Nest, the National Employment Savings Trust

Scheme annual report and accounts 2022/23

Scheme registration number: 12004537



nestpensions.org.uk

Nest,
the National Employment Savings Trust

Scheme annual report
and accounts 2022/23



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Chapter 1

Board report



Chair's introduction



Brendan McCafferty, Chair, Nest Corporation

As households deal with inflation and the cost-of-living crisis, uncertainty and change have continued to affect the lives of UK citizens through 2022 and into 2023. Many are experiencing difficult choices between competing priorities. Hopefully, knowing they are saving with us to secure their financial future in retirement can provide some comfort and peace of mind for our members when thinking about their future.

The year in review

Nest was established to provide a pension scheme to those saving for retirement under the auto-enrolment programme. Unlike any other pension, Nest has a Public Service Obligation (PSO) to accept any employer that wishes to use the Scheme to fulfil its pensions duties, regardless of whether they are profitable to the Scheme or not. Now with 12 million members and savings of nearly £30 billion under management, we are focused entirely on our purpose of helping millions enjoy a better retirement. We are a public body and any surplus we generate will be reinvested in the interests of our members. Nest brings all the advantages of world-class investment strategy combined with expertise, low costs, and member focus.

We aim to achieve returns for members' savings that beat inflation in the long-term. We recognise that our members are looking to us to help them grow their retirement savings enough to outpace the increasing cost of living year-on-year over the long-term.

In 2022 we saw adjustments in investment values – as did most pension and long-term savings funds. However, historical trends show that year-on-year fluctuations often iron out over time. If members commit to keep saving, then we will do our job and continue to work hard to deliver a bigger pension in a better world.

How we performed

As at 31 March 2023, we were investing pension savings for just over 12 million Scheme members – about 36.5% of people in employment in the UK[1], or around 40% of payrolled employees in the UK.[2] Every month we received on average £542 million in new contributions to members' pots. Some members have contributions going into their pot every pay period, some only now and then, and some have a pot from a previous employment in our safekeeping.

Economic research and historical data shows people achieve better retirement outcomes when they continue to save over many years.[3] We appreciate this can be challenging, but would remind members of the matching tax breaks, and where relevant, the employer contributions on offer. Both of which still make pensions the best way to save for retirement for most people. It should be remembered that pensions are a long-term commitment, with any short-term economic fluctuations usually balancing out in the long run.

The large majority of Scheme members remain in our 'default' investment approach known as 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. The 2040 fund's annualised returns over 10 years of 7.3% outperformed our objective of 5.8%. This is in line with our ambition for the Scheme – to deliver the advantages of world-class investment management and achieve consistent returns for our members, over the many years they'll be saving with us.

1 **Labor market in the United Kingdom – Statistics & Facts (statista.com)**

2 **Labour market overview, UK – Office for National Statistics (ons.gov.uk)**

3 **nestpensions.org.uk/schemeweb/nest/investing-your-pension/saving-for-your-future/advantage-saving-early.html**

Developing our investment strategy

As at 31 March 2023, we were managing £29.6 billion on behalf of the Scheme's members. We design our evolving investment strategy with an awareness that public stock markets can sometimes become volatile, as they are now.

We've continued to extend the range of asset types we have in the Scheme's investment portfolio, this includes just under £0.5 billion we've invested with our newly appointed private equity managers. These new mandates have allowed 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. We look to put a proportion of the Scheme's portfolio in illiquid investments offering additional diversification and alternative return opportunities for strong, steady risk-adjusted returns over the long term.

Investing responsibly

Addressing environmental issues like climate change across our members' investments is a key priority for us as is 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.

Some good examples of our commitment to stewardship, firstly was our challenge to BP's recent decision to scale back its decarbonisation pledges. We were disappointed that the company announced weaker medium-term emissions targets and that shareholders were not able to vote on the new targets. As a result, we escalated our engagement with BP by voting against the re-election of the Chair of the BP Board and we publicly announced our voting intentions ahead of BP's annual general meeting. Secondly, in 2022 we engaged with several food and drink companies requesting that they disclose the proportion of their UK food and drink sales derived from High in Fat, Salt or Sugar (HFSS) products and healthier products. Following our engagement, Nestlé announced commitments to report on the healthiness of the products it sells. Although a positive step, this still fell short of investor expectations and Nest co-signed a public statement ahead of Nestlé's AGM calling for Nestlé to set a target to increase the proportion of sales of healthier products.

We are also proud that our signatory status to the new Stewardship Code was reapproved by the Financial Reporting Council. In all these endeavours, our goal is to help our members achieve a bigger pension in a better world.

Serving our customers

Our commitment to delivering a reliable service has helped us to maintain good customer satisfaction in 2022/23, with 71% of members and 73% of employers saying we deliver good to excellent service.

Ensuring our services remain easy to use for members and employers is a vital part of what we do, as is engaging members through clear communication. We've continued to improve the help we provide to employers and intermediaries such as payroll providers and advisers, and we've run campaigns to provide valuable information to members to help them to make the most of their Nest account. This includes providing clear information about how we're investing their money responsibly. 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 ensure our processes and systems are secure and we continue to encourage all our members to remain vigilant against threats from scammers and fraudsters. Research has shown that in the last year online searches by those looking for support after falling victim to pension or investment scams has increased significantly.[4] We recommend to our members that before transferring their pension, they should compare all the benefits, charges, and features, and consider the financial position and regulatory compliance of the scheme they are transferring to as well as recommending they seek independent advice if unsure.

Looking forward

This year Nest has undertaken a strategic review of its approach to delivering for its customers, in the context of the changed circumstances the Scheme is operating in, following the pandemic and in the midst of the cost-of-living crisis. We expect to conclude this review by 31 December 2023.

Among the things we continue to explore is how we can develop our services to members once they reach retirement age. This year we've particularly focused on how our retirement proposition can best serve our members in later life and expect to enhance what we offer to members in this respect over the coming years.

Nest Insight published the final findings from its ground-breaking sidecar savings research. The research showed that the idea of workplace emergency savings is popular with workers. Many believe they would benefit from using them, and for those who sign up there are very clear financial resilience and wellbeing benefits.[5] Around 4% of those enrolled have also gone on to make additional pension contributions. So, the evidence on the effectiveness of these accounts is promising. But the research also showed that take-up remains stubbornly low when savings accounts are offered on an opt-in basis.

Nest Insight have now moved on to further research 'opt-out' versions of workplace emergency savings. Promising early findings suggest such approaches can increase participation in these accounts by around 50 percentage points – a dramatic result. This critical work continues to improve our understanding of how we can support pension savers' broader financial needs, and we are excited about the potential of Nest Insight's ongoing activity in this space.

4 **lottie.org/news/pension-scams-and-fraud**

5 **nestinsight.org.uk/sidecar-savings-tools-could-address-two-of-the-biggest-financial-challenges-facing-uk-households-says-nest-insight/**

Governance and stewardship

We continue to work hard to evaluate, challenge and improve our governance, with an eye to ensuring our practices are continually in line with our responsibility to act in member interests. Everything is underpinned by our accountability to members. We always aim to achieve high standards of corporate governance and to 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 of the audit committee, Clive Elphick, and the outgoing chair of the nominations and remuneration committee and a Senior Independent Director, Jill Youds, for their years of service and stewardship.

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 our customers continued to have dependable access to the Scheme, day after day. Members can be assured that the continuity of service is in place through existing arrangements.

I am also continually grateful to the talented team of people at Nest Corporation. We rely on our employees' experience, expertise, and skills to translate our strategic priorities into value for all our customers. With just over a year into my tenure as Chair, I continue to be impressed by the organisation's consciousness, candour, and hard work.

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

> **One of the most fundamental ways we can help ensure our members realise better retirement outcomes is by protecting their assets and data.**

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 18**).

Together these two documents make up the Nest Order and Rules[6] 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.



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

Key figures as at 31 March 2023

About the scheme

Scheme members



12m
total members

7.2m
are inactive[7]

4.8m
are active[8]

52%
male

48%
female

0.01% of Scheme membership did not have a gender listed on their Scheme enrolment

Scheme employers

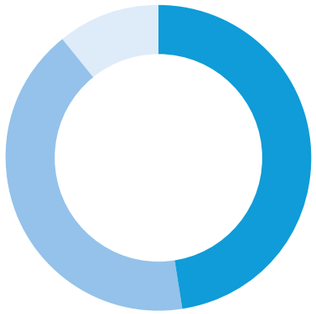
1.1m
employers

17k
self-employed members[9]

32k
Nest Connectors[10]

Managing members' money

Annual contributions



£6.5bn
total annual contributions

£3.1bn
members

£2.7bn
employers

£0.7bn
tax relief

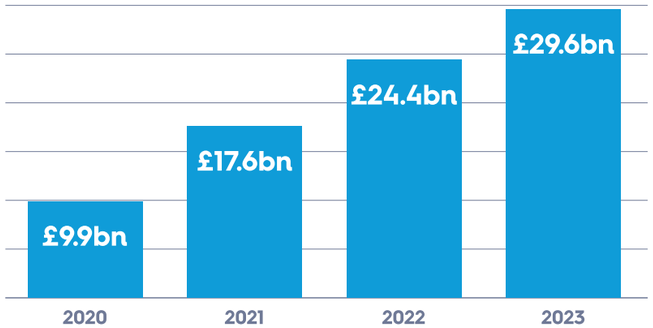
Delivering customer services

99%
Service channels were available more than 99% of the time in 2022/23

71%
Member satisfaction[11]
(from the 'Voice of the customer' survey December 2022)

73%
Employer satisfaction[12]
(from the 'Voice of the customer' survey March 2023)

Total Nest assets



2040 Nest Retirement Date Fund[13]

7.3%
Ten-year rolling annualised returns after annual management charges to 31 March 2023

7 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.

8 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).

9 Where a member has been self-employed and has not since been enrolled by an employer. This will therefore not include members that have left all employers but still retain their self-employed enrolment.

10 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.

11 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.

12 The annual employer survey in March 2023 was conducted using an online survey method. Before 2021 the survey was conducted by telephone.

13 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 39**). 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.

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 Asset Management
Amundi (UK) Ltd
BlackRock Inc
BNP Paribas Asset Management Nederland NV
CBRE Investment Management Inc
Columbia Threadneedle Investments*
CoreCommodity Management LLC
HarbourVest Partners
HSBC Global Asset Management (UK) Ltd
J.P. Morgan Asset Management (UK) Ltd
Legal & General Investment Management Ltd
Local Pensions Partnership Investments Ltd / GLIL
Northern Trust Global Investments Ltd
Octopus Investments Limited
Royal London Asset Management Ltd
Schroders Capital Private Equity Wollestonecraft Management Ltd
State Street Global Advisors Europe Limited
UBS Asset Management (UK) Ltd

Investment advisers

Nest Invest Ltd

Lawyers

CMS

Eversheds Sutherland (International) LLP

Travers Smith LLP

External auditors

KPMG LLP

Internal auditors

Ernst & Young LLP

Tax advisors

Deloitte LLP

* Before 1 July 2022 Columbia Threadneedle Investments was known as BMO Global Asset Management.

Membership

The Scheme's membership in 2022/23 grew as follows:

Member numbers

	Year ended 31 March 2023	Year ended 31 March 2022
Members at the beginning of the year	**11,093,656**	**9,901,752**
New members*	1,618,517	1,511,905
Members opted out or de-enrolled	(212,150)	(170,863)
New members joining in the year	**1,406,367**	**1,341,042**
Less		
Members retired	(90,457)	(73,953)
Members transferred out	(88,730)	(69,223)
Members deceased	(7,900)	(5,962)
Closure of member accounts**	(305,023)	-
Members at the end of the year^	**12,007,913**	**11,093,656**
Contributing members†	3,773,670	3,655,608
Non-contributing members	8,234,243	7,438,048
Members at the end of the year	**12,007,913**	**11,093,656**

* New members enrolled by employers and self-employed registrations for the reporting period, 1 April 2022 to 31 March 2023. This includes members who subsequently de-enrolled or opted out in the same period.

** During the reporting period, 1 April 2022 to 31 March 2023, and following consultation with impacted members, the Trustee agreed to close a number of member accounts that had been inactive zero pots for over 12 months.

^ This includes 110,092 members who have a zero pot (2021/22: 362,509).

† Contributing members are those who made contributions 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 2022 to 31 March 2023, 532,786 of contribution events were reported to TPR (2021/22: 459,073). This equates to 4.5% of contribution events (2021/22: 4.6%) 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.

Members can use both Pension Wise and The Money and Pensions Service for getting free guidance during their retirement journey, the details of which can be found in 'Other useful information' on **page 78**.

Governance report

Chair's governance statement for the year ended 31 March 2023

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.

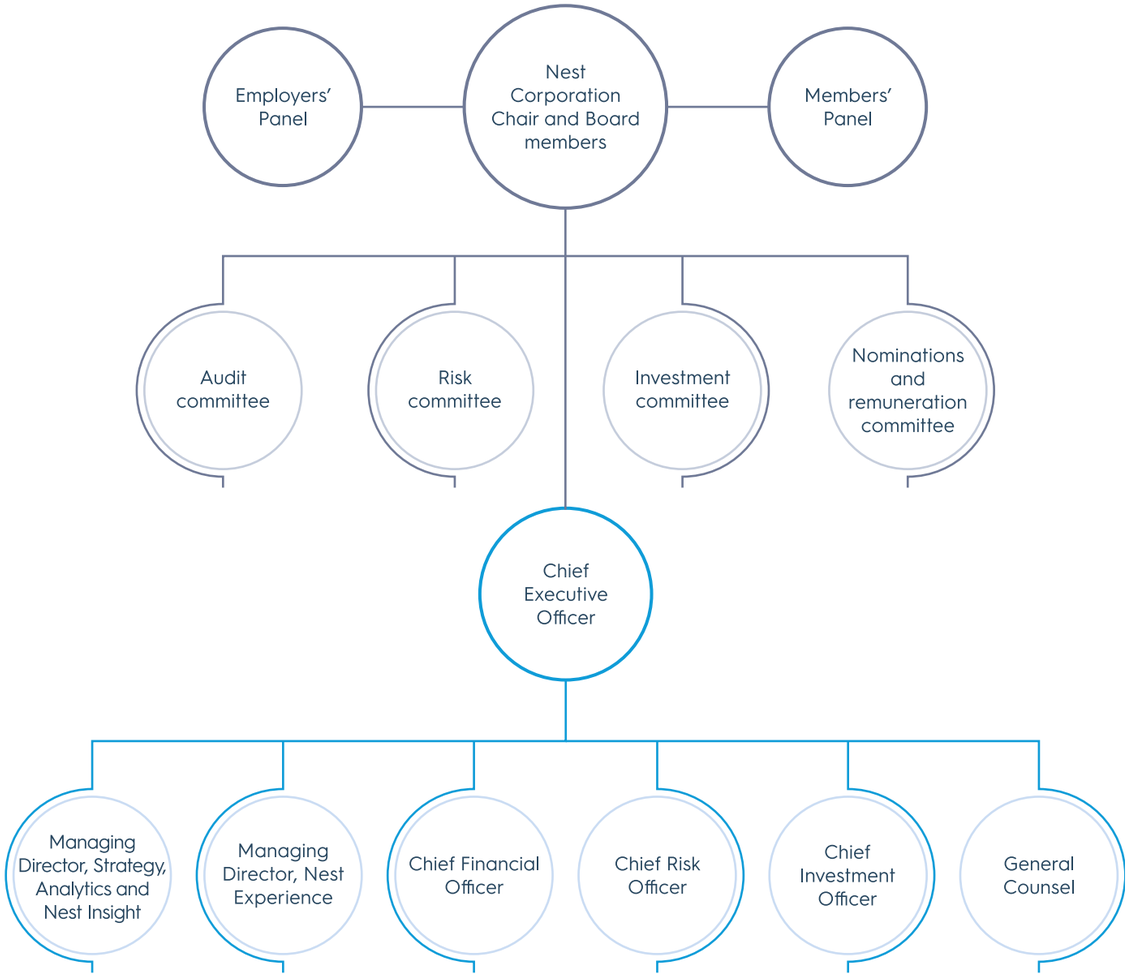
About the Trustee

Nest Corporation was established on 5 July 2010 to be the Trustee of the Scheme, the Trustee's role is to develop and operate 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 Department for Work and Pensions (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.[14]

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

Organisational chart as at 31 March 2023



Executive committee

Biographies of the Trustee's executive committee 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.

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 2022/23, two Board members left the Board and a recruitment process commenced to appoint new Board members. Biographies of all individuals who were Board members at any point during 2022/23 can be found on **page 23**.

Experience and skills

Board members bring a range of experience and skills. Collectively these include investment, pensions, risk, member representation, finance, audit, digital transformation, governance, and business management. As noted above, biographies for Board members are on **page 23**.

As at 31 March 2023, every Board member 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 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)[15] (see **page 38**), 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.

15 **nestpensions.org.uk/schemeweb/nest/nestcorporation/investment-approach/investment-principles.html**

Each year Nest Corporation's secretariat team conducts 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 2022/23, Board members received briefings or training on a number of topics during the year, including fraud and financial crime, investment beliefs, tax, climate change risk and impact investing.

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 22)** 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 22**) 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 and the next externally led review will be conducted in 2023/24 by an external facilitator that is yet to be determined. In addition to this, the Board and its committees conducted an annual internal effectiveness review in the last quarter of 2022/23. No material recommendations were made but the key governance themes identified as part of this review will form part of the scope for the external effectiveness review in 2023/24.

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 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 2023 (see **page 22**). 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.[16]

Article 8 of the Nest Order 2010 sets out the remit for the Employers' Panel and the Members' Panel (see **page 27)** 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'.[17]

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

17 **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.[18] 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.

18 **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, which could affect 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.

The Board

As at 31 March 2023, there were nine Board members, including the Chair. During 2022/23, there were also two other Board members who were no longer on the Board at the end of the financial year.























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

1. 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 (Intermediated and Direct) at AXA Insurance UK plc. He was also the founding CEO of Flood Re Ltd, an innovative Public Body venture between the government and the insurance industry. He is a non-executive director of NPA Insurance Limited.

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

2. Myfanwy Barrett, CB

Board Member from 1 July 2021

Chair, Audit Committee from 1 February 2023

Myfanwy has served as a non-executive director at The Pensions Ombudsman (TPO) since 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 Managing Director of Corporate Services at the House of Commons. She has experience 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 Director of Plumbing Pensions (UK) Administration Ltd, Senior Independent Board Member at Ocean Housing Group, Trustee/Treasurer of Morrab Library and Newlyn Art Gallery & The Exchange, and a member of two Tate Committees.

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

3. Karen Cham

Board Member from 1 July 2019

Karen is Professor of Augmented Intelligence, Digital Transformation Design at Kingston Business School. Her previous role at the University of Brighton was professorial lead for Connected Futures research and enterprise, which included digital economy, digital health, complex systems and immersive, simulation and virtualisation. As part of this, she was also academic lead of the Digital Catapult Centre Brighton and the 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.

4. Helen Dean, CBE

Board Member from 1 June 2018

CEO, 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 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 trustee director of the debt charity StepChange, a member of HM Treasury's Asset Management Taskforce and a governor of the Pensions Policy Institute.

5 Clive Elphick

Board Member from 1 June 2018 to 31 January 2023

Chair, Audit Committee from 29 January 2019 to 31 January 2023

Clive previously served as an independent director of National Grid Gas plc and National Grid Electricity Transmission plc, as well as a member of the Competition Appeal Tribunal and a board member of the Environment Agency, where he chaired their pension fund. He is a past Chair of the Confederation of British Industry for the Northwest 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.

6. Chris Hitchen

Board Member from 1 June 2018 (reappointed for second term from 1 June 2023)

Chair, Investment Committee from 28 May 2019

Chris re-joined 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 11 Local Government Pension Scheme (LGPS) pension funds with assets under management totalling £60 billion, as well as Chair of the Nuclear Liabilities Fund, investing to pay the 100-year costs of safely decommissioning nuclear power stations. For twenty years, Chris was Chief Investment Officer and then CEO of the 350,000-member UK Railways Pension Scheme.

Chris 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. He has also served as 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.

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

7. Sarah Laessig

Board Member from 1 September 2021

Senior Independent Director from 28 July 2022

Chair, Nominations and Remuneration Committee from 28 July 2022

Sarah is a seasoned non-executive director who brings experience in financial services, pensions, government, and 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. Sarah 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 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. Sarah was previously an executive at Citigroup, managing businesses across developed and developing markets. She is an Ambassador of Women on Boards UK.

8. Richard Lockwood

Board Member from 1 September 2018

CFO 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 us to mature from a start-up to one of the UK's biggest workplace pension providers. He initially managed the finance and procurement teams. Over time, 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.

9. Mutaz Qubbaj

Board Member from 1 June 2018

Mutaz is an accomplished entrepreneur and financial expert with a passion for empowering individuals to take control of their finances and has deep understanding of both technology and finance. He is currently the UK Head of Business Development & Sales for NowCM and is committed to making financial services more accessible and transparent for all. More recently, he was the Commercial Lead at Nivaura, a primary debt issuance digitisation FinTech, and was part of the exit team in a sale to NowCM, a leading European FinTech helping the transition of debt capital markets to digital platforms.

He previously spent several years developing cutting-edge technology at MIT's Media Lab and working as a trader and strategist at Morgan Stanley, Credit Suisse, and PIMCO. After which he founded Squirrel Ltd, a Barclays Techstars company, to find a solution to the problem of predatory lending practices. Squirrel has gained industry recognition for its innovative approach and has won awards at the WIRED Startup and Pitch@Palace competition, which is sponsored by the British Royal Family. He is a leading voice within the FinTech industry with features in FT, Bloomberg, CNBC, CNN, City AM, and WIRED.

10. Martin Turner

Board Member from 1 June 2018 (reappointed for second term from 1 June 2023)

Chair, Risk Committee from 21 February 2019

Martin has 37 years' experience working within the financial services industry in companies such as 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 requirements.

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.

11. Jill Youds

Board Member from 1 April 2015 (reappointed for second term from 1 July 2019) to 24 June 2022

Senior Independent Director from 25 July 2017 to 24 June 2022

Chair, Nominations and Remuneration Committee from 1 July 2021 to 24 June 2022

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 2023.

During 2022/23 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 late payments, the service experience of newly enrolled employers with Nest and the new customer and financial wellbeing strategies of Nest.
- Providing input on proposed changes to the Statement of investment principles.
- Attending a joint meeting with members of the Members' Panel, the Board, and the executive committee. The meeting explored the current developments regarding Nest's scheme administration contract, new retirement solutions and the impact of the cost-of-living crisis on members.

Members' Panel

(Chair – Catherine Walker from 1 October 2022)

(Chair – Nigel Stanley from 1 August 2016 to 30 September 2022)

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 11 members as at 31 March 2023.

During 2022/23 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.
- Providing a response to the call for evidence on 'Helping savers understand their pension choices' conducted by the DWP and the consultation on the Pensions Dashboard Programme design standards.
- Considering issues relevant to members in order to provide advice and feedback to the Board and the executive team, including Nest's customer beliefs, fund naming research, new customer, and financial wellbeing strategies.
- Attending a joint meeting with members of the Employers' Panel, the Board, and the executive committee.

Committee membership as at 31 March 2023

Audit committee

Myfanwy Barrett	Chair (from 1 February 2023)
Brendan McCafferty	Member (from 1 February 2023)
Martin Turner	Member

Risk committee

Martin Turner	Chair
Myfanwy Barrett	Member (from 1 February 2023)
Karen Cham	Member (from 1 July 2022)
Chris Hitchen	Member
Mutaz Qubbaj	Member

Investment committee

Chris Hitchen	Chair
Sarah Laessig	Member (from 26 May 2022)
Jaap van Dam	Member
Jennie Austin	Member

Nominations and remuneration committee

Sarah Laessig	Chair (from 28 July 2022)
Brendan McCafferty	Member
Karen Cham	Member

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	9/9	1/1	–	–	7/7
Myfanwy Barrett	9/9	7/7	1/1	–	–
Karen Cham	9/9	–	3/3	–	7/7
Helen Dean	9/9	–	–	–	–
Clive Elphick	8/8	6/6	3/3	4/4	–
Chris Hitchen	9/9	–	3/4	7/7	–
Sarah Laessig	9/9	–	–	5/6	6/6
Richard Lockwood	9/9	–	–	–	–
Mutaz Qubbaj	7/9	–	4/4	–	–
Martin Turner	8/9	7/7	4/4	–	–
Jill Youds	2/2	–	–	1/1	2/2
Jennie Austin	–	–	–	7/7	–
Jaap van Dam	–	–	–	7/7	–

Notes to Board and committee meetings table

The Board

Jill Youds resigned as a Board member with effect from 24 June 2022.

Clive Elphick resigned as a Board member with effect from 31 January 2023.

Audit committee

Clive Elphick stepped down from the committee on 31 January 2023, following his resignation as a Board member.

Myfanwy Barrett was appointed Chair of the committee with effect from 1 February 2023.

Brendan McCafferty joined the committee with effect from 1 February 2023.

Risk committee

Clive Elphick stepped down from the committee on 31 January 2023, following his resignation as a Board member.

Karen Cham joined the committee with effect from 1 July 2022.

Myfanwy Barrett joined the committee with effect from 1 February 2023.

Investment committee

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

Jill Youds stepped down from the committee with effect from 24 June 2022, following her resignation as a Board member.

Clive Elphick stepped down from the committee on 31 January 2023, following his resignation as a Board member.

Sarah Laessig joined the committee with effect from 26 May 2022.

Nominations and remuneration committee

Jill Youds stepped down from the committee with effect from 24 June 2022, following her resignation as a Board member.

Sarah Laessig was appointed Chair of the committee with effect from 28 July 2022.

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 were 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 a 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 2022/23'.[19]

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

- **Service delivery 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.
- **Cybercrime and information security 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 47** for a summary of its consideration of risks and opportunities during the financial year.

19 **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 assessing 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 2022/23.

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 2022/23. 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. 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 84** for the default funds, and the Fund performance table on **page 50** 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 88** 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 2022/23.

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 2022).

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 86**. 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 0.003% and 0.064%. Transaction costs for the Scheme's other fund choices are between -0.001% and 0.078%.

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 39**.

Details of the objectives and policies regarding the default arrangement can be found in the 'Statement of investment principles' (SIP). The latest available SIP, which forms part of this report, is included in Appendix 5 on **page 94** and is available online at **nestpensions.org.uk/schemeweb/nest/nestcorporation/investment-approach/investment-principles.html** or by request using the contact information on **page 78**.

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 41**.

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 2023, 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 39** and the 'Statement of investment principles' (SIP). The latest available SIP, which forms part of this report, is included in Appendix 5 on **page 94**.

Review of the default fund

A review of the Scheme's default funds and the 'Statement of investment principles' (SIP) (see **page 38**) 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 Trustee last approved changes to the existing SIP in May 2022. The three-year review of the SIP took place in March/April 2023 and is due for approval in July and then publication in August 2023. The latest available SIP is included in Appendix 5 on **page 94**.

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 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 21**.

Based on the Chief Investment Officer's advice and a range of other management information, the investment committee agreed during its meetings in 2022/23 that the investment approach continued to be in line with the SIP.

In January 2023, 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:

- Members' investment needs.
- 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.

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 took the decision to open another Post Retirement Date Fund for members who have not chosen to withdraw all their savings, under £10,000, when their Nest Retirement Date Fund matures. The aim of the fund is to grow members' savings in line with increases in the cost of living over the long term after all Scheme charges. The original Post Retirement Date Fund continues for members already saving in that fund but is not open to new members.

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 41**). 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.

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 2022 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 26 January 2023.

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[20]
- Scheme management and governance
- Scheme investment and governance
- Communications
- Administration

The costs of Scheme membership

The charges and transaction costs that a member pays.

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 30**) and transaction costs (see **page 31**) are described in the relevant sections above. A charges comparison exercise was carried out in September 2022 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

29 June 2023

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

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 also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary of contributions.

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 it 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 Scheme's 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

29 June 2023



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 May 2022. It was reviewed again in March/April 2023 and is due for approval in July and then publication in August 2023. The next review is due in March 2026.

The latest available SIP, which forms part of this report, is included in Appendix 5 on **page 94** and is available online at **nestpensions.org.uk/schemeweb/nest/nestcorporation/investment-approach/investment-principles.html** or by request using the contact information on **page 78**.

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 latest available SIP implementation statement, which forms part of this report, is available at **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html**, and the 2022/23 statement will be published in August 2023.

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 into a Nest Retirement Date Fund unless they actively choose a different fund (see 'Other fund choices' on **page 41**).

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 Funds – 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 94**.

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.

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 15% – are invested in illiquid assets (indicated with * in the below table).

Policy group	Asset class	Investment manager
Cash	Money market securities	BlackRock Legal & General Investment Management State Street Global Advisors
	Derivatives	Amundi (UK) Ltd
Investment-grade bonds	Investment-grade corporate bonds	Allspring Global Investments BlackRock Inc Columbia Threadneedle Investments** Royal London Asset Management
Growth credit	Emerging market debt	Amundi Asset Management
	Global high-yield credit	J.P. Morgan Asset Management
	Private credit*	Amundi Asset Management BlackRock Inc BNP Paribas Asset Management
Equities	Developed markets equities	Columbia Threadneedle Investments** HSBC Global Asset Management UBS Asset Management
	Emerging markets equities	Northern Trust Global Investments
	Private equity*	Schroders Capital HarbourVest Partners
Real assets	Hybrid property*	Legal & General Investment Management
	Infrastructure equity*	CBRE Investment Management Inc Local Pensions Partnership Investments / GLIL Octopus Investments Limited
Alternatives	Commodities	CoreCommodity Management

** Before 1 July 2022 Columbia Threadneedle Investments was known as BMO Global Asset 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. A benefit is that Nest is 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 objectives for the relevant asset classes.

The Scheme's new and existing managers receive Nest's policies such as the climate change, responsible investment, engagement and voting, and securities lending policy. 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 formally in person with each of the managers at least once a year, and more frequently for managers with non-passive investment strategies. 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 funds and segregated accounts.

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

For segregated accounts, the assets are 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's a regulatory requirement 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 demonstrating 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 latest available SIP Implementation statement, which is available at **nestpensions.org.uk/schemeweb/nest/nestcorporation/library.html,** and the 2022/23 statement will be published in August 2023.

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 given the long periods many Scheme members will be saving with Nest for.

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 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. 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 42**.

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

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.

However, 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 considered in the selection, retention, and realisation of investments.

More details about the Trustee's approach to non-financial considerations are set out in the SIP and the SIP implementation statement.[21] 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.[22]

Stewardship policy

The Trustee has a duty to act responsibly with regards to the assets managed on behalf of Scheme members. 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 representing the Trustee 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[23] 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[24] 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, representative bodies, and other pension schemes, to engage directly with investee companies. It works to engage with public, industry and regulatory bodies in the various markets in which the Scheme invests, to promote better practices.

The Trustee's stewardship policy is detailed in its annual responsible investment report. 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.[25]

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

22 **nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment.html**

23 **nestpensions.org.uk/schemeweb/nest/nestcorporation/investment-approach/responsible-investment/how-we-voted.html**

24 **nestpensions.org.uk/schemeweb/nest/nestcorporation/investment-approach/responsible-investment/how-we-voted.html**

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



Climate-related financial disclosures

Climate change is one of the biggest risks facing society. Both the physical impacts of a sustained rise in global temperatures such as more frequent extreme weather events, and the economic impacts of transitioning to a low-carbon economy will impact investment performance. Over the next few decades, the Trustee believes climate change risks could impact Scheme members through lower returns on their retirement savings and a lower quality of life in retirement.

In 2020 the Trustee published its first Scheme-wide climate change policy.[26] 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[27] by 30% from listed equity and fixed-income asset class portfolios by 2025, and to halve the portfolio's carbon footprint by 2030.

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.

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

27 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

Financial markets had a tough year in 2022, with investors facing the challenges of higher inflation, higher interest rates, and fears of recessions. 2023 had a more optimistic start although volatility has persisted due to the continued uncertainty about the trajectory of inflation and interest rates. Additionally, there have been major banks on the brink of collapse, which has raised concerns of another banking crisis.

Against this global backdrop of financial uncertainty, the long-term performance of the Scheme's funds has remained positive even if one-year performance has fallen.

Nearly 99% of Scheme members are invested in the Scheme's default investment strategy, the Nest Retirement Date Fund series. As at 31 March 2023, the 2040 Nest Retirement Date Fund, which currently represents the growth phase of the default strategy (see **page 39**), had annualised returns after charges of -5.4% over one year, 9.8% over three years, 6.1% over five years, and 7.3% 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 throughout 2022, this created a more challenging environment for investors.

The 2040 fund's one-year annualised returns of -5.4% was not greater than CPI plus 3%, which was 13.4% for the year under review. However, the 2040 fund continues to exceed the objective over the longer term, with 10-year annualised returns of 7.3% outperforming CPI plus 3%, which was 5.8% over the same time horizon.

The global investment landscape

The main drivers for a difficult 2022 were higher inflation, higher interest rates, and fears of recessions. In response to persistently higher inflation, central banks began raising interest rates. The Federal Reserve (Fed), the US central bank, raised interest rates by 0.75% in June 2022 – their largest single interest rate increase since 1994. The Fed and the Bank of England have embarked on the most significant rate hiking cycle since the 1980s. The rapid pace of interest rate rises has caused investors to worry the US could be heading for recession.

Higher interest rates and recession fears have particularly impacted the performance of bonds and stocks. By October 2022, the stock market had fallen three quarters in a row, the first time this has happened since the Global Financial Crisis in 2008. But there was some light at the end of the tunnel at the start of the fourth quarter in 2022, with signs of falling inflation, the pace of interest rate hikes slowing, and economic data proving more resilient than expected helping drive developed market stocks higher.

European stocks did particularly well as the region managed to avert a much-feared energy shortage over the winter due to lower gas supplies from Russia. With that backdrop it did not come as a surprise that January 2023 had a better start despite the uncertainty around the trajectory of inflation and interest rates.

However, this was short lived. The collapse of Silicon Valley Bank (SVB) and Credit Suisse shocked investors and raised the spectre of another banking crisis. The crisis at SVB in particular showed that higher interest rates are having an impact on the global economy and in the US, the Fed might need to do more to bring inflation to target.

While the Trustee thinks the sharp rise in US interest rates has created some severe stresses, central banks have raised interest rates quickly and aggressively to try and reduce inflation pressure. But it takes time for interest rate increases to feed through into the economy, and investors worry that rates may end up being too high and push economies into deeper recessions than needed.

Additionally, the collapse of two major banks has triggered worries about what other risks may be hidden out there and what this reveals about the broader strength of the economy.

While inflation is starting to trend down, it remains above target and is unlikely to have a quick return to target. This is therefore still causing concern for investors. There is a risk inflation will remain elevated as economies continue to slow and financial stability risks rise. It is therefore believed the road ahead for the remainder of 2023 will be bumpy.

Asset allocation

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 us 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.

Throughout the year, the Trustee made a series of changes to the strategic asset allocation to better reflect the greater risks facing the global economy. In particular, the Trustee has put a greater proportion (15% as at 31 March 2023 compared to 10% as at 31 March 2022) 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.

A new type of illiquid asset – private equity – has been added to the default growth and default foundation portfolios. The Trustee undertook a procurement exercise to seek out suitable fund managers and appointed HarbourVest and Schroders Capital. Both mandates are now live and investing on behalf of Scheme members, which allows the Scheme to reduce allocations to developed and emerging market equities and to global high yield bonds, the performance of which the Trustee believes will continue to be affected by the current turbulent financial markets. Illiquid assets, such as private equity, 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 equivalent public markets, especially when the investments are held for a significant period of time.

In the third quarter, the Trustee also decided to increase the allocation to UK direct property, another illiquid asset, towards a neutral weight. This was based on the resilience of demand for properties and expectations that the Scheme's tenants would be able to ride out economic challenges.

In the last quarter of the year, the Trustee increased the allocation to investment grade bonds. Investment grade bond yields had significantly risen, meaning income generation had improved. The Trustee reallocated from global high yield into investment grade. Companies that issue high yield bonds are more likely to default on their debt in a recession. By reallocating from high yield, it also mitigates some potential credit losses. As a result of Global Real Estate Investment Trusts (REITS) having fallen by a significant amount, the Trustee was expecting quite a deep fall in property prices. Thus, the Trustee upgraded its view on REITS investments.

Simultaneously, the Trustee reduced the allocation to commodities. Commodity prices were driven significantly higher because of the war in Ukraine. Europe has adapted relatively well, and the risks of severe shortages have reduced in the short-term. Demand for commodities also typically reduce when economies are slowing. Both factors contributed to the less positive view.

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.

Finally, the Trustee has appointed Amundi to help manage the asset allocation more efficiently through the use of derivatives. The new Efficient Portfolio Management (EPM) fund is using short-term contracts to rebalance the Scheme's portfolio. This is to target exposures when the financial environment makes it difficult and to minimise a drag on performance for cash that the Trustee has set aside for deployment in private markets, trades which often require larger contributions. By introducing this EPM, the Trustee is putting all members' money to work rather than having it sitting idle in a fund waiting for deployment. The Trustee has tested the fund to ensure it works smoothly, ready for when it's needed.

Responsible investment

The Trustee believes high global energy prices and insecurity brought an important opportunity to accelerate the climate transition and move away from fossil fuels. Over the last year, the Trustee has escalated its engagement with some of the oil and gas holdings. One such action was the support of ClientEarth's landmark case against Shell's Board of Directors over their management of material and foreseeable risks posed to the company by climate change. This involvement should send a signal to the energy sector that investors expect to see action on climate risk to ensure their own long-term sustainability, and the Trustee will challenge those who are not doing enough to transition their business and mitigate risks for Scheme members.

The Trustee joined new investor initiatives over the last year that help them deliver on their responsible investment priorities and contribute to new industry investor frameworks. The Trustee continued to be vocal with a range of standard setters on issues of transition planning as part of its role on the HMT's Transition Pathway Taskforce and sustainability labelling endeavouring to help raise standards on a range of areas in the industry in which it operates.

Finally, the Trustee is delighted to have its signatory status to the new Stewardship Code reapproved by the Financial Reporting Council. The new Stewardship Code continues to set a high bar for stewardship, and by remaining a signatory the Trustee can reassure Scheme members that it is fulfilling a key part of its stewardship responsibilities.



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 47.**

Fund^	Objective	Fund performance One year to 31 March 2023	Objective returns over one year to 31 March 2023	Annualised fund performance three years to 31 March 2023	Annualised objective returns over three years to 31 March 2023	Annualised fund performance five years to 31 March 2023	Annualised objective returns over five years to 31 March 2023	Annualised fund performance ten years to 31 March 2023	Annualised objective returns over ten years to 31 March 2023
		%	%	%	%	%	%	%	%
Nest Retirement Date Fund in the Growth phase†	CPI + 3%*	-5.4	13.4	9.8	9.0	6.1	7.3	7.3	5.8
Nest Ethical Fund in growth phase	CPI + 3%**	-5.5	13.4	8.2	9.0	7.0	7.3	8.4	5.8
Nest Sharia Fund	Dow Jones Islamic Titans 100 Index	-5.8	-2.9	15.7	17.1	14.7	15.2	13.1	13.9
Nest Higher Risk Fund	***	-6.4	–	11.5	–	6.7	–	8.4	–
Nest Lower Growth Fund	****	-0.8	–	0.3	–	0.5	–	0.3	–
Nest Guided Retirement Fund – Vault	CPI	-6.4	10.1	7.0	5.9	–	–	–	–

^ For the inception date of all Retirement Date Funds refer Appendix 2 on **page 84**.

† Nest 2040 Retirement Date Fund.

* 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 2023 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 2023 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 3A 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 34**, 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

29 June 2023



Financial statements

Fund account for the year ended 31 March 2023

	Note	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Contributions and benefits			
Contributions - employers	3	2,717,812	2,327,803
Contributions - members	3	3,089,847	2,711,127
Contributions - HM Revenue & Customs	3	704,301	679,798
Transfers in	4	380,906	342,535
		6,892,866	**6,061,263**
Benefits	5	(356,024)	(251,007)
Transfers out	4	(330,502)	(207,868)
Administrative expenses	6	(194,387)	(164,569)
Net additions from dealings with members		**6,011,953**	**5,437,819**
Returns on investment			
Investment income, management fee rebates and withholding tax	7	440,942	260,374
Change in market value of investments	8.1	(1,237,040)	1,120,353
		(796,098)	**1,380,727**
Net increase in the fund during the year		**5,215,855**	**6,818,546**
Net assets of the Scheme at the start of the year		**24,374,530**	**17,555,984**
Net assets of the Scheme at the end of the year		**29,590,385**	**24,374,530**

The notes on **page 60 to 77** are an integral part of these financial statements.

Statement of net assets (available for benefits) as at 31 March 2023

	Note	31 March 2023 £000	31 March 2022 £000
Assets and liabilities allocated to members			
Investment assets			
Equities	8.1	14,570,314	12,755,601
Bonds	8.1	3,399,667	1,912,241
Pooled investment vehicles	8.1	10,959,623	8,811,583
Derivatives	8.9	166,675	79,500
Cash and cash collateral	8.1	151,042	431,700
Other investment assets	8.4	89,775	75,284
Total investment assets		**29,337,096**	**24,065,909**
Investment liabilities			
Derivatives	8.9	(22,145)	(104,653)
Other investment liabilities	8.4	(141,844)	(21,328)
Total investments		**29,173,107**	23,939,928
Net current assets			
Current assets	9.1	537,065	536,698
Current liabilities	9.1	(120,006)	(102,761)
Total net assets allocated to members		**29,590,166**	**24,373,865**
Assets and liabilities not allocated to members			
Net current assets			
Current assets	9.2	1,020	1,325
Current liabilities	9.2	(801)	(660)
Total net assets not allocated to members		**219**	**665**
Total assets of the Scheme at the end of the year		**29,590,385**	**24,374,530**

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 58 to 59**, including the notes to the financial statements on **page 60 to 77**, were signed on behalf of Nest Corporation by:

Brendan McCafferty
Chair, Nest Corporation

29 June 2023

Myfanwy Barrett
Chair, audit committee

29 June 2023

The notes on **page 60 page 77** are an integral part of these financial statements.

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 78**.

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 Nest Scheme, the Trustee must assess the viability of the Scheme's funding entity, Nest Corporation.

The Trustee has assessed its financial viability over the next 18–24 months. The impact of considered severe but plausible downside scenarios can be managed within available mitigation actions should the need arise.

The going concern statement of Nest Corporation can be found in Nest Corporation's 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 has access to a loan agreement with the Department for Work and Pensions (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.
- **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. The Pensions Regulator (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.

The Trustee believes it has adequate resources to continue operations for at least a period of 18–24 months from the date of approval of the financial statements. For this reason, a going concern basis is considered appropriate in the preparation of the financial statements.

2. Accounting policies

The principal accounting policies of the Nest 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.
- 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, private equity, 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.
- 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 2023 £000	Year ended 31 March 2022 £000
Contributions from:		
Participating employers	2,720,880	2,330,389
less employers' share of refund of contributions for members opting out	(3,068)	(2,586)
	2,717,812	**2,327,803**
Members	3,093,358	2,713,891
less members' share of refund of contributions for members opting out	(3,511)	(2,764)
	3,089,847	**2,711,127**
HM Revenue and Customs	704,327	679,825
less HMRC share of refund of contributions for members opting out	(26)	(27)
	704,301	**679,798**
Total	**6,511,960**	**5,718,728**

4. Transfers in and transfers out

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Transfers in – registered pension schemes	372,500	336,135
Transfers in – pension sharing order	8,406	6,400
Total transfers in	**380,906**	**342,535**
Transfers out – registered pension schemes	(330,208)	(207,680)
Transfers out – pension sharing order	(294)	(188)
Total transfers out	**(330,502)**	**(207,868)**

5. Benefits

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Commutations and lump sum retirement benefits	194,917	152,921
Uncrystallised funds pension lump sum (UFPLS)	133,800	77,880
Death benefits payable to beneficiaries	24,191	17,794
Serious ill health benefits	2,093	1,098
Annuities purchased through open-market option	1,023	1,314
Total	**356,024**	**251,007**

6. Administrative expenses

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Contribution charge	117,286	101,992
Annual management charge	77,098	62,519
Sundry costs	3	58
Total	**194,387**	**164,569**

7. Investment income, management fee rebates and withholding tax

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Dividends from equities	301,796	200,228
Income from bonds	85,243	34,563
Income from pooled investment vehicles	49,880	24,476
Management fee rebates	15,208	7,793
Irrecoverable withholding tax	(11,185)	(6,686)
Total	**440,942**	**260,374**

8. Investments

8.1 Investment movements

	Note	B'fwd as at 1 April 2022 £000	Purchases £000	Sales Proceeds £000	Change in market value £000	C'fwd as at 31 March 2023 £000
Equities		12,755,601	4,871,541	(2,656,194)	(400,634)	14,570,314
Bonds		1,912,241	3,635,370	(2,056,628)	(91,316)	3,399,667
Pooled investment vehicles	8.2	8,811,583	6,856,137	(4,310,843)	(397,254)	10,959,623
Derivatives – futures	8.9	58,913	273,819	(222,504)	(117,959)	(7,731)
Derivatives – forward FX contracts	8.9	(84,066)	1,699,873	(1,100,707)	(362,839)	152,261
		23,454,272	**17,336,740**	**(10,346,876)**	**(1,370,002)**	**29,074,134**
Cash and cash collateral		431,700			133,772	151,042
Other investment assets	8.4	75,284			(769)	89,775
Other investment liabilities	8.4	(21,328)			(41)	(141,844)
Total investments		**23,939,928**			**(1,237,040)**	**29,173,107**
Represented by:						
Allocated to members		23,939,928				29,173,107
Not allocated to members		–				–
Total investments		**23,939,928**				**29,173,107**

8.2 Pooled investment vehicles

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

	31 March 2023 £000	31 March 2022 £000
Undertakings for collective investment in transferable securities (UCITS)	4,382,691	3,017,013
Unit-linked insurance contracts	3,580,174	4,261,388
Shares in limited partnerships	2,285,678	932,112
Reserved alternative investment funds (RAIF)	711,080	601,070
Total	**10,959,623**	**8,811,583**

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

	31 March 2023 £000	31 March 2022 £000
Bonds	4,085,949	4,473,328
Equities	2,140,434	1,532,006
Property	1,882,565	1,321,202
Cash	1,318,298	580,645
Private credit	1,089,725	904,402
Private equity	442,652	–
Total	**10,959,623**	**8,811,583**

The Scheme is a sole investor in 7 (2021/22: 6) pooled investment vehicles included within the above analysis (Amundi Global Commercial Real Estate Debt Fund; BlackRock GBP Infrastructure Debt Fund; BNP Paribas Diversified Private Credit Fund; CBRE Infrastructure Equity; HarbourVest Co-Investment L.P.; Octopus Infrastructure Renewables (Hornsea); and Schroders Private Equity Fund). An analysis of the underlying asset classes of these sole investor pooled investment vehicles is as follows:

	31 March 2023 £000	31 March 2022 £000
Private credit	918,570	807,864
Infrastructure equities	716,621	528,746
Private equity	425,353	–
Cash	188,700	222,469
Derivatives	13,314	(7,682)
Bonds	–	1,170,678
Total	**2,262,558**	**2,722,075**

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 2023 £000	31 March 2022 £000
UBS Asset Management (UK) Ltd	13,218,469	10,980,392
Legal & General Investment Management Ltd	2,279,308	1,946,244
Royal London Asset Management Ltd	2,045,412	1,490,254
BlackRock Inc	1,873,685	1,382,545
Allspring Global Investments (UK) Ltd	1,829,465	1,517,431
Amundi Asset Management	1,606,424	1,402,304
Northern Trust Global Investments Ltd	1,338,340	1,572,732
J.P. Morgan Asset Management (UK) Ltd	1,304,388	1,241,674
Octopus Investments Ltd	760,355	281,817
CBRE Investment Management Inc	523,655	294,180
BNP Paribas Asset Management Nederland NV	475,857	373,413
CoreCommodity Management LLC	423,615	572,134
State Street Global Advisors Ltd (from October 2022)	328,707	–
Columbia Threadneedle Investments*	246,053	215,332
Schroders Capital Private Equity Wollestonecraft Management Ltd (from May 2022)	242,133	–
HarbourVest Partners (from July 2022)	200,519	–
HSBC Global Asset Management (UK) Ltd	197,146	131,038
Local Pensions Partnership Investments Ltd / GLIL	180,369	52,782
Amundi (UK) Ltd (from October 2022)	234	–
Total	**29,074,134**	**23,454,272**

* Before 1 July 2022 Columbia Threadneedle Investments was known as BMO Global Asset Management Ltd.

8.4 Other investment balances

	31 March 2023 £000	31 March 2022 £000
Investment income accrued	71,386	42,115
Recoverable withholding tax	12,196	4,394
Management fee rebates receivable	5,320	1,311
Pending trades receivable	873	27,464
Other investment assets	**89,775**	**75,284**
Pending trades payable	(141,844)	(21,328)
Other investment liabilities	**(141,844)**	**(21,328)**

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 2023 £000	31 March 2022 £000
Nest Retirement Date Funds	27,911,434	22,964,856
Nest Higher Risk Fund	705,534	572,583
Nest Ethical Fund	303,069	244,906
Nest Sharia Fund	194,598	131,729
Nest Lower Growth Fund	15,955	13,340
Nest Guided Retirement Funds	35,262	12,514
Total assets allocated to members	**29,165,852**	**23,939,928**

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 2023	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equities	14,570,314	–	–	14,570,314
Bonds	479,106	2,920,561	–	3,399,667
Pooled investment vehicles	–	7,962,863	2,996,760	10,959,623
Derivatives	(7,731)	152,261	–	144,530
	15,041,689	**11,035,685**	**2,996,760**	**29,074,134**
Cash and cash collateral	151,042	–	–	151,042
Other investment balances	(59,324)	–	–	(59,324)
Total	**15,133,407**	**11,035,685**	**2,996,760**	**29,165,852**

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**

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 36**. 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 67**.

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 direct credit risk because the Scheme invests directly in bonds, over the counter (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 pooled investment vehicles and indirectly exposed to credit risk arising on the financial instruments held by the pooled investment vehicles.

Credit risk arising on bonds held directly is mitigated 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 OTC. OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty.

Credit risk arises on forward FX currency contracts. There are some collateral agreements in place for these contracts which reduce 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 73**.

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 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 manager, provisions to automatically dissolve the funds in the event of insolvency of the pooled investment manager or greater partner, a cap of liability to pooled funds at the level of funds committed, the regulatory environment 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 66** 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 the 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 2023	Investment grade £000	Non-investment grade £000	Unrated £000	Total £000
Bonds	3,399,667	–	–	3,399,667
Cash and cash collateral	151,042	–	–	151,042
Derivatives – forward FX contracts	152,261	–	–	152,261
Pooled investment vehicles	–	–	10,959,623	10,959,623
	3,702,970	**–**	**10,959,623**	**14,662,593**

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	–	–	–	–
Pooled investment vehicles	–	–	8,811,583	8,811,583
	2,343,941	**–**	**8,811,583**	**11,155,524**

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 is also subject to indirect currency risk which arises on pooled investment vehicles (refer note 8.7.4 below) where the vehicle invests in assets which are denominated in foreign currencies and/or comprise assets whose economic value is generated in foreign currencies.

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

	31 March 2023 £000	31 March 2022 £000
US dollar	11,514,814	9,224,905
Euro	2,125,594	1,477,280
Japanese yen	986,386	794,694
Hong Kong dollar	498,870	492,056
South Korean won	393,186	414,373
Swiss franc	373,037	318,317
Canadian dollar	359,675	325,090
Australian dollar	303,917	260,730
Taiwan dollar	234,074	304,897
Swedish krona	100,505	118,684
Chinese renminbi	81,023	94,380
South African rand	54,641	75,500
Other currencies	640,983	612,841
	17,666,705	**14,513,747**
Less: Foreign currency hedging	(7,859,444)	(5,569,593)
	9,807,261	**8,944,154**

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 2023 £000	31 March 2022 £000
Bonds	3,399,667	1,912,241
Pooled investment vehicles	5,175,674	5,377,730
	8,575,341	**7,289,971**

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 2023 £000	Currency risk	Other price risk	Interest rate risk	Credit risk
Amundi Funds Global Emerging Blended – IE	1,371,201	●	◐	●	●
Amundi Global Commercial Real Estate Debt Fund	235,223	◐	◐	●	●
BlackRock ICS Sterling Liquid Environmentally Aware Fund	896,893	○	○	●	●
BlackRock GBP Infrastructure Debt Fund	378,646	◐	◐	●	●
BlackRock Institutional Sterling Ultra Short Bond Fund	598,146	○	◐	●	●
BNP Paribas Diversified Private Credit Fund	475,857	◐	◐	●	●
CBRE Infrastructure Equity	523,655	●	●	○	◐
CT Responsible Global Equity Fund	174,863	●	●	○	◐
CT Responsible Sterling Bond Fund	71,190	◐	◐	●	●
GLIL Infrastructure Equity	180,369	◐	●	○	◐
HarbourVest Co-Investment L.P.	200,519	●	●	○	●
HSBC Islamic Global Equity Index Fund	197,146	●	●	○	◐
LGIM Global Real Estate Equity Index Fund	304,046	●	●	○	◐
LGIM Hybrid Property Fund	1,853,288	◐	●	◐	◐
LGIM Managed Property Fund	29,275	○	●	◐	◐
LGIM Sterling Liquidity Fund	92,699	○	●	◐	◐
Octopus Infrastructure Renewables (Hornsea)	206,525	●	●	○	◐
Octopus Infrastructure Renewables (Sky)	553,830	●	●	○	◐
Royal London Investment Grade Short Dated Credit	744,548	○	◐	●	●
Royal London UK Corporate Bond Pooled Pension Fund	1,300,864	○	◐	●	●
Schroders Private Equity Fund	242,133	○	●	○	●
SSGA Offshore USD Cash Fund	251,115	○	◐	●	●
State Street GBP Liquidity Fund	77,592	○	◐	●	●
Total pooled investment vehicles	**10,959,623**				

● **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 2023 £000	31 March 2022 £000
Equities	14,570,314	12,755,601
Derivatives – futures	–	58,913
Equities held in pooled investment vehicles	2,140,434	1,532,006
Property held in pooled investment vehicles	1,882,565	1,321,202
Private credit held in pooled investment vehicles	1,089,725	904,402
Private equity held in pooled investment vehicles	442,652	–
	20,125,690	**16,572,124**

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 2023 £000	31 March 2022 £000
LGIM Hybrid Property Fund	1,853,288	1,300,012
Representing (of total net assets)	**6.3%**	**5.3%**
JP Morgan Life High Yield Opportunities Fund	–	1,241,674
Representing (of total net assets)	**–**	**5.1%**

8.9 Derivatives

Derivatives held at year-end were as follows:

	31 March 2023		31 March 2022	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Futures	9,777	(17,508)	63,358	(4,445)
Forward FX contracts	156,898	(4,637)	16,142	(100,208)
Total	**166,675**	**(22,145)**	**79,500**	**(104,653)**
Total net derivatives		**144,530**		**(25,153)**

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
COMEX division of NYMEX (CMX)	71,882	less than 1 year	3,319	–
Chicago Mercantile Exchange (CME)	47,414	less than 1 year	2,409	(264)
ICE Futures US Softs (NYB)	27,829	less than 1 year	1,169	(414)
EUREX	196,275	less than 1 year	1,155	–
Intercontinental Exchange (ICE)	77,740	less than 1 year	1,081	(1,120)
Osaka Exchange	18,019	less than 1 year	505	–
NYMEX Exchange (NYM)	94,438	less than 1 year	108	(9,132)
Australian Securities Exchange (ASX)	1,558	less than 1 year	31	–
Chicago Board of Trade (CBT)	75,674	less than 1 year	–	(2,747)
LME Benchmark Monitor (LME)	52,891	less than 1 year	–	(3,831)
Total as at 31 March 2023	**663,720**		**9,777**	**(17,508)**
Total as at 31 March 2022	735,368		63,358	(4,445)
Total net futures as at 31 March 2023				**(7,731)**
Total net futures as at 31 March 2022				58,913

At the year-end, the counterparties had deposited £49,320k of US Treasury Bills (2021/22: £43,580k) and cash of £28,626k (2021/22: £96,862k) in respect of collateral held on open futures contracts at 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	12,182,447	US dollar	14,897,169	1 to 6 months	138,526	(731)
Pound sterling	2,433,640	Euro	2,762,503	1 to 6 months	6,235	(1,223)
Pound sterling	315,145	Australian dollar	573,549	1 to 6 months	4,408	–
Pound sterling	384,685	Canadian dollar	639,194	1 to 6 months	2,766	(32)
Pound sterling	115,703	Hong Kong dollar	1,110,423	1 to 6 months	1,245	(1)
Pound sterling	913,433	Japanese yen	149,864,854	1 to 6 months	1,183	(23)
Pound sterling	121,576	Swedish krone	1,545,482	1 to 6 months	973	(1)
Pound sterling	28,661	Norwegian krone	364,763	1 to 6 months	484	(2)
Pound sterling	53,572	Singapore dollar	87,679	1 to 6 months	230	(2)
Pound sterling	24,303	Israeli new shekel	107,821	1 to 6 months	84	(1)
Pound sterling	12,980	New Zealand dollar	25,526	1 to 6 months	68	–
Pound sterling	364,051	Swiss franc	410,960	1 to 6 months	47	(278)
Pound sterling	108,997	Danish krone	923,505	1 to 6 months	4	(32)
Pound sterling	9,142	Polish zloty	49,026	1 to 6 months	–	(51)
Other		Other		1 to 6 months	645	(2,260)
Total as at 31 March 2023					**156,898**	**(4,637)**
Total as at 31 March 2022					16,142	(100,208)
Total net forward FX contracts as at 31 March 2023						**152,261**
Total net forward FX contracts as at 31 March 2022						(84,066)

Included within net assets is £31,350k of cash (2021/22: £6,372k) 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 £3,080k (2021/22: £3,490k), 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	Commission £000	Stamp duty £000	Total £000
Equities	407	668	1,764	2,839
Derivatives	–	241	–	241
Total for the year ended 31 March 2023	**407**	**909**	**1,764**	**3,080**
Total for the year ended 31 March 2022	234	1,348	1,908	3,490

9. Current assets and liabilities

9.1 Current assets and liabilities allocated to members

	31 March 2023 £000	31 March 2022 £000
Contributions due from:		
Participating employers	130,385	119,099
Members	140,111	127,940
HM Revenue & Customs	127,241	173,174
Cash awaiting investment	139,328	116,485
Current assets	**537,065**	**536,698**
Benefits payable	(32,670)	(18,878)
Contributions yet to be allocated to member accounts or returned to employers	(79,210)	(77,526)
Annual management charge accrued	(7,255)	(5,903)
Other payables	(871)	(454)
Current liabilities	**(120,006)**	**(102,761)**
Net current assets allocated to members	**417,059**	**433,937**

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 £270,496k (2021/22: £247,039k). In respect of these outstanding contributions, £239,549k was received by 31 May 2023 (31 May 2022: £223,642k).

Employer-related investments

The balance at 31 March 2023 includes contributions due from employers totalling £231,728k (2021/22: £218,706k), which were due after their statutory due dates as required by the payment schedules. These represent employer-related investments at year-end of 0.8% of the Scheme's total net assets (2021/22: 0.9%), 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 82**.

9.2 Current assets and liabilities not allocated to members

	31 March 2023 £000	31 March 2022 £000
Cash	666	883
Other receivables	354	442
Current assets	**1,020**	**1,325**
Contribution charge payable	(338)	(244)
Other payables	(463)	(416)
Current liabilities	**(801)**	**(660)**
Total net assets not allocated to members	**219**	**665**

10. Contingent liabilities and contractual commitments

The following contractual commitments existed at year-end:

	31 March 2023 £000	31 March 2022 £000
Private equity held in pooled investment vehicles	918,225	–
Equities held in pooled investment vehicles	357,168	424,504
Private credit held in pooled investment vehicles	222,419	153,214
Total	**1,497,812**	**577,718**

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 2022/23 was £194,384k (2021/22: £164,511k), of which £7,593k was outstanding at year-end (2021/22: £6,147k).

Nest Corporation is a participating employer in the Scheme. Contributions of £3,197k were payable by Nest Corporation to the Scheme during 2020/21 (£3,069k in 2021/22).

Remuneration and pay for Board members is set by the Secretary of State for Work and Pensions. Total Board member remuneration for 2022/23 was £814k (2021/22: £802k). More details on Board member remuneration can be found in the 'Corporation annual report and accounts' 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' 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 (2021/22: no transactions).

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**

Money and Pensions Service (MaPS)

Impartial money and pensions guidance, backed by government and free to use.

Phone: 0800 138 7777

Contact: **maps.org.uk/contact-us/**

Website: **maps.org.uk**



Appendices



Appendix 1

Top 100 investments

The top 100 investments as at 31 March 2023 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	2.09
2	Microsoft Corp	1.82
3	Alphabet Inc	1.00
4	Amazon.com Inc*	0.74
5	Hornsea 1	0.73
6	Nvidia Corp	0.58
7	MSCI India index June 2023 future	0.55
8	Berkshire Hathaway Inc	0.49
9	Tesla Inc*	0.47
10	Brigg	0.46
11	Meta Platforms Inc	0.42
12	UnitedHealth Group Inc*	0.37
13	Johnson & Johnson	0.37
14	Samsung Electronics Co Ltd	0.35
15	JPMorgan Chase & Co	0.35
16	Nestle SA	0.34
17	UK Gas Distribution	0.34
18	The Industrial Property Investment Fund	0.33
19	Taiwan Semiconductor Manufacturing Co*	0.31
20	Mastercard Inc	0.30
21	The Home Depot Inc	0.28
22	Databank	0.27
23	Visa Inc	0.27
24	Procter & Gamble Co	0.26
25	Eli Lilly And Co	0.25
26	Merck & Co Inc	0.25
27	West Cross Industrial Park, Brentford	0.24
28	AbbVie Inc	0.24
29	Norled AS	0.23
30	Tencent Holdings Ltd	0.23
31	Toyota Motor Corp*	0.22
32	PepsiCo Inc	0.22
33	US Treasury Bill 25/04/23	0.22
34	Prologis Inc	0.22
35	LVMH Moet Hennessy Louis Vuitton SE	0.22
36	Thermo Fisher Scientific Inc	0.22
37	Cisco Systems Inc	0.21
38	Walmart Inc	0.21
39	Raytheon Technologies	0.21
40	Connect Bus	0.21
41	Broadcom Inc	0.21
42	Generate	0.20
43	Novo Nordisk Inc	0.20
44	United Parcel Service Inc	0.20
45	AstraZeneca plc	0.20
46	ASML Holding NV	0.19
47	Strand Island Site, London	0.19
48	Woodside Industrial Estate, Dunstable	0.19
49	Honeywell International Inc	0.19
50	Bank of America Corp	0.19
51	TotalEnergies SE	0.19
52	MPII-COI-NMI SLP (AutoCruitment)	0.19
53	Shell Plc	0.19
54	Novartis International AG	0.18
55	Coca-Cola Co	0.18
56	BTF 0% 11/05/2023	0.18
57	Kingsland Business Park, Basingstoke	0.18
58	Pfizer Inc	0.18
59	Rodene	0.18
60	Costco Wholesale Corp	0.18
61	Amundi Funds Emerging Markets Corporate Bond Fund	0.17
62	Adobe Inc	0.17
63	Chevron Corp	0.17
64	Vantage	0.17
65	Comcast Corp	0.16
66	Project Towers III	0.16
67	McDonald's Corp*	0.16
68	US Treasury Bill 08/06/23	0.16
69	CSM Ingredients (Global Food Solutions)	0.16
70	Oracle Corp	0.15
71	Walt Disney Co	0.15
72	Lockheed Martin Corp	0.15
73	Danaher Corporation*	0.15
74	Roche Holding AG	0.14
75	Alibaba Group Holding Ltd	0.14
76	Oasis	0.14
77	Nike Inc	0.14
78	Wells Fargo & Co	0.14
79	Lincs	0.14
80	Abbott Laboratories	0.14
81	US Treasury Bill 15/05/23	0.14
82	Bristol-Myers Squibb Co	0.14
83	Two Towers	0.14
84	Salesforce.Com Inc	0.14
85	Advanced Micro Devices Inc	0.14
86	Qualcomm Inc	0.14
87	245 Hammersmith Road, Hammersmith	0.14
88	Texas Instruments Inc	0.14
89	AT&T Inc	0.13
90	NQ PE Project Colosseum Co-Invest (Natus Medical)	0.13
91	US Treasury Bill 18/04/23	0.13
92	German government bond 0% 18/10/2023	0.13
93	Iberdrola SA	0.13
94	Airbus SE	0.13
95	USA Treasury bills 0% 25/05/2023	0.13
96	USA Treasury bills 0% 03/08/2023	0.13
97	Crossdykes wind farm	0.13
98	MUFG Bank Ltd*	0.13
99	Equinix INC	0.13
100	Commonwealth Bank of Australia	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 47**. On the table below, when the fund has not existed long enough to produce a return for the relevant period (refer to the inception date) it is shown with a '–'.

Nest Retirement Date Funds	Fund performance one year to 31 March 2023	Annualised fund performance three years to 31 March 2023	Annualised fund performance five years to 31 March 2023	Annualised fund performance ten years to 31 March 2023	Inception
	%	%	%	%	
UK CPI INDEX*	10.08	5.88	4.19	2.77	N/A
Nest 2022 Retirement Fund	-3.08	2.89	2.38	4.59	August 2011
Nest 2023 Retirement Fund	-3.26	3.66	2.83	5.07	August 2011
Nest 2024 Retirement Fund	-3.48	4.66	3.41	5.56	August 2011
Nest 2025 Retirement Fund	-3.71	5.40	3.84	5.94	August 2011
Nest 2026 Retirement Fund	-3.93	6.16	4.27	6.28	August 2011
Nest 2027 Retirement Fund	-4.17	6.92	4.70	6.57	August 2011
Nest 2028 Retirement Fund	-4.40	7.69	5.12	6.75	August 2011
Nest 2029 Retirement Fund	-4.65	8.46	5.49	6.96	August 2011
Nest 2030 Retirement Fund	-4.89	9.23	5.78	7.11	August 2011
Nest 2031 Retirement Fund	-5.13	9.71	6.06	7.23	August 2011
Nest 2032 Retirement Fund	-5.38	9.78	6.10	7.26	August 2011
Nest 2033 Retirement Fund	-5.39	9.77	6.10	7.26	August 2011
Nest 2034 Retirement Fund	-5.39	9.77	6.09	7.26	August 2011
Nest 2035 Retirement Fund	-5.38	9.78	6.09	7.26	August 2011
Nest 2036 Retirement Fund	-5.38	9.78	6.10	7.26	August 2011
Nest 2037 Retirement Fund	-5.38	9.78	6.10	7.26	August 2011
Nest 2038 Retirement Fund	-5.38	9.78	6.10	7.27	August 2011
Nest 2039 Retirement Fund	-5.38	9.78	6.10	7.27	August 2011
Nest 2040 Retirement Fund	-5.38	9.77	6.09	7.27	August 2011
Nest 2041 Retirement Fund	-5.38	9.78	6.10	7.27	August 2011
Nest 2042 Retirement Fund	-5.38	9.78	6.10	7.26	August 2011
Nest 2043 Retirement Fund	-5.38	9.78	6.10	7.27	August 2011
Nest 2044 Retirement Fund	-5.39	9.77	6.10	7.27	August 2011
Nest 2045 Retirement Fund	-5.39	9.78	6.10	7.26	August 2011
Nest 2046 Retirement Fund	-5.38	9.78	6.10	7.27	August 2011
Nest 2047 Retirement Fund	-5.38	9.78	6.10	7.27	August 2011
Nest 2048 Retirement Fund	-5.38	9.78	6.10	7.27	August 2011
Nest 2049 Retirement Fund	-5.38	9.78	6.10	7.27	August 2011
Nest 2050 Retirement Fund	-5.38	9.78	6.10	7.26	August 2011
Nest 2051 Retirement Fund	-5.38	9.78	6.10	7.22	August 2011
Nest 2052 Retirement Fund	-5.38	9.78	6.10	7.15	August 2011
Nest 2053 Retirement Fund	-5.38	9.78	6.10	6.96	August 2011
Nest 2054 Retirement Fund	-5.38	9.78	6.10	6.75	August 2011
Nest 2055 Retirement Fund	-5.38	9.78	6.06	6.56	August 2011
Nest 2056 Retirement Fund	-5.38	9.78	5.99	6.36	August 2011
Nest 2057 Retirement Fund	-5.38	9.78	5.92	6.25	August 2011
Nest 2058 Retirement Fund	-5.38	9.78	6.05	6.27	January 2012
Nest 2059 Retirement Fund	-5.38	9.30	5.71	6.13	January 2013
Nest 2060 Retirement Fund	-5.38	8.94	5.59	–	December 2013
Nest 2061 Retirement Fund	-5.38	7.45	5.11	–	January 2015
Nest 2062 Retirement Fund	-5.38	6.86	4.76	–	January 2016
Nest 2063 Retirement Fund	-4.90	6.46	4.52	–	January 2017
Nest 2064 Retirement Fund	-4.68	6.53	4.57	–	January 2018
Nest 2065 Retirement Fund	-4.67	6.52	–	–	December 2018
Nest 2066 Retirement Fund	-4.66	6.51	–	–	January 2020
Nest 2067 Retirement Fund	-4.63	–	–	–	January 2021
Nest 2068 Retirement Fund	-4.61	–	–	–	January 2022
Nest 2069 Retirement Fund	–	–	–	–	January 2023
Nest Starter Fund**	-4.42	6.70	4.62	5.54	August 2011
Nest Guided Retirement Fund – Later Life Fund	-7.40	-1.63	–	–	March 2020
Nest Guided Retirement Fund – Safe Fund	1.33	0.35	–	–	March 2020
Nest Guided Retirement Fund – Vault Fund	-6.35	7.03	–	–	March 2020
Nest Guided Retirement Fund – Wallet Fund	1.96	0.54	–	–	March 2020
Nest Post Retirement Date Fund^	0.60	0.42	0.53	–	November 2013
Nest Post Retirement Date Fund – series two†	–	–	–	–	July 2022

* The overall target for the Nest Retirement Date Funds is to outperform inflation.

** 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.

^ This fund is for those members who have not chosen to withdraw all their savings, under £10,000, when their Nest Retirement Date Fund matures. This fund is now closed to new members and only holds members' pot's which were in the Nest Retirement Date Funds that had matured before July 2022.

† This fund is for those members who have not chosen to withdraw all their savings, under £10,000, when their Nest Retirement Date Fund matures.

Appendix 3

Transaction costs for the year ended 31 March 2023

These transaction costs have been disclosed in accordance with the Chair's governance report on **page 31**.

Fund	Average weighted transaction costs %
Nest 2021 Retirement Fund	0.019
Nest 2022 Retirement Fund	0.023
Nest 2023 Retirement Fund	0.025
Nest 2024 Retirement Fund	0.031
Nest 2025 Retirement Fund	0.035
Nest 2026 Retirement Fund	0.040
Nest 2027 Retirement Fund	0.044
Nest 2028 Retirement Fund	0.049
Nest 2029 Retirement Fund	0.053
Nest 2030 Retirement Fund	0.058
Nest 2031 Retirement Fund	0.061
Nest 2032 Retirement Fund	0.063
Nest 2033 Retirement Fund	0.064
Nest 2034 Retirement Fund	0.064
Nest 2035 Retirement Fund	0.064
Nest 2036 Retirement Fund	0.064
Nest 2037 Retirement Fund	0.064
Nest 2038 Retirement Fund	0.064
Nest 2039 Retirement Fund	0.064
Nest 2040 Retirement Fund	0.064
Nest 2041 Retirement Fund	0.064
Nest 2042 Retirement Fund	0.064
Nest 2043 Retirement Fund	0.064
Nest 2044 Retirement Fund	0.064
Nest 2045 Retirement Fund	0.064
Nest 2046 Retirement Fund	0.064
Nest 2047 Retirement Fund	0.064
Nest 2048 Retirement Fund	0.064
Nest 2049 Retirement Fund	0.064
Nest 2050 Retirement Fund	0.064
Nest 2051 Retirement Fund	0.064
Nest 2052 Retirement Fund	0.064
Nest 2053 Retirement Fund	0.064
Nest 2054 Retirement Fund	0.064
Nest 2055 Retirement Fund	0.064
Nest 2056 Retirement Fund	0.064
Nest 2057 Retirement Fund	0.064
Nest 2058 Retirement Fund	0.064
Nest 2059 Retirement Fund	0.063
Nest 2060 Retirement Fund	0.061
Nest 2061 Retirement Fund	0.055
Nest 2062 Retirement Fund	0.052
Nest 2063 Retirement Fund	0.048
Nest 2064 Retirement Fund	0.047
Nest 2065 Retirement Fund	0.046
Nest 2066 Retirement Fund	0.044
Nest 2067 Retirement Fund	0.032
Nest 2068 Retirement Fund	0.038
Nest 2069 Retirement Fund	0.053
Nest Starter Fund	0.050
Nest Guided Retirement Fund – Later Life	0.013
Nest Guided Retirement Fund – Safe	0.008
Nest Guided Retirement Fund – Vault	0.074
Nest Guided Retirement Fund – Wallet	0.018
Nest Post Retirement Date Fund	0.003
Nest Post Retirement Date Fund 2	0.037
Nest Ethical Foundation Fund	0.053
Nest Ethical Growth Fund	0.064
Nest Ethical Consolidation Fund	0.033
Nest Higher Risk Fund	0.078
Nest Lower Growth Fund	-0.001
Nest Sharia Fund	0.030

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 £19,700 (based on an illustrative member), real qualifying earnings of £13,460 that will grow with inflation set at 2.5 per cent and reflect a pattern of earnings in line with ONS data and Nest scheme data.

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)	
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	1,080	1,058	1,080	1,058	1,100	1,078
3	3,255	3,181	3,255	3,180	3,429	3,353
5	5,595	5,454	5,595	5,452	5,944	5,797
10	12,794	12,401	12,794	12,398	13,452	13,038
15	22,666	21,853	22,664	21,849	23,917	23,060
20	34,298	32,891	34,296	32,886	36,543	35,047
25	48,013	45,804	48,011	45,799	51,779	49,411
30	64,083	60,833	64,080	60,826	70,058	66,539
35	82,682	78,116	82,677	78,109	91,753	86,757
40	101,372	95,216	101,366	95,203	117,429	110,572
45	114,732	106,842	114,724	106,777	148,219	139,039

	Higher Risk Fund (lifestyled)		Sharia Fund		Lower Growth Fund	
	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
	1,100	1,078	1,097	1,075	1,082	1,061
	3,429	3,353	3,404	3,330	3,274	3,202
	5,944	5,797	5,872	5,729	5,506	5,369
	13,452	13,040	13,127	12,736	11,569	11,210
	23,919	23,073	23,071	22,272	19,180	18,477
	36,549	35,080	34,798	33,426	27,129	25,975
	51,794	49,474	48,637	46,495	35,452	33,735
	70,090	66,648	64,869	61,729	44,089	41,692
	91,812	86,931	83,677	79,279	52,842	49,655
	112,328	105,690	105,398	99,444	61,629	57,541
	126,452	117,908	130,873	123,011	70,774	65,668

* 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 93**.

** 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 fund managers and are the latest figures available in March 2023. 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 £23,700 (based on an illustrative member), real qualifying earnings of £17,460 that will grow with inflation set at 2.5 per cent and reflect a pattern of earnings in line with ONS data and Nest scheme data.

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)	
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	1,423	1,395	1,423	1,395	1,426	1,398
3	4,415	4,317	4,415	4,317	4,449	4,350
5	7,614	7,425	7,614	7,425	7,711	7,519
10	16,435	15,922	16,435	15,922	16,863	16,338
15	26,026	25,046	26,026	25,046	27,514	26,494
20	34,826	33,259	34,826	33,246	40,251	38,541
21	36,374	34,678	36,374	34,661	43,094	41,219
22	37,827	36,000	37,827	35,977	46,044	43,995

	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
1	1,426	1,399	1,423	1,395	1,403	1,376
3	4,449	4,350	4,416	4,319	4,248	4,153
5	7,711	7,521	7,616	7,431	7,142	6,964
10	16,864	16,347	16,445	15,949	14,437	13,983
15	26,727	25,732	26,469	25,522	21,685	20,858
20	35,590	33,996	38,182	36,620	29,162	27,863
21	37,144	35,419	40,763	39,054	30,695	29,289
22	38,601	36,743	43,428	41,566	32,241	30,724

* 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 93**.

** 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 fund managers and are the latest figures available in March 2023. 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 £23,200 (based on an illustrative member), real qualifying earnings of £16,960 that will grow with inflation set at 2.5 per cent and reflect a pattern of earnings in line with ONS data and Nest scheme data.

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)	
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	1,382	1,355	1,382	1,355	1,385	1,358
3	4,113	4,021	4,113	4,021	4,155	4,062
5	6,959	6,785	6,959	6,785	7,143	6,966
10	14,170	13,715	14,170	13,710	15,687	15,199
11	15,562	15,038	15,562	15,032	17,598	17,030
12	16,917	16,323	16,917	16,314	19,582	18,926

	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
1	1,385	1,359	1,382	1,355	1,363	1,337
3	4,127	4,036	4,124	4,033	3,964	3,876
5	6,974	6,800	7,055	6,883	6,611	6,447
10	14,188	13,732	15,299	14,837	13,433	13,010
11	15,580	15,056	17,118	16,582	14,833	14,347
12	16,935	16,340	18,998	18,383	16,245	15,692

* 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 93**.

** 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 fund managers and are the latest figures available in March 2023. These figures will be updated at least annually.

Projected pension pot in today's money for a member who joins 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 £22,200 (based on an illustrative member), real qualifying earnings of £15,960 that will grow with inflation set at 2.5 per cent and reflect a pattern of earnings in line with ONS data and Nest scheme data.

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	11,330	11,280	16,355	16,292	21,380	21,304
3	14,010	13,849	19,085	18,886	24,160	23,923
5	16,715	16,431	21,840	21,493	26,966	26,554
6	18,077	17,727	23,228	22,801	28,378	27,875
7	19,446	19,026	24,622	24,112	29,798	29,198
8	20,821	20,328	26,022	25,427	31,224	30,525

	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	26,405	26,317	31,430	31,329	36,455	36,341
3	29,235	28,960	34,310	33,997	39,385	39,033
5	32,091	31,616	37,217	36,677	42,342	41,739
6	33,529	32,949	38,680	38,023	43,831	43,096
7	34,974	34,285	40,150	39,371	45,326	44,457
8	36,425	35,624	41,627	40,723	46,828	45,822

* 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 93**.

** 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 fund managers and are the latest figures available in March 2023. 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% a year average over the investment cycle, after all charges	3%	Fund goals outlined in our Statement of investment principles
	Growth	CPI + 3% a year average over the investment cycle, after all charges	6%	
	Consolidation	CPI + 0% a year average over the investment cycle, after all charges	Linear decline over 10 years from 6% to 3%	
Nest Ethical Fund	Foundation	CPI + 0% a year average over the investment cycle, after all charges	3%	Fund goals outlined in our Statement of investment principles
	Growth	CPI + 3% a year average over the investment cycle, after all charges	6%	
	Consolidation	CPI + 0% a year average over the investment cycle, after all charges	Linear decline over 10 years from 6% to 3%	
Nest Higher Risk Fund Note: For non-lifestyled version of the Nest Higher Risk Fund, the consolidation phase is not applicable	Growth	To target higher returns (0.5% higher than the growth phase of the Nest Retirement Date Funds) through taking more risk	6.5%	Fund return target
	Consolidation	CPI + 0% a year average over the investment cycle, after all charges	Linear decline over 10 years from 6.5% to 3%	
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%	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% for investment periods of 10 years or more, 1.8% for investment periods of 5–10 years, 0.86% for investment periods of 0–5 years.	Capital market assumptions Historical data and industry intelligence
Nest Guided Retirement Fund	N/A	CPI + 0% a year average over the investment cycle, after all charges	3%	Capital market assumptions Historical data and industry intelligence

Appendix 5

The Statement of investment principles (SIP) printed here is the latest version, which is available online at **nestpensions.org.uk/schemeweb/nest/nestcorporation/investment-approach/investment-principles.html** or by request using the contact information on **page 78**.

Nest's Statement of investment principles (SIP) 2020 to 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 financial assets through a variety of legal structures and 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 external 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 & 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 subfund 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 preindustrial 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' in 2015.

Market risk

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

Counterparty risk

The Trustee, with Nest Invest, its external 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 timeframe 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.

Data may be obtained from third-party weblinks, but these may not be error free and cannot be verified.

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