the Pensions Management Institute.

Employers' Panel

(Chair - Ron Jarman)

The Employers' Panel was set up in accordance with the Pensions Act 2008 and Nest Order 2010. It represents participating employers by providing advice on the operation, development and amendment of the Scheme. The panel had 11 members as at 31 March 2022.

During 2021/22 the panel met four times. Its work included:

- Preparing and presenting the Employers' Panel annual report to the Board.
- Completing a programme of work on topics relevant to employers and useful to the Trustee in developing the Scheme's services. For example, this year's programme focused on bulk transfers, web services, employers new to the Scheme and the Scheme's retirement offer.
- Providing input on proposed changes to the SIP.
- Attending a training session, held jointly with the Members' Panel, on the Scheme's investment objectives.
- Attending a joint meeting with members of the Members' Panel, the Board and the executive team. The meeting explored the current and future potential impact of the pandemic on the Scheme and Scheme members and early findings from the 'sidecar savings' research being conducted by Nest Insight, Nest Corporation's research and innovation centre. For more information about this research, visit **nestinsight.org.uk**

Members' Panel

(Chair - Nigel Stanley)

The Members' Panel was set up in accordance with the Pensions Act 2008 and Nest Order 2010 to represent the Scheme members and allow them to provide advice on the operation, development and amendment of the Scheme. The panel had 12 members as at 31 March 2022.

During 2021/22 the panel met four times. Its work included:

- Fulfilling its formal governance functions through consultation on changes to the Statement of Investment Principles and by submitting its annual report to the Board and the Secretary of State for Work and Pensions.
- Considering issues relevant to the member interest in order to provide advice and feedback to the Board and the executive team, including pension adequacy, retirement provision, the closure of the Nest Pre Retirement Fund (see **page 47**), the work of Nest's member community and findings from the 'Voice of the customer' research surveys.
- Attending a training session, held jointly with the Employers' Panel, on the Scheme's investment objectives.
- Attending a joint meeting with members of the Employers' Panel, the Board and the Executive Committee.

Committee membership as at 31 March 2022

Audit committee	
Clive Elphick	Chair
Myfanwy Barrett	Member (from 1 July 2021)
Martin Turner	Member
Risk committee	
Martin Turner	Chair
Clive Elphick	Member
Chris Hitchen	Member
Mutaz Qubbaj	Member (from 1 July 2021)
Investment committee	
Chris Hitchen	Chair
Clive Elphick	Member
Jill Youds	Member
Jennie Austin	Member
Jaap van Dam	Member
Nominations and remuneration committee	
Jill Youds	Chair (from 1 July 2021)
Karen Cham	Member (from 1 July 2021)
Sarah Laessig	Member (from 1 September 2021)
Brendan McCafferty	Member (from 1 February 2022)

Board and committee meetings

Details of meetings attended by Board members

	The Board	Audit committee	Risk committee	Investment committee	Nominations and remuneration committee
No. of meetings					
Brendan McCafferty, Chair (from 1 February 2022)	1/1	–	–	–	2/2
Otto Thoresen, Chair (up to 31 January 2022)	6/6	–	–	–	4/4
Ian Armfield	2/2	3/3	–	–	2/2
Myfanwy Barrett	3/5	5/5	–	–	–
Karen Cham	7/7	–	–	–	3/4
Helen Dean	7/7	–	–	–	–
Clive Elphick	7/7	8/8	5/5	7/7	–
Chris Hitchen	6/7	–	5/5	7/7	–
Ron Jarman	2/2	–	1/1	–	2/2
Sarah Laessig	3/4	–	–	–	4/4
Richard Lockwood	7/7	–	–	–	–
Mutaz Qubbaj	7/7	–	4/4	–	–
Martin Turner	6/7	8/8	5/5	–	–
Jill Youds	7/7	–	–	7/7	6/6
Jennie Austin	–	–	–	7/7	–
Jaap van Dam	–	–	–	7/7	–

Notes to Board and committee meetings table

The Board

Brendan McCafferty was appointed Chair of Nest Corporation with effect from 1 February 2022.

Otto Thoresen completed his term as Chair on 31 January 2021.

Ian Armfield completed his term as a Board member on 30 June 2021.

Myfanwy Barrett joined the Board with effect from 1 July 2021.

Ron Jarman completed his term as a Board member on 30 June 2021.

Sarah Laessig joined the Board with effect from 1 September 2021.

Audit committee

Ian Armfield stepped down from the audit committee with the completion of his Board term on 30 June 2021.

Myfanwy Barrett joined the committee from 1 July 2021.

Risk committee

Ron Jarman stepped down from the risk committee with the completion of his Board term on 30 June 2021.

Mutaz Qubbaj joined the committee from 1 July 2021.

Investment committee

Jennie Austin and Jaap van Dam are members of the investment committee but not Board members.

Nominations and remuneration committee

Ian Armfield stepped down from the nominations and remuneration committee with the completion of his Board term on 30 June 2021.

Ron Jarman resigned as Chair of the committee with the completion of his Board term on 30 June 2021.

Sarah Laessig joined the committee from 1 September 2021.

Brendan McCafferty joined the committee from 1 February 2022.

Otto Thoresen stepped down from the committee with the completion of his term as Chair of Nest Corporation on 31 January 2022.

Jill Youds was appointed Chair of the committee with effect from 1 July 2021.

Risk management

The Trustee must consider risks and uncertainties to ensure continuous delivery of high-quality services to customers. It has established robust processes to understand, mitigate and manage risks and, while considering economic and other uncertainties, it plans for a range of scenarios.

On an annual basis, the Trustee reviews the risk management framework to ensure this framework remains fit for purpose, taking developments in practices across the industry into account. In addition, every three years the risks review takes the form of a comprehensive zero-based review. This zero-based review was completed and approved by the Board in May 2022.

The risk committee is responsible for oversight and challenge of the approach to risk management. Collectively, the members make recommendations to the Board on the risk management framework, risk appetite and principal risks for the Scheme and Nest Corporation. The Trustee engages key stakeholders, such as the DWP, TPR, the Scheme's administrator and investment managers, in understanding, mitigating and managing risks.

The Trustee also has detailed business continuity and disaster recovery (BCDR) plans in place. These have been central to maintaining the ability to provide continuous delivery of services to the Scheme's customers during the global coronavirus pandemic.

Principal risks

The Trustee takes an holistic approach to risk. It defines a principal risk as a risk that is considered material to the development, performance, position or future prospects of Nest Corporation or the Scheme. For a full review of these principal risks, key controls and mitigating actions, please see the 'Corporation annual report and accounts 2021/22'. [8]

Some of the principal risks specifically involve delivery of the Scheme's services to members, for example:

- **Service failure risk:** Particularly as a digital-first pension provider, the Trustee is mindful of the risk that a major service failure, or persistent low-level service failures, could prevent it from delivering services to customers in time or at a quality standard to meet their needs. It has multiple controls in place to monitor and manage this risk.
- **Customer data and assets risk:** Cyber criminals and fraudsters are developing ever more advanced means to commit crimes. The Trustee must protect against and try to anticipate these developments to prevent customers from suffering a significant loss of data or assets. Ensuring Scheme members' data security is key to keeping them safe in retirement.
- **Investment performance risk:** Market volatility is to be expected in investing. What the Trustee does to reduce the impact of volatility on Scheme members' pots and how it communicates this strategy to members plays a significant role in customers' confidence in the Scheme. The Trustee is required to publish a SIP, which outlines its approach to investment.

The investment committee specifically has oversight of investment risks. See 'Investment developments' on **page 53** for a summary of its consideration of risks and opportunities during the financial year.

8 **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html**

Processing the Scheme's core financial transactions

The Trustee has a specific responsibility to ensure that core Scheme financial transactions are processed promptly and accurately. Core Scheme financial transactions include:

- Collection and investment of contributions.
- Transfers between different investments within the Scheme.
- Payments to and in respect of members.
- Transfers of member assets in and out of the Scheme.

As Trustee of the Scheme, Nest Corporation operates a primarily outsourced business model. The processing of core transactions is undertaken on behalf of the Trustee by the scheme administrator, Tata Consultancy Services (TCS), the investment funds administrator, State Street Bank and Trust Company (SSB), and investment managers as detailed on **page 16**. The Board has reviewed the process for monitoring the services provided by these key outsourced service providers including consideration of:

- Ongoing assurance from the Scheme operations and investment teams that the relationships continue to work effectively.
- Assurance that the outsourced service providers operate to agreed service levels and report their performance against those service levels. To achieve this, the Trustee receives and reviews reports on a monthly basis.
- Assurance from the outsourced internal audit function which assists the Trustee in making an assessment of whether the controls are operating effectively.

The Trustee also commissions a full range of assurance activities. This includes obtaining assurance over the operation of processes that are built to enable compliance with pension legislation and TPR's Codes of Practice.

In addition, the Trustee commissions an independent assurance report, prepared in accordance with the ICAEW Audit and Assurance Faculty's 'TECH 05/20 AAF: Assurance reporting on master trusts', which provides assurance of the Scheme's overall controls framework, including the Trustee's governance and administration. TCS provides the Trustee with an independently audited annual AAF 01/20 report which tests the operational effectiveness of its administration controls framework. SSB provides the Trustee with an independently audited International Standard on Assurance Engagements (ISAE) 3402 report which is designed to give assurance that SSB has adequate internal controls.

Automated reconciliation of core transactions is carried out by TCS as scheme administrator and SSB as investment funds administrator. Reconciliations are performed for all member records on daily, weekly and monthly cycles and reported to the Trustee accordingly.

The Trustee has in place contractual requirements and service levels which cover the accuracy and timeliness of the processing of core transactions including those relating to investments and payments out to members. The Scheme's service was generally robust, with more than 99% of service levels met during 2021/22.

Scheme governance, including detailed information on the key administration of the Scheme, is evaluated on a monthly basis. The Trustee considers service level reports, the sustainability of key elements of the service, compliance reporting, risks and activities undertaken by TCS to mitigate these risks.

Each quarter the Trustee receives and considers a dashboard summary of administration activity. This includes reporting on key metrics such as service level performance and commentary on key aspects of operational performance. Material operational issues are escalated according to an incident management process. For high priority cases, this includes immediate notification to Nest Corporation and escalation to senior management including the CEO, who is also on the Board.

These monitoring and reporting activities, together with the multiple sources of assurance put in place, enable the Trustee to be confident that core Scheme financial transactions were processed promptly and accurately during 2021/22. They also provide confidence that the requirements for processing these core transactions specified in the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (regulation 24) have been met.

Charge levels

The Scheme has the same fee structure for all members, no matter who their employer is, their level of contributions or which fund they invest in.

The Scheme's charge is made up of two parts:

- An annual management charge of 0.3% on the total value of a member's pension pot each year. This is calculated on a daily basis and reflected in the unit price.
- A contribution charge of 1.8% on the value of each new contribution into a member's pension pot.

This charge structure applies to all member funds offered by the Scheme, including both the default funds and other fund choices.

The Scheme's investment return figures are net of costs and charges including the annual management charge and transaction costs. This does not include any contribution charges members may make (see 'Transaction costs' below). The net investment returns, which have been prepared in line with statutory guidance issued by the DWP in 'Completing the annual Value for Members assessment and Reporting of Net Investment Returns' (June 2021), are shown in Appendix 2 on **page 90** for the default funds, and the Fund performance table on **page 56** for the non-default funds.

The phrase 'after charges' has been used throughout this report when referring to investment returns net of costs and charges as outlined here.

See Appendix 4 on **page 94** for illustrations of the cumulative effect of the Scheme's costs and charges on members' pots over time using three different age profiles. These figures are based on qualifying earnings figures for 2021/22.

The illustrations were prepared in line with guidance issued by the DWP in 'Reporting costs, charges and other information: guidance for trustees and managers of relevant occupational schemes' (October 2021).

Transaction costs

The transaction costs for the Scheme's default fund for members, the Nest Retirement Date Fund series, are detailed in Appendix 3 on **page 92**. The Scheme does not charge these costs separately but accounts for them within the overall investment returns.

Transaction costs for the Scheme's default funds, the Nest Retirement Date Fund series, are between 0.000% and 0.046%. Transaction costs for the Scheme's other fund choices are between -0.074% and 0.057%.

Default arrangements

The Scheme's default strategy is made up of a series of yearly target-date funds known as the Nest Retirement Date Funds, which are invested based on how far away members in each fund are from their expected retirement date. For information about the Scheme's default arrangement see **page 45**.

Details of the objectives and policies regarding the default arrangement can be found in the 'Statement of investment principles' (SIP). The latest available SIP is included in Appendix 5 on **page 100** and is available online at **nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/statement-of-investment-principles.html** and by request using the contact information on **page 84**.

Members can change their Nest Retirement Date Fund without charge to select a different expected retirement year. They can also change to one of the Scheme's other fund choices without charge, if they wish. For information about the Scheme's non-default arrangements see **page 47**.

Objectives for default funds

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.

In delivering the overall investment objective for the Scheme's default arrangement, the Nest Retirement Date Fund series, the Trustee pays attention to the following supporting objectives:

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

As at 31 March 2022, nearly 99% of Scheme members were invested in the Nest Retirement Date Fund series.

The default funds' glide path

The varying allocation between higher risk and lower risk assets through time is known as an investment glide path.

The glide path for the Nest Retirement Date Funds is split into four phases: foundation, growth, consolidation and post retirement.

For information on the design and objectives for each phase in the glide path, see 'Nest Retirement Date Funds' on **page 45** and the 'Statement of investment principles' (SIP). The latest available SIP is included in Appendix 5 on **page 100**.

Review of the default fund

A review of the Scheme's default funds and the 'Statement of investment principles' (SIP) (see **page 44**) must take place at least every three years. It must also take place without delay after any significant change in the Trustee's investment approach. The next three-year review of the SIP is due to take place no later than March 2023.

The Trustee approved changes to the existing SIP in May 2022. The latest available SIP is included in Appendix 5 on **page 100**.

On a quarterly basis, the investment committee meets to review the investment approach and the performance of the Scheme's default strategy, the Nest Retirement Date Funds, and other fund choices for members. On an annual basis, the Board reviews whether the Trustee's investment approach is in line with the SIP. As part of these reviews, the Chief Investment Officer of Nest Corporation provides written advice to the investment committee and the Board.

The Board has confidence that the Chief Investment Officer of Nest Corporation, who is also the Chief Investment Officer of Nest Invest, has the appropriate knowledge and experience of managing investments for a trust-based scheme. The Chief Investment Officer is qualified to provide advice to the Board by his ability and practical experience of investment matters. He is authorised by the FCA under the Senior Managers and Certification Regime. For more information on Nest Invest see 'Resources available to the Board' on **page 23**.

Based on the Chief Investment Officer's advice and a range of other management information, the investment committee agreed during its meetings in 2021/22 that the investment approach continued to be in line with the SIP.

In June 2021 the Board assessed the Scheme's default strategy, the performance of the Nest Retirement Date Funds and other fund choices and the alignment of the Scheme's investment approach with the SIP. This included analysis and consideration of the following key issues:

- How the investment roadmap is being implemented.
- Performance of the Nest Retirement Date Funds against objectives.
- Performance of each fund's underlying asset-class building blocks against their benchmarks.
- Three-year returns by volatility.
- Performance attribution.
- Active and passive manager performance.
- Fund management costs.
- Consideration of written advice from the Chief Investment Officer.
- Members' investment needs.

The Board's review process was informed by an understanding of the membership that the Scheme has developed and that the Trustee continues to test through research.

The Trustee assesses the historic performance of the Nest Retirement Date Funds against investment objectives which are aligned with an understanding of the needs and priorities of Scheme members. The Trustee also reviews the factors underlying investment performance, including asset allocation, transaction costs and the performance of the investment managers that invest in the individual asset-class building blocks from which the member funds are constructed. The Trustee also considers volatility and other risks being taken by investment managers, and this feeds into the overall risk management of the Nest Retirement Date Funds.

The Trustee undertakes an annual review of the Scheme's reference portfolios. These portfolios set out the strategic asset allocations expected to ensure each of the Scheme's funds achieve their stated risk and return objectives over the long term. This review uses forward-looking capital market assumptions published by J.P. Morgan Asset Management.

Based on these reviews and the advice of the Chief Investment Officer, the Board was satisfied that the strategy and returns remain consistent with the aims and objectives of the Scheme's default arrangements and the Nest Retirement Date Funds remain unchanged and fit for purpose.

Review of the non-default funds

The Trustee also provides Scheme members with a select range of other funds that they may choose from (see 'Other fund choices' on **page 47**). These were reviewed alongside the default fund. Based on these reviews and the advice of the Chief Investment Officer, the Board was satisfied that the Scheme's strategy and returns also remain consistent with the aims and objectives of these other fund choices and therefore all funds remain fit for purpose, with the exception of the Nest Pre Retirement Fund.

Very few members had chosen the Nest Pre Retirement Fund. They ranged in age from under 22 to 66 and older, suggesting that the objective for this fund was not serving the Scheme's membership as intended, particularly after the government's 'freedom and choice in pensions' reforms in 2015 removed the requirement for people to realise their defined contribution (DC) pension by purchasing an annuity at retirement. This fund was closed on 31 December 2021. All affected members were contacted in advance of the fund's closing. Any who did not choose a new fund themselves were automatically moved to the Nest Retirement Date Fund for the year at which they will reach their State Pension age or, if they had already reached their State Pension age, a post-retirement fund.

No changes were made to the Scheme's other existing funds.

The Board will take advice required for any future changes in investment strategy and fund choices.

Value for members

The Board is required to carry out an annual assessment as to whether the Scheme provides value for members.

The Board carried out this assessment based on a review year ending 30 September 2021 using the guidance set out in TPR's 'Code of practice 13' and the accompanying 'Guide to value for members'. This process included defining the criteria for the assessment, agreeing the evidence framework and collecting evidence for review. The completed assessment was approved by the Board on 27 January 2022.

The Trustee has conducted, and continues to carry out, in-depth research into Scheme members' needs. Based on this, it has defined 'value for members' criteria. These include the suitability of the default investments and non-default fund choices, clear and accessible information, high standards of administration and low and transparent charges.

The assessment of whether the Scheme provides value for members considered the following:

The benefits of Scheme membership

- Scheme features[9]
- Scheme management and governance
- Scheme investment and governance
- Communications
- Administration

The costs of Scheme membership

The charges and transaction costs that a member pays.

9 This is an additional measure, outside the scope suggested by TPR. However, the Trustee considers this is relevant when considering value for members.

Comparison with other schemes

The assessment of whether the Scheme provides value for members considered the following:

- The Scheme is delivering against members' needs. The Scheme continues to provide high standards of governance and administration. This offering is provided to all members regardless of the level of contribution or size of employer.
- The Scheme has an accessible online account for members to use, and help and support is available for members via a range of channels. The Scheme has delivered improvements to members, notably in connection with the member online experience.
- The Scheme members benefit from good-quality investment strategies and governance. Other fund options have been made available to members should they choose not to stay in the default Nest Retirement Date Funds. Communications to members are clear, easy to understand and provide the information, help and support members might need across their pension savings journey.
- The Scheme's price structure works out to be fair given the characteristics of the Scheme membership as a whole and Nest Corporation's public service obligation and pricing structure. The Trustee undertakes to ensure that charges, as well as the cap on member charges, are transparent and that the effects on members' pots are made clear. Charge levels (see **page 36**) and transaction costs (see **page 36**) are described in the relevant sections above. A charges comparison exercise was carried out in October 2021 and the Scheme's price is comparable with the costs, charges and benefits members might experience with other similar schemes.

The Trustee has therefore concluded that the Scheme's charges and benefits reflect value for members.

Brendan McCafferty
Chair, Nest Corporation

30 June 2022

Statement of Trustee's responsibilities for the financial statements

The audited financial statements, which are required to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland, are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

(i) Show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and

(ii) Contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the 'Statement of recommended practice: Financial reports of pension schemes'.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. It is also responsible for:

- Assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- Using the going concern basis of accounting unless it either intends to wind up the Scheme, or has no realistic alternative but to do so; and
- Making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which it should ensure is fair and impartial.

The Trustee is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

The Trustee is responsible for the maintenance and integrity of the Scheme and financial information included on the website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Brendan McCafferty
Chair, Nest Corporation

30 June 2022



Chapter 2

Investment report



Statement of investment principles

The investment objectives for the Nest Scheme are set out in the 'Statement of investment principles' (SIP), which the Trustee is required to prepare under section 35 of the Pensions Act 1995.

The Scheme's SIP was last updated in March 2020. The Trustee approved changes to the existing SIP in May 2022. The latest available SIP is included in 'Appendix 5' on **page 100** and is available online at **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html** and by request using the contact information on **page 84**.

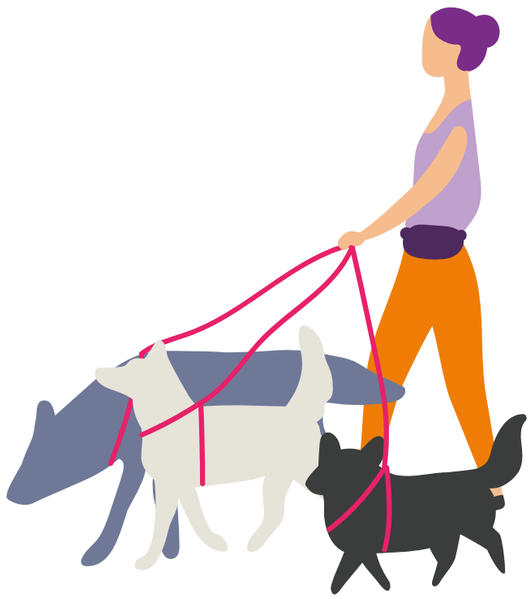
Under the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, a SIP implementation statement must be published alongside the Scheme's annual report and accounts. The Trustee's 'SIP implementation statement 2021/22' is available at **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html**

The Trustee is satisfied that all investments during the year were made in accordance with the SIP.

Scheme funds

Based on an understanding of the diverse needs of the Scheme's membership, the Trustee has developed an approach to investment that offers:

- A well-constructed default strategy that has clear return objectives and a carefully managed risk profile.
- A selection of alternative clearly differentiated fund choices for those who have different risk appetites or investment objectives, or who want an approach that matches their beliefs or faith.



Nest Retirement Date Funds

When members join the Nest Scheme, their contributions are invested by default into a Nest Retirement Date Fund unless they actively choose a different fund (see 'Other fund choices' on **page 47**).

A member's default Nest Retirement Date Fund will match their State Pension age. If they change their Scheme retirement age, which they can do at any time, their pension pot is automatically switched into the corresponding Nest Retirement Date Fund.

Each fund aims to have members' money ready to convert into retirement benefits in the year they want to take their money out.

The overarching investment objective for the Nest Retirement Date Funds is to target investment returns in excess of inflation after all charges over the long term. The chosen measure of inflation is the consumer price index (CPI).

There are 47 separate Nest Retirement Date Funds. These, plus the post-retirement fund paths – the Nest Guided Retirement Fund and the Nest Post Retirement Fund – make up the Scheme's default strategy.

Default investment strategy and phased risk management

The Scheme has a large and diverse membership. The Trustee seeks to manage members' investment risks in a holistic way throughout their time saving in the Scheme.

The Trustee has adopted a four-phase approach for the Nest Retirement Date Funds. This means it changes the objectives for risk and return of the Nest Retirement Date Funds based on how far away members are from their expected retirement date. The glide path for the Nest Retirement Date Funds goes through four sequential phases: foundation, growth, consolidation and post retirement.

Foundation phase objectives	For younger members as they get used to saving in the early years of their working lives. This phase typically lasts five years. The objective for the foundation phase is to keep pace with inflation after charges.
Growth phase objectives	For most members, the majority of their time saving will be spent in this phase. The growth phase is where the maximum growth in assets is targeted through asset classes that are expected to grow in value relative to inflation. The objective for this phase is to outperform inflation by 3% a year after charges over the long term.
Consolidation phase objectives	For members 10 years or less from their expected retirement date. Investments in this phase are progressively switched out of higher-risk assets and into lower-risk assets to prepare members' pots for retirement. The primary objective at the end of the consolidation phase is to outperform inflation after charges while aiming to progressively reduce volatility as a member's fund approaches maturity.
Post retirement phase objectives	For 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 are automatically moved to the Nest Post Retirement Fund. This fund will invest in asset classes with low volatility as these members are expected to take one, or a series of, uncrystallised funds pension lump sums (UFPLS) relatively soon. The Nest Guided Retirement Fund (NGRF) is available for members to join (or be automatically moved into, when their Nest Retirement Date Fund matures) between age 60 and 70 if they have £10,000 or more in their pot. This fund is a key part of the post retirement phase and aims to invest members' money suitably for their needs throughout retirement. The investment committee annually reviews the fund to ensure the rate of money distributed is sustainable for members. The NGRF is split into four parts: - When members join the fund, 10% of their initial pot is invested in the Safe to keep aside for emergencies. - The rest is invested in the Vault and is gradually distributed to the Wallet and the Later Life fund over time. - The Vault is invested in growth assets with the aim of making the money last through to age 85, while transferring a steady amount each year to the Wallet for members to withdraw. - The Later Life fund is invested for members to buy an annuity with at age 85 if they choose, to ensure their money lasts for life. For more details on how each part of the fund works, download the NGRF factsheet from **nestpensions.org.uk/schemeweb/dam/nestlibrary/nest-guided-retirement-fund-factsheet.pdf**

Details of the Trustee's approach to lifestyling and return objectives can be found in the Trustee's 'Statement of investment principles' (SIP). The latest available SIP is included in Appendix 5 on **page 100**.

Other fund choices

For members who wish to make active investment choices, the Scheme provides a range of clearly labelled alternative funds.

Nest Ethical Fund

This fund is designed for members who are particularly concerned about the impact that their investments can have on areas such as human rights, fair labour practices and the environment. Unlike many other ethical funds, the Nest Ethical Fund consists of multiple asset classes and uses a three-phase glide path investment approach similar to the Nest Retirement Date Funds.

Nest Sharia Fund

This fund is designed for members who want an investment approach based on Islamic law. It invests entirely in global equities judged to meet Sharia financial principles.

Nest Higher Risk Fund

This fund is for members who want to take more investment risk to try to make their pension pot grow more quickly than it might in a Nest Retirement Date Fund. Members have the option to be in a lifestyled or non-lifestyled version of the fund.

Nest Lower Growth Fund

This fund is designed for members who are very cautious about investing. Their retirement pot will be exposed to far less investment risk than a Nest Retirement Date Fund. This means that in the long term it will probably grow less than other fund choices and may not keep pace with inflation.

Nest Guided Retirement Fund

This fund is an option for members who want to start taking money from their pension pot with the Scheme once they have retired. It is available for members aged at least 60 and no more than 70 who have at least £10,000 in their pot.

Nest Pre Retirement Fund

This fund was in place for members close to retirement who intended to take a tax-free cash lump sum and purchase an annuity or take their whole pot in cash when they retire. The fund was closed on 31 December 2021 (see 'Review of the default fund' on **page 23**).

Investment managers

All Scheme funds are built from a range of pooled and segregated funds supplied by external investment managers.

Each of these investment managers is authorised and regulated by the regulatory body in the country where the investment fund is domiciled. The managers are selected through a competitive tender process.

The Scheme's default arrangement, the Nest Retirement Date Funds, and the Scheme's other fund choices are invested in a diversified range of asset classes. The majority of the Scheme's assets are invested in public markets with good liquidity and are valued daily.

A proportion of the assets – about 20% – are invested in illiquid assets.

Policy group	Asset class	Investment manager
Cash	Money market securities	BlackRock
		Legal & General Investment Management
Investment-grade bonds	Fixed-interest gilts	State Street Global Advisors*
	Inflation-linked gilts	State Street Global Advisors*
	Single-year gilt fund	Legal & General Investment Management
	Public investment-grade bonds	Allspring Global Investments** BlackRock BMO Global Asset Management† Royal London Asset Management
Growth credit	Emerging market debt	Amundi Asset Management
	Global high-yield credit	J.P. Morgan Asset Management
	Private credit	Amundi (UK) Ltd BlackRock BNP Paribas Asset Management
Equities	Developed markets equities	BMO Global Asset Management† HSBC Global Asset Management UBS Asset Management
	Emerging markets equities	Northern Trust Global Investments
Real assets	Direct property	Legal & General Investment Management
	Listed property	Legal & General Investment Management
	Infrastructure equity	CBRE Investment Management± Local Pensions Partnership Investments/GLIL Octopus Investments
Alternatives	Commodities	CoreCommodity Management

* This fund was closed during 2021/22.

** Before 26 July 2021 Allspring was known as Wells Fargo Asset Management (International).

† From 1 July 2022 BMO Global Asset Management will be known as Columbia Threadneedle Investments.

± Before 22 September 2021 this investment manager was known as CBRE Caledon Capital Management.

The Trustee's arrangements with existing investment managers

The Trustee's approach to constructing the Nest Scheme's investment strategy is to use a 'fund-of-funds' model. The Trustee works with multiple external investment managers with distinct mandates for different asset classes, and is therefore not reliant on any one manager to deliver the investment objectives of the default Nest Retirement Date Funds or, in most cases, the other fund choices that Scheme members can make.

Each investment manager is procured through an open competition to find the most suitable manager for each asset class. A thorough procurement process and regular ongoing monitoring ensures that each investment manager is fully aware of the Trustee's approach and the particular objectives for the relevant asset classes.

As part of the procurement process, the Trustee shares with prospective managers a summary of its policies on issues such as climate change, responsible investment, engagement and voting, divestment, securities lending, unit pricing and fair value, and the use of derivatives. The Trustee provides updates on these policies when relevant to managers who have a current mandate to invest in assets for Scheme members.

As part of the external investment manager procurement process, the Trustee sets out in detail its responsible investment expectations. Prospective managers are evaluated where relevant on their approach to being long-term and responsible stewards of the assets they would manage on behalf of Scheme members. Those that cannot demonstrate alignment with the Scheme's approach do not progress to the final shortlist. These managers also receive the 'Statement of investment principles' (SIP), which sets out the Trustee's investment beliefs about the importance of making decisions with a long-term mindset.

Nest Invest conducts regular investment 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 its regular evaluation of investment managers to ensure they are delivering in line with the objectives for which they were appointed, Nest Corporation monitors fees and charges in the context of its ongoing market evaluation of the price of investment management services.

Nest Corporation's contractual relations with investment managers are open-ended (subject to termination provisions which are negotiated as part of the appointment terms) as the Trustee believes in building long-term partnerships. Where managers are no longer delivering on the objectives for which they were appointed, Nest Corporation will move assets to an alternative manager, or re-procure for that particular asset class.

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

Custodial arrangements

The Scheme invests in pooled and segregated funds.

When the assets are invested in pooled funds, the assets will be held by the custodians appointed by the respective investment manager.

For segregated accounts the assets will be held by State Street Bank and Trust Company (SSB) on behalf of the Scheme. SSB also provides fund administration services.

Investing responsibly

The Trustee believes that, as long-term investors, integrating environmental, social and governance (ESG) considerations into the investment management process improves risk-adjusted returns.

SIP implementation statement

It is important that the Trustee discloses information on how stewardship is undertaken, including how voting rights are exercised and wider engagement with companies we are invested in.

Each year, the Trustee reports on how the Scheme has adhered to the Trustee's investment principles, how the stewardship activities outlined in the SIP have been followed, and voting behaviour, including any services of a proxy voter, as well as how its policies for managing financially material considerations have been executed. This report is intended to provide evidence of a robust investment governance framework.

More details can be found in the SIP implementation statement 2021/22 at **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html**

Financially material considerations

Financially material considerations include but are not limited to ESG considerations such as climate change, labour force management and cyber security. The Trustee considers that these matters could have a material impact on the Scheme's investments, particularly over the longer term over which many Scheme members will be saving.

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. This investment belief is part of the SIP.

The Trustee therefore considers sustainable investment factors such as but not limited to those arising from ESG considerations. The Trustee also includes climate change in the context of the broader risk management framework.

The Trustee also requires that external investment managers, where appropriate, integrate ESG factors into their investment analysis and decision-making process. Nest Corporation's investment team regularly monitors investment managers in this regard.

The Trustee expects external investment managers, where appropriate, to have integrated climate risk into their risk analysis and investment process. Where appropriate and practical, the Trustee takes investment managers' approach to climate risk analysis into account in the selection of new external managers.

When monitoring the performance of external managers, the Trustee also regularly considers how investment managers are performing with respect to climate-risk issues.

For further information on external investment managers, see **page 48**.

More details about the Trustee's approach to financially material considerations are set out in the SIP and the SIP implementation statement 2021/22.

Non-financial matters and investing

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 strategy, the Nest Retirement Date Funds. The Trustee provides other fund choices where members' views on non-financial matters can be sought and expressed.

The Trustee has an active policy of soliciting member views on non-financial matters in investment decision-making for the Nest Ethical Fund, one of the Scheme's non-default investment fund choices for members. For this fund, members' views are taken into account in the selection, retention and realisation of investments. The Trustee does not currently take into account members' views on non-financial matters in the selection, retention and realisation of investments for the Scheme's other non-default fund choices.

More details about the Trustee's approach to non-financial considerations are set out in the SIP and the SIP implementation statement 2021/22.[10] Information on the responsible investment activities can also be found in the annual responsible investment report, which is made available to Scheme members and other stakeholders on the website.[11]

Stewardship policy

The Trustee has a duty to act responsibly with regards to the assets managed on behalf of Scheme members. It is believed that to fulfil this duty and to protect and enhance the value of the Scheme's investments over the long term, the Trustee must act as a responsible and vigilant asset owner and market participant.

The Trustee takes these responsibilities as an asset owner seriously and works closely with the Scheme's external investment managers to support good corporate behaviour. Part of the procurement process for choosing external managers involves ensuring their voting policies, where relevant, are well thought-out and documented.

The Trustee or agents on the Trustee's behalf exercise the ownership rights in assets managed on behalf of Scheme members. These include voting and engagement with companies in which the Scheme invests on matters including performance, strategy, risks, social and environmental impact, and corporate governance. The Trustee does this with the aim of safeguarding sustainable returns for Scheme members over the long term.

The Scheme-specific voting and engagement policy[12] sets out how the Trustee expects voting and engagement rights to be exercised. This policy documents the Trustee's position and expectations to external investment managers on good corporate behaviour. It is used to monitor and hold these managers to account on the decisions they make, as well as enabling the Trustee to have healthy discussion and debate with them.

Each year the Trustee publishes a voting summary report[13] setting out how all external investment managers have voted and how this compares to the voting policy. The votes that the Scheme's investment managers make are published on the website every quarter.

The Trustee also undertakes joint engagements with the Scheme's investment managers and other pension schemes, and engages directly with companies. It works to engage with public, industry and regulatory bodies in the various markets in which the Scheme invests, to promote better practices.

Further information on how the Trustee has been building responsible investment and stewardship into the investment strategy can be found in the SIP implementation statement 2021/22.[14]

10 **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html**
11 **nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment.html**
12 **nestpensions.org.uk/schemeweb/nest/nestcorporation/investment-approach/responsible-investment/how-we-voted.html**
13 **nestpensions.org.uk/schemeweb/nest/nestcorporation/investment-approach/responsible-investment/how-we-voted.html**
14 **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html**



Climate-related financial disclosures

Climate change is one of the world's biggest challenges, posing a significant threat not just to the environment but to social and economic stability. Many Scheme members will be invested with the Scheme for decades. Over this time horizon, the Trustee believes that climate change will present significant investment risks for them.

In 2020 the Trustee published its first Scheme-wide climate change policy.[15] The policy sets out the Trustee's ambition to align the Scheme's entire investment portfolio with the goal of limiting global warming to 1.5C above the average level recorded between 1850 and 1900, by reaching net-zero carbon emissions across the Scheme's investment portfolios by 2050 or earlier. In January 2022 the Trustee published a climate change roadmap which sets out near-term commitments to cut scope 1 and scope 2 emissions[16] by 30% from listed equity and fixed-income asset class portfolios by 2025.

As part of the climate change policy, the Trustee has committed to reporting progress annually through a report in line with the Task Force on Climate-related Financial Disclosures (TCFD).

The most recent TCFD report is made available to Scheme members and other stakeholders on the website at **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html**

This report provides transparency around how the Trustee considers climate-related risks and opportunities within the investments made on behalf of members and details how it is implementing the climate change policy.

15 **nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/How-climate-change-could-impact-your-pension.html**

16 The Greenhouse Gas Protocol, an international accounting tool, categorises emissions into three 'scopes'. Scope 1 covers direct emissions from the reporting company's owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling that has been consumed by the reporting company.

Investment developments

Against a global backdrop of geopolitical uncertainty and financial markets volatility, the performance of the Scheme's funds over the last year has been positive.

Nearly 99% of Scheme members are invested in the Scheme's default investment strategy, the Nest Retirement Date Fund series. As at 31 March 2022, the 2040 Nest Retirement Date Fund, which currently represents the growth phase of the default strategy (see **page 45**), had annualised returns after charges of 9.3% over one year, 9.6% over three years, 7.5% over five years and 9.2% over 10 years.

The Trustee's long-term performance objective for the Nest Retirement Date Funds during the growth phase is to outpace inflation, as measured by the consumer price index (CPI), by 3%. With inflation rising rapidly at the end of 2021/22, this created a more challenging environment for investors. The 2040 fund's one-year annualised returns of 9.3% did fall short of CPI plus 3%, which was 10.2% at year-end. However, the 2040 fund continues to exceed the objective over the longer term, with 10-year annualised returns of 9.2% outperforming CPI plus 3%, which was 5.1% over the same time horizon.

The much higher level of inflation compared to past years demonstrates the importance of the Trustee's goal to deliver real rather than relative investment returns for Scheme members.

The global investment landscape

This investment performance has been achieved over a period of great change in financial markets.

Many markets around the world recovered from the significant pandemic-related impacts which marked the early months of 2021. However, with strong demand for goods and supply chain disruptions, inflation began to rise. Then, in the first months of 2022, a combination of events – the war in Ukraine, interest rate increases by central banks and pandemic lockdowns in China – contributed, alongside high inflation, to renewed market volatility and negative fund performance in the last quarter of the 2021/22 financial year.

From February 2022 the invasion of Ukraine was a significant driver of uncertainty and challenging market conditions. The invasion prompted a rise in commodity prices and markets after international sanctions were imposed on Russia, including exported commodities such as crude oil, natural gas and wheat. This boosted inflation further. Central banks were quick to tighten monetary policy to combat soaring consumer prices. This, in turn, impacted bond markets. Due to the anticipated impact of long term sanctions against Russia following the invasion of Ukraine, in March 2022 the Trustee committed to removing all the investment in Russian government bonds and Russian companies as soon as possible.

At the same time, many markets proved resilient. Despite taking a dip at the start of the conflict, US stock markets surpassed pre-invasion levels one month later, as the financial year came to an end.

A diversified investment strategy

The Trustee's investment approach seeks to achieve sustainable growth and manage volatility over the long term because most Scheme members will be saving with the Scheme for many years. For this reason, the Trustee maintains a diversified portfolio, spread across a range of asset classes and territories, which has performed well in the context of increased volatility and fewer opportunities in traditional return-seeking assets.

During 2021/22 the Trustee began investing in infrastructure equity with our three new investment managers Octopus, CBRE and LPPI/GLIL. We are now increasing the proportion of the portfolio invested in private infrastructure equity, including multimillion-pound investments into renewable energy projects like solar farms. As at 31 March 2022, 2.6% of the Scheme's portfolio was invested in this asset class.

These assets are by definition more illiquid, or difficult to buy or sell in the short term. However, because they are illiquid, they are likely to achieve higher returns, or a premium, compared to public markets, especially when the investments are held for a significant period of time. The Trustee seeks to put a proportion of the Scheme's portfolio in illiquid investments which offer additional diversification and alternative return opportunities for strong, steady risk-adjusted returns for Scheme members over the long term.

Over the past few years, the Trustee has awarded mandates in private credit and unlisted infrastructure equity alongside existing property investments in the Scheme's portfolio.

Continuing this strategic shift towards more investments in private markets, the Trustee began the process of procuring private equity managers in August 2021. These managers will have a focus on growth and mid-market investment deals in the UK and globally. The Trustee was pleased to see the interest shown by investment managers who were prepared to meet the Trustee's requirement on no performance fees for the mandate. The broad selection of bids offered innovative solutions and ensured a competitive procurement, allowing the Trustee to start the process of appointing new investment managers.

The Trustee estimates that it will have at least £1.5 billion invested in private equity by early 2025, depending in part on the right deals being available. These mandates will make the Scheme one of the first defined contribution (DC) schemes in the UK to invest directly into private equity.

As the Scheme's assets under management continue to grow rapidly, the Trustee is reaching a stage where just utilising cash flows in the form of new member contributions to rebalance portfolios will be less efficient in the future. Increased market volatility only exacerbates this challenge.

To address this the Trustee is in the process of putting a new mandate in place providing it with access to derivative contracts. This will serve to rebalance the Scheme's portfolio to target exposures when the financial environment makes it difficult to do this through equity or bond markets. In addition, having access to derivative contracts will reduce drag on performance by putting to work the cash set aside for private market deployment. The fund will be used intermittently, and will play an important role in ensuring both that the Trustee is implementing its asset allocation approach efficiently and not missing out on potential returns by having too much capital in cash.

Understanding Scheme members' needs

During 2021/22 the Trustee undertook a thorough review of the evidence into the Scheme membership's characteristics, attitudes and expectations. This was done to inform the ongoing evolution of the investment approach and ensure that the default strategy, the Nest Retirement Date Fund series, continues to meet members' needs.

Through a series of evidence-led workshops and interviews the Trustee is in the process of evolving its investment objectives for the default strategy to reflect the changing needs of members. In December 2021, it published 'Understanding our members' investment needs'[17], which brings together all the member evidence the Trustee has been reviewing. The Trustee concluded this review and approved changes to the existing SIP in May 2022. For the latest available SIP see Appendix 5 on **page 100** or online at **nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/statement-of-investment-principles.html** and by request using the contact information on **page 84**.

17 **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html**

New member insight shaped the Trustee's decision to close the Nest Pre Retirement Fund effective December 2021. The fund was created 10 years ago when most people saving for retirement in the UK bought annuities for regular retirement income once they reached their State Pension age. It was designed primarily for members close to their retirement date who planned to purchase an annuity using money they had accumulated in their pot over a short period of time. Over the past decade, as regulations have changed and people have had more choice around how they access their retirement savings, fewer people have been choosing to purchase annuities. The Trustee therefore concluded that this fund no longer met Scheme members' needs.

All members of the Nest Pre Retirement Fund were contacted about the fund's closure and signposted to the other funds available to help them to select an option that suits their needs. Those who did not choose a new fund themselves were automatically moved into the appropriate Nest Retirement Date Fund. The Trustee approved changes to the existing SIP in May 2022 to reflect this change.

Progress towards net-zero investing

The Trustee stepped up its action to deliver on its net-zero ambitions with the release of its climate change roadmap to 2025, which reports on plans for reducing greenhouse gas emissions across the Scheme's portfolio. This includes nearer-term goals and features the Trustee's new commitment to reduce the scope 1 and scope 2 emissions from its listed equity and fixed income portfolios by 30% by 2025 (see **page 52**).

In May 2021 the Trustee completed moving the Scheme's emerging markets equities investments, which are managed by Northern Trust Global Investments, from a pooled fund to a climate-aware segregated account. This segregated account gives the Trustee greater control over investment policy and voting rights, and, when necessary, exclusion of companies that are not transitioning to meet the demands of a low-carbon economy.



Fund performance

Performance of the Nest Scheme's default and non default funds against their objectives.

The statutory guidance issued by the DWP in 'Completing the annual Value for Members assessment and Reporting of Net Investment Returns' (June 2021) has been followed in preparing these fund performance figures. For contextualising information about the performance of Scheme funds, see 'Investment developments' on **page 53**.

Fund[1]	Objective	Fund performance one year to 31 March 2022	Objective returns over one year to 31 March 2022	Annualised fund performance three years to 31 March 2022	Annualised objective returns over three years to 31 March 2022	Annualised fund performance five years to 31 March 2022	Annualised objective returns over five years to 31 March 2022	Annualised fund performance ten years to 31 March 2022	Annualised objective returns over ten years to 31 March 2022
		%	%	%	%	%	%	%	%
Nest Retirement Date Fund in the growth phase[2]	CPI + 3% *	9.3	10.2	9.6	6.1	7.5	5.8	9.2	5.1
Nest Ethical Fund in the growth phase	CPI + 3% **	7.7	10.2	10.7	6.1	9.3	5.8	10.4	5.1
Nest Sharia Fund	Dow Jones Islamic Titans 100 Index	21.4	20.1	21.1	20.7	16.1	16.4	15.3	15.8
Nest Higher Risk Fund	***	10.0	-	10.6	-	8.2	-	10.6	-
Nest Lower Growth Fund	****	-1.4	-	0.6	-	0.7	-	0.4	-
Nest Pre Retirement Fund[3]		0.4	-	3.9	-	2.9	-	3.6	-
Nest Guided Retirement Fund – Vault	CPI	6.1	7.0	-	-	-	-	-	-

1 For the inception date of all Retirement Date Funds refer to Appendix 2 on **page 90**

2 2040 Nest Retirement Date Fund

3 The Nest Pre Retirement Fund closed in December 2021

* Nest Retirement Date Funds in the growth phase target investment returns equivalent to CPI inflation plus 3% and coverage of all Scheme charges over the long term.

** The Nest Ethical Fund has three accumulation phases. The fund performance shown is in the growth phase. It has a return objective of outperforming CPI inflation by more than 3% after all charges.

*** The Nest Higher Risk Fund has an objective to invest with higher risk than the default fund.

**** The Nest Lower Growth Fund has an objective to generate positive nominal returns after charges.

Chapter 3

Financial statements



Independent auditor's report to the Trustee of the Nest Scheme

Opinion

We have audited the financial statements of National Employment Savings Trust ("the Scheme") for the year ended 31 March 2022 which comprise the Scheme Account, the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 March 2022 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Trustee has prepared the financial statements on the going concern basis as it does not intend to wind up the Scheme, and as it has concluded that the Scheme's financial position means that this is realistic. It has also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Scheme and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified and concur with the Trustee's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Scheme will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Trustee, and inspection of policy documentation, including risk register, as to the Scheme's high-level policies and procedures to prevent and detect fraud, as well as enquiring whether it has knowledge of any actual, suspected or alleged fraud.
- Reading Trustee Board, Audit Committee, Risk Committee, and Investment Committee Meeting minutes and the Scheme's breach log.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that the Trustee (or their delegates, including Scheme administrators) may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as Level 3 Pooled Investment Vehicles. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue in a pension scheme relates to contributions receivable as paid under an agreed schedule or pre-determined by each employer; there are no subjective issues or judgements required.

We did not identify any additional fraud risks.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of some of the Scheme-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries posted after the first draft of the financial statements have been prepared and comparing the identified entries to supporting documentation.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Trustee and their delegates (as required by auditing standards), and discussed with the Trustee the policies and procedures regarding compliance with laws and regulations.

As the Scheme is regulated by The Pensions Regulator, our assessment of risks involved gaining an understanding of the control environment including the Scheme's procedures for complying with regulatory requirements and reading the minutes of Trustee meetings.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Scheme is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related pensions legislation) and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Scheme is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation, or the loss of the Scheme's registration. We identified the following areas as those most likely to have such an effect: pensions legislation and data protection legislation, recognising the financial and regulated nature of the Scheme's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Trustee and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Trustee is responsible for the other information, which comprises the Board report, the Investment report and Appendices. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustee's responsibilities

As explained more fully in their statement set out on **page 40**, the Scheme Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to wind up the Scheme, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at **frc.org.uk/auditorsresponsibilities**

The purpose of our audit work and to whom we owe our responsibilities

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

Fang Fang Zhou
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London
E14 5GL

30 June 2022



Financial statements

Fund account for the year ended 31 March 2022

	Note	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Contributions and benefits			
Contributions – employers	3	2,327,803	1,965,875
Contributions – members	3	2,711,127	2,313,963
Contributions – HM Revenue & Customs	3	679,798	595,597
Transfers in	4	342,535	239,229
		6,061,263	**5,114,664**
Benefits	5	(251,007)	(140,861)
Transfers out	4	(207,868)	(106,638)
Administrative expenses	6	(164,569)	(127,789)
Net additions from dealings with members		**5,437,819**	**4,739,376**
Returns on investment			
Investment income and management fee rebates	7	260,374	131,663
Change in market value of investments	8.1	1,120,353	2,756,054
		1,380,727	**2,887,717**
Net increase in the fund during the year		**6,818,546**	**7,627,093**
Net assets of the Scheme at the start of the year		**17,555,984**	**9,928,891**
Net assets of the Scheme at the end of the year		**24,374,530**	**17,555,984**

Statement of net assets (available for benefits) as at 31 March 2022

	Note	31 March 2022 £000	31 March 2021 £000
Assets and liabilities allocated to members			
Investment assets			
Equities	8.1	12,755,601	8,119,177
Bonds	8.1	1,912,241	1,477,323
Pooled investment vehicles	8.1	8,811,583	7,352,472
Derivatives	8.9	79,500	39,420
Foreign currency cash	8.1	–	123,646
Cash and cash collateral	8.1	431,700	–
Other investment assets	8.4	75,284	99,689
Total assets		**24,065,909**	**17,211,727**
Investment liabilities			
Derivatives	8.9	(104,653)	(54,288)
Other investment liabilities	8.4	(21,328)	(27,379)
Total investments		**23,939,928**	**17,130,060**
Net current assets			
Current assets	9.1	536,698	465,426
Current liabilities	9.1	(102,761)	(39,998)
Total net assets allocated to members		**24,373,865**	**17,555,488**
Assets and liabilities not allocated to members			
Net current assets			
Current assets	9.2	1,325	1,102
Current liabilities	9.2	(660)	(606)
Total net assets not allocated to members		**665**	**496**
Total assets of the Scheme at the end of the year		**24,374,530**	**17,555,984**

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the Scheme year. The financial statements on **page 64 to 65**, including the notes to the financial statements on **page 66 to page 83**, were signed on behalf of Nest Corporation by:

Brendan McCafferty
Chair, Nest Corporation

30 June 2022

Clive Elphick
Chair, audit committee

30 June 2022

Notes to the financial statements

1. Basis of preparation

The financial statements have been prepared and audited in accordance with sections 41(1) and (6) of the Pensions Act 1995. They have also been prepared in accordance with Financial Reporting Standard (FRS) 102, 'Financial reporting standard applicable in the UK and Republic of Ireland', issued by the Financial Reporting Council, and with the guidance set out in the 'Statement of Recommended Practice (SORP): Financial reports of pension schemes' (revised June 2018).

1.1 Identification of the financial statements

The Scheme is a registered pension scheme under Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by the Employers are normally eligible for tax relief, and income and capital gains earned by the Scheme are generally tax exempt. The address for enquiries to the Scheme is included in 'Other useful information' on **page 84**.

1.2 Going concern

Under FRS 102 the Trustee must consider whether there are adequate resources for the Scheme to continue as a going concern, that is, continue in operation for at least 12 months from approval of these financial statements. For defined contribution (DC) master trusts, the financial strength of the funding entity must be considered, including whether a triggering event could arise as a result of insolvency or the master trust being unlikely to continue as a going concern. Therefore, when assessing the going concern basis of the Scheme, the Trustee must assess the viability of the Scheme's funding entity, Nest Corporation.

The Trustee has considered a severe but plausible downside scenario in respect of the Scheme's contributions and assets under management for at least 12 months from approval of these financial statements. The severe but plausible downside scenario considered is markets falling 5% to 12% over the next 18 to 24 months and contributions being 12% to 17% below the current levels for 2022/23 and 2023/24. The Trustee has several mitigating actions that could be used should the need arise including the use of provisions and reserves as well as savings from the budget and asset management fees.

The going concern statement of Nest Corporation can be found in the 'Corporation annual report and accounts' on the website. In summary, Nest Corporation continues to be a going concern based on four key considerations:

- **Loan funding from government:** Nest Corporation is financed in part through a loan agreement with the DWP. This provides some assurance that future funding will continue to be provided to the funding entity until revenue from the Scheme's charges is sufficient to meet future costs and settle the loan liability.
- **Revenue from the Scheme:** Nest Corporation receives revenue from charges on the Scheme's assets under management and on contributions. Revenue from charges on assets under management will be impacted by any falls in global asset values. However, the Scheme has a diversified portfolio to provide some mitigation against this and any fall in this revenue will be partly offset by a fall in the costs of investment, which are calculated based on asset values. Nest Corporation has also assessed downside economic impacts on revenue from contribution charges. The Scheme has a very broad range of participating employers, and its income is not concentrated in any one sector. For these reasons, the revenue from contribution charges has been deemed to be resilient.
- **Auto enrolment policy:** There has been no cessation in nor changes to the UK's automatic enrolment policy. The Trustee's public service obligation remains in place to provide a workplace pension scheme to any employer that requires one. TPR expects employers to continue to comply with their auto enrolment duties.
- **Master trust supervision assurance:** In establishing that the Scheme's funding entity is a going concern, the Trustee has evidenced that a triggering event has not occurred. The Scheme therefore also meets this requirement of the going concern test.

Although economic uncertainty will remain over the next 18 months, by taking the above into account and running a range of sensitivity scenarios on Nest Corporation's financial forecast, the Trustee believes it is appropriate to continue to adopt a going concern basis for the Scheme.

2. Accounting policies

The principal accounting policies of the Scheme are as follows:

2.1 Contributions

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

Contributions made directly by members or other permitted parties are accounted for on a cash basis.

Amounts due from HM Revenue & Customs (HMRC) in respect of tax relief on member contributions are accounted for in the same period as the related member contribution.

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

2.2 Transfers

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

2.3 Benefits

The Scheme may pay benefits to members including:

- Paying the whole pension pot as cash.
- Transferring to a retirement income provider with or without a cash lump sum.
- Using a drawdown facility such as the Nest Guided Retirement Fund or partial uncrystallised funds pension lump sum (UFPLS).

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

2.4 Other income and expenses

Other income and expenditure is accounted for on an accruals basis.

2.5 Administrative expenses

Contribution charges of 1.8% are accounted for when contributions are invested. Annual management charges of 0.3% of the value of members' funds under management are accrued on a daily basis by reduction in the unit price of the fund the member is invested in.

2.6 Investment income

Investment income is included in the financial statements on the following bases:

- Dividends from equities held directly by the Scheme are accounted for when they are quoted ex-dividend.
- Interest income from bonds held directly by the Scheme is accounted for on an accruals basis and includes interest bought and sold on investment purchases and sales.
- Where investment income arising from the underlying investments of the pooled investment vehicles is rolled up and reinvested within the pooled investment vehicles, it is reflected in the unit price and reported within change in market value of investments. Where investment income arising from the underlying investments of the pooled investment vehicles is not rolled up, income is accounted for on an accruals basis.
- Interest on cash and short-term deposits, and management fee rebates, are accounted for on an accruals basis.
- Investment income is reported net of attributable tax credits but gross of withholding taxes, which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.

2.7 Investments

Investments are included at fair value as described below:

- Quoted securities on active markets are stated at the bid price at the date of the statement of net assets.
- Unquoted securities, including investments in private credit and infrastructure equity are included at the Trustee's estimate of accounting fair value based on advice from the investment managers or the investment advisor.
- Bonds are stated at their clean price, where applicable, including the indexation element which is payable on maturity. Accrued interest is included in investment income receivable.
- Pooled investment vehicles are stated at the latest available bid price or closing single price as provided by the investment manager.
- Exchange-traded derivatives are stated at fair value, which is determined using market-quoted prices. Exchange-traded derivatives are only used to contribute to a reduction of risk or to facilitate efficient portfolio management.
- Forward foreign exchange contracts are valued at the forward rate at the date of the statement of net assets.
- All gains and losses arising on derivative contracts are reported within change in market value.
- Receipts and payments arising from derivative instruments are reported as sale proceeds or purchase of investments.
- Deposits, current assets and current liabilities are included at book cost, which the Trustee considers represents a reasonable estimate of their fair value.

2.8 Foreign currencies

The functional and presentational currency of the Scheme is pound sterling. Balances denominated in foreign currencies are translated into sterling at the rate ruling at year-end. Assets and liabilities are translated at the bid and offer rates respectively. Transactions denominated in foreign currencies are translated at the rate ruling at the date of the transaction. Differences arising on investment balance translation are accounted for in the change in market value of investments during the year.

2.9 Change in market value of investments

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



3. Contributions

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Contributions from:		
Participating employers	2,330,389	1,967,806
less employers' share of refund of contributions for members opting out	(2,586)	(1,931)
	2,327,803	**1,965,875**
Members	2,713,891	2,316,102
less members' share of refund of contributions for members opting out	(2,764)	(2,139)
	2,711,127	**2,313,963**
HM Revenue & Customs	679,825	595,614
less HMRC share of refund of contributions for members opting out	(27)	(17)
	679,798	**595,597**
Total	**5,718,728**	**4,875,435**

4. Transfers in and transfers out

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Transfers in – registered pension schemes	336,135	232,473
Transfers in – pension sharing order	6,400	6,756
Total transfers in	**342,535**	**239,229**
Transfers out – registered pension schemes	(207,680)	(106,529)
Transfers out – pension sharing order	(188)	(109)
Total transfers out	**(207,868)**	**(106,638)**

5. Benefits

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Commutations and lump sum retirement benefits	152,921	94,680
Uncrystallised funds pension lump sums (UFPLS)	77,880	32,501
Death benefits payable to beneficiaries	17,794	12,384
Annuities purchased through open-market option	1,314	510
Serious ill health benefits	1,098	786
Total	**251,007**	**140,861**

6. Administrative expenses

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Contribution charge	101,992	87,322
Annual management charge	62,519	40,452
Sundry costs	58	15
Total	**164,569**	**127,789**

7. Investment income, management fee rebates and withholding tax

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Dividends from equities	200,228	89,959
Income from bonds	34,563	20,913
Income from pooled investment vehicles	24,476	17,345
Management fee rebates	7,793	4,415
Irrecoverable withholding tax	(6,686)	(969)
Total	**260,374**	**131,663**

8. Investments

8.1 Investment movements

	Note	B'fwd as at 1 April 2021 £000	Purchases £000	Sales proceeds £000	Change in market value £000	C'fwd as at 31 March 2022 £000
Equities		8,119,177	5,353,352	(1,674,998)	958,070	12,755,601
Bonds		1,477,323	2,241,292	(1,741,942)	(64,432)	1,912,241
Pooled investment vehicles	8.2	7,352,472	4,061,645	(2,853,000)	250,466	8,811,583
Derivatives – futures	8.9	7,641	130,709	(288,134)	208,697	58,913
Derivatives – forward FX contracts	8.9	(22,509)	689,371	(518,480)	(232,448)	(84,066)
Total pooled and other investments		**16,934,104**	**12,476,369**	**(7,076,554)**	**1,120,353**	**23,454,272**
Cash and cash collateral		–				431,700
Foreign currency cash		123,646				–
Other investment assets	8.4	99,689				75,284
Other investment liabilities	8.4	(27,379)				(21,328)
Total investments		**17,130,060**			**1,120,353**	**23,939,928**
Represented by:						
Allocated to members		17,130,060				23,939,928
Not allocated to members		–				–
Total investments		**17,130,060**				**23,939,928**

8.2 Pooled investment vehicles

A summary of pooled investment vehicles by type of arrangement is as follows:

	31 March 2022 £000	31 March 2021 £000
Unit-linked insurance contracts	4,261,388	3,174,598
Undertakings for collective investment in transferable securities (UCITS)	3,017,013	4,177,874
Shares in limited partnerships	932,112	-
Reserved alternative investment funds (RAIF)	601,070	-
Total	**8,811,583**	**7,352,472**

An analysis of the underlying asset classes of the pooled investment vehicles is as follows:

	31 March 2022 £000	31 March 2021 £000
Bonds	4,473,328	3,792,039
Equities	1,532,006	1,829,500
Property	1,321,202	674,469
Private credit	904,402	585,620
Cash	580,645	470,844
Total	**8,811,583**	**7,352,472**

The Scheme is a sole investor in 6 (compared with 3 in 2020/21) pooled investment vehicles included within the above analysis. An analysis of the underlying asset classes of these sole investor pooled investment vehicles, on a look through basis, is as follows:

	31 March 2022 £000	31 March 2021 £000
Debt	1,978,542	519,588
Equity	528,746	-
Cash	222,469	57,412
Derivatives	(7,682)	8,620
Total	**2,722,075**	**585,620**

8.3 Investment managers during the year

The investment managers used by the Scheme during the year, together with their assets under management at year-end, is as follows:

	31 March 2022 £000	31 March 2021 £000
UBS Asset Management (UK) Ltd	10,980,392	8,018,611
Legal & General Investment Management Ltd	1,946,244	1,218,455
Northern Trust Global Investments Ltd	1,572,732	1,124,909
Allspring Global Investments (UK) Ltd*	1,517,431	1,254,418
Royal London Asset Management Ltd	1,490,254	1,087,844
Amundi Asset Management	1,402,304	1,262,928
BlackRock Inc	1,382,545	1,029,323
J.P. Morgan Asset Management (UK) Ltd	1,241,674	1,186,089
CoreCommodity Management LLC	572,134	308,603
BNP Paribas Asset Management Nederland NV	373,413	238,356
CBRE Investment Management Inc (from August 2021)	294,180	-
Octopus Investments Ltd (from April 2021)	281,817	-
BMO Global Asset Management Ltd	215,332	133,319
HSBC Global Asset Management (UK) Ltd	131,038	69,545
Local Pensions Partnership Investments Ltd (from January 2022)	52,782	-
State Street Global Advisors Ltd (up to August 2021)	-	1,704
Total	**23,454,272**	**16,934,104**

*Before 26 July 2021 Allspring was known as Wells Fargo Asset Management (International) Ltd.

8.4 Other investment balances

	31 March 2022 £000	31 March 2021 £000
Investment income accrued	42,115	27,758
Pending trades receivable	27,464	251
Recoverable withholding tax	4,394	1,921
Management fee rebates receivable	1,311	518
Investment cash including cash in transit	-	68,172
Other receivables	-	1,069
Other investment assets	**75,284**	**99,689**
Pending trades payable	(21,328)	(27,379)
Other investment liabilities	**(21,328)**	**(27,379)**

8.5 Investment assets allocated to members

Members' contributions are invested and allocated in accordance with their fund selection into the relevant funds below:

	31 March 2022 £000	31 March 2021 £000
Nest Retirement Date Funds	22,964,856	16,524,003
Nest Higher Risk Fund	572,583	365,594
Nest Ethical Fund	244,906	152,796
Nest Sharia Fund	131,729	69,742
Nest Lower Growth Fund	13,340	9,461
Nest Guided Retirement Fund	12,514	3,908
Nest Pre Retirement Fund (closed December 2021)	-	4,556
Total assets allocated to members	**23,939,928**	**17,130,060**

8.6 Fair value hierarchy

The fair value of financial instruments has been determined and disclosed using the following fair value hierarchy:

- **Level 1**: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can assess at the measurement date.
- **Level 2**: Inputs other than quoted prices included with level 1 that are observable (that is, developed using market data) for the assets or liabilities, either directly or indirectly.
- **Level 3**: Inputs that are unobservable (that is, for which market data are unavailable) for the assets or liabilities.

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy levels as follows:

31 March 2022	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equities	12,755,601	-	-	12,755,601
Bonds	460,763	1,451,478	-	1,912,241
Pooled investment vehicles	-	7,278,401	1,533,182	8,811,583
Derivatives	58,913	(84,066)	-	(25,153)
	13,275,277	**8,645,813**	**1,533,182**	**23,454,272**
Cash and cash collateral	431,700	-	-	431,700
Other investment balances	53,956	-	-	53,956
Total	**13,760,933**	**8,645,813**	**1,533,182**	**23,939,928**

31 March 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equities	8,119,177	-	-	8,119,177
Bonds	1,477,323	-	-	1,477,323
Pooled investment vehicles	-	6,766,852	585,620	7,352,472
Derivatives	(14,868)	-	-	(14,868)
	9,581,632	**6,766,852**	**585,620**	**16,934,104**
Foreign currency cash	123,646	-	-	123,646
Other investment balances	72,310	-	-	72,310
Total	**9,777,588**	**6,766,852**	**585,620**	**17,130,060**

8.7 Investment risk disclosures

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

- **Credit risk:** This is the risk that one party to a financial transaction will cause a financial loss for the other party by failing to discharge an obligation.
- **Market risk:** This comprises currency risk, interest rate risk and other price risk.
  - Currency risk: This is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes to foreign exchange rates.
  - Interest rate risk: This is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes to market interest rates.
  - Other price risk: This is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes to market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines the Scheme's investment strategy after taking advice from professional investment advisers and Nest Invest.

The Scheme has exposure to these risks because of the investments the Trustee makes to implement its investment strategy, which is described in Chapter 2, 'Investment report', starting on **page 42** The Trustee manages investment risks within agreed risk limits which are set taking into account the Scheme's strategic investment objectives.

The Scheme's assets under management are invested in a diversified range of asset classes. The day-to-day management of the underlying investment funds is the responsibility of each designated investment manager. Their responsibilities include the direct management of credit and market risk. A full list of investment managers and their respective assets under management is set out in note 8.3 on **page 73**.

Nest Invest monitors the underlying risks on a monthly basis based on holdings data received from the investment managers.

8.7.1 Credit risk

The Scheme is subject to credit risk because the scheme invests directly in bonds, OTC derivatives, exchange traded derivatives, has cash balances and unsettled trades. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

Credit risk arising on bonds held directly is mitigated either by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grades. Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Fund is subject to risk of failure of the counterparty.

Credit risk arises on forward FX currency contracts. There are some collateral arrangements in place for these contracts which reduces the credit risk, and all counterparties are required to have an investment grade credit rating at the point of trade execution. Forward FX collateral balances are detailed in note 8.9 on **page 79**.

Cash is held within financial institutions which are at least investment grade credit rated. The Scheme's holdings in pooled investment vehicles are unrated as the ratings would only apply to the underlying investments. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled investment managers, provisions to automatically dissolve the funds in the event of insolvency of the pooled investment manager or general partner, a cap of liability to pooled funds at the level of funds committed, the regulatory environments in which the pooled investment managers operate and diversification of investments amongst a number of pooled arrangements.

Some of the Scheme's pooled investment managers have the ability to invest in non-investment grade investments, this risk is managed through diversification. The Trustee carries out due diligence checks on the appointment of new investment managers and, on an ongoing basis, monitors any changes to the regulatory and operating environment of the investment manager. A summary of the pooled investment vehicles by type is included in note 8.2 on **page 72** which details the underlying structures of the pooled investment vehicles, as at 31 March of the year under review.

The Scheme is also subject to indirect credit risk in relation to underlying investments held in the pooled investment vehicles. The investment managers of the pooled vehicles manage the risk by having a diversified exposure, conducting thorough research, and assessing the probability of default and limiting their exposure to issuers rated below investment grade. The magnitude of the indirect credit risk will vary over time as investment managers change their underlying investments.

Analysis of direct credit risk

31 March 2022	Investment grade £000	Non-investment grade £000	Unrated £000	Total £000
Bonds	1,912,241	-	-	1,912,241
Cash and cash collateral	431,700	-	-	431,700
Derivatives - forward FX contracts	(84,066)	-	-	(84,066)
Pooled investment vehicles	-	-	8,811,583	8,811,583
	2,259,875	**-**	**8,811,583**	**11,071,458**

31 March 2021	Investment grade £000	Non-investment grade £000	Unrated £000	Total £000
Bonds	1,477,323	-	-	1,477,323
Foreign currency cash	123,646	-	-	123,646
Derivatives - forward FX contracts	(22,506)	-	-	(22,506)
Pooled investment vehicles	-	-	7,352,472	7,352,472
	1,578,463	**-**	**7,352,472**	**8,930,935**

8.7.2 Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustee limits overseas currency exposure through a currency hedging policy.

The Scheme's total net unhedged exposure by major currency at year-end was as follows:

	31 March 2022 £000	31 March 2021 £000
US dollar	9,224,905	6,328,955
Euro	1,477,280	1,175,827
Japanese yen	794,694	670,116
Hong Kong dollar	492,056	90,288
South Korean won	414,373	163,165
Canadian dollar	325,090	223,197
Swiss franc	318,317	212,790
Taiwan dollar	304,897	-
Australian dollar	260,730	175,937
Swedish krona	118,684	80,292
Chinese renminbi	94,380	-
South African rand	75,500	522
Other currencies	612,841	190,568
	14,513,747	**9,311,657**

8.7.3 Interest rate risk

The Scheme is subject to interest rate risk on bonds held either as segregated investments or through pooled investment vehicles. The Trustee manages direct and indirect interest rate risk exposure by constructing a diverse portfolio of investments across multiple markets. Cash including liquidity funds are exposed to short duration interest rate risk. However, these balances have been excluded from the amounts disclosed below as the interest rate risk involved is immaterial.

At year-end the Scheme held the following investments that are subject to direct interest rate risk:

	31 March 2022 £000	31 March 2021 £000
Bonds	1,912,241	1,477,323
Pooled investment vehicles	5,377,730	4,377,659
	7,289,971	**5,854,982**

8.7.4 Indirect credit and market risk

The Scheme is subject to indirect currency, other price risk, interest rate and credit risk arising from the underlying investments held in the pooled investment vehicles. The table below breaks down the risk exposure by pooled investment vehicle:

	Holding as at 31 March 2022 £000	Currency risk	Other price risk	Interest rate risk	Credit risk
Amundi Funds Global Emerging Blended – IE	1,174,646	●	◐	●	●
Amundi Global Commercial Real Estate Debt Fund	227,658	◐	◐	●	●
BlackRock ICS Sterling Liquid Environmentally Aware Fund	569,996	○	○	●	●
BlackRock GBP Infrastructure Debt Fund	303,332	◐	◐	●	●
BlackRock Institutional Sterling Ultra Short Bond Fund	509,217	○	◐	●	●
BNP Paribas Diversified Private Credit Fund	373,413	◐	◐	●	●
CBRE Infrastructure Equity	294,180	●	●	○	◐
BMO Responsible Global Equity Fund	157,796	●	●	○	◐
BMO Responsible Sterling Bond Fund	57,536	◐	◐	●	●
GLIL Infrastructure Equity	52,782	◐	●	○	◐
HSBC Islamic Global Equity Index Fund	131,038	●	●	○	◐
JPMorgan Life High Yield Opportunities Fund	1,241,674	●	◐	●	●
LGIM Global Real Estate Equity Index Fund	614,392	●	●	○	◐
LGIM Hybrid Property Fund	1,300,012	◐	●	◐	◐
LGIM Managed Property Fund	21,191	○	●	◐	◐
LGIM Sterling Liquidity Fund	10,649	○	○	●	●
Octopus Infrastructure Renewables	281,817	●	●	○	◐
Royal London Investment Grade Short Dated Credit	406,135	○	◐	●	●
Royal London UK Corporate Bond Pooled Pension Fund	1,084,119	○	◐	●	●
Total pooled investment vehicles	**8,811,583**				

● **Significant exposure**

An investment risk determined to have significant exposure is a risk, that in the judgment of management, represents a material component of gross overall investment risk exposure to the Scheme, before derivative overlay contracts are taken into consideration to manage investment risk.

◐ **Some exposure**

An investment risk determined to have some exposure is a risk that, in the judgement of management, has a limited contribution to gross overall investment risk exposure to the Scheme.

○ **No exposure**

An investment risk determined to have no exposure is a risk that, in the judgement of management, has either a residual or no contribution to gross overall investment risk to the Scheme.

8.7.5 Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio, which includes directly held equities, futures, equities held in pooled investment vehicles, property held in pooled investment vehicles, and private credit held in pooled investment vehicles.

The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

At the year-end, the Scheme's exposure to investments subject to other price risk was:

	31 March 2022 £000	31 March 2021 £000
Equities	12,755,601	8,119,177
Derivatives – futures	58,913	7,641
Equities held in pooled investment vehicles	1,532,006	1,829,500
Property held in pooled investment vehicles	1,321,202	674,469
Private credit held in pooled investment vehicles	904, 402	585,620
Total	**16,572,124**	**11,216,407**

8.8 Concentration of investment

Scheme investments include the following which represent more than 5% of the total value of the net assets of the Scheme:

	31 March 2022 £000	31 March 2021 £000
LGIM Hybrid Property Fund	1,300,012	-
Representing (of total net assets)	**5.3%**	**-**
JPMorgan Life High Yield Opportunities Fund	1,241,674	1,186,089
Representing (of total net assets)	**5.1%**	**6.8%**
Northern Trust Emerging Markets Custom ESG Equity Index Fund	-	1,124,909
Representing (of total net assets)	-	**6.4%**
Amundi Funds Global Emerging Blended - IE	-	1,115,631
Representing (of total net assets)	-	**6.4%**

8.9 Derivatives

Derivatives held at year-end were as follows:

	31 March 2022		31 March 2021	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Futures	63,358	(4,445)	14,651	(7,010)
Forward FX contracts	16,142	(100,208)	24,769	(47,278)
Total	**79,500**	**(104,653)**	**39,420**	**(54,288)**
Total net derivatives		**(25,153)**		**(14,868)**

Futures

The details of open futures contracts at year-end were as follows:

Commodity futures bought	Notional amount £000	Duration	Asset value at year-end £000	Liability value at year-end £000
LME Benchmark Monitor (LME)	53,403	less than 1 year	16,310	(241)
NYMEX Exchange (NYM)	106,818	less than 1 year	15,259	(166)
EUREX	215,997	less than 1 year	10,721	(125)
Chicago Board of Trade (CBT)	101,072	less than 1 year	7,710	(1,189)
Intercontinental Exchange (ICE)	72,551	less than 1 year	7,339	(118)
COMEX division of NYMEX (CMX)	111,658	less than 1 year	2,770	(1,496)
Chicago Mercantile Exchange (CME)	43,545	less than 1 year	1,909	-
ICE Futures US Softs (NYB)	28,984	less than 1 year	1,243	(1,110)
Osaka Exchange	1,340	less than 1 year	97	-
Total as at 31 March 2022	**735,368**		**63,358**	**(4,445)**
Total as at 31 March 2021	338,972		14,651	(7,010)
Total net futures as at 31 March 2022				**58,913**
Total net futures as at 31 March 2021				7,641

At year-end, the counterparties had deposited £43,580k of US Treasury Bills (compared with £23,603k in 2020/21) and cash of £96,862k (compared with £44,925k in 2020/21) in respect of collateral held on open futures contracts at the year-end. This collateral is not reported within the Scheme's net assets.

Forward FX contracts

Currency bought	Local value £000	Currency sold	Local value '000	Forward FX settlement	Asset value at year-end £000	Liability value at year-end £000
Pound sterling	762,731	Japenese yen	119,801,156	1 to 6 months	12,790	(8)
Pound sterling	8,539,605	US dollar	11,333,010	1 to 6 months	2,873	(71,521)
Pound sterling	1,555,728	Euro	1,850,629	1 to 6 months	432	(9,353)
Pound sterling	258,325	Australian dollar	464,046	1 to 6 months	-	(6,417)
Pound sterling	339,056	Canadian dollar	566,839	1 to 6 months	-	(5,625)
Pound sterling	310,284	Swiss franc	378,504	1 to 6 months	-	(2,295)
Other		Other		1 to 6 months	47	(4,989)
Total as at 31 March 2022					**16,142**	**(100,208)**
Total as at 31 March 2021					24,769	(47,278)
Total net forward FX contracts as at 31 March 2022						**(84,066)**
Total net forward FX contracts as at 31 March 2021						(22,509)

Included within net assets is £6,372k of cash (compared with £3,798k in 2020/21) in respect of collateral held on open forward FX contracts at year-end.

8.10 Transaction costs

Included within the purchases and sales of equities and futures are direct transaction costs of £3,490k (compared with £1,656k in 2020/21), comprising fees, commissions and stamp duty. In addition to the direct transaction costs disclosed below, indirect costs are incurred through the bid-offer spread on investments. The direct costs are attributable to the key asset classes as follows:

	Fees £000	Commissions £000	Stamp duty £000	Total £000
Equities	234	1,084	1,908	3,226
Derivatives	-	264	-	264
Total for the year ended 31 March 2022	**234**	**1,348**	**1,908**	**3,490**
Total for the eyar ended 31 March 2021	124	596	936	1,656

9. Current assets and liabilities

9.1 Current assets and liabilities allocated to members

	31 March 2022 £000	31 March 2021 £000
Contributions due from:		
Participating employers	119,099	114,373
Members	127,940	119,845
HM Revenue & Customs	173,174	146,753
Cash awaiting investment	116,485	84,455
Current assets	**536,698**	**465,426**
Benefits payable	(18,878)	(12,763)
Contributions yet to be allocated to member accounts or returned to employers	(77,526)	(21,739)
Annual management charge accrued	(5,903)	(4,541)
Other payables	(454)	(955)
Current liabilities	**(102,761)**	**(39,998)**
Net current assets allocated to members	**433,937**	**425,428**

The contributions yet to be allocated to member accounts relate to cash being held after year-end for investment in the next few days. Outstanding member and employer contributions at year-end totalled £247,039k (compared with £234,218k as at 31 March 2021). In respect of these outstanding contributions, £223,642k was received by 31 May 2022 (compared with £207,013k by 31 May 2021).

Employer-related investments

The balance at 31 March 2022 includes contributions due from employers totalling £218,706k (compared with £218,977k at 31 March 2021), which were due after their statutory due dates as required by the payment schedules. These represent employer-related investments at year-end of 0.9% of the Scheme's total net assets (compared with 1.2% at 31 March 2021), but they did not contravene subsection (1) of section 40 of the 1995 Pensions Act.

The Scheme's investments in participating employers are shown in Appendix 1 on **page 88**.

9.2 Current assets and liabilities not allocated to members

	31 March 2022 £000	31 March 2021 £000
Cash	883	298
Other receivables	442	804
Current assets	**1,325**	**1,102**
Contribution charge payable	(244)	(290)
Other payables	(416)	(316)
Current liabilities	**(660)**	**(606)**
Total net assets not allocated to members	**665**	**496**

10. Contingent liabilities and contractual commitments

The following contractual commitments existed at year-end:

	31 March 2022 £000	31 March 2021 £000
Infrastructure equity	424,504	800,000
Private credit	153,214	359,118
Total	**577,718**	**1,159,118**

11. Related party transactions

The Scheme's Trustee is Nest Corporation, a public corporation accountable to the Secretary of State for Work and Pensions. The Scheme pays the Trustee the contribution charge and annual management charge set out in note 6. The total amount for 2021/22 was £164,511k (compared with £127,774k in 2020/21), of which £6,147k was outstanding at year-end (compared with £4,682k in 2020/21). Nest Corporation paid £nil into the Scheme's general account during the year (compared with £nil in 2020/21).

Nest Corporation is a participating employer in the Scheme. Contributions of £3,069k were payable by Nest Corporation to the Scheme during 2020/21 (compared with £2,705k in 2020/21).

Remuneration and pay for Board members is set by the Secretary of State for Work and Pensions. Total Board member remuneration for 2021/22 was £802k (compared with £812k in 2020/21). More details on Board member remuneration can be found in the 'Corporation annual report and accounts 2021/22' at nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html

Where Board members or their close family relatives are members of the Scheme through self-employment or a participating employer, all contributions to the Scheme are made on standard business terms.

The Trustee pays for all of the running costs of the Scheme including the payment of fees for the investment managers, investment fund administrators, the Scheme's administrator Tata Consultancy Services (TCS) and the auditors. The details of these fees can be seen in the 'Corporation annual report and accounts 2021/22' at nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html

Nest Invest Limited is considered a related party of the Scheme as it is a wholly owned subsidiary of Nest Corporation. There were no transactions between Nest Invest Limited and the Scheme during the year under review (also no transactions in 2020/21).

Other useful information

Nest's contact details

nestpensions.org.uk

Members or employers already using Nest can contact the Trustee at **support@nestpensions.org.uk** or alternatively at:

Nest, the National Employment Savings Trust
Nene Hall
Lynch Wood Business Park
Peterborough
PE2 6FY

Phone: 0300 020 0090

Secretary to the Trustee

Nest Corporation Corporate Secretary

Email: **secretariat@nestcorporation.org.uk**

Regulation and disputes

The Pensions Regulator (TPR)

TPR has powers to regulate workplace pension schemes.

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

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

Phone: 0345 600 7060

Contact: **thepensionsregulator.gov.uk/en/contact-us**

Website: **thepensionsregulator.gov.uk**

MoneyHelper

MoneyHelper provides impartial guidance about money and pensions that is free to use and backed by the government. It can help both Nest members and members' beneficiaries if they experience problems related to Nest or any other pension scheme.

Phone: 0800 678 1648

Contact: **moneyhelper.org.uk/en/contact-us/pensions-guidance**

Website: **moneyhelper.org.uk**

The Pensions Ombudsman

The Pensions Ombudsman investigates and determines any complaint or dispute of fact or law, in relation to an occupational pension scheme, which cannot be settled through MoneyHelper's services or Nest's internal disputes resolution (IDR) procedure.

Phone: 0800 917 4487

Email: **enquiries@pensions-ombudsman.org.uk**

Website: **pensions-ombudsman.org.uk**

Pensions information

Pension Wise

A service of MoneyHelper, Pension Wise provides free help for your pension choices.

Phone: 0800 678 1648

Contact: **moneyhelper.org.uk/en/contact-us/pensions-guidance**

Website: **moneyhelper.org.uk**



Appendices



Appendix 1

Top 100 investments

The top 100 investments as at 31 March 2022 have been calculated on a look-through basis to the underlying holdings of the pooled investment vehicles and segregated accounts invested in by the Scheme.

Employer-related investments* are the participating employers in which the Scheme invests at arm's length through investment managers.

Number	Investments	% of investments
1	Apple Inc	2.15%
2	Microsoft Corp	1.85%
3	Alphabet Inc	1.29%
4	Amazon.com Inc*	1.10%
5	MSCI India Index June 2022 future	0.79%
6	Tesla Inc*	0.79%
7	CGIF	0.70%
8	Brigg	0.61%
9	Nvidia Corp	0.55%
10	Berkshire Hathaway Inc	0.54%
11	Taiwan Semiconductor Manufacturing Co*	0.47%
12	Samsung Electronics Co Ltd	0.46%
13	Meta Platforms Inc	0.42%
14	Johnson & Johnson	0.40%
15	UnitedHealth Group Inc*	0.39%
16	JPMorgan Chase & Co	0.34%
17	Nestle SA	0.32%
18	JPMorgan Money Market Fund	0.29%
19	The Industrial Property Investment Fund	0.29%
20	Visa Inc	0.28%
21	Mastercard Inc*	0.28%
22	The Home Depot Inc	0.28%
23	US Treasury Notes 0% 23/02/2023	0.28%
24	West Cross Industrial Park, Brentford	0.28%
25	Korean Republic won forward exposure	0.28%
26	Bank of America Corp	0.26%
27	Tencent Holdings Ltd	0.26%
28	Procter & Gamble Co	0.25%
29	GOLD 100 OZ June 2022 future	0.25%
30	Prologis Inc	0.25%
31	Indian rupee forward exposure	0.24%
32	NEU Medium Note	0.24%
33	Toyota Motor Corp*	0.24%
34	AbbVie Inc	0.24%
35	Shell Plc	0.23%
36	Chinese yuan forward exposure	0.22%
37	Cisco Systems Inc	0.22%
38	Thermo Fisher Scientific Inc	0.22%
39	Pfizer Inc	0.21%
40	United Parcel Service Inc	0.21%
41	Walt Disney Co	0.21%
42	Alibaba Group Holding Ltd	0.21%
43	Amundi Funds Emerging Markets Corporate Bond Fund	0.20%
44	Roche Holding AG	0.20%
45	Walmart Inc	0.20%
46	Comcast Corp	0.20%
47	Honeywell International Inc	0.20%
48	Eli Lilly And Co	0.20%
49	Adobe Inc	0.20%
50	Costco Wholesale Corp	0.19%
51	MUFG Bank Ltd (UK Branch) maturity 01/04/21	0.19%
52	Broadcom Inc	0.19%
53	PepsiCo Inc	0.19%
54	Woodside Industrial Estate, Dunstable	0.19%
55	ASML Holding NV	0.18%
56	Novartis International AG	0.18%
57	Merck & Co Inc	0.18%
58	Kingsland Business Park, Basingstoke	0.18%
59	DZ Bank AG Deutsche Zentral Genoss time deposit	0.18%
60	Heylo Housing Ltd maturity 09/45	0.17
61	AstraZeneca plc	0.17%
62	Verizon Communications Inc	0.17%
63	LVMH Moet Hennessy Louis Vuitton SE	0.17%
64	Wells Fargo & Co	0.17%
65	AT&T Inc	0.17%
66	TotalEnergies SE	0.16%
67	Bristol-Myers Squibb Co	0.16%
68	Brazilian real forward exposure	0.16%
69	Intel Corp	0.16%
70	Coca-Cola Co	0.16%
71	Danaher Corporation	0.16%
72	Aura Index Linked	0.16%
73	Accenture plc	0.16%
74	Abbott Laboratories	0.16%
75	Chevron Corp	0.16%
76	Strand Island Site, London	0.16%
77	Medtronic plc	0.16%
78	Qualcomm Inc	0.16%
79	Nike Inc	0.15%
80	BTF 0% 22/02/2023	0.15%
81	McDonald's Corp*	0.15%
82	Advanced Micro Devices Inc	0.14%
83	Salesforce.Com Inc	0.14%
84	HSBC Bank Plc MTN RegS	0.14%
85	Polish zloty forward exposure	0.14%
86	Equinix Inc	0.14%
87	Novo Nordisk Inc	0.14%
88	Royal Bank of Canada	0.13%
89	Project Alcazar	0.13%
90	Heylo Housing Ltd*	0.13%
91	Viking	0.13%
92	Oracle Corp	0.13%
93	Mexican Peso forward exposure	0.13%
94	Thai baht forward exposure	0.13%
95	Lockheed Martin Corp	0.13%
96	Equinor ASA	0.13%
97	Sumitomo Mitsui Banking Corp Canada	0.13%
98	Toyota Motor Finance (Netherlands) MTN RegS	0.13%
99	Texas Instruments Inc	0.13%
100	Rodene	0.13%

Appendix 2

Nest Retirement Date Funds performance

The statutory guidance issued by the DWP in 'Completing the annual Value for Members assessment and Reporting of Net Investment Returns' (June 2021) has been followed in preparing these fund performance figures. For contextualising information about the performance of Scheme funds, see 'Investment developments' on **page 53**.

Nest Retirement Date Fund	Fund performance one year to 31 March 2022 %	Annualised fund performance three years to 31 March 2022 %	Annualised fund performance five years to 31 March 2022 %	Annualised fund performance ten years to 31 March 2022 %	Inception
UK CPI INDEX[19]	7.04	3.05	2.70	2.07	N/A
Nest 2021 Retirement Fund	0.82	2.82	2.82	5.66	August 2011
Nest 2022 Retirement Fund	1.23	3.33	3.21	6.15	August 2011
Nest 2023 Retirement Fund	2.03	4.01	3.71	6.74	August 2011
Nest 2024 Retirement Fund	2.86	4.93	4.34	7.27	August 2011
Nest 2025 Retirement Fund	3.69	5.60	4.82	7.66	August 2011
Nest 2026 Retirement Fund	4.52	6.28	5.31	8.04	August 2011
Nest 2027 Retirement Fund	5.37	6.96	5.80	8.39	August 2011
Nest 2028 Retirement Fund	6.22	7.63	6.25	8.57	August 2011
Nest 2029 Retirement Fund	7.07	8.30	6.67	8.81	August 2011
Nest 2030 Retirement Fund	7.92	8.88	7.02	8.99	August 2011
Nest 2031 Retirement Fund	8.78	9.47	7.36	9.15	August 2011
Nest 2032 Retirement Fund	9.25	9.63	7.45	9.2	August 2011
Nest 2033 Retirement Fund	9.25	9.63	7.45	9.21	August 2011
Nest 2034 Retirement Fund	9.25	9.63	7.45	9.21	August 2011
Nest 2035 Retirement Fund	9.25	9.62	7.45	9.2	August 2011
Nest 2036 Retirement Fund	9.25	9.63	7.45	9.21	August 2011
Nest 2037 Retirement Fund	9.25	9.63	7.45	9.21	August 2011
Nest 2038 Retirement Fund	9.25	9.63	7.45	9.22	August 2011
Nest 2039 Retirement Fund	9.25	9.63	7.45	9.21	August 2011
Nest 2040 Retirement Fund	9.25	9.62	7.45	9.22	August 2011
Nest 2041 Retirement Fund	9.25	9.63	7.45	9.21	August 2011
Nest 2042 Retirement Fund	9.25	9.63	7.45	9.2	August 2011
Nest 2043 Retirement Fund	9.25	9.63	7.45	9.21	August 2011
Nest 2044 Retirement Fund	9.25	9.62	7.45	9.22	August 2011
Nest 2045 Retirement Fund	9.25	9.63	7.45	9.22	August 2011
Nest 2046 Retirement Fund	9.25	9.63	7.45	9.22	August 2011
Nest 2047 Retirement Fund	9.25	9.63	7.45	9.21	August 2011
Nest 2048 Retirement Fund	9.25	9.63	7.45	9.22	August 2011
Nest 2049 Retirement Fund	9.25	9.63	7.45	9.21	August 2011
Nest 2050 Retirement Fund	9.25	9.63	7.45	9.16	August 2011
Nest 2051 Retirement Fund	9.25	9.63	7.45	9.13	August 2011
Nest 2052 Retirement Fund	9.25	9.63	7.45	9.03	August 2011
Nest 2053 Retirement Fund	9.25	9.63	7.45	8.82	August 2011
Nest 2054 Retirement Fund	9.25	9.63	7.39	8.59	August 2011
Nest 2055 Retirement Fund	9.25	9.63	7.34	8.41	August 2011
Nest 2056 Retirement Fund	9.25	9.56	7.26	8.22	August 2011
Nest 2057 Retirement Fund	9.25	9.50	7.19	8.11	August 2011
Nest 2058 Retirement Fund	9.25	9.78	7.35	8.13	January 2012
Nest 2059 Retirement Fund	9.25	9.23	7.03	-	January 2013
Nest 2060 Retirement Fund	9.25	9.02	6.91	-	December 2013
Nest 2061 Retirement Fund	8.39	8.20	6.43	-	January 2015
Nest 2062 Retirement Fund	7.75	7.61	6.07	-	January 2016
Nest 2063 Retirement Fund	6.01	7.02	5.71	-	January 2017
Nest 2064 Retirement Fund	6.00	7.01	-	-	January 2018
Nest 2065 Retirement Fund	6.00	7.00	-	-	December 2018
Nest 2066 Retirement Fund	5.98	-	-	-	January 2020
Nest 2067 Retirement Fund	5.99	-	-	-	January 2021
Nest 2068 Retirement Fund	-	-	-	-	January 2022
Nest Starter Fund[20]	5.68	6.94	5.60	7.31	August 2011
Nest Guided Retirement Fund - Later Life	-3.79	-	-	-	March 2020
Nest Guided Retirement Fund - Safe	-0.79	-	-	-	March 2020
Nest Guided Retirement Fund - Vault	6.05	-	-	-	March 2020
Nest Guided Retirement Fund - Wallet	-0.18	-	-	-	March 2020
Nest Post Retirement Date Fund[21]	-0.80	0.35	0.49	-	November 2013

19 The overall objective for the Nest Retirement Date Funds is to outperform inflation as measured by CPI.

20 This fund is for individuals between ages of 16 to 22 who have an expected retirement date beyond the range of available Nest Retirement Date Funds.

21 This fund is for those members whose Nest Retirement Date Fund has matured and been closed, and the members have yet to take retirement benefits.

Appendix 3

Transaction costs for the year ended 31 March 2022

These transaction costs have been disclosed in accordance with the Chair's governance report on **page 20.**

Fund	Average weighted transaction costs %
Nest 2020 Retirement Fund	-0.003
Nest 2021 Retirement Fund	0.002
Nest 2022 Retirement Fund	0.006
Nest 2023 Retirement Fund	0.010
Nest 2024 Retirement Fund	0.015
Nest 2025 Retirement Fund	0.019
Nest 2026 Retirement Fund	0.024
Nest 2027 Retirement Fund	0.028
Nest 2028 Retirement Fund	0.032
Nest 2029 Retirement Fund	0.037
Nest 2030 Retirement Fund	0.041
Nest 2031 Retirement Fund	0.045
Nest 2032 Retirement Fund	0.046
Nest 2033 Retirement Fund	0.046
Nest 2034 Retirement Fund	0.046
Nest 2035 Retirement Fund	0.046
Nest 2036 Retirement Fund	0.046
Nest 2037 Retirement Fund	0.046
Nest 2038 Retirement Fund	0.046
Nest 2039 Retirement Fund	0.046
Nest 2040 Retirement Fund	0.046
Nest 2041 Retirement Fund	0.046
Nest 2042 Retirement Fund	0.046
Nest 2043 Retirement Fund	0.046
Nest 2044 Retirement Fund	0.046
Nest 2045 Retirement Fund	0.046
Nest 2046 Retirement Fund	0.046
Nest 2047 Retirement Fund	0.046
Nest 2048 Retirement Fund	0.046

Fund	Average weighted transaction costs %
Nest 2049 Retirement Fund	0.046
Nest 2050 Retirement Fund	0.046
Nest 2051 Retirement Fund	0.046
Nest 2052 Retirement Fund	0.046
Nest 2053 Retirement Fund	0.046
Nest 2054 Retirement Fund	0.046
Nest 2055 Retirement Fund	0.046
Nest 2056 Retirement Fund	0.046
Nest 2057 Retirement Fund	0.046
Nest 2058 Retirement Fund	0.046
Nest 2059 Retirement Fund	0.045
Nest 2060 Retirement Fund	0.044
Nest 2061 Retirement Fund	0.038
Nest 2062 Retirement Fund	0.034
Nest 2063 Retirement Fund	0.030
Nest 2064 Retirement Fund	0.030
Nest 2065 Retirement Fund	0.030
Nest 2066 Retirement Fund	0.023
Nest 2067 Retirement Fund	0.012
Nest 2068 Retirement Fund	0.003
Nest Starter Fund	0.030
Nest Guided Retirement Fund - Later Life	-0.046
Nest Guided Retirement Fund - Safe	-0.004
Nest Guided Retirement Fund - Vault	0.036
Nest Guided Retirement Fund - Wallet	0.000
Nest Post Retirement Date Fund	-0.004
Nest Ethical Foundation Fund	0.035
Nest Ethical Growth Fund	0.046
Nest Ethical Consolidation Fund	0.022
Nest Higher Risk Fund	0.057
Nest Lower Growth Fund	-0.007
Nest Pre Retirement Fund (closed from December 2021	-0.074
Nest Sharia Fund	0.024

Appendix 4

Nest's costs and charges

Projected pension pot in today's money for a member who starts saving with Nest at age 22.

The table below shows the costs and charges that you might pay with Nest. We've provided four different age profiles to demonstrate how much of your pot will be affected by our costs and charges. Your own circumstances may differ.

The calculations are based on the following assumptions: a real income of £17,000 (based on an illustrative member), real qualifying earnings of £11,000 that will grow with inflation set at 2.5%.

All calculations are in real terms and are based on the assumption that no withdrawals are made. We've used Nest's Statutory Money Purchase Illustration (SMPI) assumptions* for investment growth, which require us to make reasonable projections of likely investment returns. The two sets of return figures are: gross of costs and charges; and net of costs and charges. We first deduct transaction costs** from the projected investment returns, and then deduct the annual management charge (AMC) from these adjusted returns to create the figure net of costs and charges. The contribution charge is applied to all contributions before this calculation.

Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund.

	Retirement Date Fund		Ethical Fund		Higher Risk Fund (non-lifestyled)		Higher Risk Fund (lifestyled)		Sharia Fund		Lower Growth Fund	
Years saving	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	863	846	863	846	879	862	879	862	876	860	865	848
3	2,602	2,541	2,602	2,542	2,741	2,681	2,741	2,681	2,721	2,663	2,618	2,559
5	4,473	4,356	4,473	4,358	4,752	4,635	4,752	4,635	4,694	4,582	4,401	4,289
10	10,380	10,054	10,381	10,062	10,908	10,578	10,908	10,577	10,649	10,343	9,399	9,099
15	19,117	18,428	19,121	18,446	20,140	19,439	20,139	19,431	19,451	18,814	16,259	15,648
20	29,408	28,195	29,415	28,230	31,275	30,035	31,271	30,016	29,830	28,724	23,417	22,390
25	55,724	52,874	55,753	52,973	60,817	57,860	60,799	57,796	56,441	53,885	38,661	36,473
30	72,281	68,253	72,331	68,404	80,081	75,862	80,047	75,759	73,231	69,638	46,645	43,708
35	88,662	83,196	88,738	83,434	102,590	96,783	97,992	92,119	92,342	87,471	54,384	50,596
40	100,050	92,961	100,147	93,334	129,231	121,451	110,031	102,375	114,419	107,988	62,108	57,368
45	101,578	94,171	101,677	94,556	135,165	126,936	111,606	103,602	119,274	112,493	63,689	58,745

* SMPI is our current prediction of how much your fund will be worth when you retire. We've calculated this without inflation and incurrent monetary terms. Our assumptions for working this out can be found on **page 99**.

** The transaction cost data for our current asset allocation includes both explicit and implicit costs where applicable. These transaction costs are provided to us by our investment managers and are the latest figures available in March 2022. These figures will be updated at least annually.

Projected pension pot in today's money for a member who starts saving with Nest at age 45

The table below shows the costs and charges that you might pay with Nest. We've provided four different age profiles to demonstrate how much of your pot will be affected by our costs and charges. Your own circumstances may differ.

The calculations are based on the following assumptions: a real income of £22,000 (based on an illustrative member), real qualifying earnings of £16,000 that will grow with inflation set at 2.5%.

All calculations are in real terms and are based on the assumption that no withdrawals are made. We've used Nest's Statutory Money Purchase Illustration (SMPI) assumptions* for investment growth, which require us to make reasonable projections of likely investment returns. The two sets of return figures are: gross of costs and charges; and net of costs and charges. We first deduct transaction costs** from the projected investment returns, and then deduct the annual management charge (AMC) from these adjusted returns to create the figure net of costs and charges. The contribution charge is applied to all contributions before this calculation.

Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund.

	Retirement Date Fund		Ethical Fund		Higher Risk Fund (non-lifestyled)		Higher Risk Fund (lifestyled)	
Years saving	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	877	860	877	860	879	862	879	862
3	2,721	2,660	2,721	2,661	2,741	2,681	2,741	2,681
5	4,692	4,575	4,692	4,576	4,752	4,635	4,752	4,634
10	10,641	10,311	10,641	10,316	10,908	10,578	10,907	10,574
15	19,126	18,429	19,128	18,447	20,140	19,439	19,571	18,865
20	27,267	26,067	27,272	26,117	31,275	30,035	27,752	26,535
21	28,741	27,429	28,746	27,486	33,761	32,392	29,231	27,899
22	30,142	28,717	30,148	28,778	36,343	34,834	30,634	29,189

	Sharia Fund		Lower Growth Fund	
Years saving	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	877	860	865	848
3	2,721	2,663	2,618	2,559
5	4,694	4,582	4,401	4,289
10	10,649	10,343	9,399	9,099
15	19,451	18,814	16,259	15,648
20	29,830	28,724	23,417	22,390
21	32,118	30,900	24,885	23,762
22	34,482	33,145	26,365	25,142

* SMPI is our current prediction of how much your fund will be worth when you retire. We've calculated this without inflation and in current monetary terms. Our assumptions for working this out can be found on **page 99**.

** The transaction cost data for our current asset allocation includes both explicit and implicit costs where applicable. These transaction costs are provided to us by our investment managers and are the latest figures available in March 2022. These figures will be updated at least annually.

Projected pension pot in today's money for a member who starts saving with Nest at age 55

The table below shows the costs and charges that you might pay with Nest. We've provided four different age profiles to demonstrate how much of your pot will be affected by our costs and charges. Your own circumstances may differ. The calculations are based on the following assumptions: a real income of £21,500 (based on an illustrative member), real qualifying earnings of £15,500 that will grow with inflation set at 2.5%.

All calculations are in real terms and are based on the assumption that no withdrawals are made. We've used Nest's Statutory Money Purchase Illustration (SMPI) assumptions* for investment growth, which require us to make reasonable projections of likely investment returns. The two sets of return figures are: gross of costs and charges; and net of costs and charges. We first deduct transaction costs** from the projected investment returns, and then deduct the annual management charge (AMC) from these adjusted returns to create the figure net of costs and charges. The contribution charge is applied to all contributions before this calculation.

Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund.

	Retirement Date Fund		Ethical Fund		Higher Risk Fund (non-lifestyled)		Higher Risk Fund (lifestyled)	
Years saving	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	877	860	877	860	879	862	879	862
3	2,714	2,654	2,714	2,654	2,741	2,681	2,724	2,663
5	4,630	4,513	4,630	4,515	4,752	4,635	4,640	4,523
10	9,888	9,566	9,889	9,578	10,908	10,578	9,900	9,577
11	11,231	10,851	11,231	10,866	12,618	12,226	11,242	10,862
12	12,549	12,110	12,550	12,126	14,393	13,934	12,561	12,121

	Sharia Fund		Lower Growth Fund	
Years saving	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	877	860	865	848
3	2,721	2,663	2,618	2,559
5	4,694	4,582	4,401	4,289
10	10,649	10,343	9,399	9,099
11	12,294	11,933	10,748	10,393
12	13,996	13,573	12,108	11,696

* SMPI is our current prediction of how much your fund will be worth when you retire. We've calculated this without inflation and in current monetary terms. Our assumptions for working this out can be found on **page 99**.

** The transaction cost data for our current asset allocation includes both explicit and implicit costs where applicable. These transaction costs are provided to us by our investment managers and are the latest figures available in March 2022. These figures will be updated at least annually.

Projected pension pot in today's money for a member who joins the Nest Guided Retirement Fund at age 60

The Nest Guided Retirement Fund (NGRF) is a retirement product for members aged 60 and over who meet the qualifying pot size. The table below shows the costs and charges that you might pay with Nest. We've provided six different starting pot amounts to demonstrate how much of your pot will be affected by our costs and charges. Your own circumstances may differ. The calculations are based on the following assumptions: a real income of £20,500 (based on an illustrative member), real qualifying earnings of £14,500 that will grow with inflation set at 2.5%.

All calculations are in real terms and are based on the assumption that no withdrawals are made. We've used Nest's Statutory Money Purchase Illustration (SMPI) assumptions* for investment growth, which require us to make reasonable projections of likely investment returns. The two sets of return figures are: gross of costs and charges; and net of costs and charges. We first deduct transaction costs** from the projected investment returns, and then deduct the annual management charge (AMC) from these adjusted returns to create the figure net of costs and charges. The contribution charge is applied to all contributions before this calculation.

Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund.

	NGRF - £10,000		NGRF - £15,000		NGRF - £20,000	
Years saving	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	10,913	10,866	15,938	15,876	20,963	20,886
3	12,752	12,604	17,827	17,633	22,902	22,663
5	14,608	14,348	19,734	19,398	24,859	24,448
6	15,543	15,223	20,694	20,283	25,844	25,343
7	16,482	16,099	21,658	21,169	26,834	26,239
8	17,426	16,977	22,627	22,058	27,828	27,138

	NGRF - £25,000		NGRF - £30,000		NGRF - £35,000	
Years saving	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	25,988	25,896	31,013	30,906	36,038	35,916
3	27,977	27,693	33,052	32,723	38,127	37,753
5	29,984	29,498	35,110	34,548	40,235	39,598
6	30,995	30,403	36,145	35,463	41,296	40,523
7	32,010	31,309	37,185	36,379	42,361	41,449
8	33,029	32,218	38,230	37,298	43,431	42,378

* SMPI is our current prediction of how much your fund will be worth when you retire. We've calculated this without inflation and in current monetary terms. Our assumptions for working this out can be found on **page 99**.

** The transaction cost data for our current asset allocation includes both explicit and implicit costs where applicable. These transaction costs are provided to us by our investment managers and are the latest figures available in March 2022. These figures will be updated at least annually.

Statutory money purchase illustration (SMPI) investment growth assumptions

Fund name	Phase	Investment objective	Annual growth assumed for SMPI	What we've based our estimate on
Nest Retirement Date Funds	Foundation	Consumer Price Index (CPI) + 0 per cent a year average over the investment cycle, after all charges	3 per cent	Fund goals outlined in our Statement of investment principles
	Growth	CPI + 3 per cent a year average over the investment cycle, after all charges	6 per cent	
	Consolidation	CPI + 0 per cent a year average over the investment cycle, after all charges	Linear decline over 10 years from 6 per cent to 3 per cent	
Nest Ethical Fund	Foundation	CPI + 0 per cent a year average over the investment cycle, after all charges	3 per cent	Fund goals outlined in our Statement of investment principles
	Growth	CPI + 3 per cent a year average over the investment cycle, after all charges	6 per cent	
	Consolidation	CPI + 0 per cent a year average over the investment cycle, after all charges	Linear decline over 10 years from 6 per cent to 3 per cent	
Nest Higher Risk Fund Note: For the non-lifestyled version of the Nest Higher Risk Fund, the consolidation phase is not applicable.	Growth	To target higher returns (0.5 per cent higher than the growth phase of the Nest Retirement Date Funds) through taking more risk	6.5 per cent	Fund return target
	Consolidation	CPI + 0 per cent a year average over the investment cycle, after all charges	Linear decline over 10 years from 6.5 per cent to 3 per cent	
Nest Sharia Fund	N/A	To deliver investment growth after inflation and charges are taken into account by investing in shares selected on criteria based on Islamic law	6.5 per cent	Capital market assumptions Historical data and industry intelligence
Nest Lower Growth Fund	N/A	To maintain the nominal value of your savings after we've taken out charges.	3.4 per cent for investment periods of 10 years or more, 1.8 per cent for investment periods of 5–10 years, 0.86 per cent for investment periods of 0–5 years.	Capital market assumptions Historical data and industry intelligence
Nest Guided Retirement Fund	N/A	CPI + 0 per cent a year average over the investment cycle, after all charges	3 per cent	Capital market assumptions Historical data and industry intelligence

Appendix 5

The Statement of investment principles (SIP) printed here is the latest version, which is also available online at **nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/statement-of-investment-principles.html** and by request using the contact information on **page 84**.

Nest's Statement of investment principles (SIP) March 2020 to March 2023

1. 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.

2. 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 the socio-economic characteristics of the scheme's membership, qualitative research into members' attitudes and aspirations for their retirement savings, and, increasingly, scheme 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 their 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 via the Investment Management Agreement 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, set 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, and the other investment fund choices our scheme members may make.

3. 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 Fund managers' activities are defined and constrained by detailed agreements. They have discretion to buy and sell investments within the terms of these 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 FCA-authorised 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 funds and fund managers is delegated to Nest Invest, to ensure all investments are undertaken in accordance with the Trustee's powers of investment.

4. 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 enable it 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 policies and expectations 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 when relevant.

4.4 As part of our procurement process we set out the detail of our responsible investment policies and expectations, 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 this 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 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 fund 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 policy on responsible investing, Nest and Nest's fund managers collaborate with other institutional investors and asset managers. Nest is a signatory to the FRC's stewardship code and other relevant shareholder initiatives. We report engagements undertaken with our fund managers and other stakeholders in our annual responsible investment report.

5. 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.

6. 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.

7. Liquidity (default and non-default)

7.1 The liquidity profile of Nest's investments is regularly reviewed by Nest Invest.

The majority of the scheme is invested in liquid assets and the IC reviews what proportion of the portfolio should be in illiquid assets for members at different stages of their investing lifecycle. Some investments, such as property and other assets not listed, 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.

8. 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.

9. Expected return on investments (default and non-default)

9.1 The types of investment chosen by the Trustee 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, environmental, social and governance and political risk.

10. 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.

11. 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.

12. 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.

13. 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 automatic 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 aims to be 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.

14. 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 is to outperform CPI after all charges while aiming to progressively dampen volatility as a scheme member's fund approaches maturity.

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 are automatically moved into the Nest Post Retirement Date Funds. These funds invest in asset classes with low volatility in order to reduce conversion risk, associated with converting a member's accumulated savings into one, or several, cash lump sums relatively quickly.

Those members who are aged between 60 and 70 and whose pot sizes are £10,000 or more, are 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.

15. 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 our 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 We set out our objectives for managing climate change risk within our climate change risk policy. Our ambition is to align our whole investment portfolio with limiting global warming to 1.5C above pre-industrial levels by reaching net zero carbon emissions by 2050 or earlier. We report annually on our progress towards meeting our targets using the Task Force on Climate Change-related Financial Disclosures (TCFD) reporting framework.

15.5 The Trustee has an active policy of soliciting members' views on non-financial matters in its 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.

15.6 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 (the Nest Retirement Date Funds), as it has provided additional investment fund choices where members' views on non-financial matters can be sought and expressed.

15.7 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.

16. 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.

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

17. 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.

18. 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 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) 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.

19. Compliance with this SIP

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

The Trustee publishes a SIP implementation statement each year reporting on how they have followed, reviewed and, where relevant, changed the SIP during the scheme year.

SIP 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

Most of Nest's investments are in liquid assets which can be quickly realised as required. However, we believe there is an illiquidity premium which we should seek to capture for our members given many of their long-term investment horizons. We therefore seek out illiquid investments for a proportion of our portfolio. We carefully monitor the overall proportion of illiquid assets at different stages of our members' investment lifecycle and report regularly to the investment committee both the level and type of illiquidity risk we are managing.

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.

Overseas risk

We actively seek to diversify portfolios globally, as this should improve risk adjusted returns as well as giving access to investment opportunities not available in the UK. We manage currency risk as appropriate.

Climate risk

We actively try to reduce climate related risk in portfolios and seek investment opportunities in the transition to a low carbon economy.

Derivatives risk

We only use derivatives for efficient portfolio management and for managing risk.

SIP 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 time frame over which results are measured. Furthermore, the investment outcomes experienced by our members are impacted 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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Any return figures are net of the annual management charge and transaction costs but not net of contribution charges. Past performance and any fund objective or target should not be considered as a guarantee of future performance. Return of your investment is not guaranteed as the value of investments can go down as well as up. Performance figures are shown at the fund level and do not reflect individual members' pots. The performance of members' pots will be influenced by factors like the timing and size of contributions paid in.

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