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NATIONAL
EMPLOYMENT
SAVINGS TRUST



NEST pension scheme annual report and accounts

For the year ended 31 March 2014

Scheme registration number: 12004537

> If the year 2013/14 made any mark on the pensions landscape, it was to cement automatic enrolment as one of the most successful pension policies in a generation

Contents

01 **Chair's statement**
page 4 »

02 **Trustee Members and retained organisations**
page 6 »

03 **Trustee report**
page 7 »

04 **Investment report**
page 31 »

05 **Independent Auditor's Report to the Trustee of the NEST pension scheme**
page 45 »

06 **Financial statements**
page 46 »

07 **Other useful information**
page 55 »

Appendix A - Schedule of the top 100 investments
page 57 »

Appendix B - NEST Retirement Date Fund's performance
page 61 »

01 Chair's statement



This is the fifth annual report I have written as Chair. In this year's foreword I would like to set events of the current year in the longer-term context.

If the year 2013/14 made any mark on the pensions landscape, it was to cement automatic enrolment as one of the most successful pension policies in a generation. The numbers speak for themselves. NEST membership is up from around 80,000 last year to over a million members in March 2014, and assets under management are up from £3.8 million to £104 million. Across the UK, the number of automatically enrolled members totals over three million.

The relative smoothness of our first full year of operation was helped by the large employers preparing thoroughly and in plenty of time. Now that we have valuable hands-on experience of how to successfully set up employers at NEST, we know how vital certain elements are, like early preparation, engaging with the payroll community, a good knowledge of the workforce, and ensuring data is clean and ready. This is a message that needs to get out to the small and medium-sized employers whose automatic enrolment staging dates are coming up.

I believe that NEST has made a positive contribution to building a better pensions environment. Borne out of the market failure exposed by the Turner Commission a decade ago, NEST fashioned its offer to address many of the characteristics of that failure. These included low charges, simple language, strong governance focused on members' interests and an investment strategy designed specifically for the prospective membership. The appeal of the NEST model has been demonstrated by key elements being adopted by other providers and consequently benefits which are enjoyed by NEST members are also being enjoyed to a great extent by members of other schemes. One example of this is NEST acting as a stimulant of low-cost provision in the market, the benefits of which are accruing to people saving for their retirement more generally.

With more and more people coming into pensions for the first time as a result of automatic enrolment, it's crucial that providers like NEST continue to help members feel engaged with their retirement savings. And as pension pots grow in size, it's increasingly important to encourage members to take a long-term view of saving and understand how contributing to a pension can help them meet their needs in retirement.

The remaining years of automatic enrolment staging will focus on a larger number of employers – and of a different kind to those who have gone before. Of a much smaller size and relatively less complex than their predecessors, their resources and familiarity with pensions will also likely be much reduced. The challenges that come with this have been well flagged by commentators and The Pensions Regulator (TPR).

Like every provider we're operating in an evolving environment, to which the whole pensions market continues to adjust. We're very grateful for the support of the stakeholder community without which our job would be much more

difficult. The support of payroll professionals, accountants and intermediaries has been and will continue to be crucial.

In the 2014 Budget the Chancellor announced changes to the retirement income environment and we're carefully considering how NEST members can best benefit. We'll be asking for ideas and opinions from across the stakeholder community.

We're still learning where we can from others. In this regard, our continuing engagement with the international community, UK pensions industry, consumer bodies and our customers has been essential.

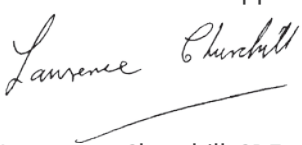
NEST operates an outsourced model and we could not have sustained our operational service without the close and active partnership of a number of organisations, in particular, Tata Consultancy Services (TCS). They've proven to be very professional colleagues, and are as enthused with our mission as NEST staff themselves.

We also wouldn't have achieved what we have without the dedication of our employees. At times the transition from what was essentially a start-up project to a steady state pension provider has not been an easy journey. Strengthening staff engagement and culture remains a work in progress. We also enjoy areas of excellence which have been publicly recognised with awards for our investment strategy, communications and risk management.

On behalf of my fellow Trustees, I would like to thank our chief executive officer, Tim Jones, and his executive leadership team for their skills, resilience and enthusiasm. Building NEST has at times been challenging but it is hard graft of the most rewarding sort. We will continue to ensure we have the right resources to fulfil our role.

Finally, I'd like to thank my fellow Trustee Members for their leadership, wisdom and camaraderie. Three members, Laurie Edmans, Paul Hewitt and Julius Pursaill completed their four-year term and stepped down at the end of March. In their place I welcome Ian Armfield, Graham Berville, Carolan Dobson and Karen Silcock. I also congratulate Tom Boardman on his appointment to the role of Deputy Chair, last occupied by Baroness Drake. The next few years will be a critical time for NEST as the business focuses on helping an increasing number of smaller employers meet their automatic enrolment duties. The Deputy Chair will strengthen the Trustee and support the Chair and the chief executive officer in managing this challenge.

It's been a privilege to lead NEST Corporation in its formative period and I hope it will continue to support the cause of pension reform with great success.



Lawrence Churchill CBE
Chair, NEST Corporation
27 June 2014

02 Trustee Members and retained organisations

Trustee and Trustee Members

NEST Corporation is Trustee of the scheme. The Trustee has a Chair, a Deputy Chair and 10 Trustee Members whose profiles are in section 3.5.

Professional names of advisers, banks, custodians and others retained by the Trustee

Scheme administrator	Tata Consultancy Services
Fund administration	State Street Bank and Trust Company
Bank	NatWest (joint three party contract between National Westminster Bank PLC / National Employment Savings Trust Corporation and Tata Consultancy Services Limited) (appointed September 2013)
Investment managers	BlackRock F&C Investments HSBC Global Asset Management State Street Global Advisors UBS Global Asset Management Legal & General Investment Management (appointed 28 June 2013) Royal London Asset Management
Investment advisers	Allianz Global Investors bfinance
Lawyers	DLA Piper Field Fisher Waterhouse Squire Sanders
Independent external auditors	KPMG LLP

03 Trustee report

3.1 Introduction and constitution of the scheme

The NEST pension scheme, or 'the scheme' as we'll call it throughout this report, was established by the National Employment Savings Trust Order 2010 ('NEST's order') which was made on 22 March 2010 and came into force on 5 July 2010. 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.

NEST Corporation is a non-departmental public body (NDPB) established by statute, section 75 of the Pensions Act 2008 ('the Act'), which came into force on 5 July 2010. It was appointed Trustee of the scheme, under article 4 of NEST's order. The Trustee currently has a Chair, a Deputy Chair and 10 other Trustee Members who have a fiduciary duty to act in the interests of scheme members. The Trustee Members were appointed by the Secretary of State for Work and Pensions as provided for under schedule 1 of the Act and in line with the *Commissioner for Public Appointments' Code of Practice*.

The terms of reference for the NEST Corporation Trustee and its committees are published on our website at **nestpensions.org.uk/terms-of-reference**

3.2 Key events in the year

In the last year NEST has grown from its infancy to become a major pension scheme with over one million members, 4,692 employers participating in the scheme and assets under management of £104 million as at 31 March 2014. The scheme is set to continue growing significantly over the next few years. The Trustee's priority is to provide a strong and stable scheme that operates in the best interests of its members. The scheme must offer a good service to employers and meet its public service obligation to accept any employer that chooses to use NEST for their automatic enrolment duties. These factors have informed the Trustee's focus during the year, which has been to:

- continue improving our processes to make joining the scheme and meeting automatic enrolment duties as straightforward as possible for employers
- continue developing scheme operations to ensure there is capacity and flexibility to deal with large but uncertain increases in volume
- strengthen the design and operation of internal controls to ensure the effective protection of scheme member assets and NEST Corporation funds
- monitor the investment performance of our assets under management
- develop our organisational culture and strengthen staff engagement
- continue to provide clear, straightforward and accurate communications for members and employers

- continue to strengthen the connections between the Trustee and its outsourced suppliers
- continue to strengthen the governance infrastructure and the relationships and behaviours that support this
- refine and tighten the delegation protocols.

A programme of work has been undertaken to ensure that a robust framework of internal controls is in place supported by independent assurance. A series of improvements have been designed and implemented over the year, the control environment has been reviewed in detail and significantly improved. Processes have been re-designed and essential systems have been upgraded in line with industry standards. Key control processes have been resourced with appropriate levels of staffing to reflect their critical importance and to provide a robust level of resilience. Processes are in place to ensure that controls are reviewed regularly to provide assurance that high standards are maintained and are fit for purpose. The audit committee has maintained oversight throughout the programme.

Further to improvements to the control environment, a new in-house team has been established to target Financial Crime Prevention.

The Pensions Regulator (TPR) has published the DC Code and DC regulatory guidance over the past year as well as the Institute of Chartered Accountants in England and Wales (ICAEW) producing the master trust supplement to *AAF 02/07*. The Trustee is looking at how best to meet these requirements.

In July 2013, the government announced that the restrictions on the level of annual contribution that could be made to the scheme would be lifted in 2017. This will enable employers to use the scheme to fulfil their automatic enrolment duties for all of their workers. It will also allow NEST members to top up their contributions to help them meet their aspirations in retirement. The Trustee welcomed this announcement.

The Trustee welcomed Pension Quality Mark (PQM) ready accreditation and numerous awards as recognition of the robust and innovative work to strengthen the scheme. These included awards for Transformation and SME Risk Management at the 2013 CIR Magazine Awards, Communication Innovation and Auto-Enrolment Innovation of the Year at the 2013 Workplace Savings and Benefits (WSB) Awards and multiple investment awards.

The Trustee also welcomed the well-managed move of NEST Corporation to new offices at Riverside House as the lease on its previous premises came to an end.

3.3 Looking ahead

The scheme is set to continue to grow significantly during the 2014/15 financial year. The majority of members that have joined the scheme to date have come from larger employers. This year many small and medium-sized employers are likely to choose to use the scheme as their staging dates approach. These employers will have varied experience of making pension provision for their employees and some will be doing so for the first time.

The Trustee will prioritise:

- the continued development of processes to make it as straightforward as possible for employers to join the scheme. This will include supporting delegated access arrangements for employers who want to use an intermediary to manage their automatic enrolment pension provision through NEST
- the continued development of scheme operations to support the volume of employers and members joining the scheme
- clear and concise communications for members and employers, including highlighting the benefits of adequate saving for retirement
- the continued focus on staff development and engagement to provide a skilled and experienced workforce committed to the organisation's values and able to respond flexibly to the challenges of volume. This will include working towards accreditation for Investors in People
- the continued focus on strengthening internal controls and an organisational culture that supports their delivery
- positioning NEST for future changes.

3.4 Organisation structure

The Trustee sets the strategic direction and objectives for NEST and oversees the running of the scheme to ensure it delivers value for scheme members' money.

The Trustee has established a number of committees, each chaired by a Trustee Member, which focus on key aspects of monitoring and control. These are audit, risk, investment, nominations and governance and remuneration committees. Their remits include:

- seeking assurance on the accuracy of the accounting records and processes
- overseeing the management of risk
- developing our investment strategy and principles and continuing to oversee the implementation process
- helping to ensure our compliance with regulatory obligations
- developing the appropriate culture and remuneration practices.

A scheme of reserved powers and delegated authorities gives authority and responsibility to the chief executive officer for the day-to-day operations and management of NEST Corporation. The Trustee reviewed the scheme in September 2013 and concluded that it remained fit for purpose, but is enhancing it further by adopting a more precise set of definitions of different types of delegation and updating documentation accordingly.

Under the NEST order 2010 (SI 2010 No.917), article 8, the Employers' Panel and Members' Panel must give any assistance and advice requested by NEST Corporation about the operation, development or amendment of the scheme. For further information on the panels, see section 3.12.

Trustee Members are appointed for a term of no more than five years. Trustee Members can be reappointed for a further term by the Secretary of State for Work and Pensions or NEST Corporation as appropriate. Trustee Members can resign by letter to the Chair. The Chair may resign by letter to the Secretary of State. The requirement for member nominated trustees (MNTs) has been disapplied for the scheme (SI 2010/09). The scheme complies with the spirit of the MNT requirements through a Members' Panel and Employers' Panel that were required to be established by section 69 of the Act and NEST's order.

All our Trustee Members are responsible for their own continuous professional development (CPD) and are assisted in this by a series of briefings on trustee knowledge and understanding including aspects specific to the scheme, such as NEST's order and rules.

3.5 Trustee Member profiles



Lawrence Churchill CBE, Chair, NEST Corporation
Chair, Nominations and governance committee

Lawrence is chair of the Financial Services Compensation Scheme (FSCS) and a non-executive director of the board of BUPA. He is also a Trustee of the International Longevity Centre, UK and a governor of the Pensions Policy Institute (PPI).

Previous appointments have been as chair of the Pension Protection Fund (PPF), a member of the Board for Actuarial Standards, chief executive of Zurich Financial Services UK and International Life, executive chair of Unum and chief executive of NatWest Life and Investments.

Lawrence has also served in a non-executive capacity on the boards of the Association of British Insurers (ABI), the Employers' Forum on Disability and the Financial Ombudsman Service, and has been a Trustee of the Royal Society of Arts (RSA).



Tom Boardman, Trustee Member
Deputy Chair (from 1 June 2014)

Tom has been in the pensions and insurance industry for 40 years. Much of this time has been in executive roles at Prudential and Nationwide. His last role at Prudential UK was as director of retirement strategy and innovation.

He left Prudential in 2010 to become a Trustee Member of NEST Corporation and to take up a role as a senior adviser at the Financial Services Authority (FSA). On the closure of the FSA in April 2013 he became a senior adviser of the Financial Conduct Authority (FCA).

Tom is a Fellow of the Institute and Faculty of Actuaries (IFoA), an honorary visiting professor at the Cass Business School and the Pensions Institute (PI), as well as being a governor of the Pensions Policy Institute (PPI).



Iraj Amiri, Trustee Member
Chair, Audit committee (from 1 April 2014)

Iraj was a partner with Deloitte LLP for over 20 years. There he led the National Internal Audit Group and was one of the firm's recognised experts in Internal Audit and Risk Management.

In the public sector, his clients included numerous organisations in central government, health, education and local government, and many public bodies, such as the Financial Services Compensation Scheme (FSCS), The Pensions Regulator (TPR), National Savings and Investments and the European Investment Bank (EIB). He also has extensive private sector experience at a senior level, serving such organisations as Schroders and The Wellcome Trust.

As well as being an FCA, Iraj is a fellow of the Royal Statistical Society, a member of the Regulatory Decisions Committee of the Financial Conduct Authority (FCA), chair of the Audit and Risk Committee for the Actuarial Profession and was a member of the Internal Audit Task Force of the Institute of Chartered Accountants in England and Wales (ICAEW) for a number of years.



Sharon Darcy, Trustee Member
Chair, Risk committee (from 25 April 2013)

Sharon is a qualified accountant with a very strong background in the consumer movement.

She was a non-executive director of Consumer Futures until March 2014 and was previously on the board of energywatch, an organisation which helped consumers deal with problems with their energy suppliers and also campaigned on fuel poverty. She is currently a Member of the Committee on Standards of the House of Commons.

In the past Sharon was a non-executive director of The Hyde Group, a large housing association, a consumer director of TrustMark, an organisation which promotes reputable traders in the home maintenance and repair sector, a non-executive director of Sutton and Merton Primary Care Trust and the chair of Sutton Borough Citizens Advice Bureau.



Laurie Edmans CBE, Trustee Member *(up to 31 March 2014)*

Laurie is chair of Marine and General Mutual Life Assurance Society, a long-established mutual life assurance and pensions company.

He is on the council of the Pensions Policy Institute (PPI) and is the chair of Bdifferent, a specialist financial services branding and research agency. He is chair of Trustees of the Trinity Mirror Pension Plan and a Trustee of the Quest School, a charity for autistic children.

Laurie is a non-executive director at the Money Advice Service and was until recently the chair of Safe Home Income Plans (SHIP), the trade association for equity release products. Before joining NEST Corporation, Laurie was a non-executive director of The Pensions Regulator (TPR) following three years on the board of its predecessor, OPRA.



Paul Hewitt, Trustee Member *(up to 31 March 2014)*
Chair, Audit committee (up to 31 March 2014)

Paul is currently the chair of a number of companies including RJ Kiln, Shop Direct Financial Services, The Good Care Group and Four Times Enterprises. Paul is also non-executive director of Tesco Bank and Kiln Group.

Paul was previously a non-executive director of NEST Corporation's predecessor, the Personal Accounts Delivery Authority (PADA).

He joined the Co-operative Group in 2003 where initially he was chief financial officer before becoming acting chief executive of Co-operative Bank, CIS and Smile and later, deputy group chief executive.

In his earlier career, after qualifying as a chartered accountant, Paul worked as finance director in a number of private equity-backed and quoted companies.



Chris Hitchen, Trustee Member
Chair, Investment committee (up to 25 April 2014)

Chris is the chief executive of the Railways Pension Trustee Company and its operating company RPMI Ltd, which runs the industry-wide pension arrangement for the UK's railways. This covers 350,000 people and around 100 employer groups.

The scheme has assets of £20 billion and Chris is also a director of the group's FSA-authorised investment subsidiary Railpen Investments. Before joining the rail scheme as chief investment officer in 1998, he worked for 12 years as an investment consultant and actuary to a number of UK pension plans.

Chris is a past chair of the National Association of Pension Funds (NAPF) and director of the Pensions Quality Mark, an initiative to give recognition to good defined contribution pension provision. Chris is also a past chair of both the NAPF Investment Council and the Institutional Shareholders Committee.



Julius Pursaill, Trustee Member *(up to 31 March 2014)*
Chair, Risk committee (up to 24 April 2013)
Chair, Investment committee (from 25 April 2013 to 31 March 2014)

Julius retired from full-time employment in 2001 and has since acted as a non-executive director and consultant for a number of technology-based companies. These have predominantly been in the financial services sector, including Barrie & Hibbert and Capita. Julius is also chair of the DC Governance Committee at Heineken and the Scottish Life investment advisory committee as well as an independent member on the of the Royal London with Profits Committee.

Julius spent his early career in the retail financial services industry in sales management and designing financial services products.

In 1994 Julius joined the investment management company Mercury Asset Management and was appointed to head its defined contribution pensions business.

In 1998 he was appointed head of e-Business for the Europe, Middle East and Africa global region at Merrill Lynch Investment Management.



Enid Rowlands, Trustee Member

Enid has a background in change management, organisational transition and development. A psychologist by qualification, she has chaired public sector bodies with budgets in excess of £1.2 billion and is a companion of the Chartered Management Institute.

In recent years Enid has specialised in governance in the public and not-for-profit sectors. She is currently a member of the General Medical Council and a Trustee of its pension scheme, chair of the remuneration committee for the Information Commissioner's Office and a non-executive director of the Solicitors Regulation Authority. Enid was previously a board member for Customer Focus.

She has served with a range of organisations and Ministerial Advisory Groups concerned with marginalised and disadvantaged groups in the workforce, including women returning to work and people with sensory impairment. She is also chair for Victim Support.



Sue Slipman, Trustee Member
Chair, Remuneration committee

Sue has been the chief executive of the Foundation Trust Network which she ran from 2004 to 2012. She is currently a non-executive director at Kings College Hospital Foundation Trust. She was previously chair of the Financial Ombudsman Service and was also executive director with Camelot Group where she was responsible for social responsibility and external affairs.

Sue's previous roles include chief executive of the Gas Consumers Council, the London Councils Transport and Environment Committee and the National Council for One Parent Families.

She has also held a number of public appointments, including chair of the Department for Trade and Industry's working group on corporate social responsibility, and chair of the National Consumer Council's policy commission on public services.

She has also chaired the Financial Services Authority's schools working group on financial capability and was a non-executive director of Thames Water until 2008.



Nigel Stanley, Trustee Member

Nigel has been head of campaigns and communications at the Trades Union Congress (TUC) since May 1997, where he has led much of the TUC's work on pensions reform following the report of the Pensions Commission. Nigel is currently a trustee of the TUC Superannuation Society.

He joined the TUC as its first ever parliamentary officer in 1994. From 1992 to 1994 he freelanced in public affairs, research and journalism where his client list included the Shopping Hours Reform Council, the European Commission, the Labour Party and a number of Members of Parliament.

Nigel also worked at the House of Commons from 1983 to 1992, first for Robin Cook and then for Bryan Gould on research, press relations and campaign management.



Ian Armfield, Trustee Member *(from 1 April 2014)*

Ian is a non-executive director and chair of the audit committee for Keystone Investment Trust plc.

Ian was an audit and risk assurance partner with PricewaterhouseCoopers LLP for over 20 years and specialised in the investment management and pension sectors. He was also one of the firm's leading experts on non-audit assurance. His clients included many of the UK's leading asset managers, some of the UK's largest pension schemes and numerous service organisations providing outsourced administration, transfer agency and custody services to those sectors.

He's a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW) and for more than 10 years has been a member of several of the ICAEW's working parties, including investment business, third-party assurance and master trusts.



Carolan Dobson, Trustee Member *(from 1 April 2014)*
Chair, Investment committee (from 1 April 2014)

Carolan has a background in asset management and is an experienced Trustee and non-executive director in public and private sector organisations. Her most recent experience is as the chair of the Bespak Pension Scheme, JP Morgan European Smaller Companies Trust and Aberdeen Smaller Companies High Income Trust. She is also chair of the investment sub-committee for Vaillant Group Pension Scheme and a member of the Competition and Markets Authority (CMA).



Karen Silcock, Trustee Member *(from 1 April 2014)*

Previously a chartered accountant, Karen's portfolio includes non-executive director roles at the Office for Legal Complaints (OLC), a regional Wildlife Trust, and advisory work with The High Street Fund.

Karen was a partner at Deloitte LLP from 1993 to 2010, working in the Reorganisation Services business advising on insolvency and restructuring, and subsequently as a partner in the firm's risk management team and as joint chief risk officer. Her public policy roles have included chair of the Federation of European Accountants Money Laundering Working Party and chair of the Institute of Chartered Accountants in England and Wales' (ICAEW) money laundering sub-committee. Karen was also an elected member of the ICAEW council from 2007 to 2009, was formerly vice-chair of the Professional Standards Board of the ICAEW and a member of its disciplinary committee.



Graham Berville, Trustee Member *(from 1 June 2014)*

Graham has worked in financial services for 35 years. His executive career was with the Automobile Association (AA), Aviva plc and Police Mutual. Graham is currently a non-executive director at Age UK Enterprises and the Veterinary Defence Society (VDS).

He's also chair of the LV= With-Profits Committee, a Trustee of Yorkshire Cancer Research (YCR). He is currently a Senior Independent Advisor for BDO LLP.

3.6 Trustee activities

As Trustee of the scheme, NEST Corporation has a legal duty to act in the interests of the scheme members and other beneficiaries and to comply with all legal and regulatory requirements relating to pension schemes. The Trustee Members of NEST Corporation are responsible for the strategic direction of NEST Corporation and the scheme. Trustee Members also have regard to NEST Corporation's duties as a non-departmental public body (NDPB).

Trustee Members held 10 meetings during 2013/14. These meetings have focused on:

- the strategic direction of NEST and its programme of work
- key investment strategies and achieved performance
- the financial arrangements for NEST Corporation
- ensuring appropriate governance
- providing support, challenge and guidance to the executive team
- actively reviewing scheme operations
- overseeing the management of risk
- responding to new legislation and regulatory requirements
- responding to consultations which affect the scheme and its members
- approving the *NEST corporate plan 2014-2017* incorporating the business plan for 2014/15. This is published on our website at **nestpensions.org.uk/library**

A summary of the matters discussed at the Trustee Member meetings is available at **nestpensions.org.uk/trustee-meetings**

Attendance at the meetings and committee membership is set out in the following table, as well as the details of committee meetings attended by Trustee Members during the year.

	Trustee Member meetings	Audit committee	Risk committee	Investment committee	Nominations and governance committee	Remuneration committee
Number of meetings	10	7	6	5	4	6
Lawrence Churchill	10	-	-	-	4	-
Iraj Amiri	9	7	-	5	-	-
Tom Boardman	10	6	-	5	-	-
Sharon Darcy	10	5*	6	5	-	-
Laurie Edmans	8	-	5	-	-	6
Paul Hewitt	10	7	6	-	-	-
Chris Hitchen	9	-	-	5	4	-
Julius Pursaill	10	1#	6	5	-	-
Enid Rolands	10	-	-	-	4	5
Sue Slipman	10	-	-	-	4	6
Nigel Stanley	9	-	-	4	-	6

*Sharon Darcy joined the audit committee on 25 April 2013.
#Julius Pursaill stood down as a member of the audit committee in April 2013.

Joint meetings between the Trustee Members and the Employers' and Members' Panels were held in June 2013 and March 2014.

3.7 Audit committee

The audit committee's role is to provide oversight, review and advisory guidance to the Trustee Members on all audit and control issues across NEST Corporation. Specifically, during the year the audit committee:

- reviewed the plans of the external auditors for their audits of the accounts and oversaw the delivery of their plans
- approved the internal audit plan and oversaw its delivery
- reviewed the annual report and accounts for both NEST Corporation and the scheme and recommended their approval to the Trustee Members
- approved the compliance plan and oversaw its delivery
- reviewed the assurance framework

- reviewed the system of internal controls within NEST Corporation and implemented changes as required
- oversaw the comprehensive review of the internal controls within NEST Corporation, instituted by the committee following the mandate fraud incident at the beginning of 2013
- reviewed the committee's effectiveness in March 2014.

Further information on internal audit and control issues is provided in sections 3.15 to 3.18 of *NEST Corporation's annual report and accounts 2013/2014*.

3.8 Investment committee

The investment committee together with the chief investment officer share a set of responsibilities and delegations to consider and implement investment decisions on behalf of the Trustee. The committee reports to the Trustee.

During the year the investment committee:

- maintained oversight of the investment and risk management of all NEST retirement funds, including the approval of changes in asset allocation as required
- reviewed the dynamic risk management framework
- continued the development and delivery of the responsible investment policies
- gave ongoing consideration to the development of the NEST investment approach
- reviewed the Statement of investment principles (SIP), in consultation with Employers' and Members' Panels
- reviewed NEST's investment beliefs
- reviewed the committee's effectiveness undertaken in November 2013.

The role, responsibilities and delegations of the investment committee and the chief investment officer appear within the governance structure detailed in Appendix A of the SIP, available at **nestpensions.org.uk/library**

The day-to-day management of the scheme's assets is performed by external fund managers, each of which is authorised and regulated by the Financial Conduct Authority (FCA).

The investment committee has overall responsibility for approving fund manager selection, ongoing monitoring and removal, and has appointed the fund managers listed in section 2.

The investment committee receives regular reports in order to review and monitor the scheme's assets, the fund managers and other third-party providers as well as investment costs.

More on the management of NEST's investment assets is included in the investment report in section 4.

3.9 Nominations and governance committee

The nominations and governance committee is responsible for the development and oversight of the governance structure and for making recommendations for appointment to the members of the Employers' and Members' Panels to the Trustee. In the past year the nominations and governance committee:

- approved the questionnaires and process for carrying out the effectiveness review of the Trustee and its committees
- approved the process for performance appraisals for Trustee Members led by the Chair
- approved a core programme of induction training and materials for new Trustee Members
- reviewed governance documentation and approved changes for recommendation to the Trustee
- received a legal overview of the role of the Employers' and Members' Panels to ensure we were making best use of the advice they are required to provide the Trustee and reviewed their operating procedures
- received and reviewed updates on developments in corporate governance and regulatory requirements such as The Pensions Regulator's *Code of practice no. 13: Governance and administration of occupational defined contribution trust-based pension schemes*
- undertook the recruitment of members for the Members' and Employers' Panels and recommended candidates to the Trustee
- considered the results of its committee effectiveness review.

3.10 Remuneration committee

The remuneration committee provides oversight, review and advice to the Trustee on the approach to corporate responsibility, organisational culture and the remuneration of senior executives and staff.

The committee is not responsible for reviewing the remuneration of the Trustee Members, which is determined by the Secretary of State in accordance with schedule 1 to the Pensions Act 2008.

During the year the remuneration committee:

- considered the results of the 2013 staff survey and advised on the development of engagement initiatives for staff
- received and reviewed HR reporting data including remuneration benchmarking, salary trends, leaving factors, employee demographics, recruitment statistics, absence data and information on learning and development
- provided advice on the development of organisation culture, including the introduction of a new performance management framework, development of management and leadership skills and revisions to staff policies
- approved NEST Corporation seeking accreditation for Investors in People
- reviewed and commented on a learning and development programme including training for managers and underpinned by an increase in the learning and development budget to match that identified by CIPD as appropriate for high-performing organisations
- reviewed the process for and approach to succession planning for the executive team
- supported NEST Corporation obtaining the London Living Wage (LLW) accreditation, which was secured in March 2014
- considered the performance review for the chief executive officer for 2013/14
- approved a diversity and inclusion policy
- approved an external appointments policy
- approved a corporate responsibility statement and the metrics for assessing NEST Corporation's performance against its stated aims, for recommendation to the Trustee after consultation with the Employers' and Members' Panels
- approved revisions to the gifts and hospitality policy
- agreed the pay award for 2014/15
- considered the results of its committee effectiveness review.

3.11 Risk committee

The risk committee is responsible for oversight of the risk management framework and for recommending the statement of risk appetite to the Trustee. In the past year the committee:

- provided a review of all aspects of risk management
- provided challenge to the executive team through a series of deep dives into specific areas of operational and strategic risk including the risks of fraud and financial crime and information security
- has overseen and driven continuous improvement of the risk management framework to improve the risk culture of the corporation
- developed a risk appetite statement
- reviewed the policy framework
- discussed with Tata Consultancy Service (TCS) their view of risk in relation to NEST and reviewed the associated risk management arrangements
- reviewed the committee's effectiveness in March 2014.

Further information on risk is provided in the *NEST Corporation's annual report and accounts 2013/14*.

3.12 Employers' Panel and Members' Panel

The Employers' Panel and Members' Panel were established in summer 2011 in line with requirements under the Pensions Act 2008 and NEST's order and rules.

Employers' Panel

The Employers' Panel was set up to provide advice to NEST Corporation on the operation, development or amendment of the scheme from a participating employer's perspective (section 69, Pensions Act 2008 and article 8 of NEST's order). Paul Jagger, MBE was appointed as chair of the Employers' Panel when it was established in 2011. There are currently 10 Panel members.

The Employers' Panel is seen as the first port of call for NEST Corporation when seeking input on the operation, development or amendment of the scheme from a participating employer's perspective. This includes consulting the Panel whenever revisions are proposed to the SIP or to NEST's order and rules. The Employers' Panel engages with the Trustee through the chair of the Panel and through periodic joint meetings of the Trustee and the Employers' and Members' Panels.

The Employers' Panel met six times during the financial year. The Panel has been briefed about various issues, including opting out and keeping records, complaints policy, late payments, propositions, messaging to employers and processes for setting up employers. In addition the Panel has discussed employers' feedback on the scheme and research results carried out by NEST Corporation within the employer and financial adviser communities.

The Employers' Panel has been consulted during the year about TPR maintaining contributions consultation, the Department for Work and Pensions (DWP) defined ambition paper and NEST's engagement in the debate and revisions to the SIP published in April 2014.

The key focus for the next financial year is to increase the Employers' Panel's engagement with scheme employers to better understand their experiences of automatic enrolment and using NEST. This information will be gathered through events run for scheme employers and research opportunities.

Further information on the Employers' Panel, including details of the members, is at **nestpensions.org.uk/employer-panel**

Members' Panel

The Members' Panel was set up to provide advice to NEST Corporation on the operation, development or amendment of the scheme from participating members' perspectives (section 69, Pensions Act 2008 and article 8 of NEST's order). Museji Ahmed Takolia CBE was appointed as chair of the Members' Panel when it was established in 2011. There are currently 10 Panel members.

The Members' Panel is seen as the first port of call for NEST Corporation when seeking input on the operation, development or amendment of the scheme from a participating member perspective. This includes consulting the Panel whenever revisions are proposed to the SIP or to NEST's order and rules. The Members' Panel engages with the Trustee through the chair of the Panel and through periodic joint meetings of the Trustee and the Employers' and Members' Panels.

The Panel met six times during the financial year and was consulted on revisions to the SIP published in April 2014, the DWP's defined ambition paper and NEST's engagement in the debate on this issue, ethical fund investment policy and research results carried out by NEST within the employer and financial adviser communities.

The Panel has been briefed on various issues including member charges, opt-out process, member communications, complaints monitoring, customer services and researching members' needs.

The Members' Panel submits a separate annual report to the Secretary of State for Work and Pensions. A copy of the report is available on NEST's website, along with further details of the Panel at nestpensions.org.uk/member-panel

3.13 Governance

Trustee Members adopted a governance framework, which continues to be refined to ensure it remains appropriate for the scheme. Fundamental to the scheme's governance is the work undertaken by the five committees established by the Trustee Members. Full reports on committee decisions and actions are reported to the Trustee Members' meetings. The work of each of these committees is presented in sections 3.7 to 3.11.

The Trustee has delegated the day-to-day operations of running the scheme to the chief executive officer of NEST Corporation.

3.14 Risk management

The Trustee is responsible for ensuring that there is a continuous process for identifying, evaluating and effectively managing any material risks faced by the organisation. In order to assist it in carrying out its responsibilities, the Trustee has established a risk committee in line with best practice corporate governance. Details of the risk committee's activity can be found in section 3.11.

Further details regarding our risk strategy, risk appetite and uncertainties may be found in the NEST Corporation annual report and accounts at **nestpensions.org.uk/library**

3.15 Appointment of professional advisers and others retained by the Trustee

The scheme uses a wide range of professional advisers to provide advice and support its activities. As part of the scheme design and implementation, NEST appointed the following partners and advisers to help support the scheme and to perform specific tasks.

Tata Consultancy Services (TCS) was appointed in March 2010 as the scheme's administrator. TCS is responsible for the day-to-day administration of the scheme. They provide the interface with employers to make payments into the scheme and maintain records. This includes receiving and processing contributions and allocations to members' retirement pots. TCS is also responsible for dealing with members. NEST uses NatWest Plc as bankers for members' funds.

State Street Bank and Trust Company was appointed in October 2010 as the fund administrator to ensure that our members' money is managed in line with our investment strategy. This will include maintaining the asset allocation value and unit prices of the funds, daily reconciliations, and reporting to the scheme administrator.

Over the last year NEST has retained the services of two investment advisory firms to provide advice and guidance on different elements of NEST's investment approach. Allianz Global Investors has provided NEST with a range of advice on investment strategy. bfinance UK Ltd has provided support and due diligence during the procurement process of additional investment mandates to support the further refinement of NEST's investment approach.

The investment managers are listed in section 2. As explained in the investment report in section 4, the individual managers have been appointed to invest in specific asset classes and investment markets.

Lawyers DLA Piper, Field Fisher Waterhouse and Squires Sanders were appointed in July 2011, March 2011 and January 2011, respectively, as the scheme's legal advisers. They provide support to the in-house general counsel of NEST Corporation in considering all legal aspects of the scheme and the effect of changes in legislation.

KPMG LLP was appointed in June 2011 as external auditors. They are responsible for providing assurance that the annual report and accounts have been properly prepared and that the financial statements are a true and fair reflection of the transactions in the year and the net assets as at 31 March 2014.

Deloitte was appointed as Internal Auditor to NEST Corporation in November 2010.

3.16 Financial highlights

The financial movements in the year are summarised below and provided in detail in the financial statements and notes to the financial statements in section 6. The financial statements have been prepared and audited in accordance with section 41 (1) and (6) of the Pensions Act 1995.

	£000
Net assets at 1 April 2013	6,009
Contributions and other income	118,046
Benefits	(76)
Administrative expenses	(1,935)
Change in market value of investments	1,849
Net assets as at 31 March 2014	**123,893**

3.17 Membership

The membership in the year was as follows:

	Members
Members as at 1 April 2013	81,255
New members enrolled[1]	1,040,444
Less	
Members opting out	(80,430)
Cancelled enrolments	(14,476)
Members enrolled by more than one employer	(15,544)
New members joining in the period	929,994
Less	
Members retired	(227)
Members deceased	(94)
Members as at 31 March 2014	1,010,928
Types of members as at 31 March 2014	
Members enrolled by participating employers	1,010,442
Members who are self-employed	486
	1,010,928

[1] These are new members enrolled by employers and self employed registrations for the reporting period.

3.18 Contributions and charges

Employers can choose their rate of contributions and that for their workers. The contribution rates chosen must meet the minimum limits set by the Secretary of State for Work and Pensions during the initial period. Employers also set their payment frequency for making contributions within statutory limits and their payment due date for each payment period. Once set, all employers must make payments each period by this due date. If the scheme is not in receipt of both a contribution schedule and a payment which matches this schedule by the due date, the scheme will investigate the status of the payment with the employer.

The Trustee must report to The Pensions Regulator (TPR) and members within a reasonable period after the due date if:

- member contributions and/or employer contributions are not paid on time and
- the Trustee has reasonable cause to believe that the late payment contribution is material.

The scheme levies a 0.3 per cent annual management charge (AMC) on members' assets under management, plus a charge on contributions of 1.8 per cent.

For the contribution profiles of many NEST members, our charges work out as broadly equivalent to a 0.5 per cent AMC across the period of time saving with us. An AMC of 0.5 per cent is regarded as a good benchmark for the kind of low charges currently enjoyed by members of large workplace schemes. Our charges conform with the rules on charge caps announced by the government in March 2014 and due to come into effect in April 2015.

3.19 Taking money out of NEST

NEST supports members at retirement with tailored information and simple processes. When a member gets close to their NEST retirement age, we give them information on their full range of options for taking money out of NEST. This includes a retirement income with or without a cash lump sum, taking their whole pot as cash (where permitted by regulation), and transferring to another registered pension scheme.

There were 227 retirements during the year. Of these, two members transferred out, 224 members exercised the cash option and one member opted to take a retirement income.

Once the member has taken money out of their retirement pot in any of these ways, they leave NEST and the scheme has no further responsibility to them in respect of that retirement pot.

HM Treasury Budget 2014

The March 2014 Budget announced the government's intention to simplify the rules around how DC pension members can access their retirement savings.

We want our members to be able to access their retirement pots in ways that help them meet their aspirations and provide the flexibility they need in later life. Changes to the ways in which consumers want to access their pension savings and what they are allowed to do with them are likely to influence how we manage their risks and invest their money. It will also affect what help and guidance we provide to members about the choices they need to make. However, the changes being proposed by the Treasury in Budget 2014 are significant and we want to give them the careful consideration they deserve, along with others in the industry.

For the NEST Retirement Date Funds, our Foundation and Growth phases are likely to remain unchanged by the recent announcements. However, we will be reviewing our approaches in the Consolidation phase to ensure that how we manage members' money in that phase best matches a member's planned method of taking retirement benefits. Our overriding concern is to act in our members' best interests – that will be the lens through which we will consider any changes that may be needed. As we develop our thinking, we plan to consult widely to ensure that we bring the best ideas to bear on delivering appropriate solutions to our members. In the meantime, we have updated our guidance for members on the website to point them to organisations that can give them further guidance and information such as the Pensions Advisory Service, Money Advice Service and independent financial advisers.

Transfers

NEST's order and rules provide limited scope for the scheme to accept transfers in or pay transfers out.

There were 17 transfers in during the year. All were cash transfer sums. There were no transfers in as a result of a pension sharing order, although this would be allowed under NEST's order and rules.

Deaths

Members of the scheme can nominate who they would like to receive their retirement pot if they die before taking their money out of NEST.

This could be their partner or family member, a charity, or a combination of people and organisations. Nominations are legally binding and the scheme will pay the pot to whoever the member has nominated should the member die.

Other than providing the retirement pot, the scheme does not provide members with death in service benefits.

There were 94 deaths during the reporting period.

3.20 Statement of Trustee's responsibilities

The Trustee is responsible for the audited financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP). The Trustee, in line with pension scheme regulations, needs to make audited financial statements for each scheme year available to scheme members, beneficiaries and certain other parties, which:

- 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

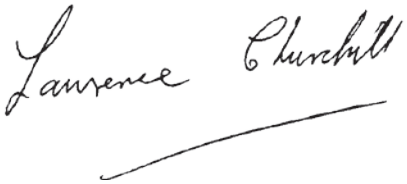
- contain the information specified in the schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended 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 making available each year, commonly in the form of a Trustee's annual report, information about the scheme prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The Trustee has a general responsibility for:

- ensuring that adequate accounting records are kept
- taking such steps as are reasonably open to them to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities, including the maintenance of appropriate internal controls.

The Trustee report in respect of the scheme was signed on behalf of NEST Corporation by:



Lawrence Churchill CBE
Chair
NEST Corporation

27 June 2014

04 Investment report

4.1 Statement of investment principles

The investment objectives for the scheme are set out in its SIP which the Trustee is required to prepare under section 35 of the Pensions Act 1995. The SIP is reviewed annually. This year the Trustee reviewed the 2013/14 SIP and made material changes to the scheme's investment beliefs, effective from April 2014, as outlined below.

Investment theory and practice have evolved dramatically over the last five decades, yet no objective framework exists that adequately describes how to view capital markets, or how to apply these insights for investment purposes. Investment beliefs accept this reality. Investment beliefs are a set of high-level principles established by the Trustees to provide focus and assist effective internal decision-making in a complex environment.

The scheme's investment beliefs have been established by the Trustee to provide an objective and transparent framework for consistent decision-making and to support all investment functions. This year the investment committee conducted the triennial review of the investment beliefs to ensure they remained fit for purpose. The outcome was that some beliefs were left unchanged, and some were developed in the light of new evidence. Two new investment beliefs were added. The existing and amended investment beliefs are as follows:

Investment beliefs for 2013/14	Investment beliefs for 2014/15
Understanding scheme member characteristics, circumstances and attitudes is essential to developing and maintaining an appropriate investment strategy.	Understanding scheme member characteristics, circumstances and attitudes is essential to developing and maintaining an appropriate investment strategy.
As long-term investors, incorporating environmental, social and governance (ESG) factors within the investment process is in the best interests of our members.	As long-term investors, incorporating environmental, social and governance (ESG) factors is integral to the investment management process.
Taking investment risk is usually rewarded in the long term.	Taking investment risk is usually rewarded in the long term.
Diversification is the key tool for managing risk and return.	Diversification is the key tool for managing risk.
Risk-derived asset allocation is the biggest determinant of long-term performance.	Risk-based asset allocation is the biggest driver of long-term performance.
Analysis of both economic conditions and market regimes should be used to drive strategic decisions.	Economic conditions and long-term market developments inform our strategic decisions.
Passive management – where available – generally delivers better value for money than active security selection.	Indexed management, where available, is generally more efficient than active management.
	Integrating valuation considerations into the investment process can enhance our long-term performance.
	Good governance, including an appropriately resourced in-house investment function, is in the best interests of our members.

Allowing our members and stakeholders to see why investment decisions are made and how we operate helps build trust and increases the chances of the Trustee making good investment decisions consistently.

The SIP is available to download from **nestpensions.org.uk/library**

During the year and at year-end all investments were in accordance with the SIP.

4.2 NEST funds

Based on our understanding of the diverse needs of our target group, we've aimed to develop an approach to investment that offers:

- a well-constructed default strategy – the NEST Retirement Date Funds – with clear return objectives and a carefully managed risk profile
- a selection of clearly labelled fund choices for those who want a different level of risk, or an approach that matches their beliefs or faith.

4.3 NEST Retirement Date Funds

When they join the scheme, members' retirement pots are invested in the NEST Retirement Date Fund that matches either their State Pension age or age 65, depending on their date of birth. Each fund aims to have members' money ready to convert into retirement benefits in the year they want to take their money out. Members can change their NEST retirement age at any time and their retirement pot will be switched automatically into the matching NEST Retirement Date Fund.

The overarching investment objective for the NEST Retirement Date Fund is to target investment returns in excess of inflation after all charges over the long term. This keeps both us and our members focused on actual outcomes, not stand-alone investment return figures that don't take account of the impact of charges and inflation.

Why inflation?

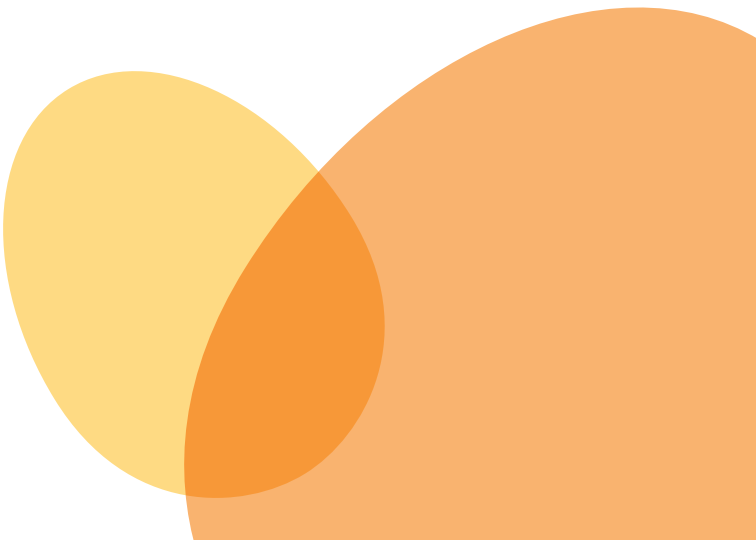
Our investment objectives are based on delivering above-inflation growth. We're not focused on delivering market-relative performance. Our members need to grow their money in real terms to build a retirement pot. We want to make sure that our members don't lose out to either the rising cost of living or sudden investment shocks and that they get back the charges they pay through investment growth. It's what our members expect and so we've put it at the heart of what we do. Our chosen measure of inflation is the consumer prices index (CPI).

Currently 99 per cent of our members invest in our NEST Retirement Date Funds, either through choice or by default if they have not actively made a fund choice.

4.4 Alternative fund options

Where a scheme member makes a fund choice they can select a different NEST Retirement Date Fund, or they have the option to choose one of the following alternative funds.

- **NEST Ethical Fund**
  This fund is designed for members who are 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 available, our NEST Ethical Fund choice has multiple asset classes and uses a three-phase 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.
- **NEST Higher Risk Fund**
  This fund is for members who want to take more investment risk to try and make their retirement pot grow more quickly than in a NEST Retirement Date Fund. As members approach their retirement date we'll move their pot into the appropriate NEST Retirement Date Fund. This will help protect any gains they've made and get their retirement pot ready for them to take out of the scheme.
- **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. In the long term however, it will probably grow less than other fund choices and may not keep pace with inflation.
- **NEST Pre-retirement Fund**
  This fund is suitable for members who start saving with NEST in the next five years, are near their retirement date and intend to buy a retirement income with some or all of their pot.



4.5 Investment managers

All our funds are constructed from building block mandates supplied by leading fund managers.

The funds and fund managers are selected through a competitive tender process. Professional advice from the Trustee's in-house team and 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 scheme invests in a diversified range of asset classes. Within the framework set down by the Trustee, the fund managers have full discretion to buy and sell investments on behalf of the scheme. In the last financial year we appointed one new manager, Legal & General Investment Management (LGIM), to manage two new real estate mandates. The scheme currently invests exclusively in pooled funds.

Our current list of mandates and their managers are:

- diversified beta - BlackRock
- sterling liquidity (money market investments) – BlackRock
- global ethical developed equities - F&C Investments
- sharia-compliant global developed equities - HSBC Global Asset Management.
- direct UK commercial property – Legal & General Investment Management (LGIM)
- global real estate equities - Legal & General Investment Management (LGIM)
- sterling corporate bonds – Royal London Asset Management
- UK gilts - State Street Global Advisors
- UK index-linked gilts - State Street Global Advisors
- global developed equities - UBS Global Asset Management

4.6 Approach to investment risk management

The Trustee views investment risk management as a strategic function. The scheme will have a large and diverse membership. The Trustee seeks to manage members' investment risks throughout their time saving in the scheme in a holistic way. This has led us to three main design characteristics within the NEST Date Retirement Funds:

- We employ up to three phases of risk management as members build up their pots. Each phase has a different objective that focuses on the needs of the member at specific times in their savings career. These are the Foundation, Growth and Consolidation phases.
- We manage risk through diversification, investing money wherever possible across a wide variety of assets to spread the risk and smooth the returns. This helps us navigate many different economic and market environments.
- We set and operate within a risk budget. Therefore we seek to take the appropriate risk at the appropriate time in order to achieve the long-term objectives efficiently.

Intrinsically linked with our risk management procedures is our process for understanding the market and economic regimes under which we operate, and also for setting appropriate strategic asset allocations.

The strategic asset allocations for the NEST Retirement Date Funds, the NEST Higher Risk Fund and the NEST Ethical Fund are set using widely used modelling techniques and well-researched inputs and assumptions from our investment advisers.

The Trustee also focuses on identifying the best options for delivering against strategic and long-term goals over achieving short-term results. The scheme's investment horizons are aligned with our members and so are necessarily long-term.

The scheme uses an industry-standard risk system provided by MSCI Barra International along with an in-house modelling platform. This allows us to constantly monitor and manage investment risks so we can look to achieve better outcomes for our members without taking undue risk.

The underlying data we consider provides a long-term perspective and recognises current market conditions. This supports our investment team in making dynamic adjustments to portfolios.

Of the many risks we take into account, capital protection risk, inflation risk and conversion risk are our key focus. Our investment team dynamically manages these investment risks throughout a member's saving lifetime.

Managing investment risk – understanding risk

We provide more detail on our approach to risk management and our investment approach in our document *Looking after members' money* at **nestpensions.org.uk/library**

4.7 Default investment strategy

Each NEST Retirement Date Fund pools the retirement pots of all the members who plan to take their money out of the scheme in the same year. This allows us to efficiently address the common interests of large numbers of savers while still providing a tailored approach for individuals.

We're able to adjust the portfolio of each fund to match our members' place in the saving lifecycle and take account of changing economic and market conditions along the way. This aims to give our savers a much smoother ride than funds based on a single asset class or those that rely on a mechanical life-styling approach that adjusts allocations automatically according to a fixed schedule.

The youngest members who put their money in our NEST Retirement Date Funds will go through three phases. Each phase has a different objective that focuses on the needs of the member at specific times in their savings career.

Many members will only experience one or two phases, and many members will only contribute for short periods of time. However we have a glide path that sets out the levels of investment risk we expect to expose members to at each stage of the lifecycle, regardless of how long for or how often a member contributes. These are designed to balance the member's need to keep their money growing to at least outperform inflation with their desire to avoid sharp falls in the value of their savings.

The glide path is defined by the risk budgets we allow for each phase. We have defined these through portfolio volatility levels for the Growth and Foundation phases, and as tracking error to annuities for the Consolidation phase. Broadly speaking we've set risk budgets in terms of taking sufficient but not excessive risk. However, the way NEST Retirement Date Funds are structured allows us to vary the amount and type of risk taken according to economic and market conditions.

4.8 Moving between phases

Our lifecycle is not a rigid 'set and forget' regime. We dynamically manage the transition between phases to take account of our view of the financial markets, the economic environment and our latest understanding of our members. This helps us judge the best time to begin reducing or increasing the investment risk.

In this way we can take advantage of the good times on our members' behalf while giving them extra protection from the bad times.

4.9 Growth phase

The Growth phase is the engine of the NEST Retirement Date Funds' approach where we concentrate on growing the pot. Members could spend up to 30 years in this phase. We've set ourselves a benchmark of 3 per cent above CPI after all charges so that we - and our members - can judge if we're delivering the growth our members need and expect. In practice, though, we'll be striving to get the best performance we can from the investment risk we take on our members' behalf.

Growth phase objectives

- target investment returns at least equivalent to CPI plus 3 per cent a year over the long term and after all scheme charges
- target a long-term volatility average of 10-12 per cent
- maximise diversification
- aim for substantial and steady growth in real terms over the life of the fund
- maximise retirement incomes by taking sufficient and rewarded investment risk at appropriate times while reducing the impact of extreme investment shocks.

4.10 Consolidation phase

The Consolidation phase is when we move to lock in the expected gains that members have made and mitigate the risks that come from converting investment assets into a retirement income and a tax-free lump sum. Starting around 10 years before retirement we gradually move member pots into assets that broadly reflect the way we expect them to take their money out of the scheme. In the early years of the scheme, we expect that most members who enrolled late in their careers will take their relatively small pots as cash. In the long-term it was expected that most of our members were likely to take 25 per cent of their pots as a tax-free lump sum and use the rest to buy a retirement income. In light of the recent Budget announcement we're reviewing the likely retirement options available to members from 2015 and the appropriate investment strategies to meet those options.

We still expect to grow members' money by more than inflation but in this phase our primary focus is to secure the member's retirement income.

Consolidation phase objectives

- gradually move the portfolio from the return-seeking assets held in the Growth phase to annuity-tracking assets and cash-like investments
- gradually reduce volatility and manage the tracking error to annuity prices
- continue to grow the portfolio in real terms where this does not clash with the above goals
- further reduce the impact of investment shocks.

4.11 Foundation phase

The Foundation phase is focused on getting new members into the savings habit. During our research younger savers told us that they may stop saving if they see falls in the value of their retirement pot. This is true even for a very short-term or one-off loss. For this reason members who join in their 20s will typically spend one to five years in the Foundation phase. In this phase we want to encourage members to keep saving by making sure they see a steady increase in their retirement pot as they make contributions. We still aim to beat CPI to protect the real value of their retirement pot but we don't expose them to all of the risks associated with chasing higher growth. We're prepared to give up a very small amount of potential growth in this phase because the impact on final outcomes is negligible for most members, but the impact of stopping saving could be much more harmful.

Foundation phase objectives

- preserve capital while seeking sufficient return to match CPI after all scheme charges
- target a long-term volatility average slightly lower than the Growth phase
- significantly reduce the impact of extreme investment shocks
- take appropriate risk at appropriate times, taking account of current economic and market conditions.

Details of current fund performance, risk management and asset allocation can be found by searching for 'fund factsheets' at **nestpensions.org.uk**

4.12 Custodial arrangements

The scheme only invests in pooled funds. This means that the custody, or safekeeping, of the underlying assets in the pooled funds is carried out by the underlying investment manager's custodian. The funds and the respective custodians are detailed in Table 1 below.

State Street Bank and Trust Company (SSB) provides fund administration services to ensure that our members' money is managed in line with our investment strategy. It administers the NEST Retirement Date Funds and our additional fund choices.

The Trustee reviews the annual internal control assurance reports produced by the investment managers and SSB. SSB reconciles investments and cash to the investment managers' records on a daily basis.

Table 1: Underlying funds and custodian

Underlying fund	Custodian
BlackRock Aquila Institutional Sterling Liquidity Fund	J P Morgan
BlackRock Aquila Life Market Advantage Fund	J P Morgan
F&C Ethical Bond Fund	State Street Bank and Trust
F&C Stewardship International Fund	State Street Bank and Trust
HSBC Life Amanah Pension Fund	HSBC Securities Services
LGIM Global Real Estate Equity Index Tracker Fund	LGIM Securities Services
LGIM Managed Property Fund (UK)	LGIM Securities Services
Royal London UK Corporate Bond Pooled Pension Fund	HSBC
SSgA UK Conventional Gilts All Stocks Index Fund	State Street Bank and Trust
SSgA UK Index Linked Gilts over 5 Years Index Fund	State Street Bank and Trust
UBS Life World Equity Tracker Fund	J P Morgan

4.13 Responsible investment

The scheme owns equities, corporate bonds and other asset classes on behalf of members. We believe that in order to protect and enhance the value of our investments over the long term on behalf of our members we must act as a responsible asset owner and market participant.

We integrate the consideration of environmental, social and governance (ESG) issues across all asset classes and markets where practical. In particular, we exercise our ownership rights, including voting and engagement rights, in order to protect members' interests.

We adopt a robust, responsible investment policy across all of our funds to improve corporate standards and ensure all investments are carried out responsibly and sustainably.

This year we published our UK voting policy setting out our views as to how we expect UK corporates to act and how we intend to be an effective steward. This can be found at **nestpensions.org.uk/responsible-investment**

The Trustee believes that sound corporate governance can contribute to long-term economic value for the millions of members we expect will be saving in the scheme. As an investor for the long term we also have a special responsibility to encourage companies to be mindful of their effect on the community and the environment in which they operate. The Trustee believes companies that do so have a better chance of sustaining long-term economic success.

The scheme's policy has been developed in partnership with our responsible ownership partners – Royal London Asset Management and Manifest – and its equity fund managers, UBS and F&C. Our policy is also underpinned by industry best practice set by the Financial Reporting Council (FRC), the Association of British Insurers (ABI), and the National Association of Pension Funds (NAPF).

We aspire to be a leader in the UK on ownership and governance. Our assets under management are expected to grow significantly over the coming years. As they do so our approach to executing our voting policy will develop accordingly. Our voting policy will be used at this stage of our development to:

- hold our fund managers to account on the decisions they make
- set expectations on how we believe companies should behave
- direct engagement with the companies we invest in
- take part in wider debate on corporate governance with regulators and government.

The fund managers we have selected are committed to taking a serious approach to investing responsibly and active ownership. The Trustee meets with its fund managers to discuss their performance with regards to voting and corporate governance.

More detail on our approach to voting and a report on the voting activity of our fund managers can be found at **nestpensions.org.uk/responsible-investment**

4.14 Codes and initiatives

In 2011 we signed the Financial Reporting Council's UK Stewardship Code. This is a set of good practice principles that aim to improve the way companies and shareholders work together in the long-term interests of shareholders.

NEST Corporation has also become a signatory to the United Nations-backed Principles for Responsible Investment (UNPRI). These encourage consistent standards for responsible investment around the world.

4.15 Market commentary

The two dominant features of the investment markets in the year under review were the continued rise in global developed equity markets and the associated rise in yields in so-called safe haven global bond markets.

Supported by ample global liquidity from low interest rates and quantitative easing (QE), developed stock markets performed well, with the FTSE world index rising 8.8 per cent in sterling terms over the year. This rise was achieved despite a background of relatively slow world economic growth and, from May 2013, a realisation that the US Federal Reserve (the Fed) would begin tapering its QE activities.

In contrast, emerging market equities continued to struggle with the FTSE Emerging Markets index declining 13.5 per cent in sterling terms. This was attributed by market commentators to the impact of the Fed tapering. However, it's more likely to be caused by declining returns on investment in many countries due to excess credit and poor capital spending decisions. The effects of this will need to unwind before the positive long-term growth story for emerging economies can reassert itself.

As investors' risk appetite improved, the government bond markets of the safe haven countries such as the US, UK and Germany sold off. This decline accelerated as the tapering fears emerged, which caused yields for the benchmark 10-year gilt to rise around 1 per cent over the year to finish at 2.76 per cent.

UK commercial property began to see a recovery as confidence in the UK economic recovery increased. The IPD real estate index has risen by 8.8 per cent over the last six months.

The NEST Retirement Date Funds are well-diversified funds investing in 13 different asset classes.

The major change to the scheme's asset allocation over the year was the addition of real estate into the funds. In the NEST Retirement Date Funds this is achieved through a combination of direct UK commercial property and global listed real estate shares. The former looks particularly attractive in valuation terms relative to other asset classes.

The investment outlook is somewhat mixed. Both developed equities and bonds (government and corporate) look fully valued against a background of lacklustre economic growth. Inflation remains subdued and there are fears of deflation emerging particularly in the eurozone. UK commercial property remains an attractive asset class.

Mark Fawcett, chief investment officer

Table 2: Top 10 scheme holdings as a percentage of total investments

Underlying fund	% of investments invested
Strand Island Site London*	0.73%
JP Morgan Securities	0.72%
Apple	0.55%
Exxon Mobil	0.49%
West Cross Industrial Park Brentford*	0.48%
Sainsbury's Cheltenham*	0.41%
Dolphin Centre Poole*	0.41%
76/88 Wardour Street*	0.41%
Google	0.36%
Microsoft	0.35%

* UK real estate

4.16 Fund performance

NEST Retirement Date Funds have performed as we would have expected in a period of strong performance in global developed stock markets. Developed market equity remains by far our most significant asset class holding and our performance well in excess of our investment return objectives reflects this. All of our NEST Retirement Date Funds with an inflation plus objective have significant allocations to developed market equity. They have all delivered above-inflation returns. However, like the majority of our members, we're investing for the long term rather than focusing on data related to short periods.

There are currently more than 50 separate funds in the different phases of risk management, including our NEST Retirement Date Funds and the alternatives available.

In table 3 we show typical performance for NEST Retirement Date Funds in the three different phases – the Foundation phase, the Growth phase and the Consolidation phase. We also show our five alternative fund choices. Appendix B shows the performance of all of the NEST Retirement Date Funds.

Table 3: Performance of NEST funds

Fund	Benchmark	Fund performance one year to 31 March 2014 %	Benchmark one year to 31 March 2014 %	Annualised fund performance since 1 August 2011 %	Annualised benchmark performance since 1 August 2011 %
NEST Retirement Date Fund in the Foundation phase	*CPI	3.67	1.67	7.92	2.55
NEST Retirement Date Fund in the Growth phase	*CPI + 3%	4.39	4.67	8.42	5.55
NEST Retirement Date Fund in its final year of the Consolidation phase	7-day sterling LIBID rate	0.51	0.36	0.70	0.41
NEST Ethical Fund (Growth phase)	*CPI + 3%	4.34	4.67	9.48	5.55
NEST Sharia Fund	Dow Jones Islamic Market World Index	7.09	8.10	10.97	12.07
NEST Higher Risk Fund	Target higher volatility than the NEST Retirement Date Fund growth phase	6.30	N/A	9.84	N/A
NEST Lower Growth Fund	7-day sterling LIBID rate	0.39	0.36	0.47	0.41
NEST Pre-retirement Fund	75% - Annuity-tracking 25% - 7-day sterling LIBID rate	1.49	0.96	5.93	4.52

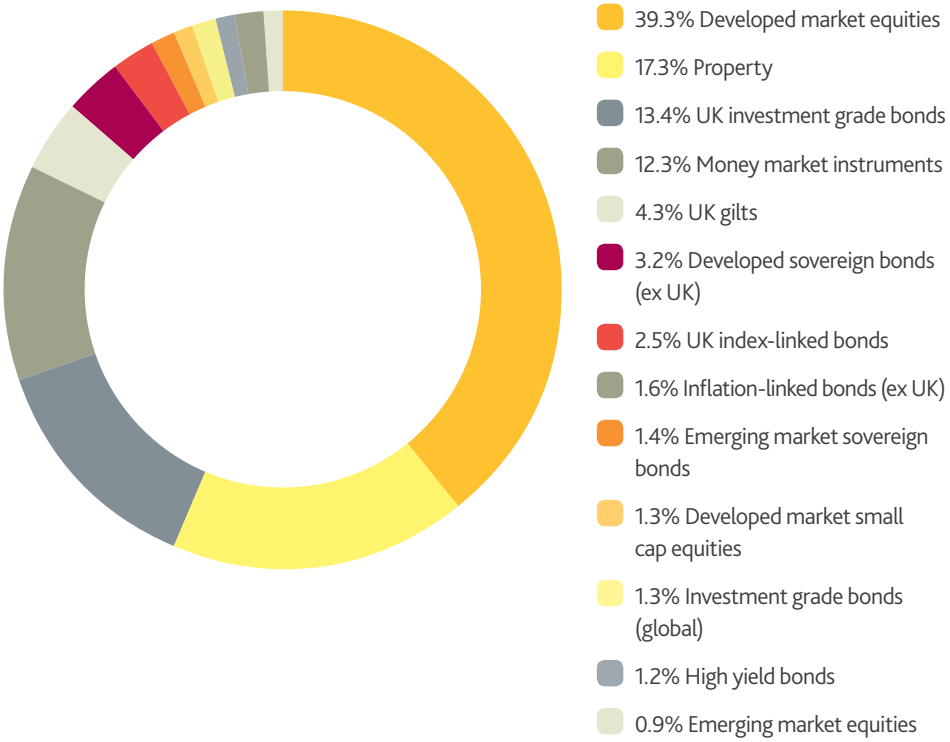
* The NEST Ethical Fund has three accumulation phases. The fund performance we have shown is in the Growth phase. It has a return objective of outperforming inflation by more than 3 per cent after all scheme charges.

4.17 Employer-related investments

The scheme is not in contravention of subsection (1) of section 40 of the 1995 Pensions Act. See note 9 of the financial statements and the table in appendix A.

4.18 Asset allocation of all investments

Asset allocation of total investments



05 Independent Auditor's Report to the Trustee of the NEST pension scheme

We have audited the financial statements of NEST pension scheme for the year ended 31 March 2014 set out on pages 46 to 54. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the scheme Trustee 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 it 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, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Trustee and auditor

As explained more fully in the Statement of Trustee's responsibilities set out in section 3.20, the scheme Trustee is responsible for the preparation of financial statements which show a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at **frc.org.uk/auditscopeukprivate**

Opinion on financial statements

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 2014 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 Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.



Kevin Clark
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
27 June 2014

06 Financial Statements

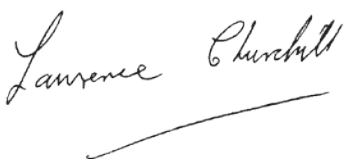
Fund account for the year ended 31 March 2014

	Note	Year ended 31 March 2014 £000	Year ended 31 March 2013 £000
Contributions and benefits			
Contributions	3	117,972	5,281
Other income	4	59	37
		118,031	**5,318**
Benefits	5	(76)	(1)
Administrative expenses	6	(1,935)	(64)
Net additions from dealings with members		**116,020**	**5,253**
Return on investments			
Investment income and management fee rebates	7	15	1
Change in market value of investments	8.1	1,849	274
Net returns on investments		**1,864**	**275**
Net increase in the fund in the year		**117,884**	**5,528**
Net assets at start of year		**6,009**	**481**
Net assets of the scheme at 31 March 2014		**123,893**	**6,009**

Net assets statement as at 31 March 2014

	Note	31 March 2014 £000	31 March 2013 £000
Assets and liabilities allocated to members			
Investments			
Pooled investment vehicles	8.1/8.2	104,029	3,787
Other non-invested assets	8.4	1,434	37
Other non-invested liabilities	8.4	(1,456)	(37)
Total investments		**104,007**	**3,787**
Net current assets	9.1		
Current assets		21,583	2,224
Current liabilities		(1,709)	(3)
Total net assets allocated to members		**123,881**	**6,008**
Assets and liabilities not allocated to members			
Net current assets	9.2		
Current assets		28	3
Current liabilities		(16)	(2)
Total net assets not allocated to members		**12**	**1**
Net assets of the scheme at 31 March 2014		**123,893**	**6,009**

The accounts 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 pages 46 to 47, including the notes to the financial statements on pages 48 to 54, were signed on behalf of NEST Corporation by:



Lawrence Churchill CBE
Chair
NEST Corporation
27 June 2014



Iraj Amiri
Chair, audit committee
27 June 2014

Notes to the financial statements for year ended 31 March 2014

1. Basis of preparation

The financial statements have been prepared in accordance with the *Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996* and with the guidelines set out in the *Financial Reports of Pension Schemes, Statement of Recommended Practice (revised May 2007)*.

2. Accounting policies

The principal accounting policies of the scheme are as follows:

2.1 Contributions

Contributions from 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 when received.

Amounts due from HMRC in respect of tax rebates on member contributions are accounted for in the same period as the related member contribution.

Amounts received in excess of the annual contribution cap are not recognised as contributions. They are held in current liabilities until the end of the year when they are either refunded or accepted as contributions for the following year.

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

2.2 Transfers

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

2.3 Benefits

NEST may pay benefits to members in the form of:

- pension commencement lump sum
- purchase of an annuity through the NEST retirement panel or from another annuity provider via an open market option
- trivial commutation.

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

2.4 Other income and expenses

Where material, other income and expenditure is accounted for on an accruals basis.

2.5 Charges

Contribution charges of 1.8 per cent are accounted for when contributions are invested. Annual management charges of 0.3 per cent of the value of members' funds under management are accounted for on a daily accrual basis by reduction in the unit price.

2.6 Investments

Investments are included at market value. Pooled investment vehicles are stated at single price as provided by the investment manager.

2.7 Change in market value of investments

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

Investment income from the underlying investments of the pooled investment vehicles is reinvested within the pooled investment vehicles and reflected in the respective unit prices. It is reported within 'change in market value'.

3. Contributions

	Year ended 31 March 2014 £000	Year ended 31 March 2013 £000
Contributions from:		
Participating employers	64,320	2,683
less employers' share of refund of contributions for members opting out	(177)	(2)
	64,143	**2,681**
Members	43,085	2,119
less members' share of refund of contributions for members opting out	(124)	(2)
	42,961	**2,117**
HM Revenue and Customs	10,872	483
less HMRC's share of refund of contributions for members opting out	(4)	-
	10,868	**483**
	117,972	**5,281**

4. Other income

	Year ended 31 March 2014 £000	Year ended 31 March 2013 £000
Transfers in - registered pension scheme	54	17
- pension sharing order	-	19
Funding from NEST Corporation	4	1
Other income	1	-
	59	**37**

The funding from NEST Corporation relates to day-to-day operational matters, such as rounding differences and pre-funding of tax relief. This is allowed under the order and rules and is shown as an unallocated balance in note 9.2.

5. Benefits payable

	Year ended 31 March 2014 £000	Year ended 31 March 2013 £000
Trivial commutations	58	1
Death benefits payable to beneficiaries	11	-
Purchase of annuities	6	-
Transfers out	1	-
	76	**1**

6. Administrative expenses

	Year ended 31 March 2014 £000	Year ended 31 March 2013 £000
Contribution charge	1,823	60
Annual management charge	112	4
	1,935	**64**

Contribution charges of 1.8 per cent are accounted for when contributions are invested. Annual management charges of 0.3 per cent of the value of members' assets under management are accounted for on a daily accrual basis by reduction in the unit price. These charges are paid to NEST Corporation, see note 10 on related parties.

7. Investment income and management fee rebates

	Year ended 31 March 2014 £000	Year ended 31 March 2013 £000
Interest income	5	-
Dividend income from pooled investment vehicles	1	-
Other - management fee rebates	9	1
	15	**1**

Management fees deducted by fund managers are rebated into the NEST funds to ensure that members only pay a 0.3 per cent annual management charge.

8. Investments

8.1 Investment movements

	B/fwd as at 1 April 2013 £000	Purchases £000	Sales proceeds £000	Change in market value £000	C/fwd as at 31 March 2014 £000
Pooled investment vehicles	3,787	98,661	(268)	1,849	104,029
Other investment balances (see note 8.4)	-				(22)
Total investments	**3,787**				**104,007**
Represented by					
Allocated to members	3,787				104,007
Not allocated to members	-				-
Total investments	**3,787**				**104,007**

8.2 Investments

	Year ended 31 March 2014 £000	Year ended 31 March 2013 £000
Managed funds	120	49
Unitised insurance policies	103,909	3,738
Total pooled investment vehicles	**104,029**	**3,787**
Blackrock Aquila Institutional Sterling Liquidity Fund	12,165	451
Blackrock Aquila Life Market Advantage Fund	13,813	956
F&C Stewardship International Fund	120	49
HSBC Life Amanah Fund	118	41
LGIM Global Real Estate Equity Index Tracker Fund	16,780	-
LGIM Managed Property Fund (UK)	45	-
Royal London UK Corporate Bond Pooled Pension Fund	13,904	422
SSgA UK Index Linked Gilts over 5 Years Index Fund	2,550	266
SSgA UK Conventional Gilts All Stocks Index Fund	4,523	132
UBS Life World Equity Tracker Fund	40,011	1,470
Total pooled investment vehicles	**104,029**	**3,787**

There were no assets held in the F&C Ethical Bond Fund at year-end.

8.3 Investment assets allocated to members

The scheme investments are held in either NEST Retirement Date Funds or a focused range of additional funds. As explained in the investment report in section 4, the funds are invested through underlying funds which are managed by the underlying investment managers, as shown by total investments in note 8.1 above. When members' contributions are invested and allocated in accordance with their fund selection contributions are invested into the relevant funds below. The difference between the assets allocated to members below and the investment assets in note 8.2 above is the other investment balances in note 8.4.

	31 March 2014 £000	31 March 2013 £000
NEST Higher Risk Fund	803	243
NEST Retirement Date Funds	102,810	3,416
NEST Pre-retirement Fund	58	2
NEST Lower Growth Fund	-	-
NEST Ethical Fund	218	84
NEST Sharia Fund	118	42
Total assets allocated to members	**104,007**	**3,787**

8.4 Other investment balances

	31 March 2014 £000	31 March 2013 £000
Investment cash including cash in transit	1,432	36
Reimbursement due from investment managers	2	1
Other investments - assets	**1,434**	**37**
Amounts due to investment managers in respect of outstanding trades	(1,432)	(36)
Annual management charge due to NEST Corporation	(24)	(1)
Other investments - liabilities	**(1,456)**	**(37)**
Total – other investment balances	**(22)**	-

9. Current assets and liabilities

9.1 Current assets and liabilities allocated to members

	31 March 2014 £000	31 March 2013 £000
Contributions due from:		
participating employers	8,946	1,011
members	5,789	776
HM Revenue and Customs	4,109	280
Cash awaiting investment	2,739	157
Current assets	**21,583**	**2,224**
Benefits payable	(2)	-
Amounts to be invested	(10)	(1)
Contribution corrections and limit breach repayable	(35)	(2)
Contributions yet to be allocated to member accounts or returned to employers	**(1,662)**	-
Current liabilities	**(1,709)**	**(3)**

The contributions to be allocated to member accounts relate to cash being held for investment in the next few days.

Outstanding member and employer contributions at the year-end totalled £14,735k (2013: £1,788k). In respect of these outstanding contributions, £13,807k was received by 31 May 2014 (2013: £1,752k by 31 May 2013).

Employer-related investments

The balance at 31 March 2014 includes contributions due from employers totalling £2,364 (2013: £1,427k), which were due after their statutory due dates as required by the payment schedules. Whilst these represent employer-related investments at the year-end of 1.9 per cent (2013: 23.8 per cent) of the scheme's total net assets, they did not contravene subsection (1) of section 40 of the 1995 Pensions Act. With the exception of £928k all of the outstanding contributions from these employers were received by 31 May 2014 (2013: £36k outstanding at 31 May 2013).

9.2 Current assets and liabilities not allocated to members

	31 March 2014 £000	31 March 2013 £000
Cash		
Cash - general account	3	1
Cash - other	16	2
Other receivables	9	-
Current assets	**28**	**3**
Amounts payable to NEST Corporation	(16)	(2)
Current liabilities	**(16)**	**(2)**
Net current assets not allocated to members	**12**	**1**

10. Related party transactions

The scheme's Trustee is NEST Corporation, which is a non-departmental public body accountable to the Secretary of State for Work and Pensions. The scheme pays the Trustee the contribution charge and annual management charge shown in note 6 above. The total amount for the year was £1,935k (2013: £61k).

NEST Corporation is a participating employer in the scheme. Contributions of £817k (2013: £626k) were payable by NEST Corporation to the scheme during the year.

Remuneration and pay for Trustee Members is set by the Secretary of State for Work and Pensions.

Where Trustees are members of the scheme through 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 administrators TCS and the auditors. The details of these fees can be seen in the annual report and accounts for NEST Corporation for the year ended 31 March 2014.

07 Other useful information

NEST's public website is **nestpensions.org.uk**

If you are a member or an employer already using NEST, contact us at **support@nestpensions.org.uk** or alternatively at:

NEST Nene Hall
Lynch Wood Business Park
Peterborough
PE2 6FY

Regulation and disputes

The Pensions Regulator

The Pensions Regulator (TPR) has powers to regulate occupational 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 automatic enrolment duties.

You can find helpful information about TPR at **thepensionsregulator.gov.uk**

You can contact TPR at:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
East Sussex
BN1 4DW

Phone: **0845 600 1011**
Email: **customer.support@thepensionsregulator.gov.uk**

The Pensions Advisory Service

The Pensions Advisory Service (TPAS) provides free independent advice and can help both members and beneficiaries of NEST if they are experiencing problems related to NEST or any other pension scheme.

You can contact TPAS at:

TPAS
11 Belgrave Road
London
SW1V 1RB
Phone: 0845 601 2923 (pensions helpline)

Email: **enquiries@pensionsadvisoryservice.org.uk**
Website: **pensionsadvisoryservice.org.uk**

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 the Pensions Advisory Service (TPAS) and the Internal Disputes Resolution Procedure.

You can contact the Pensions Ombudsman at:

The Office of the Pensions Ombudsman
11 Belgrave Road
London
SW1V 1RB

Phone: **020 7630 2200**

Fax: **020 7821 0065**

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

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

Appendix A Schedule of the top 100 investments

The top 100 investments as at 31 March 2014 have been calculated on a look-through basis to the underlying holding of the pooled funds invested in by the scheme. The employer-related investments are the participating employers in which the scheme invests at arms-length through the investment managers. Any employer-related investments as a result of late contributions are disclosed in the financial statements - see note 9.

Number	Investments	% of investments	Employer-related investment
1	Strand Island Site London	0.73%	
2	JP Morgan Securities	0.72%	
3	Apple	0.55%	
4	Exxon Mobil	0.49%	
5	West Cross Industrial Park Brentford	0.48%	
6	Sainsbury's Cheltenham	0.41%	
7	Dolphin Centre Poole	0.41%	
8	76/88 Wardour Street London	0.41%	
9	Google	0.36%	
10	Microsoft	0.35%	
11	Sainsbury's Preston	0.35%	
12	Union Plaza Aberdeen	0.35%	
13	Jackson Square Shopping Centre Bishops Stortford	0.35%	
14	Johnson & Johnson	0.31%	
15	Wells Fargo & Co	0.31%	
16	General Electric	0.30%	
17	Lloyds Bank term deposit	0.30%	
18	The Industrial Property Fund	0.29%	
19	The Light Leeds	0.29%	
20	Tesco Distribution Site Widnes	0.29%	
21	Bechtel House Hammersmith London	0.29%	
22	Stevenage Leisure Park Stevenage	0.29%	
23	INTO Newcastle University Newcastle	0.29%	Yes
24	Fountains Retail Park Tunbridge Wells	0.29%	
25	194/198 Cambridge Science Park Cambridge	0.29%	
26	Nestlé	0.28%	

Number	Investments	% of investments	Employer-related investment
27	JP Morgan Chase & Co	0.27%	
28	Chevron Corp	0.26%	
29	Procter & Gamble	0.25%	
30	Roche Holdings DRC	0.24%	
31	Pfizer	0.24%	
32	Novartis AG RS	0.23%	
33	International Business Machines (IBM)	0.23%	
34	HSBC Holdings	0.23%	
35	Simon Property Group	0.22%	
36	Bridge & Riverview Uxbridge	0.22%	
37	Plaza House Camden London	0.22%	
38	ING Bank NV 0.52% maturity 2 May 2014	0.22%	
39	AT&T	0.21%	
40	Bank Of America	0.21%	
41	Rabobank Nederland NV 0.68938% maturity 16 January 2015	0.21%	
42	Bank Of Nova Scotia 0.52469% maturity 21 January 2015	0.21%	
43	Lloyds Savings bank deposits	0.20%	
44	HSBC Bank 0.51719% maturity 18 July 2014	0.20%	
45	HSBC Bank Medium Term Note Variable maturity 16 October 2014	0.20%	
46	Merck & Co	0.20%	
47	United Kingdom of Great Britain and Northern Ireland (Government) 1.25% maturity 22 November 2027	0.19%	
48	United Kingdom of Great Britain and Northern Ireland (Government) 2.5% maturity 16 April 2020	0.19%	
49	Coca Cola	0.19%	
50	United Kingdom of Great Britain and Northern Ireland (Government) 1.875% maturity 22 November 2022	0.19%	
51	Commonwealth Bank of Australia 0.52219% maturity 11 July 2014	0.18%	
52	Bank Of Nova Scotia 0.53406% maturity 10 November 2014	0.18%	
53	United Kingdom of Great Britain and Northern Ireland (Government) 2.5% maturity 17 July 2024	0.18%	
54	Toyota Motor	0.18%	

Number	Investments	% of investments	Employer-related investment
55	HSBC Bank PLC Medium Term Note Variable maturity 11 March 2015	0.18%	
56	BP	0.17%	Yes
57	United Kingdom of Great Britain and Northern Ireland (Government) 1.25% maturity 22 November 2055	0.17%	
58	United Kingdom of Great Britain and Northern Ireland (Government) 5% maturity 7 September 2014	0.17%	
59	Citigroup	0.17%	
60	Finance For Residential Social Housing 8.369% maturity 10 April 2058	0.16%	
61	Walt Disney	0.16%	
62	Royal Dutch Shell A	0.16%	
63	United Kingdom of Great Britain and Northern Ireland (Government) 4% maturity 7 March 2022	0.16%	
64	United Kingdom of Great Britain and Northern Ireland (Government) 1.125% maturity 22 November 2037	0.16%	
65	Oracle	0.16%	
66	United Kingdom of Great Britain and Northern Ireland (Government) 5% maturity 7 March 2025	0.16%	
67	Barclays Bank	0.16%	Yes
68	Societe Generale Paris	0.16%	Yes
69	Banque Federative Du Credit Mutuel 0.0% maturity 14 May 2014	0.16%	
70	United Kingdom of Great Britain and Northern Ireland (Government) 1.25% maturity 22 November 2022	0.16%	
71	Valley Cross 334 Rugby	0.16%	
72	Tesco Extra Coatbridge	0.16%	
73	Lotus Park Staines	0.16%	
74	Unit 2 G Park Crick	0.16%	
75	Malmaison Birmingham	0.16%	
76	Blackpole Retail Park Worcester	0.16%	
77	Mersey Multimodal Gateway Widnes	0.16%	
78	The Leisure Fund	0.16%	
79	United Kingdom of Great Britain and Northern Ireland (Government) 2% maturity 26 January 2035	0.16%	

Number	Investments	% of investments	Employer-related investment
80	Samsung Electronics	0.16%	
81	United Kingdom of Great Britain and Northern Ireland (Government) 4% maturity 7 September 2016	0.16%	
82	Total	0.16%	
83	United Kingdom of Great Britain and Northern Ireland (Government) 4.75% maturity 7 March 2020	0.16%	
84	Berkshire Hathaway	0.16%	
85	United Kingdom of Great Britain and Northern Ireland (Government) 4.75% maturity 7 September 2015	0.15%	
86	Philip Morris International	0.15%	
87	Qualcomm	0.15%	
88	Verizon Communications	0.15%	
89	Glaxo Smith Kline	0.15%	
90	Schlumberger	0.15%	
91	Bank Of Tokyo-Mitsubishi UFJ (London Branch) 0% maturity 3 July 2014 20140703	0.15%	
92	United Kingdom of Great Britain and Northern Ireland (Government) 4.5% maturity 7 March 2019	0.15%	
93	INTELl Corp Intel	0.15%	
94	United Kingdom of Great Britain and Northern Ireland (Government) 4.25% maturity 7 June 2032	0.15%	
95	PepsiCo	0.15%	
96	Amazon.com	0.14%	
97	Lloyds TSB Bank PLC 5.125% maturity 7 March 2025	0.14%	
98	United Kingdom of Great Britain and Northern Ireland (Government) 5% maturity 7 March 2018	0.14%	
99	Wal Mart Stores	0.14%	
100	Sanofi	0.14%	

Appendix B NEST Retirement Date Funds' performance

NEST Retirement Date Fund	Fund performance one year to 31 March 2014[1] %	Annualised fund performance since inception[2] %	Inception
NEST Starter Fund[3]	3.55	8.07	1 August 2011
2060 NEST Retirement Date Fund	N/A	0.43	1 January 2014
2059 NEST Retirement Date Fund	3.75	9.26	1 January 2013
2058 NEST Retirement Date Fund	3.69	8.47	1 January 2012
2057 NEST Retirement Date Fund	3.69	8.00	1 August 2011
2056 NEST Retirement Date Fund	3.68	7.98	1 August 2011
2055 NEST Retirement Date Fund	3.67	7.92	1 August 2011
2054 NEST Retirement Date Fund	3.73	7.93	1 August 2011
2053 NEST Retirement Date Fund	3.78	7.98	1 August 2011
2052 NEST Retirement Date Fund	3.93	8.22	1 August 2011
2051 NEST Retirement Date Fund	4.08	8.36	1 August 2011
2050 NEST Retirement Date Fund	4.28	8.38	1 August 2011
2049 NEST Retirement Date Fund	4.40	8.55	1 August 2011
2048 NEST Retirement Date Fund	4.38	8.55	1 August 2011
2047 NEST Retirement Date Fund	4.35	8.40	1 August 2011
2046 NEST Retirement Date Fund	4.39	8.43	1 August 2011
2045 NEST Retirement Date Fund	4.34	8.43	1 August 2011
2044 NEST Retirement Date Fund	4.44	8.43	1 August 2011
2043 NEST Retirement Date Fund	4.38	8.37	1 August 2011
2042 NEST Retirement Date Fund	4.33	8.37	1 August 2011
2041 NEST Retirement Date Fund	4.37	8.39	1 August 2011
2040 NEST Retirement Date Fund	4.39	8.42	1 August 2011
2039 NEST Retirement Date Fund	4.37	8.40	1 August 2011
2038 NEST Retirement Date Fund	4.42	8.41	1 August 2011
2037 NEST Retirement Date Fund	4.36	8.40	1 August 2011
2036 NEST Retirement Date Fund	4.35	8.39	1 August 2011
2035 NEST Retirement Date Fund	4.32	8.39	1 August 2011
2034 NEST Retirement Date Fund	4.33	8.41	1 August 2011
2033 NEST Retirement Date Fund	4.35	8.41	1 August 2011
2032 NEST Retirement Date Fund	4.33	8.37	1 August 2011
2031 NEST Retirement Date Fund	4.23	8.34	1 August 2011

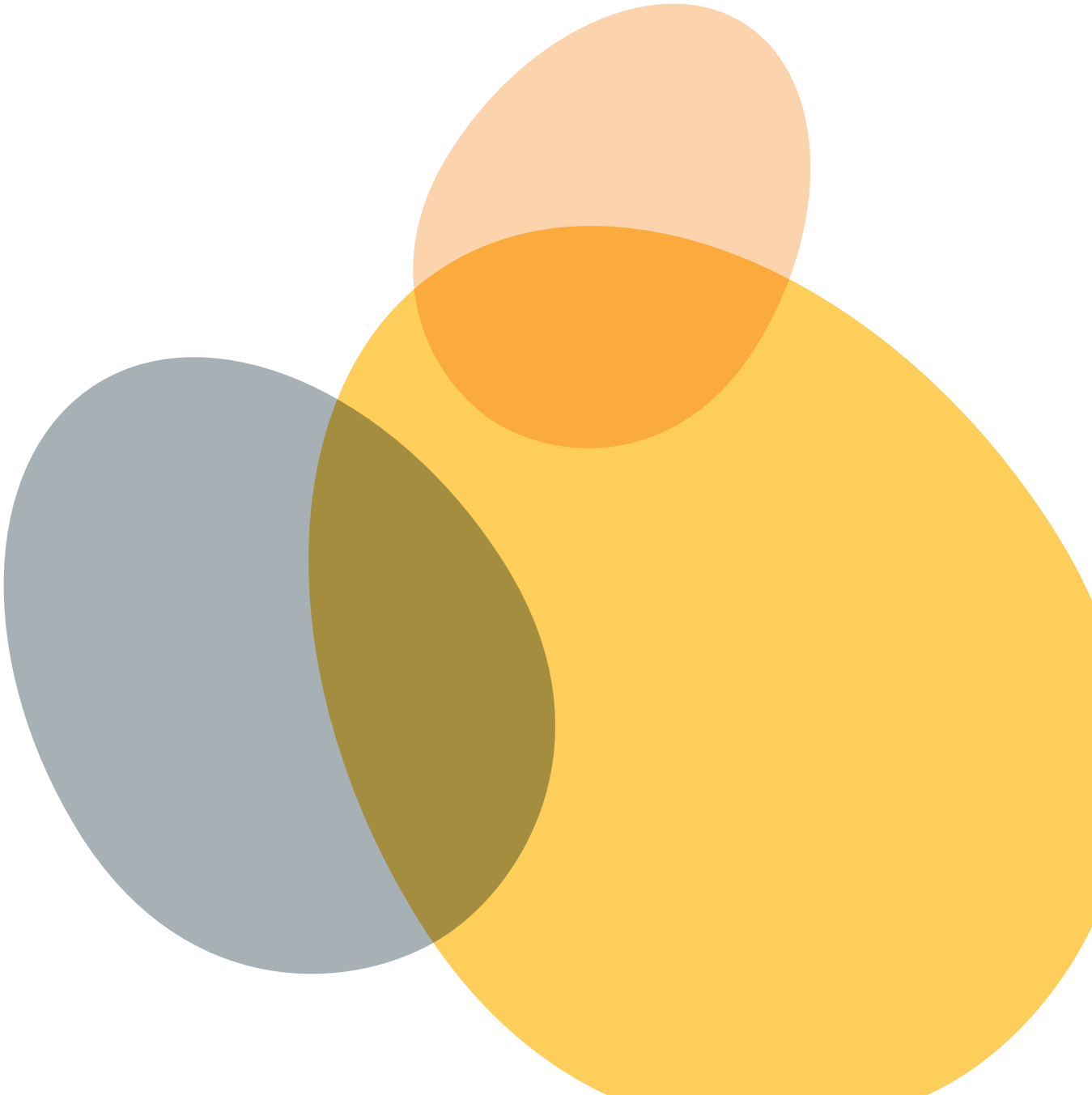
NEST Retirement Date Fund	Fund performance one year to 31 March 2014[1] %	Annualised fund performance since inception[2] %	Inception
2030 NEST Retirement Date Fund	4.38	8.41	1 August 2011
2029 NEST Retirement Date Fund	4.36	8.39	1 August 2011
2028 NEST Retirement Date Fund	4.10	8.29	1 August 2011
2027 NEST Retirement Date Fund	4.37	8.47	1 August 2011
2026 NEST Retirement Date Fund	4.35	8.40	1 August 2011
2025 NEST Retirement Date Fund	4.38	8.39	1 August 2011
2024 NEST Retirement Date Fund	4.42	8.46	1 August 2011
2023 NEST Retirement Date Fund	4.24	8.33	1 August 2011
2022 NEST Retirement Date Fund	3.95	7.86	1 August 2011
2021 NEST Retirement Date Fund	3.63	7.61	1 August 2011
2020 NEST Retirement Date Fund	3.35	7.43	1 August 2011
2019 NEST Retirement Date Fund	3.07	7.17	1 August 2011
2018 NEST Retirement Date Fund	2.74	6.91	1 August 2011
2017 NEST Retirement Date Fund	1.75	3.64	1 August 2011
2016 NEST Retirement Date Fund	1.37	2.87	1 August 2011
2015 NEST Retirement Date Fund	0.96	2.08	1 August 2011
2014 NEST Retirement Date Fund	0.59	1.31	1 August 2011
2013 NEST Retirement Date Fund	0.51	0.70	1 August 2011
Post-NEST Retirement Date Fund[4]	N/A	0.14	1 November 2013

[1] Our overall benchmark for the NEST Retirement Date Funds is to outperform inflation. Inflation in this financial year has been 1.67%.

[2] Our overall benchmark for the NEST Retirement Date Funds is to outperform inflation. Inflation since 1 August 2011 has been 2.55%.

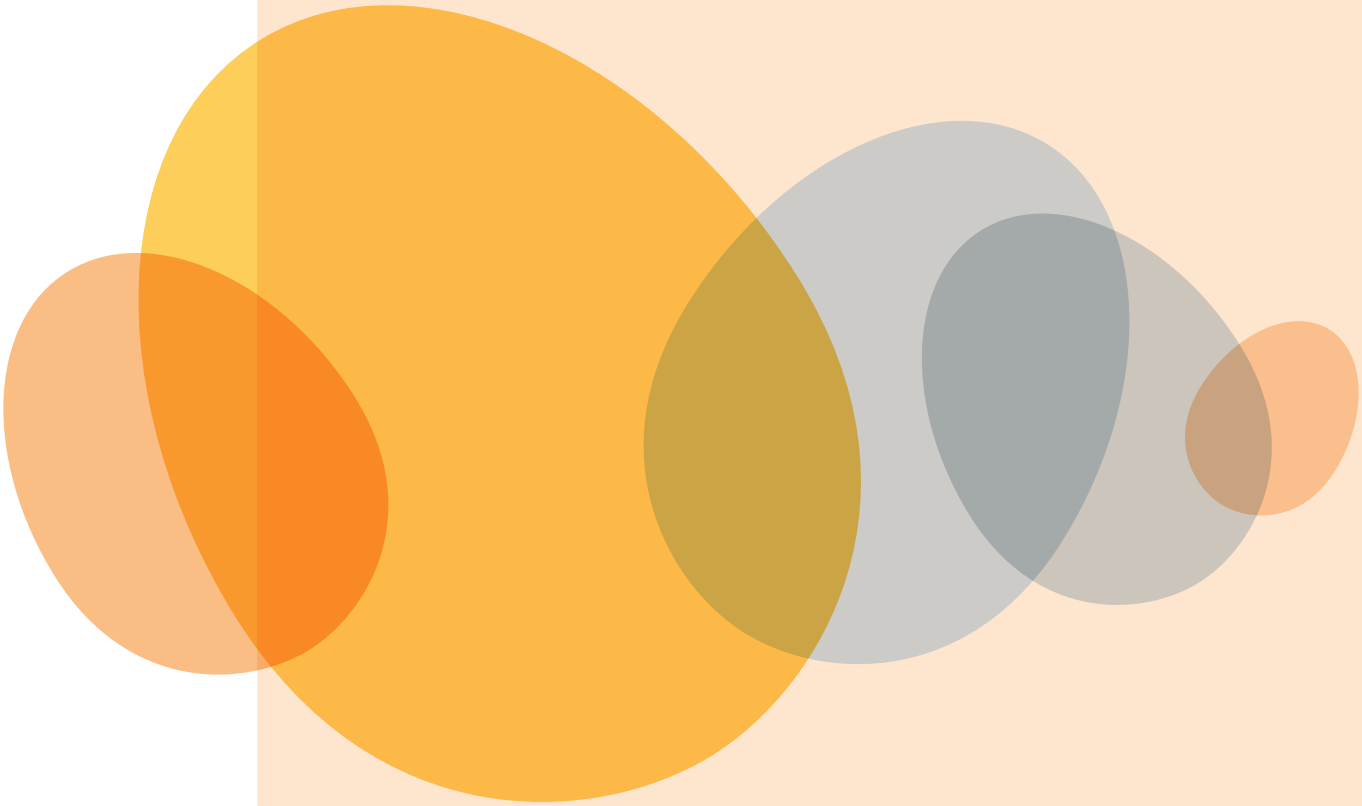
[3] This fund is for individuals between the ages of 16 to 22 who have an expected retirement date beyond the range of available NEST Retirement Date Funds.

[4] This fund is for those members whose NEST Retirement Date Fund has matured and been closed, and the members have yet to take their retirement benefits



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