Nest's responsible investment report

Our responsible investment activities and outcomes over 2021/22

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Foreword



Mark Fawcett
Chief Investment Officer

As the world came around to the idea of living with Covid-19 it saw the emergence of a new war in Europe. The terrible events in Ukraine prompted many countries to respond with economic sanctions on Russia, which sent markets into a tailspin and brought an energy and cost of living crisis to many countries. ESG investors – who take environmental, social and governance (ESG) issues into account by encouraging companies to act more responsibly on issues like climate change and human rights - have had big questions to consider on the impact their investments have on the world around us. Despite the turbulence, our investments remained fairly resilient, helped by our diversified portfolio.

2021 marked an unprecedented year for the world's climate. For the first time on record, 2021 had four individual weather events topping the $20 billion economic loss threshold: Hurricane Ida, July floods in Europe, summer flooding in China, and a February winter weather disaster in the US and Mexico. Beyond that, more than 400 weather stations beat all previous heat records. World leaders gathered at COP26 in Glasgow in November 2021 to discuss plans to mitigate the seismic effects we're seeing from climate change. Although there were many positives to take away from it in the form of lively media and public engagement and ambitious pledges and commitments, many fear they're not enough to keep us on track to limit global warming to 1.5C – our target to avert climate disaster.

We stepped up action to deliver on our net zero ambition by reporting our roadmap to reduce greenhouse gas emissions across our portfolio by 2025. For us though it's very much about looking outwards and doing our part to generate real world impact, so we're delighted to have joined the UK Treasury's transition plan taskforce steering committee to help oversee how plans can be set for different sectors of the economy.

It was also an opportune time to bolster our portfolio by adding two new private equity mandates. These will offer considerable diversification benefits alongside our public equity portfolio and strong and steady returns over long periods for our members.

We continued to play our role as long-term responsible investors engaging with companies on a range of ESG issues. We filed our first ever shareholder resolution on the real Living Wage alongside other investors this year, an issue we've been active on for some time. We've also been vocal with a range of standard setters on issues of portfolio alignment to net zero, sustainability labelling and diversity, endeavouring to help raise standards on a range of areas in the industry in which we operate.

Finally, we're delighted to have become approved signatories to the new Financial Reporting Council (FRC) UK Stewardship Code. The new Stewardship Code sets a high bar, and we hope our role in the newly formed Occupational Pension Scheme Council (OPSC), of which we're a founding member, will help promote and facilitate high standards of stewardship across UK pensions funds which will benefit the millions of members saving for their retirement with Nest.

> **"Despite the turbulence, our investments remained fairly resilient, helped by our diversified portfolio."**

Purpose of this report

Responsible investment and stewardship are built into the core of our investment strategy. This report demonstrates the outcomes of our approach, showing how our investment beliefs and policies translate into the decisions we make, our engagement with companies and other organisations, and how this affects our members' money.

This is the sixth annual responsible investment report produced by Nest. It covers our activities between 1 April 2021 to 31 March 2022. This report is intended to meet the principles of the Financial Reporting Council's (FRC) **Stewardship Code 2020** and we were pleased to be early adopters to the new Code last year. You'll find a breakdown of how this report addresses each principle in **Chapter 8**.



Chapter 1

At a glance

Key figures
as at 31 March 2022

£24.4bn

Total net assets

£5.7bn

Total annual contributions

17



Fund managers

9.2%



Ten-year rolling annualised returns in the 2040 Nest Retirement Date Fund*

* After annual management charges to 31 March 2022

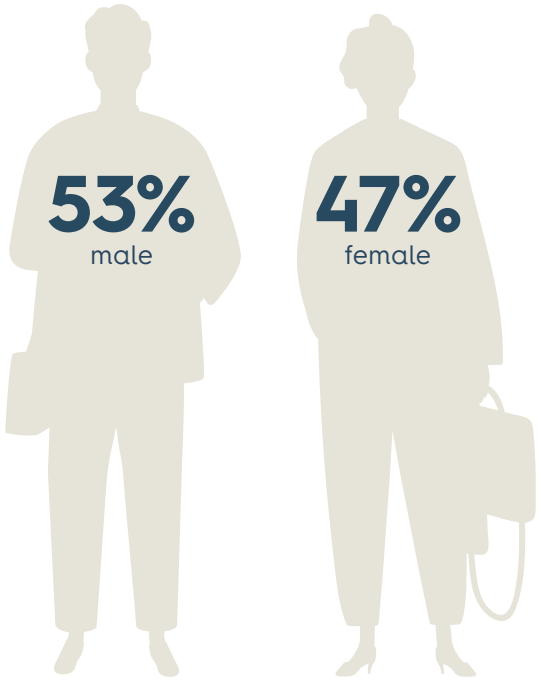
Our members in numbers

11.1m

members

6.5m
are inactive*

4.6m
are active**



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

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

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

Our engagement activity

46,920

Votes cast on our behalf at company annual general meetings (AGMs)

29

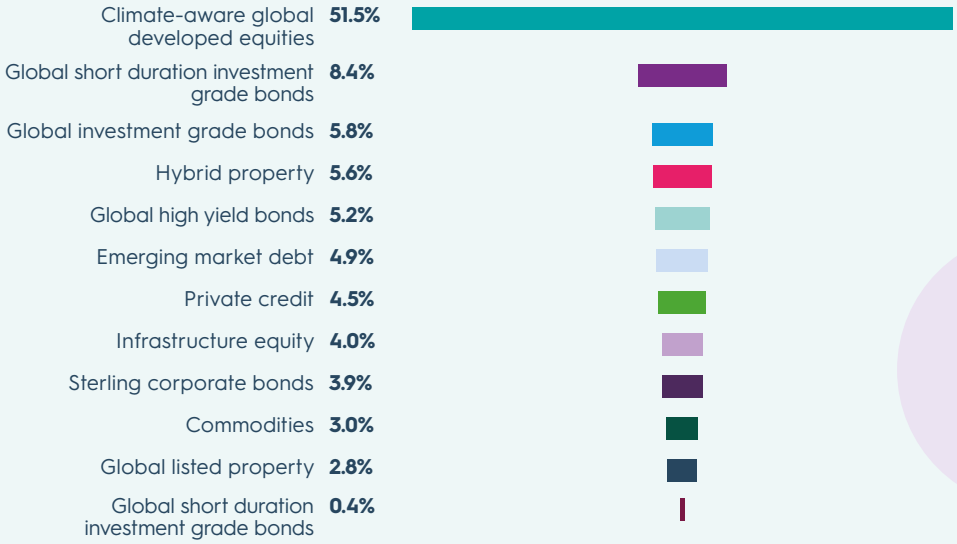
The number of companies we engaged with directly, over six themes

236

Engagements carried out by UBS on our behalf

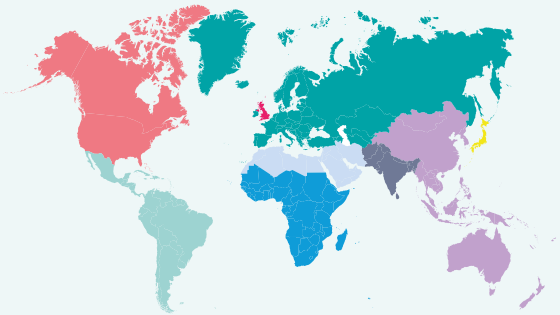
Our default funds, asset classes and investment

Asset allocation Nest 2040 Retirement Date Fund, March 2022





Global breakdown of equity*



- **59.2%** North America
- **14.0%** Europe and Central Asia Ex UK
- **14.2%** East Asia and Pacific Ex Japan
- **1.1%** Middle East and North Africa
- **6.3%** Japan
- **3.2%** UK
- **1.4%** Latin America and Caribbean
- **0.6%** Sub-Saharan Africa

* Made up of emerging market and developed market equities; worth 59.9% of this fund

Chapter 2

Our mission

Around one in three workers in the UK saves with Nest. The privilege of looking after their money comes with the responsibility to do everything we can to grow our members' savings and help them enjoy a better retirement.

We're unlike all other pension schemes in the UK. We're open to every company, big or small, and to all their employees. By operating at scale, Nest can have a significant impact. We can achieve better value for money in our administration and investments, which in turn supports our ability to deliver better financial outcomes for our members.

Our strong social purpose and role as a responsible investor is embedded throughout the whole corporation, which means in addition to providing better investment outcomes for our members we can also make a difference to the society and world our members live in.

To find out more about Nest's goals and purpose, please see **Chapter 7**.

Our investment beliefs

Our investment beliefs help us make better decisions about how we invest members' money. They're set out in our governing document, the **Statement of investment principles** (SIP), and are periodically reviewed as the Scheme and investment practices evolve.

Two of our evidence-led beliefs set out the importance of sustainability and the consideration of ESG risk factors.

- As long-term investors, we believe that integrating ESG considerations into the investment management process improves risk-adjusted returns.
- Long-term returns to investors are likely to be more sustainable if companies consider the interests of wider stakeholders – customers, employees and the wider public as well as shareholders and lenders.

In other words, we need to think about how companies and markets operate and how they treat people and the environment. These issues are likely to have a material impact on the performance of the companies and other assets we invest in over various timeframes.



Our responsible investment objectives

Our responsible investment objectives have been created to guide and help prioritise our activities. Every three years we undertake a review of these objectives to ensure they're still fit for purpose, support our evolving investment approach, and serve the interests of our members. We undertook a review of our objectives in 2021 and updated its wording to reflect the changing investment and regulatory landscape that we operate in. This included our ongoing needs to manage systemic risks that could impact the real-world economy and to consider the impacts of our investments on the environment and society. Both these actions have the potential to contribute towards better risk-adjusted returns for members.

Our responsible investment objectives



Better functioning markets

We want to improve market transparency and how markets operate and are regulated in jurisdictions where we invest. We also seek to manage and help to mitigate systemic risks which have the ability to impact the real world economy and in turn our portfolio.

Better risk-adjusted returns

We seek to identify and manage ESG-related risks and opportunities across our portfolio where we believe doing so leads to lower risk and/or enhanced returns.



Long-term wealth creation

We want to encourage companies and our fund managers to successfully manage and be clear about the risks and impacts of their activities on the environment and wider stakeholders, in order to deliver sustainable performance to support good returns for our members over many years.



Manage reputational risks

We want to protect our reputation and grow trust with our members by encouraging companies to act in ways our members can feel confident about.

Chapter 3

Our ESG priorities

We have continued to work on and make good progress on our ESG priorities where we believe doing so leads to lower risk and/or enhanced returns for our members in the long term.

We spend a lot of time and resource researching these areas to understand how they impact our members' investments. Each of our responsible investment priorities has been carefully selected. We use our prioritisation framework described in **Chapter 4** to help us focus on issues determined to be a systemic or financially material risk and/or opportunity to our investments.

We also consider how our fund managers and investee companies manage and report on the impacts their activities have on the environment and wider stakeholders. This helps support long-term wealth creation, as we believe that companies who perform better at managing their wider impacts are more likely to be economically successful in the long term.

Our current ESG priorities

As an asset owner invested across many assets classes, sectors and geographies, we prioritise key ESG issues so that our resources are put to the best possible use.

Our investment team has identified six priority areas that guide our current work. These are derived using our prioritisation framework and based on research and analysis.



Climate change: We aim to address the potentially catastrophic impacts of global warming and identify how investments, workers and communities can benefit from the transition to a low-carbon economy.



Human capital: Companies that treat their workers fairly are more likely to have improved productivity, reduced staff turnover, and be more competitive. It's a key reason to understand how well they manage their workforce.



Cyber security: Successful cyber attacks have major consequences for business continuity, reputation and customer data security. We engage with companies at high risk of attack to assess the potential damage to their organisation – and our members' investments.



Digital rights: Digital rights are an extension of human rights. As technology and regulation rapidly evolves, companies must move quickly to safeguard freedom of expression and be accountable for the spread of disinformation.



Diversity: We believe promoting diversity of gender, ethnicity and thought can improve company performance and reputation as well as enhancing socio-economic conditions for many people.



Food: The food sector needs to manage a range of health-related and environmental concerns to remain profitable over the long term. There are also impacts which invite potentially loss-making government regulation to tackle issues like obesity.

Over the past year, we've used a range of tools to address issues within and make progress on each of our ESG priorities, including research and voting.

	Research	Public policy	Proxy voting	File shareholder resolutions	Direct engagement	Collaborative engagement	Capital allocation	Divestment
Climate change	x	x	x		x	x	x	x
Human capital	x		x	x		x		
Cyber security	x		x			x		
Digital rights	x		x			x		
Diversity	x		x		x	x		
Food	x		x			x		



Climate change

Why it matters to us

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

Our actions and commitments

In July 2020, we published our first scheme-wide climate change policy. We set a target to align our investment portfolio with limiting global warming to 1.5C by reaching net-zero emissions across our portfolio by 2050 at the latest.

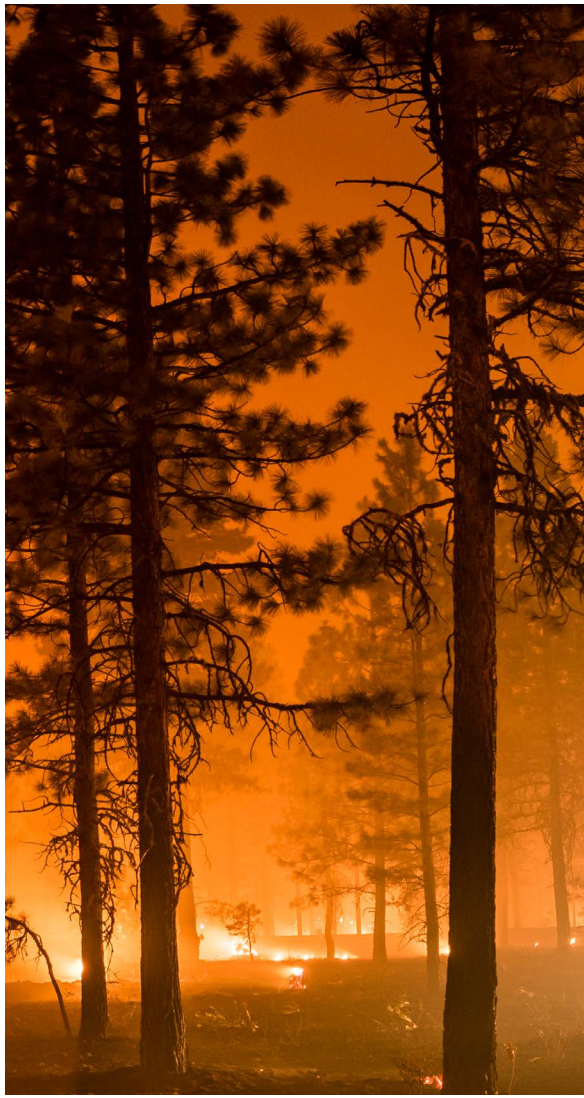
Our climate change policy spans four key areas of our investment process:

- asset allocation
- fund manager selection and monitoring
- active ownership
- risk monitoring

In July 2021, Nest's investment committee reviewed the policy and progress made towards our climate change goals. It concluded that the policy was still fit for purpose, although we've expanded our policy on sectoral exclusions to add the new development of coal, oil sands or arctic exploration from the existing revenue threshold on these activities. We also updated the fund manager objectives. However, we recognised the need for actionable, short-term targets to achieve our long-term goal.

Following discussion and agreement with Nest's investment committee, we have now published our first roadmap to 2025, setting out our shorter-term goals. This includes a target to reduce the Scope 1 and 2 emissions[1] from our listed equity and fixed income portfolios by 30% by 2025, starting from a 2019 baseline.

1 The Greenhouse Gas Protocol, an international accounting tool, categorises carbon emissions into three groups or 'scopes'. Scope 1 covers direct emissions from the reporting company's owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling that has been consumed by the reporting company. Scope 3 includes all other indirect emissions that occur in the reporting company's value chain.



Our journey to net zero

2011-2019

2011
Signed the UN Principles for Responsible Investing (UNPRI)

2014
Started dedicated climate change research as part of our overall responsible investing approach

2017
Applied a climate change strategy to our developed markets mandate

2018
Published first TCFD report

2018
Added commodities building block fund, with a bespoke ESG strategy

2019
Joined Climate Action 100+

2019
Switched our low-risk sterling liquidity building block fund to one with an environmentally aware strategy

2020

Published climate change risk policy

Climate strategy applied to all developed market equities in our portfolio

Divested from companies making 20% or more of their revenue from thermal coal production or power generation, oil sands or arctic drilling

Joined the Paris Alignment Investment Initiative

2021

Climate strategy applied to our investment grade bonds

Climate strategy applied to our emerging market equities

Climate strategy applied to our high yield bonds

Started investing directly in renewable infrastructure

2023

Divest from assets deriving more than 10% of revenues from thermal coal production or power generation, oil sands or arctic drilling

All managers to be disclosing fully in line with the TCFD recommendations

2025

Divest from all assets involved in coal production or power generation, oil sands or arctic drilling unless they have a clear and credible plan to phase out these activities by 2030

Have companies representing 70% of emissions under engagement in our equity portfolio

Aim to have reduced carbon emissions by 30% across our investments

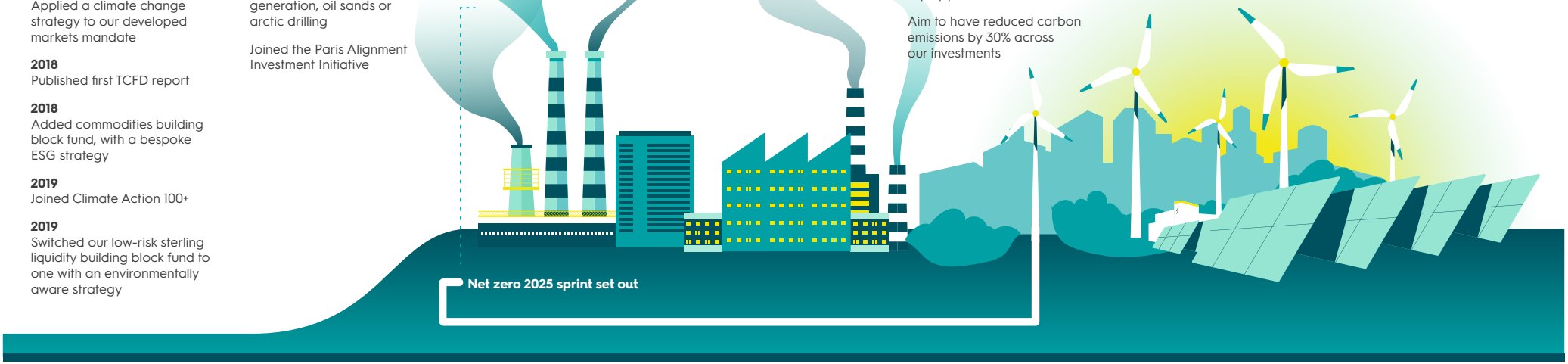
2030

Estimated to invest £1.4bn in renewable infrastructure

Aim to halve emissions in our investments

2050

Net zero emissions in our investments with 100% of AuM in scope



Carbon reduction targets across our investment portfolio*



30%
2025



50%
2030



100%
2050

* Scope 1 and 2 carbon footprint for our equity and fixed income portfolios relative to a 2019 baseline. These targets are our current aims and reviewed regularly in line with our climate change risk policy.

Our four core commitments

1

Asset allocation
We'll continue to decarbonise our portfolio

2

Fund manager selection and monitoring
We expect all our fund managers to work towards aligning the portfolio they manage for Nest with the 1.5C global warming limit

3

Stewardship
We believe that stewardship is one of the most powerful tools investors can use to influence companies to change to low-carbon approaches and will continue to engage with the biggest emitters in our portfolio

4

Public Policy
We'll continue to contribute actively to the public discourse on climate change risks and opportunities

Asset allocation

These emissions reductions are driven by how we invest. In the last year, we transitioned our emerging market equity and high yield bond portfolios to be managed in line with climate metrics. This means that over 65% of our total assets are now in climate-aware mandates.

In 2022, Nest commissioned Aon to help us test the performance of our portfolio under different climate scenarios. Aon modelled the potential return and change in value of our assets in different situations, including both an orderly and an abrupt transition to net zero, and no transition at all. Aon also modelled the impact on a representative member and how the value of their pension pot changes under different climate scenarios. The results of this analysis are described in our **Task Force on Climate-related Disclosures** (TCFD) report.

Across the entire portfolio we have implemented an exclusion of companies that derive more than 20% of their revenues from thermal coal production or power generation, oil sands and arctic exploration of oil and gas. We believe that these activities are not compatible with a transition to 1.5C, and that companies deriving significant revenues from these activities will struggle to transition quickly enough. We have also updated our policy to reflect that we will not invest in companies that are developing new thermal coal or oil sands projects.

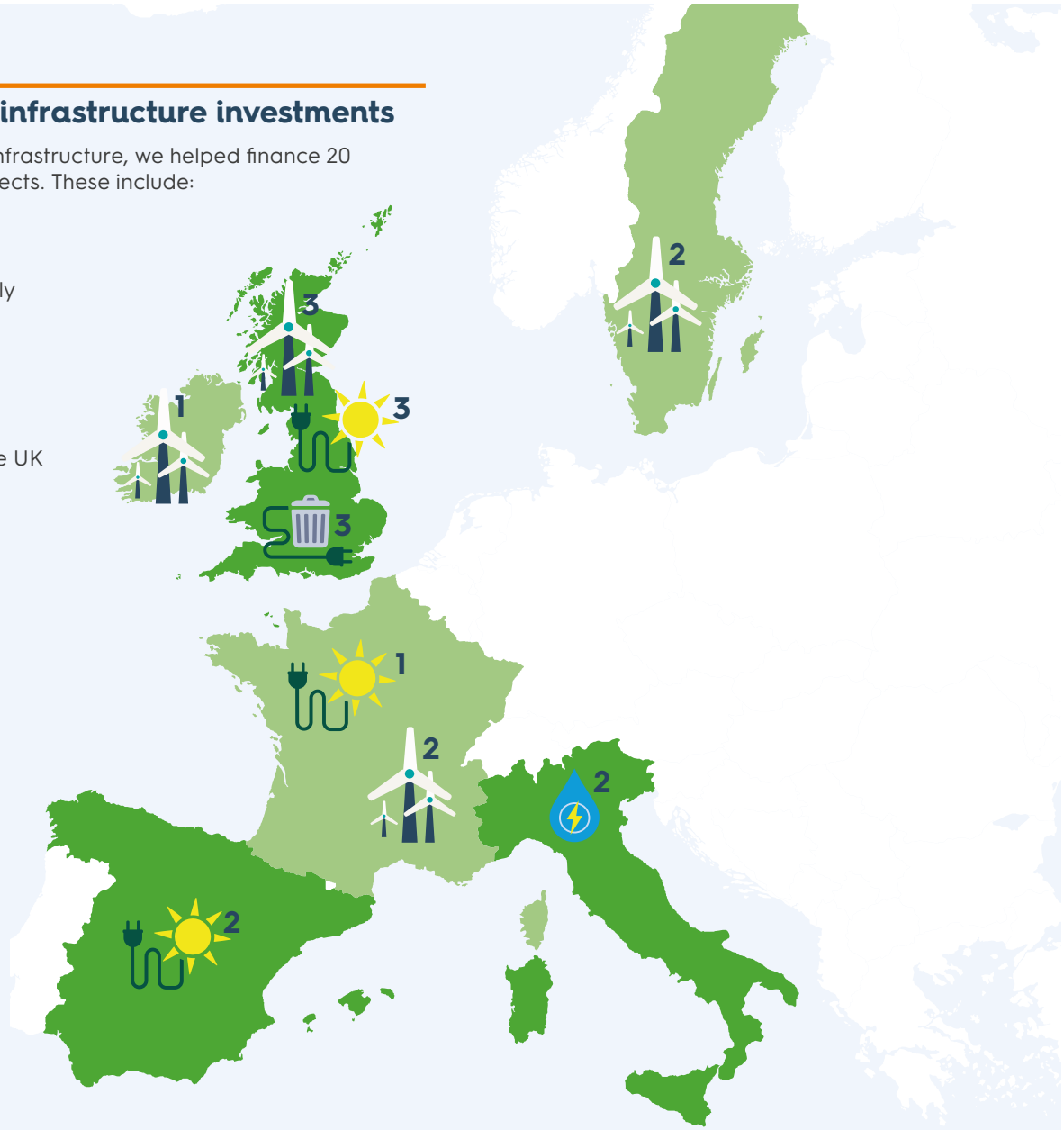
We also believe that climate change presents an investment opportunity. Last year, we announced our new investment in infrastructure equity. That included a partnership with Octopus Energy to invest in renewable energy infrastructure, an attractive asset class that provides long-term, predictable returns with low correlation to other asset classes. It also allows our members to participate in the transition to a net-zero economy by investing in the critical infrastructure needed to decarbonise the energy sector and wider economy.



Case study: Private infrastructure investments

Since we began investing in infrastructure, we helped finance 20 infrastructure renewable projects. These include:

- 1 solar project in France
- 1 wind project in Ireland
- 2 renewable projects in Italy
- 2 solar projects in Spain
- 2 wind projects in Sweden
- 3 solar projects in the UK
- 3 wind projects in the UK
- 3 bio energy projects in the UK



Fund manager selection and monitoring

All of our members' money is invested with external fund managers, which are carefully selected by Nest's investment team for their strong focus on responsible investment. Since publishing the climate change policy, we have included specific climate change requirements in our selection process. We ask all managers to describe how they will contribute to Nest's climate change objectives, giving details on:

- climate commitments or targets made by the investment manager
- how the manager assesses and manages the impact of physical and transition risks on the portfolio
- how the investment strategy aligns with Nest's long-term target of reaching net-zero emissions by 2050 at the latest
- the climate change data used by the manager and how they address any data coverage challenges
- how the manager can support Nest in its reporting requirements including, but not limited to, carrying out climate change scenario analysis for the strategy and reporting on key metrics such as financed carbon emissions

We have also continued to engage with our fund managers on how they're performing against the climate change objectives set for them in 2020. All managers have until 2023 to meet these objectives. They cover a range of topics including:

- working with companies and issuers to improve reporting of climate change metrics such as emissions data
- exploring setting emissions reductions targets that are in line with a trajectory to reduce emissions to net zero, along with targets for green solutions
- further exploration of scenario analysis and temperature stress testing at asset as well as portfolio level

As at 31 March 2022:

- 65.2% of objectives had been met
- 7.2% of objectives were on track
- 14.5% of objectives were in progress
- 13% of objectives had not been met

If fund managers haven't made enough progress to meet these objectives, their performance is escalated to the manager monitoring committee (see **Chapter 4**).

For example, last year we placed one of our managers on our watchlist as we believed they weren't evolving their investment strategy in line with our expectations. We wrote to the manager highlighting our concerns and reiterated our expectations in follow-up meetings. In response, the manager asked us to set up a working group to develop a decarbonisation target for the investment strategy. Within three months of the working group being set up, the target was agreed.

Stewardship

We believe that stewardship is one of the most powerful tools investors can use to influence companies' practices. By working with other investors to encourage companies to commit to net zero, we have a better chance of limiting emissions globally. Companies that aren't responding to engagement or are progressing too slowly are most likely to be financially impacted by a transition to a low-carbon economy.

Joint initiatives for tackling climate change

We joined **Climate Action 100+** in November 2019. We currently participate in four engagement groups with companies in emerging markets. Three of these companies have now set net-zero targets, and the dialogue has shifted to how these targets can be achieved.

Last year we also joined a new workstream convened by the Institutional Investors Group on Climate Change (IIGCC), set up to encourage the banking sector to align their activities with the Paris Agreement. The banking sector has a huge role to play in supporting the transition to net zero. Over the last few years we've primarily engaged with UK banks such as Barclays, focusing on their fossil fuel financing activities. This new initiative considers banks' transition plans more holistically, covering alignment of activities, governance and disclosure. We are leading two of the engagement groups and participating in seven more.

Voting

As shareholders we have the right to vote at companies' AGMs. We can use this right to either support companies in setting net-zero strategies or register our dissatisfaction with their progress. This year we've updated our voting and engagement policy on climate-related issues, including new engagement themes aligned with the Just Transition principles and guidelines on the development of new oil and gas fields in line with the International Energy Agency's (IEA) net-zero scenario. We have also outlined our position on say-on-climate votes. These are advisory votes on companies' transition plans. We're supportive of companies asking shareholders for approval, but this must not become a tick-box exercise. We will review all say-on-climate resolutions on a case-by-case basis and continue to vote against the plan and the re-election of individual directors where we do not consider the transition plan to be strong enough.

Climate-related accounting case study

In preparing their financial statements, companies have to make a range of assumptions and estimates on areas such as the remaining useful life of their assets. These assumptions can be impacted by climate change risks. For example, a new carbon tax regime could lead to highly carbon-intensive assets becoming too expensive to operate, which in turn could lead to these assets becoming 'stranded'. This means they could be devalued or even converted to liabilities on the company's balance sheet. This in turn could negatively impact the company's valuation and performance. Climate change risks can therefore have an impact on financial statements.

We believe both companies and auditors should stress-test whether their accounting assumptions might change due to climate change. As a result, we updated our voting policy this year to include specific wording on climate-related accounting. We expect auditors to consider material climate change risks and opportunities in accounting estimates or judgements and may vote against their re-election if this is not the case. We also expect consistency in the discussion of climate change risks in the narrative section of the annual report and accounts and the financial statements. Where this has not been done, we may vote against the chair of the audit committee.

Last year, a **study by Carbon Tracker** found that over 70% of companies analysed didn't indicate that climate matters were considered when preparing their 2020 financial statements. Even worse, 72% of companies were inconsistent in their reporting of climate-related risks and commitments, showing no evidence of follow-through from other discussions of climate risks or emissions targets to their treatment in the financial statements, and no explanations of any differences between the financial accounts and other parts of the report.

In December, we signed letters to the audit committee chair at several European carbon-intensive companies. The letter outlined investors' expectations that the directors consider material climate risks in their financial statements. It also highlighted key areas of concern based on the Carbon Tracker analysis of their latest financial statements and warned that the board should expect increasing votes against the audit committee chair's reappointment and auditor where these expectations continue not to be met. By considering the impact of climate change on accounting assumptions, companies can make long-term capital planning decisions that are more resilient to the risk of climate change.



Escalation

Sometimes voting and engagement does not yield the results that we hope for. Where we don't see progress over a number of years, we consider divesting as a last resort (see **page 39)**. In December 2021, we announced our decision, alongside UBS, to remove Exxon Mobil, Imperial Oil, Kepco, Marathon Oil and Power Assets companies from our developed markets equities portfolio. The decision followed a three-year engagement program led by UBS as part of its Climate Aware framework, with 49 oil and gas companies identified as lagging on climate change performance.

Public policy

As one of the UK's largest pension schemes by membership, we aim to work with peers and policymakers on how climate change will affect the pensions industry and the global economy. Investors have a key role to play in financing the transition to a net-zero economy and limit warming to 1.5C. However, without strong policy frameworks that incentivise companies to align their activities, there won't be enough investment opportunities that are aligned with net-zero. It is crucial that all parts of the economy work together if we are to be successful in transition to net zero. **Chapter 4** provides more examples on how we have engaged with policy makers on climate change.

COP26

This year saw an important milestone as the 26th Conference of Parties to the UN Framework Convention on Climate Change (COP26) took place in Glasgow in the first two weeks of November. At the conference, policymakers discussed the next steps required to meet the goals of the Paris Agreement reached at COP21 in 2015, to limit the global rise in temperatures to 2C above pre-industrial levels and aim for limiting warming to 1.5C.

While key negotiations are between governments, the conference has increasingly become an opportunity for wider stakeholders, including NGOs, business, academics and investors to gather and discuss their contribution to global climate action. Members of Nest's responsible investment team attended a range of events at COP26, some specific to the financial sector such as the Climate Investment Summit, and others bringing together different stakeholders. In advance of COP26, Nest worked with other members of Mark Carney's Glasgow Financial Alliance for Net Zero to develop **common principles** for financial sector transition plans across asset owners, asset managers and banks. We also worked with the Institutional Investor Group on Climate Change (IIGCC) and the Climate Investment Coalition on **a joint pledge for investment in climate solution**, which includes our commitment to renewables.

As expected, the final agreement reached at the summit, the Glasgow Climate Pact, included a number of compromises. While the need to reduce our dependency on fossil fuels was explicitly mentioned for the first time, the text was changed from phase-out to phase-down of coal at the request of India shortly before the agreement was finalised. The IEA predicts that if all long-term commitments made by countries in the run up to and during COP26 are met, the increase in global temperatures could be limited to 1.8C by the end of the century. Although this is a significant improvement on previous estimates, warming between 1.5 and 2C is still expected to lead to some catastrophic impacts according to the Intergovernmental Panel on Climate Change (IPCC), and long-term targets are not always backed by concrete policies. The agreement therefore also includes a ratchet mechanism with countries requested to submit new targets at COP27 next year.

The lack of an ambitious agreement meant that we did not see a major repricing of assets following COP26. For investors, this presents challenges in aligning our portfolios to net zero. The lack of investment opportunities that are fully aligned leads to concerns of a 'green asset bubble'. We therefore continue to focus on two areas to reach net zero:

- looking for investment opportunities that align with net zero, such as our investments in renewable energy infrastructure
- driving companies in our portfolio to transition to net zero and ensure they're well prepared to manage the risks of future policy changes

"As one of the UK's largest pension schemes by membership, we aim to work with peers and policymakers on how climate change will affect the pensions industry and the global economy"



Human capital

Why it matters to us

We believe that businesses that invest in their workforce will outperform those that do not because taking care of employees directly impacts performance, productivity, business resilience and reputation. A well-treated, fairly paid workforce is likely to have positive staff morale and satisfaction, making a company more likely to be successful over time.

As an investor, receiving good quality disclosures from investee companies on issues like pay, working conditions, and company culture are essential to help us assess an organisation's social risks. This transparency allows us to monitor a company's performance and accountability in this area while also allowing a dialogue for progress.

The real Living Wage and secure work

Paying workers the real Living Wage as calculated by the **Living Wage Foundation** doesn't just help staff – it boosts company performance too. **Cardiff Business School** found that 93% of Living Wage employers reported business benefits such as recruitment, retention, and productivity.

This is why we have been actively supporting the ShareAction-led Good Work Coalition, which encourages companies to pay the Living Wage to their employees and ensure that their work contracts provide for set working hours, sick pay, and holiday pay. As part of our responsible investment objectives, we want to encourage companies to successfully manage and be clear about their risks and impacts of their activities on society, to support good returns for our members over many years.

Our actions and outcomes

Alongside other investors, we focused on engagements with supermarkets over 2021. During successive Covid-19 lockdowns, supermarket workers were designated 'key workers' in recognition of their role in keeping society and the economy afloat. As a result, there is an expectation that they should be rewarded appropriately as this can drive increased service quality, productivity, improve retention in a tight labour market and a reduction of costs in the long term. However, workers in this sector are one of the largest groups of low-paid workers in the UK.

We have written letters and co-filed a shareholder resolution to Sainsbury's to encourage them to pay the real Living Wage to all of its workers and contractors. We hope that our actions will provide a signal to the market that this is an issue that Nest and other investors expect progress on. Further information can be found in our case study on **page 40**.

We will continue to engage with UK companies, asking them to become accredited by the **Living Wage Foundation**.

The Workforce Disclosure Initiative

We want to improve both market transparency and how markets operate in jurisdictions where we invest. As a founding signatory of the Workforce Disclosure Initiative (WDI), now a coalition of more than 50 investors, we continue to encourage companies to disclose meaningful data around corporate workforce and supply chain practices so we can benchmark corporate performance.

Every year, the WDI invites hundreds of companies globally to respond to a questionnaire on how they manage areas such as workforce health and safety, pay, human rights, and supply chain management.

Our actions and outcomes

In 2021, WDI signatories reached out to over 400 companies to ask them to respond to the survey, a 62% increase from 2020. 173 companies from 25 countries responded, up from 141 in 2020. The WDI survey data will be critical in helping Nest to analyse and consider which companies to engage with.

Pay disparity

Investors have been questioning companies about disparities in pay between workers and leadership for some time due to its relation to fair worker pay and recognition of their contribution to a business. UK-listed companies are now required to publish pay ratios between the highest paid, the median, and 25th percentile of the lowest paid employees.

Our actions and outcomes

Where possible, we factor workers' pay into our voting activities. Last year we voted for a shareholder resolution at Mondelez requesting that the board takes into consideration the pay grades and salary ranges of employees when setting CEO compensation. We then also followed up with a letter.

We will continue to monitor and build awareness of what good reporting on pay ratios look like. As they're still a relatively new concept, we will treat them on a case-by-case basis through engagement and/or voting.



Cyber security

Why it matters to us

Technology is embedded in day-to-day life, and an increasing number of companies depend on digital access to run their businesses. While IT expenditure suffers from year-on-year volatility, the forecast for global IT spending was £3.1 trillion, with the cost of cyber insurance rising by 130% in the US and 92% in the UK in 2021. According to the International Monetary Fund (IMF), cyber attacks have tripled in the last decade as businesses have become increasingly reliant on technology and data for their business activities. Cyber security breaches can inflict substantial damages to the corporate targets in the shape of fines, loss of consumer confidence and revenues, and reputational harm. Markets are quick to punish companies that have suffered security breaches, making cyber and data security an important factor in our investment decisions.

As ransomware attacks increase in frequency and pay-out size, we have a responsibility to evaluate holdings most at risk of cyber security breaches. What's more, we need reassurance that robust mechanisms are in place to mitigate this risk.

Our actions and outcomes

We continued our cyber security engagement programme alongside one of our fund managers, Royal London Asset Management, and a coalition of other pension schemes, including RPMI Railpen, Brunel Pension Partnership, USS, and Border to Coast.

During the second phase of this engagement, we renewed our outreach with unresponsive companies from the first phase and initiated dialogues with new companies. In total, we reached out to 24 companies and met with senior management of six, including TSB Bank, Intuit and Total. The meetings gave us an opportunity to push for increased scrutiny and reassurance on our minimum expectations in areas such as governance oversight, training, and the cyber security standards of suppliers and partners.

We consider minimum disclosure requirements to be:

- risk identification and oversight at Board level
- a nominated chief information security officer (CISO) with supporting resources
- the embedding of cyber requirements in contracts and suppliers' due diligence
- timely disclosure of cyber security breaches
- appropriate resources and culture/ training across the workforce

These meetings helped develop our understanding of the risk mitigation measures that our holdings have in place, particularly any measures that are not obvious from their public disclosure. We learned that companies are investing more in cyber resilience and because of the sensitivity of the matter, tend not to discuss information about their systems publicly. This is one of the few ESG areas where we recognise that detailed disclosure may not be in the best interest of the companies or their investors as excessive cyber security disclosure could make companies more susceptible to attacks. We still found that meeting with companies and discussing this topic was very helpful in providing us with the details and comfort that this risk is not being overlooked.

We believe that compiling best practices and industry standards, and ensuring companies most at risk from cyber attacks are implementing these practices will help mitigate the risk of cyber attacks going forward. This helps boost consumer confidence, reputation, and the financial resilience of the companies we are invested in.

> **"As ransomware attacks increase in frequency and pay-out size, we have a responsibility to evaluate holdings most at risk of cyber security breaches"**



Digital rights

Why it matters to us

Information and Communication Technology (ICT) companies have immense control over the digital lives and identities of their users and must commit to respecting, among other digital rights, freedom of expression and privacy on their platforms and services. The unchecked power of technology companies has eroded respect for users' digital rights by contributing to the spread of misinformation and hate speech, increased levels of surveillance including that which enables attacks on democracy, the censorship of dissident voices, and discrimination against marginalized communities through artificial intelligence (AI) and algorithmic bias.

The **Ranking Digital Rights (RDR) Corporate Accountability Index** evaluates the world's most powerful digital platforms and telecommunications companies on their disclosed governance, policies, and practices affecting people's rights to freedom of expression and privacy. The latest RDR Index revealed that most ICT companies have weak corporate governance and oversight, with insufficient transparency and accountability on policies and practices affecting users' rights to privacy, expression and information. Twitter, the highest scoring company, scored only 53%. The average score of the 26 companies evaluated was 31.5%, and Ooredoo scored the lowest at 6%.

Since July 2020, the CEOs of Meta (previously Facebook), Google, and Twitter will each have been called before congress three times – four in Meta's case – to testify about anti-competitive behaviour, allegations of censorship, and the impact of their business activities on digital rights. ICT companies will face increasing regulatory, reputational, legal, and financial risks if they do not improve business practices and protection of user's digital rights, all of which could ultimately affect financial performance.

Our actions and outcomes

Nest joined the **Investor Alliance for Human Rights** engagement initiative focused on the ICT. Its goal is to ensure companies protect digital rights in their business activities and products and services. Throughout the engagement process, we encouraged companies to adopt the RDR Corporate Accountability Index targeted company recommendations to improve business practices. These were to:

- Commit to and implement robust human rights governance by publishing a strong human rights policy with strong board oversight, board and management accountability, and comprehensive due diligence mechanisms that identify how freedom of expression, privacy, and user rights may be affected by the company's full spectrum of operations.
- Maximize transparency on how policies are implemented by disclosing comprehensive and systematic data and other information that enables users - as well as investors, researchers, policymakers, civil society, and other third parties - to have a clear understanding of how platforms and services restrict or shape speech.
- Give users meaningful control over their data and data inferred about them, including providing clear options for users to decide how their data is used, and whether it is collected in the first place and for what purpose; as well as provide them with access to remedy when needed.
- Account for harms that stem from algorithms and targeted advertising, especially disclosing the development and deployment of algorithmic systems and targeted advertising.

We engaged with Amazon and AT&T and gained insight into their AI guiding principles and policies, as well as how they collect and use customer data. We will continue to engage with these companies and encourage them to adopt RDR corporate accountability recommendations and to improve on their oversight of human rights, transparency, and use of algorithms and AI.



Diversity

Why it matters to us

Diversity is much more than a social, political, or moral issue - it has clear business and financial implications. Companies that don't pay close attention to their hiring and development programs risk:

- failing to make use of broader talent pools
- fostering a leadership culture that may be narrow-minded, leading to worse business decisions
- having a workforce that doesn't reflect their customer base
- negative media coverage and public perception

An exhaustive study by the Centre for Economics and Business Research found that the UK's most diverse workplaces were 12% more likely to outperform their industry average compared to the least diverse firms[2]. McKinsey have also found this to be true at the global level, and that companies in the top quartile in terms of gender, ethnic and cultural diversity on executive teams are increasingly more likely to have above average profitability than companies in the bottom quartile (25% in 2019, up from 21% in 2017 and 15% in 2014)[3].

Our actions and outcomes

Last year we reported that we wrote to the Chairs of 26 companies which hadn't shown clear progress on the Parker Review's recommendation for FTSE 100 companies to have at least one director from an ethnic minority background on the Board by 2021, known as 'One by 2021'. This year we were encouraged by the latest update to the Parker Review, published in March 2022, which found that significant progress has been made with an expected 94 FTSE 100 companies having at least one director from a minority ethnic background by May 2022 (89 with 5 announced appointments) - up from only 47% in 2016. This progress demonstrates the positive effect investor engagement can have.

There are increasingly high expectations for companies to meet diversity targets and regularly report on their policies, activities and approaches. However, some companies we've engaged with have noted that it's not clear what good reporting looks like in this area. To help address this we have developed and published a **diversity reporting toolkit** compiling industry standards and examples of best practice reporting, on behalf of the 30% Club Investor Group. The report aims to establish a shared understanding of what constitutes useful reporting on diversity so investors can more confidently use that information in their decision-making processes and engagements and to help companies better understand what investors value most in disclosure on diversity. This will hopefully lead to better transparency, the development of consistent reporting frameworks and ultimately better functioning markets.

As part of the 30% Club Investor Group, we also released a **statement on addressing race inequality and a call to action** to FTSE 350 companies. The statement declares our support for the delivery of the **30% Club's Investor Group's 2023 targets** and our commitment to holding companies to account on racial diversity through our stewardship responsibilities.

We have well-established processes to benchmark diversity and inclusion within any fund managers we work with, so we've engaged with the **Diversity Project** to help others foster more inclusiveness within the industry. We were pleased to have been part of working group of UK pension funds who launched the Asset Owner Diversity Charter. The objective of the charter is for asset owners to commit to take action to help accelerate diversity in all forms across the fund management industry. Diversity now forms part of our scoring criteria in our manager selection process, and we have already used the questionnaire in our manager selection process for a new private equity mandate.

We have also updated our global voting policy and increased minimum requirements for board gender diversity in the US. If companies don't meet our requirements, we may vote against the chair of the nomination committee. For more information see **page 29**.

This brings expectations for US companies and the S&P 500 in line with UK companies and the FTSE 100, where we voted against nomination committee chairs at BHP Group, Morrisons, Ocado, and other companies.

2 **cebr.com/reports/cebr-research-with-involve-on-the-value-of-diversity/**
3 **mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters**



Food

Why it matters to us

Food production, manufacturing, and retail is a complex system. Not only does it have an impact on global carbon emissions but also our health, where the food industry has a powerful role in making healthier food and drink more accessible and affordable to all.

The current pace of decarbonisation in the global food system is not enough. According to the **UK's National Food Strategy**, we must reduce the amount of animal protein we eat by 20-50% for the UK to reach net zero by 2050. Current meat production practices generate significant greenhouse gas emissions, unsustainable water use and pollution, and contribute to habitat loss and deforestation. These impacts may lead to significant and abrupt policy responses by governments and changes in consumer behaviour which pose risks to meat producers and retailers' current business models.

We also consider health to be a systemic risk that affects workers across the whole economy. Changing regulations and consumer preferences in response to this health crisis have increased risk, particularly in the food and retail sector. For example, the first two recommendations in the **UK's National Food Strategy** are to tax sugar and salt sold for use in processed foods, and to introduce mandatory reporting for large food companies on the sales of high fat, salt, and sugar (HFSS) products, sales of proteins by type, sales of fruit and vegetables, and amount of food waste.

Our engagements have focused on understanding the strategies companies have in place to ensure they are evolving in line with upcoming regulation. Where they are lacking, we encourage companies to anticipate and actively address these issues. In addition, we seek to increase transparency in the market and have accelerated engagement with manufacturers and retailers to share data around healthy products with investors.

Sustainable meat sourcing

Our engagements on sustainable meat sourcing targeted six of the largest quick service companies, i.e. fast food brands, with the aim to urge these companies to analyse and reduce their vulnerability to and impact on climate change and water scarcity and pollution.

By encouraging companies to set science-based targets and complete better reporting, we can examine and encourage companies to find sustainable solutions to sustainably feed the world as global populations grow larger.

Our actions and outcomes

Nest engaged with Restaurant Brands International (RBI) who owns Burger King, Tim Hortons, Popeyes and Firehouse Subs through Farm Animal Investment Risk and Return's (FAIRR) **Sustainable Meat Sourcing initiative**. By the end of our engagement, RBI agreed to start reporting against TCFD in 2022, and will align with Science Based Targets' initiative standards on net-zero targets. RBI will also work with a third party to carry out a water risk assessment by 2023 and implement strategies to address these risks by 2024.

We will continue to work with FAIRR to engage with these companies to mitigate risks relating to water scarcity and pollution.

Healthy markets

The growing issue of obesity in the UK is also an issue that investors are increasingly acknowledging as an investment risk. With the likelihood of further government policy interventions, it's important that food retailers and manufacturers play a significant role in promoting healthy eating. Fortunately, there's a growing consumer demand for healthier foods which can be nurtured and developed. We want to invest in companies that are ahead of the curve and taking advantage of this opportunity, and we have actively engaged with laggards to improve transparency on their strategies to address these issues.

We are part of the **Healthy Markets Initiative** led by ShareAction. As part of the engagement we have worked in collaboration with **Access to Nutrition Initiative** to assess companies' performance on health.

Our actions and outcomes

This year we co-signed letters to Asda, General Mills, Mondelez, Coca Cola, PepsiCo, Nestle and Unilever, requesting that they disclose the proportion of their UK food and drink sales derived from HFSS products and from healthier products, and that they set targets to increase the percentage of sales of those healthier products.

We supported a shareholder resolution at Unilever's 2022 annual general meeting (AGM) calling on them to disclose the percentage of sales from healthy products using government-endorsed nutrient profiling models to define 'healthy', as well as to disclose sales targets and a long-term strategy for healthy foods. Disclosures are needed to provide investors and other stakeholders with a clear understanding of Unilever's impact on public health, as well as its position relative to key competitors and regulatory trends related to healthy diets. To raise the issue publicly, Nest participated in an interview with The Times highlighting our voting intention and to signal to the rest of the market that this is an important issue to Nest.



New ESG priorities

Natural capital

Natural capital is the world's stock of natural assets which include soil, air, water, and all living things. Natural capital provides a wide range of ecosystem services that make human life possible. Ecosystem services include bioremediation, climate regulation, fibres and other materials, filtration, flood and storm protection, genetic materials, mass stabilization and erosion control, disease and pest control, pollination, water flow maintenance and quality. The main impact drivers of natural capital loss are habitat change, overexploitation, pollution/ nutrient loading, invasive species and climate change.

In 2022, Nest will define what impact investing means to us and how we can integrate it into our investment decision-making and stewardship processes

Our research last year determined that natural capital is a risk and opportunity worth considering in our investment strategy. When properly preserved, natural capital assets such as clean water, air, productive soil, forests, and biodiversity provide a wide range of ecosystem services that make life possible and help reduce the effects of climate change.

We will continue to study this area, focusing on deforestation and land use change, and water pollution and scarcity. Following our research, we joined **Global Canopy's Deforestation-free pension funds guidance** working group to help develop guidance on and help us work towards reducing deforestation exposure across our investments.

We will also keep an eye on the development of new natural capital disclosure frameworks such as the Task Force for Nature-related Financial Disclosures (TNFD), which is based on the TCFD, which has become a standard for climate disclosures. TNFD recently released the first iteration of their draft report, and we will continue to read future iterations to stay aware of industry standards and expectations on transparency and disclosures.

Impact investing

According to the **Global Impact Investing Network (GIIN)**, impact investing is where investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

In 2022, Nest will define what impact investing means to us and how we can integrate it into our investment decision-making and stewardship processes. In reviewing our responsible investment objectives last year, we wanted to ensure that we can monitor and manage the impacts our investments have on the environment and society that we believe may contribute towards better risk-adjusted returns for our members.

Beyond that, we plan to create a framework for intentional impact and explore how to align certain investment activities with specific issues, particularly if there is a clear financial case and our members care about the matter in question. The framework will help us to set impactful objectives for fund managers and possibly seek new managers that align with our impact goals. We will also engage with service providers to identify relevant indicators and benchmarks to help measure the impact of our portfolio and to improve our stewardship.

Using work from the **Impact Management Project**, we will assess our current portfolio to map our impact classes. Impact classes combine the impact of the companies that we invest in with the contribution that Nest, as an investor, makes to this impact. This will give us a starting point to understand the impact characteristics of our funds and going forward, we can use this to assess investment opportunities to help us decide our impact intentions.

Chapter 4

How we invest responsibly

In addressing our ESG priorities and delivering on our responsible investment objectives, we take action in four core areas: asset allocation, manager selection, active ownership and risk monitoring. These activities don't sit in isolation, they complement each other as part of a well-rounded approach.

We consider these the main pillars of our responsible investment approach.



Asset allocation

We look for opportunities to create or access investment strategies where we can address ESG risks and opportunities across the asset allocation.



Manager selection

We select and build relationships with fund managers who incorporate ESG factors across their investment approach and whose principles are aligned with ours.



Active ownership

We address certain ESG risks and opportunities in our portfolio by voting and engaging on issues with companies and standard setters.



Risk monitoring

We monitor, prioritise, and manage ESG risks alongside other financial risks and opportunities across our portfolios. We do this with the help of our responsible investment partners and ESG data.

Asset allocation

We believe that investments that operate in well-run and transparent markets are more likely to be held to account by investors and regulators and therefore have a better chance of sustaining good long-term performance. That's one of the reasons we work to help improve standards for investment and stewardship across all the asset classes in which we invest, in line with our responsible investment objectives.

We expect our fund managers to be active in engaging with standard setters and industry associations to help improve standards for investment in the asset classes in which they invest.

Addressing ESG in global high yield bonds

Our global high yield bond manager, JP Morgan, has been working with the European Leveraged Finance Association (ELFA) to help address weak ESG provisions in the high yield bond asset class. Workshops bringing together borrowers, credit analysts and credit rating agencies were set up to discuss ESG material risks in different sectors and the lack of relevant data, disclosures and engagement by borrowers. Responsible lenders want to increasingly undertake credit risk analysis through an ESG lens and engage with borrowers about these risks. At the same time, borrowers want more specific and consistent guidance on what lenders and investors want to see.

To address some of the challenges, ELFA has published a series of sector-specific ESG factsheets which reflect the input of corporate borrowers, lenders and ESG specialists to highlight key questions and expectations for borrowers to report against. ELFA views these factsheets as a way of aligning market expectations and streamlining the disclosure process and as an important starting point for discussion between the borrower and lender. It's great to see our fund manager actively involved in strengthening the standards across the asset class, reassuring us that more rigorous analysis of issuers is being made possible in the best interests of our members.

We put our members' money into a broad range of assets to help protect the value of their savings from a variety of risks and to achieve the best risk-adjusted returns possible at retirement. These decisions, made collectively by the investment team, are guided by investment data and analysis, including information about ESG risks and opportunities across all asset classes and geographies.

Identifying and addressing risks across our asset allocation

Our investment team, led by Nest's Chief Investment Officer, meets every quarter to review how our portfolios are performing, how the economy is looking and what investment risks and opportunities exist or could emerge, including those we monitor through our asset class dashboard. As part of this, we monitor the net-zero alignment of each asset class we invest in as well as how each asset class might be impacted by ESG factors and what we might do to mitigate them.

For example, we recently discussed the heightened ESG risk rating of the emerging market debt asset class on the back of the invasion of Ukraine. To manage ESG country and company risk, our fund manager already applies an ESG approach that screens out the severest risks across the portfolio. We had a discussion with them about strengthening the ESG assessment so more high-risk countries and companies could be selected for closer monitoring.

If we've identified an asset class with heightened ESG risk, we discuss the best way to approach the issue. This may include having a conversation with the external investment firm that manages our members' money in the particular asset category to help us assess whether to:

- reduce or increase investments in specific assets classes
- place investment managers on a watchlist which could ultimately lead to terminating the mandate if concerns are not addressed to our satisfaction

This year we also undertook climate scenario analysis to assess the impacts of physical and transition climate risks on our asset classes returns under different temperature scenarios over the short, medium to long term. You can read more about the analysis in our **TCFD report**.

Manager selection

An important requirement in our fund manager selection process is the demand for high quality ESG and stewardship approaches. We expect our appointed managers to exercise responsible investment in line with their own considered and documented policies and to engage with companies to drive behavioural change and reduce long-term investment risk.

We want to understand how managers integrate ESG considerations into their investment analysis and decision-making. This can also give deeper insight into the quality of the firm's operations, culture and risk profile. If we see the potential for development in certain areas, we'll work as partners to help our managers improve their operations. That's because we're committed to identifying opportunities for growth and setting a higher benchmark in the industry.

The investment team holds a quarterly fund manager monitoring meeting chaired by Nest's public markets team to discuss managers' performance, update each other on key meetings and review any potential breaches to the mandates, including to ESG criteria. Where we have concerns, managers are placed on a watchlist and prioritised for engagement. The watchlist is reviewed every quarter and if concerns persist, we may ultimately decide to terminate a mandate.

In the past year, we have placed one of our managers on the watchlist due to concerns about internal controls. Through our ESG risk monitoring, we identified that ESG screens had not been correctly applied to the mandate on a number of occasions. We raised this with the manager, and they are working on implementing additional controls. We will continue to monitor any breaches and escalate the issue further if it is not resolved.

Case study: Finding the right managers

Following investments in private credit and private infrastructure equity over the last few years, we launched our first procurement for private equity in summer 2021. This is an alternative asset class comprising companies that are not publicly traded. It offers good return and diversification prospects for investors but is illiquid, which means that it cannot be easily sold, and requires taking a larger stake in companies than investment in public equities.

Despite an increase in responsible investment in recent years, the private equity industry continues to trail behind other asset classes in integrating ESG considerations. Fewer than 50% of private equity firms that are signed up to the UN Principles for Responsible Investment produce ESG reports. However, the significant ownership stakes and long holding periods mean that there is a huge potential for creating value by managing ESG risks and opportunities.

We looked for managers who could deliver a global portfolio of direct investments focused on growth companies as well as small-cap and mid-cap buyout deals. ESG considerations were embedded in every stage of our due diligence process, including initial screening, full screening, long-list due diligence meetings and short-list due diligence meetings.

In addition to the questions on gender diversity in our screening questionnaire, we are now including new questions on a wider range of diversity metrics in line with our commitment to the Asset Owner Diversity Charter launched earlier in 2021. While all managers reported information on gender diversity, there were some gaps in reporting of ethnic diversity. Most managers did not disclose any additional metrics, although some said they had started to collect data on other aspects of diversity such as socioeconomic background. We will be asking managers to complete the Asset Owner Diversity Charter's diversity and inclusion questionnaire annually.

Following a successful tender process, we awarded two mandates to HarbourVest Partners and Schroders Capital. HarbourVest impressed us particularly in their approach to stewardship, holding both general partners (GPs) who manage the funds and investee companies accountable, as well as sharing best practice and helping GPs and companies to improve their ESG credentials.

While HarbourVest specialises in private equity, Schroders is one of the UK's largest investors with a long track record of integrating ESG across different asset classes. Schroders demonstrated a strong approach to screening and monitoring portfolio companies and aims to be at the forefront of raising standards in the private equity industry to address areas such as data collection and disclosure which are lagging considerably behind public markets.

Active ownership

As an asset owner invested in thousands of companies across many assets classes, sectors, and geographies, we prioritise what to focus on so that our resources are put to the best possible use.

Underpinning our approach is the consideration of financial materiality, alignment with our members' interests, our responsible investment objectives and how much impact we can have when deciding what issues to engage on. We choose asset managers carefully so that we can feel confident that they're aligned with our long-term way of thinking and engage regularly with them. We're also a strong advocate for improving standards at the macro level. It's a core pillar of our strategy, along with working collaboratively with other investors and standard-setters to make a bigger impact on shared values.

We take a holistic approach to active ownership. That means we vote in our members' long-term interests, have direct dialogue with companies and contribute to the development of public policy across a range of ESG issues. Each of these activities complement each other, allowing us to align voting and engagement at each stage of the stewardship process.



Nest's voting policy

AGMs present an opportunity for shareholders to vote on the re-election of directors and on resolutions relating to company issues such as the annual report and accounts, capital structure, structure of the board, audit, and executive pay. Shareholders are often restricted on which resolutions they can vote on due to local market law, making the process somewhat formulaic.

Voting is a key right of shareholders, who can also submit shareholder resolutions. They often cover issues not typically covered by traditional resolutions, such as special reports and reporting of sustainability issues, and are typically opposed by management. Shareholder resolutions and the right to vote on them are a valuable tool at an investor's disposal.

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

We regularly review our **voting and engagement policy** to ensure it reflects our responsible investment principles and objectives. This year, we strengthened our voting policy in a number of areas such as:

- **Climate change:** This includes instructions on say-on-climate votes, the re-election of directors of banks that finance new coal, oil sand, or arctic drilling projects, and the inclusion of climate disclosures in auditor reports.
- **Diversity:** Calling for increased Board minimum requirements for gender diversity to 30% in US companies, and a requirement for at least one Board member from an ethnically diverse background for companies in the S&P 500 and the FTSE 100.

We also developed more engagement guidelines to encourage oil and gas companies to stop developing new oil and gas projects and to align their activities with the International Energy Agency's net zero by 2050 scenario, as well as the Just Transition principles.

Vote overrides

We now have the ability to override our fund managers' votes for companies in our emerging markets fund where their voting policy clearly does not align with our own, meaning we can change votes across the default fund.

Due to the high number of companies held in the default fund and the short time period during which multiple AGMs occur that we're eligible to vote at, it is not possible to analyse the variance between our fund managers' voting intentions and our own policy for every vote. For this reason, we focus and prioritise efforts on a smaller list of companies – the voting subset.

Significant votes

The voting subset comprises a list of our largest holdings, companies that we're currently engaging with and companies identified as having ESG issues in the past. Focussing on a pre-defined set of companies helps us to scrutinise how our fund managers are exercising votes on the most significant issues in our largest holdings. This year we added 21 companies and removed four: Southern Copper Corporation was removed from the Climate Action 100+ list, and three others removed as a result of mergers. The total number of companies on the list now stands at 301.

During the last voting season, we overrode our fund managers' voting intentions 241 times to better align with our voting policy and beliefs, highlighting our commitment as active owners. Typically, this involved voting against a resolution that the fund manager would have voted for.

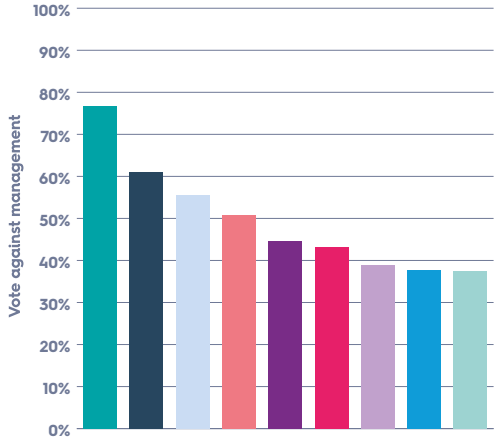
Over one third - 37% - of these overrides were related to the re-election of directors to the board due to independence issues. A company's senior executives are accountable to the board of directors, who in turn are accountable to shareholders. Board directors must be independent to hold senior executives to account, effectively monitor and challenge management decisions and consider the best interests of shareholders first - especially when those directors are part of the audit and remuneration committees. We hold strict views on the criteria for an independent director and override votes to re-elect directors who we do not consider to be independent.

Another 22% of overrides were related to executive remuneration, where we believed remuneration was not structured in a way that most effectively aligned management and shareholder interests.

Voting activities

Over the last year, we cast 5,621 votes at 283 company meetings. We voted against management 46% of the time.

Full details are available **online**.



76.6%	Sustainability*
60.9%	Remuneration
55.6%	Political Activity
50.8%	Shareholder Rights
44.7%	Capital
43.2%	Board
39.0%	Corporate Actions
37.8%	Audit & Reporting
37.5%	Charitable Activity

* note - resolutions categorised as 'sustainability' are often shareholder resolutions which management often recommends to vote 'against', hence the high rate of votes against management.

Some notable vote overrides included:

Exxon Mobil

Our developed market fund manager UBS had engaged with the US oil and gas company Exxon Mobil for a number of years. However, Exxon Mobil had made very limited progress on the engagement objectives that UBS had set. As a result, at the 2020 AGM, Nest voted against the re-election of Chair/CEO Darren Woods.

At the 2021 AGM activist shareholder Engine No. 1 expressed their concern that the directors that had been proposed by the company for election did not bring the necessary skills and experience to prepare the company for the energy transition and proposed four alternative candidates with experience in renewable energy and energy efficiency. UBS voted in favour of the election of two of the independent directors, while Nest used its override powers to vote in favour of all four. Three independent directors were elected - Gregory Goff, former CEO of oil refiner Andeavor, Kaisa Hietala, former Head of Renewable Fuels at Finish refiner Neste, and former US Assistant Secretary of Energy for Efficiency and Renewable Energy, Alexander Karsner.

Nest also voted on a shareholder resolution requesting that the Board prepare a report for shareholders on climate lobbying, which passed with 53.76% of the vote. However, due to insufficient progress throughout the engagement, particularly the lack of a credible and science-based net-zero transition plan, we continued with our decision to divest our holding in Exxon Mobil in December 2021. UBS will continue to engage with Exxon Mobil and will be keeping a close eye on how the company progresses.

Mondelez

At the 2021 AGM we voted for a shareholder resolution requesting that the Board consider the pay grades of all company employees when setting target amounts for CEO compensation. Benchmarking CEO pay against the pay of the entire workforce rather solely against other CEOs may serve to mitigate high pay disparities, which can negatively affect the morale and productivity of employees. Additionally, when CEO pay is only benchmarked against other CEOs, and each CEO receives an equal or above average pay, then benchmark pay will increase significantly and indefinitely without valid foundation.

For both votes, we overrode our fund managers' voting intentions and changed the votes to better align with our voting policy and beliefs.

Voting-led engagement

If we override our fund managers to vote against management recommendations, we may engage with them directly. In the last year, we wrote letters to several companies to explain our voting decisions and areas of concern, seeking resolution or ongoing dialogue.

Company	Topic
Bank of America	Board composition, Audit, Remuneration
BlackRock	Board composition, Audit, Remuneration
Deutsche Bank	Corporate governance, Remuneration
General Motors	Board composition, Remuneration
Hitachi	Board composition
IAG	Board Diversity
Lloyds Banking Group	Board Diversity
Mastercard	Board composition, Audit, Remuneration
Mondelez	Board composition, Remuneration
Morgan Stanley	Board composition, Audit, Remuneration
National Grid	Remuneration, Political donations
Northern Trust	Board composition
Ocado	Board composition, Remuneration
Rio Tinto	Board composition, Sustainability
Vodafone	Board composition, Remuneration

Following on from these letters, we had further discussions with several companies including Rio Tinto.

In our letter we highlighted our concerns regarding the Juukan gorge incident in which Rio Tinto destroyed two 46,000-year-old Aboriginal rock shelters against the will of the land's traditional owners, in order to access $135 million worth of iron ore that would not have been available under alternative mining plans avoiding the culturally significant site. This event seriously harmed the company's relationship with indigenous communities and the company's reputation and social licence to operate.

We subsequently met with the chair of Rio Tinto's sustainability committee and secretary for sustainability and discussed the new systems and processes they've put in place to prevent such an incident from reoccurring. We also discussed how sustainability performance metrics are now included as part of executive remuneration. In line with our responsible investment objectives, we expressed the importance to the company to better manage and mitigate the impacts of its activities going forward on local communities and the environment. They now plan to review their project pipeline with regard for how it might impact on local communities.



Case Study: Securities class actions

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

As a large institutional shareholder, Nest is frequently eligible to be a member of SCAs that seek to recover damages resulting from corporate fraud or misconduct. The move of many investments into segregated funds also makes it easier to determine the quantity of shares held and losses suffered by Nest at the time of an act of misconduct. Under pooled funds, participation in SCAs is at the fund manager's discretion or based on their stewardship policy.

This is a good example of how we consider issues, undertake research to understand them better, identify the right objectives, and implement actions.

We closely examined how participating in SCAs could help in safeguarding members' assets, such as any potential legal claims and recovery rights members may have as investors in public assets. In line with Nest's stewardship commitments, SCAs will help promote good corporate governance and allow us an additional way to hold companies accountable for any wrongdoings and mismanagement of material risks.

Our approach

Our initial research indicated that participating in SCAs is in line with our responsible investment objectives, and ultimately in the best interests of our members. We believe it will help Nest:

- fulfil our fiduciary duties to our members by protecting assets and effectively managing claims as assets of the pension fund
- maximise claim recovery and minimise fees paid to obtain recoveries
- fulfil our stewardship duties by deterring future fraud and holding companies accountable for corporate misconduct and mismanagement of ESG-related risk, to better protect members' assets

We then researched different SCA strategies, exploring those most likely to fulfil our objectives and suit Nest's investment approach.

A passive strategy involves the automated participation and recovery for cases which combine all class participants into a single litigation and bind all members to the judgement unless members opt out of the case by filing an exclusion. SCAs are well established in the US, but less so within UK pension funds. A passive strategy will allow us to gradually build knowledge and experience in the SCA market. It is also lower cost than an active strategy, which would entail initiating or acting as a lead plaintiff, leading to higher costs not only in monetary terms, but also in time and resources.

The implementation of this strategy, known as the proof of claim process, is largely administrative. Research and discussions with many specialised service providers indicated that the best way to implement this strategy would be to outsource it to our custodian who already has Nest's securities holding data, which they can use to identify eligibility, file claims, and recover funds from SCA settlements. We also requested that our custodian submit or make available to Nest quarterly reports on the number of SCA filings and proceeds recovered.

Stewardship across asset classes

Our diversified investment approach means that we invest not only in publicly traded equity and bond funds, but also in real assets such as infrastructure and property. We believe that the combination of these assets contributes to strong risk-adjusted returns and diversification for our members.

In listed equities, we exercise active ownership through proxy voting, co-filing shareholder resolutions, direct or indirect company and industry engagement. In listed corporate debt and private credit, stewardship is more focused on assessing the approaches that the investment managers take by conducting thorough due diligence, engagement with and ongoing monitoring of issuers.

Here's how one of our fund managers operates in investment grade bonds:



Asset class
Global investment grade bonds

Fund manager
Allspring

Allspring has engaged with Valero, the world's largest independent oil refiner, for three years. When engagement started, Valero hadn't set a robust transition plan, arguing petroleum would still be needed in a net-zero carbon economy and their position as the lowest-cost operator provided long-term business stability.

Allspring asked for sustainability reporting, which required a climate strategy. Valero met the request by reporting in line with the Sustainable Accounting Standards Board and the TCFD. Allspring continued to engage with Valero on their commitments. In 2021 Valero announced their ambition to become the North American leader in renewable fuels, to set a carbon-reduction target in its operations and to incentivize the CEOs pay on progress towards the target.

At Valero's 2021 AGM an activist investor put forward a proposal calling for votes against the CEO/Chair for failure to address climate change. Allspring didn't support the proposal, believing management had made notable advancements and commitments over the past two years. Allspring wanted to send a signal it valued the public commitments made following engagement activity.

Valero announced further climate commitments, including an operational net-zero target for Scopes 1 and 2 by 2035. However, at a meeting in March 2022, concerns were raised about Valero's climate accounting. Allspring perceived Valero to be misallocating carbon credits and offsets towards operations, especially around Scope 3 emissions. Allspring expects Valero to clarify matters and will write to the CEO to express its concerns if an explanation isn't given.

Valero isn't currently held in the Allspring Climate Transition Credit portfolios, as it fails to meet requirements. However, Allspring continues to engage with and monitor Valero, with potential for inclusion into the portfolio if material climate transition progress is demonstrated and it meets the portfolio's financial objectives.

Identifying and addressing market-wide risks

One of our responsible investment objectives is to help ensure markets function better. To do this, we identify key market-wide risks from our own research, external information sources such as industry bodies and investor forums, news flow, fund managers and external service providers. We discuss the materiality of each potential risk and agree an action plan for addressing it, including:

- Responding to consultations: We've engaged with several government and industry bodies. More information is available on **page 34**.
- Direct dialogue: We've engaged directly with policymakers, including a roundtable with DWP to talk about value for money and ESG in pensions.
- Collaborative initiatives: This includes our membership of ShareAction's Good Work coalition and Investor Alliance for Human Rights, **see page 40**.
- Advocating for better standards through thought leadership: We've produced diversity reporting guidance for companies, helping to raise reporting standards.

This table illustrates a few consultations we have completed this period:

Risk	Addressing these risks through stakeholder and policy engagement
Climate emergency	We responded to the Department for Work and Pensions (DWP) consultation on requiring trustees to calculate and disclose a portfolio alignment metric describing the extent to which their investments are aligned with the goal of limiting the increase in the global average temperature to 1.5C above pre-industrial levels. While we support the concept of a forward-looking alignment measure, we highlighted the lack of an agreed methodology and industry standard. Following our engagement with DWP on new requirements for trustees to disclose climate change risks and opportunities from October 2021, we engaged with The Pensions Regulator on how Nest was approaching the disclosures and the challenges we had identified.
Tax transparency	Amazon wrote to the US Securities and Exchange Commission (SEC) to challenge a shareholder resolution requesting that the company adopt a new reporting standard on tax practices to increase tax transparency. They argued that their tax affairs were ordinary business matters and therefore exempt from shareholder resolutions. We supported a letter by Pensions and Investment Research Consultants (PIRC) to the SEC arguing for the proposal, as we believe that tax practices are reputationally material to a business. We currently await a response from SEC and if successful, we will be supporting the shareholder resolution asking Amazon for greater tax transparency and disclosures.
Sustainability disclosure requirements	We responded to the Financial Conduct Authority's (FCA) consultation paper on sustainability disclosure requirements (SDR) and investment labels. We were broadly supportive of the proposals, which included a tiered fund labelling system. However, we highlighted the importance of a simple and robust framework for assessing entity-level disclosures, and the need to avoid an overly complex and costly third-party verification system that would not discourage smaller asset managers. We are also part of a working group contributing to the UK Sustainable Investment and Finance Association's (UKSIF) work on the UK government's Green Technical Advisory Group, which seeks to develop a common framework to define which investments should be deemed environmentally sustainable.
Diversity and inclusion data	We responded to the FCA's discussion paper, jointly issued with the Prudential Regulation Authority and the Bank of England, supporting proposals for the financial sector to collect and monitor of diversity and inclusion data. We also highlighted the importance for mandatory firm-level public diversity reporting. We believe that new regulatory reporting requirements, including the disclosure of diversity policies and board-level targets for companies in the financial sector, will help drive much needed improvement across the sector. There is a wealth of evidence to suggest that boards that genuinely embrace cognitive diversity, as manifested through appropriate gender and racial representation and a broad spectrum of skills and experience, are more likely to achieve better outcomes for investors. This is important to Nest's members who are investors in UK-listed financial companies and users of UK-based fund managers who manage their money.

Our responsible investment initiatives

We support and follow various codes of best practice and actively participate in stewardship and reporting initiatives which also help to inform our own work and create impact across the market. Acting as part of a coalition of like-minded investors gives us collective clout and a clearer voice to the millions of members we act on behalf of.

Nest is currently a member of, signatory to, or supports, these global and domestic initiatives:

- 30% Club UK Investor Group
- Asset Owner Diversity Charter
- Farm Animal Investment Risk and Return (FAIRR)
- FRC UK Corporate Governance Code
- FRC UK Stewardship Code
- Glasgow Financial Alliance for Net Zero
- Global Canopy's Deforestation-free pensions guidance working group
- Institutional Investor Group on Climate Change
- Occupational Pensions Stewardship Council
- Pensions and Lifetime Savings Association Stewardship Advisory Group
- Principles for Responsible Investment
- ShareAction's Good Work Coalition
- ShareAction's Healthy Markets Initiative
- Taskforce on Climate-related Financial Disclosures
- Transition Pathway Initiative
- UK Sustainable Investment and Finance Association including representation on the Analyst Committee and Green Taxonomy Advisory Group
- UK Transition Plan Taskforce
- Workforce Disclosure Initiative

Engagement with the fund management industry

We have engaged with a range of industry players and standard setters on issues that matter to our investment approach and to our members. For example, joining other OPSC members to support a letter to dozens of global fund managers highlighting recent positive market developments on stewardship and voting, including the ability of trustees to have more say over their voting rights in pooled funds. We asked managers how they plan to facilitate change across their operations, including communicating to schemes about voting and allowing them to directly vote in the pooled fund should they wish to.

Whilst Nest already has suitable arrangements in place with its managers on pooled fund voting, it's important to help to raise awareness and improve standards across the fund management industry, so that all schemes and their members can benefit.

Risk monitoring

Prioritising ESG risks

Our starting point is to identify ESG topics that are financially material and relevant to our members. We rely on various sources of information to feed into our decision-making, including:

- third-party research, including qualitative, quantitative and news flow
- discussions with fund managers on current and emerging risks
- updates from investor groups such as the IIGCC and Climate Action 100+
- information from industry bodies, standard-setters, and NGOs
- Nest member surveys and engagement initiatives

Any new issues are then assessed using our prioritisation framework, which provides a structured approach to our decision making. It's made up of four components that bring together quantitative and qualitative considerations:

- **Investment performance:** Proprietary analysis that helps us understand the financial impact of an ESG issue on our portfolio.
- **Member interest**: Research that relies on understanding our members' concerns.
- **Codes and initiatives:** An assessment to understand what codes and initiatives are available to help support our work and make a meaningful impact on an issue.
- **Real world impacts:** Research undertaken to help determine if tackling an issue contributes to positive real-world outcomes.

Once we've established that an issue meets the criteria set out by the framework, we conduct in-depth proprietary research to better understand the substance of the issue, the key risks and opportunities and which underlying companies in our portfolios are affected.

This process was applied when considering natural capital as a new responsible investment theme. We already know that climate change is a systemic risk that will impact investment performance. Due to the corresponsive nature of climate change and natural capital, where climate change exacerbates natural capital loss, and natural capital loss exacerbates climate change, we expect that natural capital loss will also impact investment performance.

A 2019 UN report indicates that human activity has already severely altered 75% of land and 66% of marine environments. Preserving and enhancing natural capital will have significant positive impact through the ecosystem services natural capital generates, the reduction in atmospheric CO2, and the creation of hundreds of thousands of new jobs[4].

Natural capital scored highly on all four components of our prioritisation, and has been added to our ESG priority list. Several codes and initiatives specifically related to natural capital are currently in development, such as TNFD and Global Canopy's Deforestation-free pension funds guidance working group, which we believe will help the industry make progress on tackling this issue across their investments.

Our investment risk committee

We have a newly created investment risk committee that meets quarterly to oversee investment risk management activities across the investment process. The committee makes decisions on risk mitigation measures or resolutions, proposals for changes to existing risk limits/targets or the risk management process.

The committee aims to support a holistic investment risk management approach. It therefore monitors investment risk management activities across the different teams within our investment risk governance structure and ensures adequate checks and balances are embedded consistently within those activities. Its remit includes reviewing key ESG issues such as climate-related risks for Nest portfolios first identified by the responsible investment team, and recent developments in the responsible investment space which could have negative impacts on Nest portfolios. It also ensures ESG and climate-related risk is properly integrated and considered across the different sub-teams' processes within the investment directorate. This includes asset allocation, market risk and manager selection in both private and public markets.

The investment risk committee discusses risks that have been identified by the responsible investment team or any other team, focusing on:

- how it might impact on our portfolio
- how we or the fund manager may be able to resolve it

Nest's ESG risk dashboard

Our ESG risk dashboard helps us collate information and identify risks that companies in our portfolio are exposed to through their business activities.

It also helps flag whether companies act in line with our policies and standards. For example, a company could be at risk of breaching human rights laws because they don't regularly monitor the labour practices of businesses in their supply chain, or it could be at risk of breaching our policies against investing in companies that manufacture controversial weapons through the acquisition of a subsidiary.

The dashboard gathers information from various sources, including:

- financial data through **Bloomberg**
- screening for breaches of the UN Global Compact principles and controversial activities and products through **Sustainalytics**
- significant negative media coverage through **RepRisk**
- carbon emissions and environmental footprint from our fund managers
- workforce-related issues through ShareAction's Workforce Disclosure Initiative (**WDI**)
- Nest's proxy voting history through **Minerva Analytics**

Monitoring service providers

We frequently discuss voting-related issues with Minerva Analytics, our proxy voting agent – especially during voting season when there's a concentration of activity. We also review global developments in governance standards at the beginning of each year so we can update our policies where appropriate.

We meet with all our other providers on at least a semi-annual basis to ensure service is delivered to our expectations and to provide feedback and discuss any new developments. Our regular communication also allows us to actively investigate developments in our providers' service that could help meet our changing needs.

All contracts are monitored by Nest's internal procurement function, which conducts a semi-annual evaluation. In the past year, all of our contracts were fulfilled to our expectations, but we continue to engage with our providers on how their service provision can further improve.

4 **mckinsey.com/~/media/McKinsey/Business Functions/Sustainability/Our Insights/Valuing nature conservation/Valuing-nature-conservation.pdf**

Chapter 5

How we make and implement decisions

Review and assurance

Our stewardship programme is subject to a variety of internal and external assurances.

Internally, our formal policies are reviewed and approved either annually or triennially by our investment committee. We also have to ensure that the policies implemented by our fund managers on our behalf are undertaken effectively. Externally, we seek insight and validation from a range of stakeholders such as our peers, fund managers, service providers, industry bodies and advocacy groups such as ShareAction.

As a signatory to the Principles of Responsible Investment (PRI), we receive external validation through our annual assessment report.

The ESG prioritisation framework

Our prioritisation process

ESG risks and opportunities can cut across our entire investment universe. We can't work effectively if our efforts are spread over every potential issue, so we prioritise our work to have the greatest impact. Our decision-making and prioritisation process follows these key stages, underpinned by rigorous governance and oversight.



Case study: Reviewing our controversial weapons policy

Controversial weapons policy

Nest applies a controversial weapons screen to its portfolio, meaning we do not invest in companies directly involved in the production or sale of cluster weapons, anti-personnel landmines or chemical and biological weapons.

Review: Checking the policy's effectiveness

Each year we review our controversial weapons policy to ensure that it continues to be fit for purpose. This year we considered whether we should include nuclear weapons within the controversial weapons exclusion policy. We analysed the financial impact of divesting from nuclear weapons, researched international law and treaties on nuclear weapons, industry standards, other pension's policies and considered member views. This analysis was presented to members of Nest's investment leadership team where the pros and cons of excluding nuclear weapons was discussed.

The investment team's final recommendation not to include a nuclear weapons screen was presented to and approved by Nest's investment committee. Further details about our decision can be found on a **statement on our website**.

Monitor: Gaining assurance

Each year we contact our fund managers, asking them to provide updates and assurances on their approach to the exclusion of controversial weapons. This allows us to confirm if there have been any changes to their controversial weapons policies or changes to their exclusion lists or data providers. Where there are changes, we ensure their policy still aligns with our own. This year there were no significant changes to fund manager policies, data providers, or changes in exclusion lists. We are satisfied and comfortable that our fund managers are complying with and take seriously their responsibility in meeting the terms of the exclusion policies agreed.



Escalating high risk issues

We support company management to do the best they can for their stakeholders. We favour constructive dialogue based on relationship-building, and avoid actions which can cause harm or volatility to the company. However, regular engagement doesn't always deliver the outcomes we hope for. If we strongly believe action needs to be taken faster, we'll step up our action.

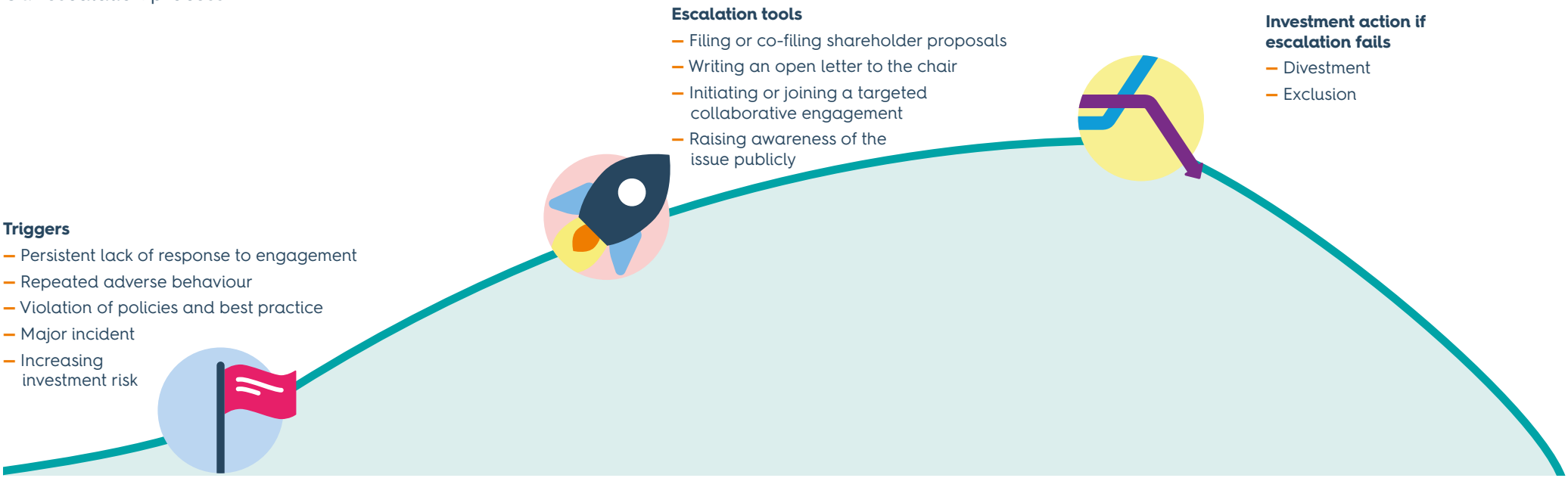
Before escalating our engagement, we'll think about:

- the materiality of the issue
- the responsiveness of the company to engagement
- any historic patterns of negative behaviour
- the impact and likelihood of success of escalation

We've carried out a number of escalated engagements over the last year, including Sainsbury's, Unilever and Exxon Mobil. We're currently engaging with fund managers to agree a set of guidelines for escalation. One example is our need to set parameters for filing shareholder proposals.

Our escalation process is well developed in public equities and is applied in all geographies where we have significant exposure. However, we're looking to formalise our thinking across other asset classes, such as private credit and infrastructure.

Our escalation process



Case study: Engaging with Sainsbury's

As part of our engagement on pay with UK supermarkets through ShareAction's Good Work Coalition, we decided to co-file our first ever shareholder resolution at Sainsbury's alongside other institutional investors with a combined AUM of £2.2 trillion. We called for the company to accredit as a real Living Wage employer. This would see the company commit to paying all its workers essential to the success of their business a wage that meets the cost of living and to ensure its third-party contractors are paid a real Living Wage by 2026.

ShareAction's Good Work Coalition has been engaging with FTSE 100 companies since 2013. Over this period, the engagement has supported 50 FTSE 100 companies to become accredited Living Wage employers. They have been engaging with Sainsbury's for over 10 years, and we have supported this engagement since 2020 when we became particularly interested in the supermarket sector because staff continue to be low paid despite their key worker status.

Although Sainsbury's has made significant and welcome progress in addressing pay, as an investor we believe that there is a very strong business case for the company to become a Living Wage accredited employer. The company would attract and retain workers in a tight and competitive labour market and benefit from higher customer engagement, productivity, and reduced training costs. If Sainsbury's were to make the first move and accredit with the Living Wage, other supermarkets could follow. This would raise standards across a sector that employs millions of people. Not only would it help protect the value of our members' savings, we also believe this is something our members care about as low pay and income inequality affects them and it undermines economic development.

We wanted to escalate this engagement and co-file a shareholder resolution because the Living Wage sets a floor for wages of the most vulnerable and low paid in the UK, including third-party contractors. As a responsible investor, we believe that low pay is a material issue and want to manage this risk so we can continue to support good returns for our members over many years.

Divestment and exclusion

Engagement is usually the most effective tool for changing corporate behaviour. However, companies that aren't responsive to our engagement or don't move quickly enough to operate sustainably won't offer a good return for our members in the long term.

Divestment

If we think that engagement has reached its limits and the risk of holding the asset outweighs the benefits, we may decide to remove our exposure to a holding or industry. This is known as divestment. This year, we divested from five companies in our developed market portfolio where engagement had not progressed significantly over three years. We also made the decision to divest from our small exposure to Russian equities and bonds.

Exclusion

We assess potential exclusions by conducting in-house research on the risks and benefits of continued exposure. Our investment committee is then tasked with reviewing and approving any proposals.

Our fund managers are regularly updated with any exclusion policies. If we spot a breach in our portfolios, we'll talk with the fund manager to understand why they're not aligned with our policies and to rectify the issue. For example, we excluded 81 issuers that make more than 20% of their revenues from thermal coal production and power generation, arctic exploration and oil sands at the end of 2020 and will look to phase out these activities entirely by 2025[5].

5 We'll exclude all companies that derive any revenues from these activities by 2025 at the latest, unless companies have a clear plan to phase out all related activity by 2030.

Managing conflicts of interest

An institutional investor's duty is to act in the interests of its beneficiaries. For Nest, these are the members of the scheme on whose behalf we invest their pension contributions.

Decisions about voting and engagement activity are agreed by the Nest investment team, with no influence from any other areas of Nest Corporation, including any teams responsible for client relationships and client acquisition.

As part of our **Stewardship Conflicts of Interest policy** we've developed a process to notify the Nest client relationship team ahead of each individual public engagement in the UK, but this is for their information only. Here's a recent example of how we handled a potential conflict of interest:



Issue

This year we signed letters to the audit committee chairs at a number of carbon-intensive companies in Europe, asking that they consider material climate risks in their financial statements (see **Chapter 3**). While the individual letters were not made public, a template was shared with the media.



The potential conflict

As a large workplace pension provider, Nest's customers include some of the UK's major employers, and there was a chance that some of the companies could have been a client. The public nature of the intervention could have strained the relationship if not managed appropriately.



How we dealt with it

We informed our designated representative, who communicated our intentions to the client relationship team ahead of the public intervention. This meant the client relationship team was in a better position to answer any queries from the client, and because of the clear and publicly available policy could make it clear that they have no influence on the responsible investment team's decision-making process.

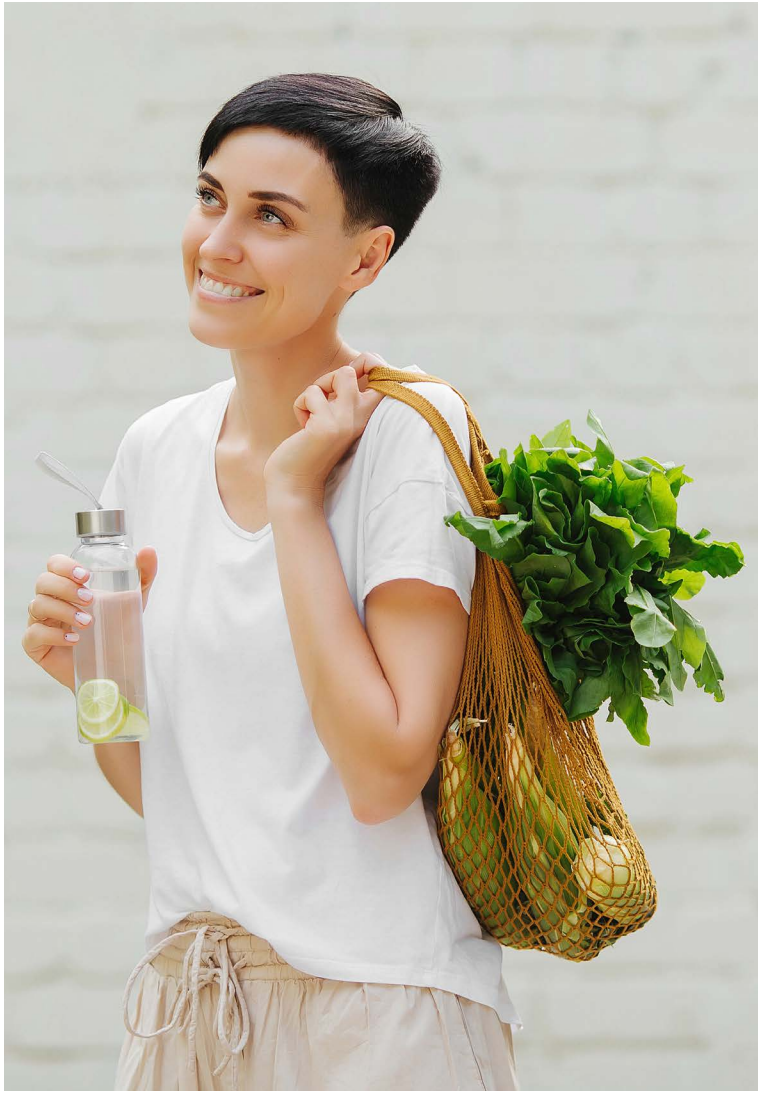
Chapter 6

Our members

Our outlook is over years, if not decades. Our youngest member joined at just 16, and she – along with many other members – could be investing with us for more than 50 years. We therefore look to a long-term investment horizon rather than chasing immediate gains, believing it to be the best way to safeguard our members' interests. Understanding how long-term risks might impact our members' pot size at retirement is crucial to our investment approach.

We included in our climate scenario analysis an assessment of how different climate change scenarios will impact members of different ages over their savings life. Aon's analysis shows that a younger member will be more exposed to climate-related risks due to their increased exposure to equities during the Nest Retirement Date Funds' growth phase. The findings are stark – over the long term, this member's pension pot could be worth £11,000 to £12,000 less if the transition to a low-carbon economy is disorderly, or no transition is made. On the upside, in an orderly or smooth transition, the member could be £6,000 better off compared to the base case scenario. Further details are available in our **TCFD report**.

It's essential that we understand what our members need and expect from their pension savings, so that we can refine our investment beliefs and decisions to meet these requirements. This year we published **Understanding our members' investment needs**, a report examining a range of evidence on our members and their investment needs, and how they influence the evolution of Nest's investment strategy. The research we undertook for this report showed a strong indication that many of our members are encouraged by our responsible investing approach. A number of Nest surveys also confirmed that our approach lines up with their expectations of a pension provider, giving them more reason to trust that Nest is investing in their best interests.



Improving communication with our members

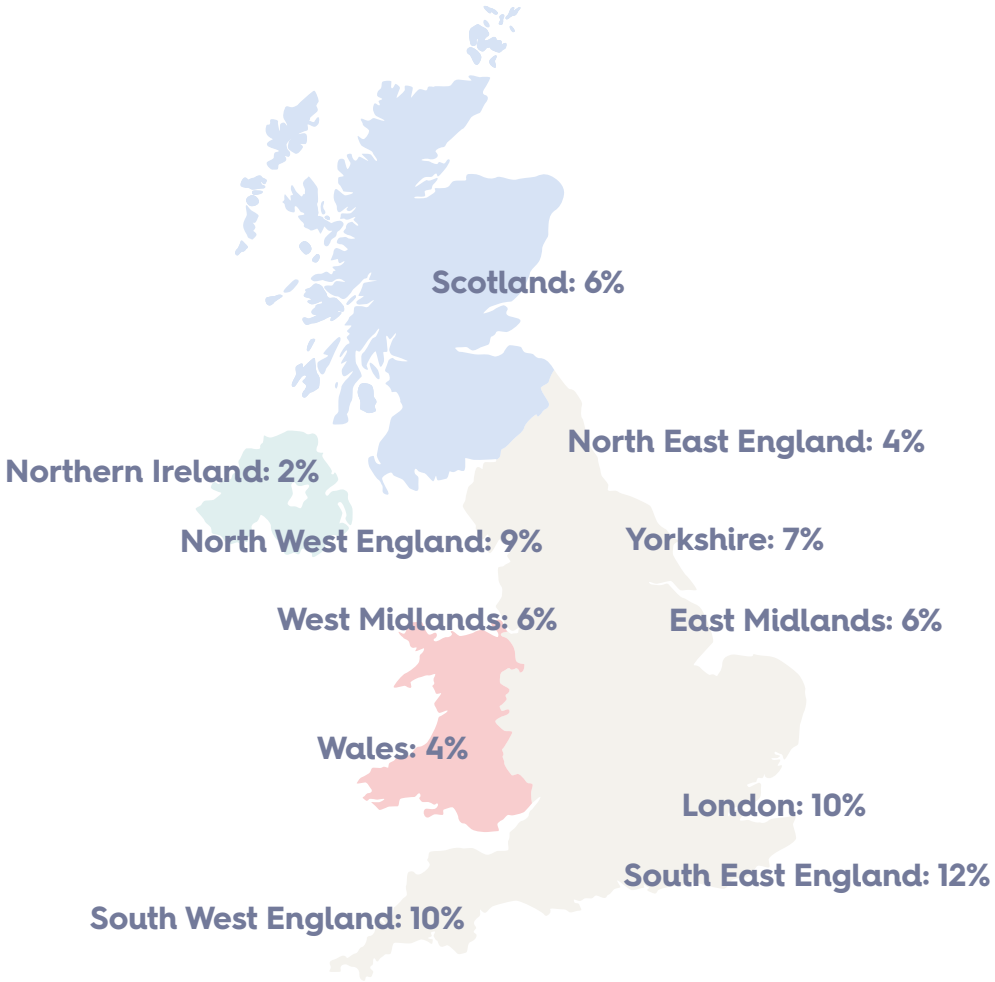
Over the last year we've continued to create quarterly email campaigns, and video, social and digital content on a variety of investment topics. Through our online member community, Your Way, we ask their opinion on every sizeable campaign we work on. We'll then adapt the communication to address any concerns or feedback before we publish it, to help ensure our content is easy to understand, access and engage with. It's led us to create more effective communications that aim to break down the barriers and demystify the world of pensions.

The Your Way community

Your Way is hosted on a customised platform designed and operated by our partner research agency InSites Consulting. It's a one-stop shop for surveys, discussion forums, and general contact with some of our members. We now have almost 3,000 Nest members who've actively signed up to be part of the Your Way community from all around the country.

We approach each project on an ad hoc basis, first discussing the objectives with Nest stakeholders and then translating those into a research brief for the agency. From there, we work hand in hand with the agency to get relevant feedback from the Your Way community to shape the work we're doing, using a variety of approaches.

The Your Way community



Our website

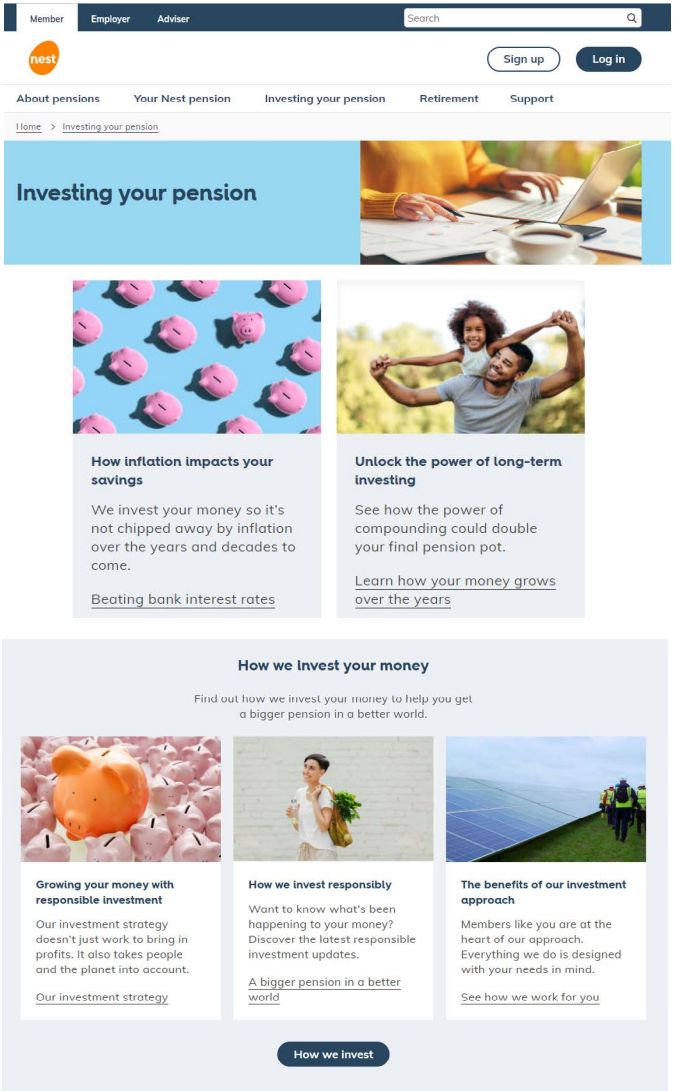
Our responsible investment objectives make reference of the importance of communicating and being transparent about the decisions we make on members' behalf. One of the biggest projects we worked on with our member community this year was to launch a new member-focused investment section of our website.

As part of our brand ambitions, we wanted our members to feel connected to their pension. We therefore needed to provide members with clear information on how Nest invests their pension, what pension investing means and how it can benefit them. A key objective was to help members feel confident about Nest's investment approach .

To meet our members' different needs, we used principles of user-centred design and followed a content framework created by our digital team, creating scenario-specific personas to identify certain investment needs, and producing targeted content for each of them. We worked closely with the Your Way community to do user testing and content feedback. The content was written with members' needs, and edited following community feedback.

This work has led to the biggest change to Nest's member content in a number of years, and the new section brings together information that builds knowledge and trust with our members by:

- helping our members better understand what investing their pension means
- explaining how Nest specifically approaches its investment strategy through responsible investment
- explaining how our investment approach is designed to provide our members with the best possible retirement outcome
- providing information about our flagship Nest Retirement Date Fund as well as the investment choices members can make



Connecting members to their money

We've spent the year trying to find ways in which we can connect our members to their money through showing them more tangible outcomes of where their money goes and providing tools that allow them to explore the companies and other assets they invest in.

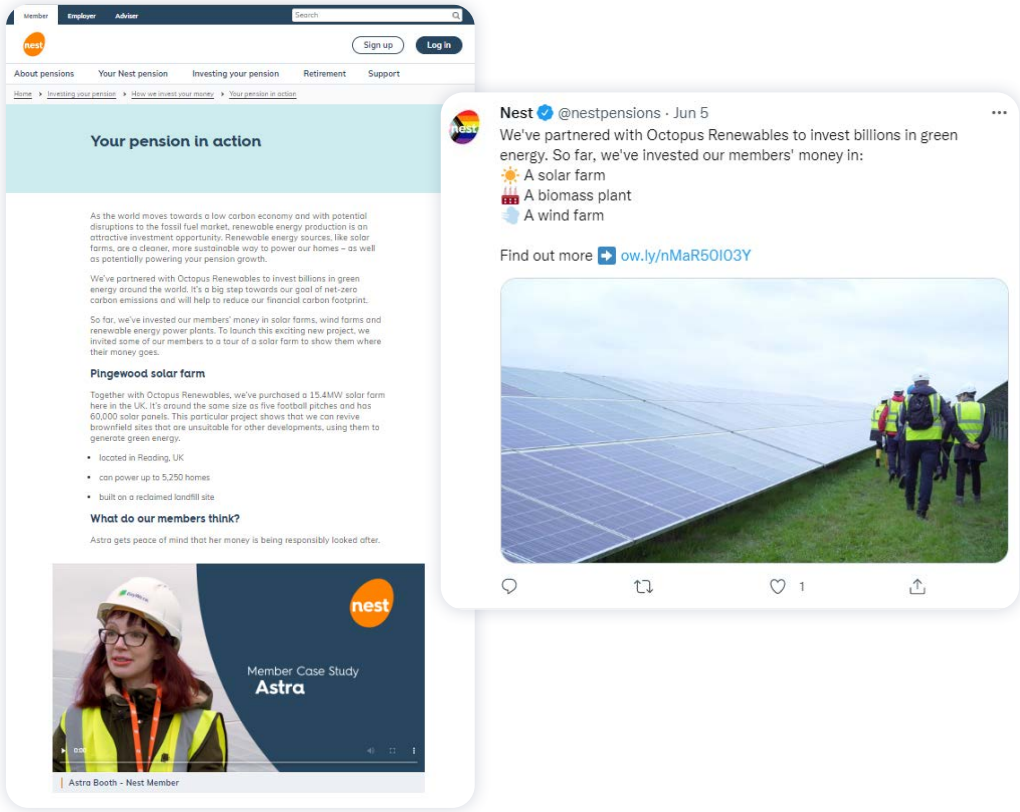
Pingewood solar farm visit

Our investment in UK infrastructure is an excellent example for members to see where their money is going and how it contributes to strong returns for them at retirement. As part of meeting our responsible investment objectives, it's also a great opportunity to talk about the positive impacts that these assets have on the society and the environment which can also support good long-term returns.

Together with Octopus Renewables, we've purchased a 15.4MW solar farm here in the UK that can power up to 5,250 homes. We invited some of our members to a tour of the farm, which they indirectly invest in through their Nest pension. It's around the same size as five football pitches and has 60,000 solar panels. One member on the site visit commented that he was struck that his money is tangibly helping people while also drawing a reliable profit.

> It gives me peace of mind my money is being looked after responsibly
>
> **Astra**

> It's great to see [where Nest put members' money is] all real and tangible
>
> **Laurence**



We shared details of the visit through social media campaigns and a dedicated page on our website, so that other Nest members could get a sense of where their money goes.

Tumelo

An important part of connecting members to their savings is for them to understand what their pension is invested in. We've partnered with Tumelo, a software system that gives our members a better understanding of where their money goes.

Tumelo recognised a global problem – that millions of ordinary people contribute to the investment system through ISAs, workplace pensions, and other investments, but the majority have no visibility over where their money is going and no voice at the many companies they own through their investments. Our pilot of the Tumelo software is helping to address this problem.

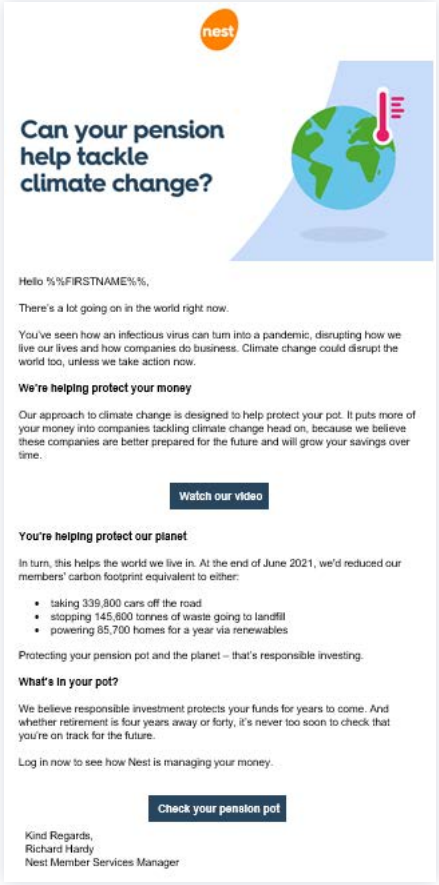
We believe it's a good fit with our objective to be transparent and help our members understand how their pension works and where it's invested.

The pilot will be running for 12 months, so we can test its success and learn more about our members in the process by monitoring the actions it may prompt them to take.

Email campaigns

It's equally important to tell our members how we're acting responsibly when investing their money. Over the last year we've sent emails to around one million Nest members to explain our investment approach. We make sure the emails are accessible to everyone by using plain language, simple explanations, and avoiding financial jargon.

Our emails inform our members how Nest is investing their money responsibly and how we are investing their money in line with our new climate change policy. The emails were sent to Nest members of all ages, including registered and non-registered members. The emails were spread throughout the year and were planned at specific times to complement announcements or campaigns happening during the year. For example, we sent an email on climate change in September when COP26 was hitting headlines across the country.



nest

Can your pension help tackle climate change?

Hello %%FIRSTNAME%%,

There's a lot going on in the world right now.

You've seen how an infectious virus can turn into a pandemic, disrupting how we live our lives and how companies do business. Climate change could disrupt the world too, unless we take action now.

We're helping protect your money

Our approach to climate change is designed to help protect your pot. It puts more of your money into companies tackling climate change head on, because we believe these companies are better prepared for the future and will grow your savings over time.

Watch our video

You're helping protect our planet

In turn, this helps the world we live in. At the end of June 2021, we'd reduced our members' carbon footprint equivalent to either:

- taking 339,800 cars off the road
- stopping 145,600 tonnes of waste going to landfill
- powering 85,700 homes for a year via renewables

Protecting your pension pot and the planet – that's responsible investing.

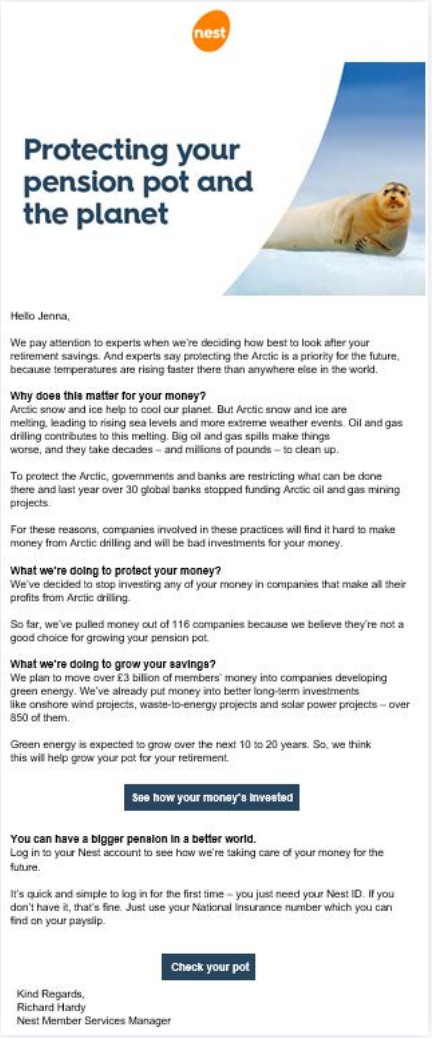
What's in your pot?

We believe responsible investment protects your funds for years to come. And whether retirement is four years away or forty, it's never too soon to check that you're on track for the future.

Log in now to see how Nest is managing your money.

Check your pension pot

Kind Regards,
Richard Hardy
Nest Member Services Manager



nest

Protecting your pension pot and the planet

Hello Jenna,

We pay attention to experts when we're deciding how best to look after your retirement savings. And experts say protecting the Arctic is a priority for the future, because temperatures are rising faster there than anywhere else in the world.

Why does this matter for your money?
Arctic snow and ice help to cool our planet. But Arctic snow and ice are melting, leading to rising sea levels and more extreme weather events. Oil and gas drilling contributes to this melting. Big oil and gas spills make things worse, and they take decades – and millions of pounds – to clean up.

To protect the Arctic, governments and banks are restricting what can be done there and last year over 30 global banks stopped funding Arctic oil and gas mining projects.

For these reasons, companies involved in these practices will find it hard to make money from Arctic drilling and will be bad investments for your money.

What we're doing to protect your money?
We've decided to stop investing any of your money in companies that make all their profits from Arctic drilling.

So far, we've pulled money out of 116 companies because we believe they're not a good choice for growing your pension pot.

What we're doing to grow your savings?
We plan to move over £3 billion of members' money into companies developing green energy. We've already put money into better long-term investments like onshore wind projects, waste-to-energy projects and solar power projects – over 850 of them.

Green energy is expected to grow over the next 10 to 20 years. So, we think this will help grow your pot for your retirement.

See how your money's invested

You can have a bigger pension in a better world.
Log in to your Nest account to see how we're taking care of your money for the future.

It's quick and simple to log in for the first time – you just need your Nest ID. If you don't have it, that's fine. Just use your National Insurance number which you can find on your payslip.

Check your pot

Kind Regards,
Richard Hardy
Nest Member Services Manager

Chapter 7

More about Nest

Our purpose and goal

The Scheme's purpose is to help millions enjoy a better retirement.

This reflects our primary strategic focus, which is the financial wellbeing in retirement of our membership as well as our primary function, which is to deliver strong retirement outcomes. It also reflects our ambition to make an impact at scale.

Principles that make Nest, Nest

Our focus on members underpins everything we do, from the way we invest to our approach to customer service to the way we operate as a business. We identified six principles that guide the way we work and called them the things that make Nest, Nest. These are the things that we want to keep constant as we grow as a business.

Built around customers' needs and behaviours

We'll build and deliver a product based on research and an expert understanding of the needs and behaviours of our customers – members, employers and intermediaries such as payroll providers and advisers. We'll use technology and best-in-class communication techniques to engage our customers in a timely, relevant and personal way.

Excellence in investments and governance

We provide excellence in investment practice and governance. We design and oversee expert investment strategies and invest responsibly and sustainably.

Low charges, and open to all employers

We use our scale to keep charges to members as low as possible. We ensure the Nest scheme is available for any employer that wants to use it.

Not for profit

We aspire to operate as a not-for-profit business over the long term. Once our loan from government has been repaid, our aim is that any surpluses generated should be reinvested in the interests of our members.

A broader social purpose

We're here to help millions enjoy a better retirement. Our responsibility is to our members, but also to a broader population of mass-market savers, including those already automatically enrolled as well as anyone who could benefit from saving for retirement but currently falls outside of auto enrolment legislation.

An organisation that lives our values

We show the same level of care to our employees as we do to our customers. We champion the scheme's values inside the organisation, making Nest a great place to work. Everything we do is underpinned by our values of transparency, respect, empowerment, and ease. We commit to being open to everyone, putting members long-term values first, sharing the benefits of scale and behaving responsibly.

Our strategic priorities

We currently have five strategic priorities which guide our approach to achieving our goal.

We constantly monitor how we are delivering against these strategic priorities through our corporate scorecard, and report on progress in our **annual report and accounts**.

These strategic priorities are:



Support strong member outcomes

We'll grow members' assets and keep their data safe. We'll deliver a targeted approach to increasing member engagement, including at retirement, while continuing to focus on ensuring that the right retirement options exist to meet their needs.



Deliver a good service to our customers

We'll deliver a sustainable, high-quality service to all our customers – members, employers and intermediaries such as advisers and payroll providers.



Grow the business, in the right way

We'll ensure that we have a broad customer base while also remaining fully focused on the needs of our target membership of people on a low to moderate income.



Deliver a sustainable future business model

We'll implement our sustainable approach to service delivery through the safe and secure transition to the new administration service partnership. We'll maintain a cost-efficient business model to ensure we can repay our loan from government.



Deliver a corporation fit for the future

We'll continue to ensure that we have the right skills and expertise to deliver for our members, supported by a diverse and inclusive culture.

How we're run

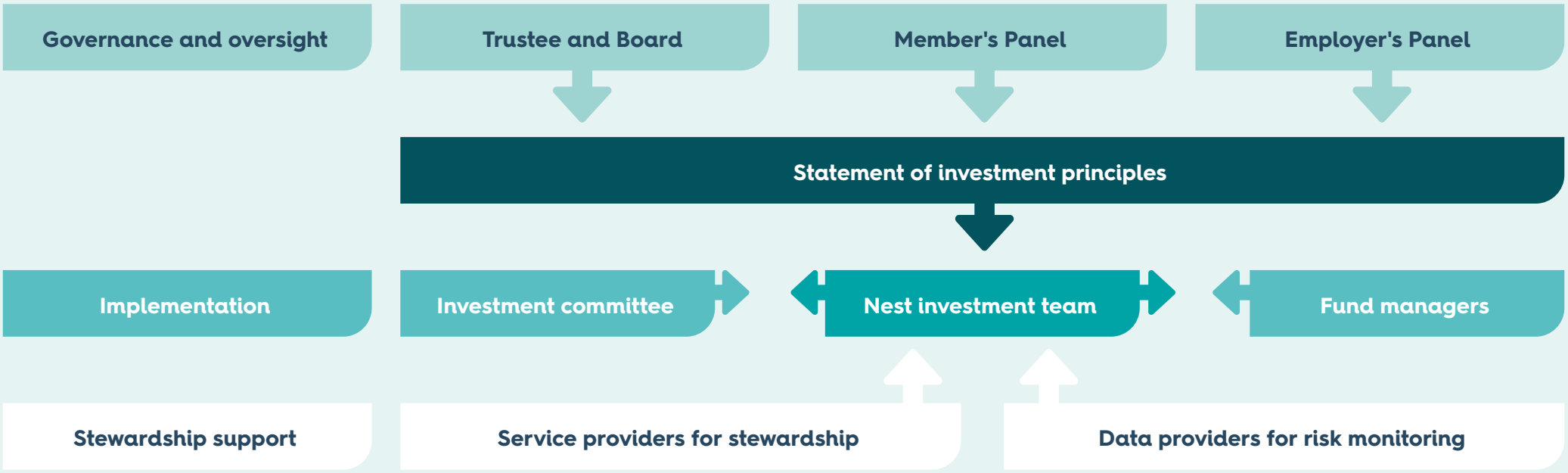
Nest was established by the UK government in 2010 to support the introduction of auto enrolment into workplace pensions. The Nest pension scheme is run as a Trust by Nest Corporation with the purpose of providing pensions and other benefits in relation to its members. It's accountable to Parliament through the DWP but is generally independent of government in its day-to-day decisions. Being a public body means that we have no owners or shareholders, and the scheme is run for the benefit of its members.

From December 2019, Nest's investment and investment operations teams were seconded into Nest Invest Ltd., the investment subsidiary of Nest Corporation, which is authorised and regulated by the FCA. The responsible investment team sits within Nest Invest.

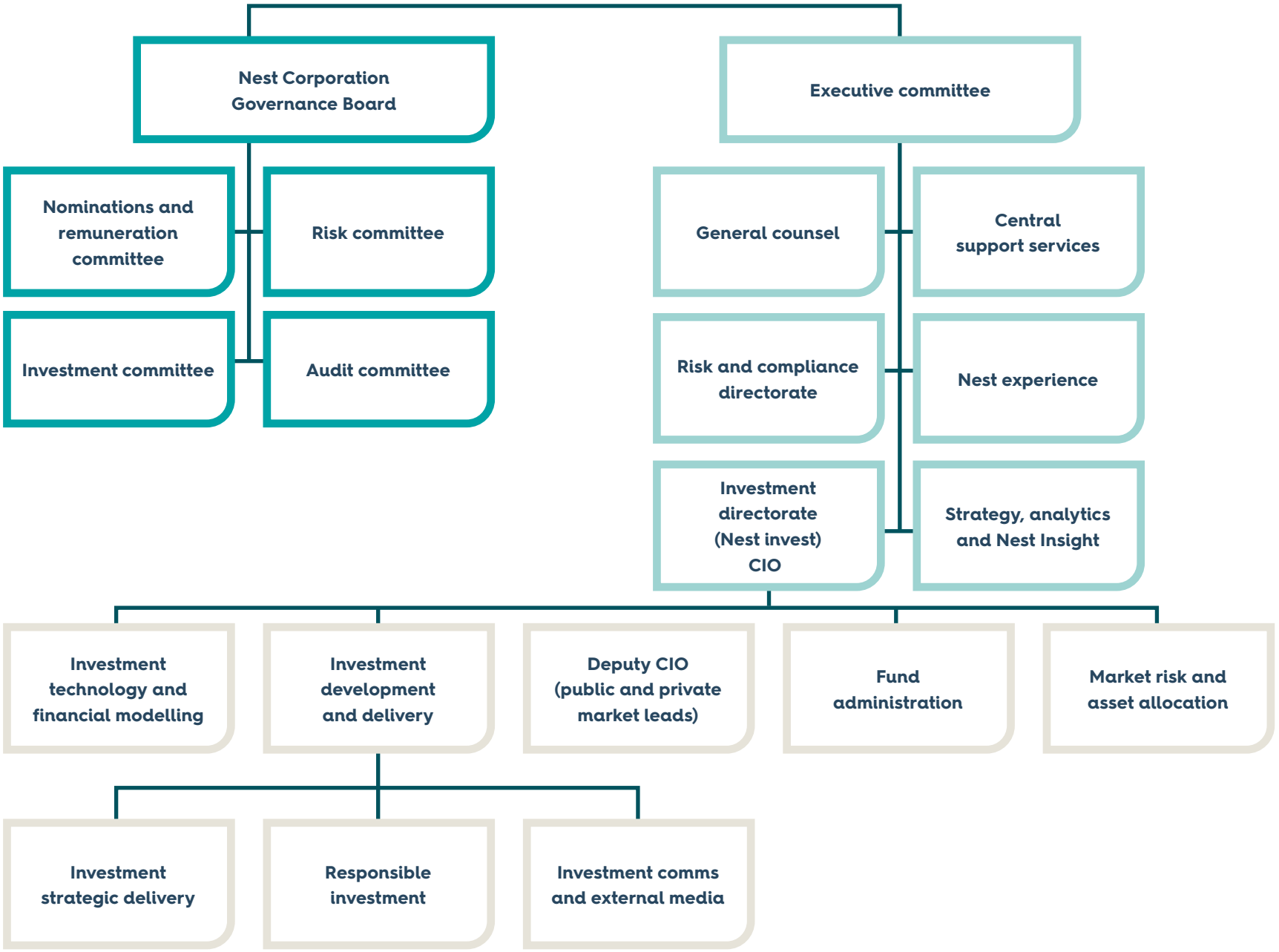
Our governance mechanisms reflect our position as a publicly accountable scheme, and our stewardship activities and processes are supported and overseen formally by our governing bodies. Please see **page 51** for further details on our organisational structure.



Governance at Nest



Organisation chart



Role: **Trustee and Board members**

Responsibility

Nest Corporation is the Trustee of the Nest scheme. The Trustee is comprised of up to 15 Board members. The Board members are collectively referred to as the Board of Nest Corporation, or simply the Board. They're supported by an executive team and a range of specialists who aim to make sure Nest works in the way it should.

Board members are currently chosen by the Secretary of State for Work and Pensions in line with public appointments guidance that promotes selection on the basis of merit, fairness, and openness. At some point in the future, we'll be able to appoint our own Board members through a process that includes input from our Members' Panel. The Secretary of State will decide when that will be.

Role: **Members' and Employers' Panel**

Responsibility

The Trustee gets the views of members and employers using Nest through the Members' Panel and Employers' Panel. These two groups provide member and employer perspectives on investment to the Trustee and have a statutory role in reviewing the SIP. These checks and balances provide Nest with a high level of oversight in its investment operations.

Role: **Investment committee**

Responsibility

All investment decisions are overseen by the Trustee through the investment committee, a group of Board members and independent experts that meets quarterly to formally review investment operations and decisions. They decide on the recommendations of Nest Invest on a range of investment-related matters including:

- investment objectives
- strategic asset allocations
- approach to responsible investment
- evolution of fund choices
- fund manager selection and monitoring
- investment communications for members and employers
- investment costs

This committee also monitors fund performance and operation to make sure that the Trustee is fulfilling its legal duties.

Role: **Nest Invest Limited (In-house investment team)**

Responsibility

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

Role: **Fund managers**

Responsibility

The day-to-day management of Nest's assets is performed by external professional fund managers and from time-to-time, Nest Invest. Fund managers are monitored on a regular basis and performance is reported to the investment committee quarterly. Their activities are defined and constrained by detailed agreements. Fund managers have discretion to buy and sell investments within the terms of their agreements. The most up-to-date list of fund managers and the assets they manage on our behalf can be found in our **quarterly investment reports**.

Case study: How our governance process works

We aim to take a considered, responsible approach to our investments. Here's how our governance process worked when developing our TCFD report.

1 The need

In October 2021, new statutory regulation came into force, relating to reporting in line with TCFD recommendations to improve both the quality of governance and the level of action by trustees in identifying, assessing and managing climate risk.

2 What we did

We used the 2020/21 TCFD report as a dry run for the new disclosure requirements, seeking to align our report with draft statutory guidance as much as possible.

Following the publication of the report and final statutory guidance, we carried out a gap analysis to identify areas of improvement. One challenge we identified was the governance process for the report, which was overly complex and lengthy.

3 Governance process

In anticipation of the 2021/22 report, we delivered training on the new requirements to the Trustee in January 2022. We also streamlined the governance process. The investment committee reviewed the draft report in its Q2 meeting and subsequently recommended it to the Board for sign-off in July.

4 Why it worked well

Where schemes do not publish a TCFD report within seven months of scheme year-end, or have failed to comply with individual requirements, The Pension Regulator may issue penalties. By preparing a dry-run report, Nest is well prepared to meet the new requirements.

Resourcing and support for responsible investment

Responsible investment expertise

Our responsible investment team is part of Nest Invest (see our organisation chart on **page 51**) and is made up of five dedicated and experienced individuals who are supported by – and work collaboratively with – the entire investment team, including the public and private markets, market risk and asset allocation teams, to pursue our strategy. The responsible investment team comprises professionals with both investment and stewardship expertise.

On stewardship, members of the team have extensive experience in responsible investment roles and have relevant qualifications, undertaking continuing professional development. The combination of skill sets, backgrounds and practical experience of team members is well suited to the development and execution of our responsible investment strategy and integration into Nest's wider investment approach. For more details on how we invest responsibly please see **Chapter 4**.



Diandra Soobiah is the Head of Responsible Investment at Nest and has 19 years of investment experience. She joined Nest in 2010 and has helped build and develop Nest's responsible investment approach. She's responsible for its delivery and oversees the implementation and management of ESG and stewardship across the scheme's assets. She is part of Nest's investment leadership team and is currently a co-chair of the 30% Club Investor Group and a member of the PLSA's Stewardship Advisory Group.



Katharina Lindmeier is a Senior Responsible Investment Manager with more than 6 years' investment experience. Katharina joined Nest in 2019 having previously worked in responsible investment roles at RPMI Railpen and Aberdeen Standard Investments. Katharina is focussed on environmental issues and is primarily responsible for the development and delivery of Nest's climate change policy.



Mais Callan is a Senior Responsible Investment Manager and has 15 years of experience working in stewardship and ESG integration. Mais joined Nest in 2019 having previously worked for nearly a decade at Hermes EOS, engaging with senior management of European and emerging markets companies, and then moving to lead ESG integration at Hermes. She's also worked as an advisor to alternative asset managers on ESG. She is currently co-chair of the 30% Club Investor Group.



Georgina Chiu is a Senior ESG Analyst. Georgina joined in October 2021, having previously worked as an investment manager at Big Society Capital and a Commercial Asset Manager at Octopus Investments. Georgina leads on engagement activities, particularly around diversity, workforce and food, and the development of both objectives and measures for a new impacting investing framework.



Louis Ryall is an ESG Research and Voting Analyst at Nest. Louis joined Nest in January 2021 and graduated from Imperial College Business School where he completed a master's degree in climate change management and finance. He is leading Nest's proxy voting efforts as well as providing support on ESG research and engagement.

Responsible investment stakeholder group

In 2021 we established the responsible investment stakeholder group, which includes senior departmental leaders across Nest as well as our CEO and Chief Financial Officer. Ongoing responsible investment priorities and progress are discussed at a quarterly forum, and knowledge is shared so that activities and internal and external messages are aligned. These forums have been crucial in helping the wider organisation better understand Nest's expectations of companies as an investor and identify gaps between UK standards of good corporate practice and Nest as a public corporation.

Training and development

We strive to be thought leaders. It's important that we keep building and sharing our learnings both within the investment team and throughout the organisation to help embed responsible investment in all our decision-making and culture. We do this through:

- **Trustee training:** We've established a training programme for our Board members, covering the fundamentals of responsible investment and key ESG themes, including comprehensive training on management of climate change risk. Earlier this year the responsible investment team conducted a training session for the Board on the new statutory requirements for trustees on climate-related risk and opportunities, in relation to scheme governance and trustee knowledge and understanding. The session went well with engagement and interest from Board members. It provided a strong basis for the development and governance of our TCFD report which followed later in the year. The investment committee also had two workshops on climate change. In October 2021, the responsible investment team delivered a presentation on the 2025 climate roadmap. In March 2022, Aon presented the results of climate scenario analysis that it had carried out on Nest's asset allocation.
- **Responsible investment week:** Every year, Nest holds a company-wide week-long event dedicated to responsible investment, where we run a series of presentations and webinars on topical ESG issues, drawing on the insights of both internal and external experts. In 2021 the responsible investment team provided an annual update and presented the climate change policy. There were also presentations on unlisted equity renewable energy infrastructure assets from **Octopus Renewables**, the sustainability of the meat production industry from the **FAIRR initiative**, and big tech and social media from the **Ranking Digital Rights initiative**. Finally, the responsible investment week finished with a film screening of 'Our Planet: too big to fail' which explores the risks of inaction, the impact of investing-as-usual, and the role the finance sector can play in powering a sustainable future.

Performance and reward

We're focused on delivering long-term positive investment and better outcomes for our members. We apply that belief to our own company policies. While we have a highly qualified investment team, our performance incentives aren't driven by variable pay and bonuses, and we do not offer variable incentive payments for stewardship. Instead, we aim to provide stability and security for our employees, with a strong culture of flexibility and family-orientation.

Nest was shortlisted in the 2021 Personnel Today awards for Family Friendly Employer of the Year.



Nest's diversity and inclusion policy

In 2020/21, 27% of Nest's staff were from a minority ethnic community and 49% were women.

Our aim of achieving gender and ethnicity pay parity among Nest staff is in place to make sure our organisation represents the profile of our members. We're on a continuing journey to embody a diverse workforce and create an inclusive environment at Nest. Our latest data (2020/21) suggests we're going in the right direction.

Gender pay gap

Since 2017 when we voluntarily produced our first report, we've continually narrowed our pay gap between men and women. Although the gap has reduced again this year, a woman working for Nest still earns less per hour than her male counterpart on average.

Ethnicity pay gap

In 2020 we published our first ethnicity pay gap report, setting targets to reduce ethnicity pay gap and to increase representation. The 2020/21 report shows that on average, although the gap has reduced again, our people from ethnic minority communities earn less than their white counterparts and are underrepresented in senior roles. This isn't in line with our principles and we recognise that there's a considerable amount of work ahead of us to improve the representation of ethnic minority employees at the senior level.

We benchmark ourselves against other organisations and take part in accreditation programmes such as the DWP's Disability Confident Employer programme, HM Treasury's Women in Finance Charter, the Stonewall Workplace Equality Index, Healthy Workplace Charter and Timewise. We're committed to closing the pay gap and we're taking important steps to help us do this.

We're taking important steps towards fairer recruitment, acknowledging the importance of talent and development and are building a data infrastructure that will enable us to make targeted interventions.

We'll work with our gender and race and social diversity working groups, listen to them, deliver their action plans, and foster a culture which embraces parity. One of the commitment's we're fulfilling this year is the participation in the 10,000 black interns programme[6]. Two interns will work with the investment team from June 2022.

We'll continue to work with our partners and suppliers to improve the diversity in our sector through initiatives such as the Diversity Project.



6 **10000blackinterns.com**

An industry-recognised approach

Better Society Energy Awards 2021

Infrastructure Finance Initiative



Pension and Investment Provider Awards 2021

DC Default Solution of the Year



P&I World Pensions Summit Innovation Awards 2021

Investment Innovations



Professional Pensions UK Pensions Awards 2021

DC Multi-Asset Fund Manager of the Year



European Pension Awards 2021

Best Investment Strategy Award

Awarded for implementing an investment strategy that sets the standards for the industry to follow.



Corporate Adviser Awards 2021

Ultimate Default Fund
Best Default ESG Strategy

Recognised for reaching out to our members to understand their needs and our commitment to decarbonising our portfolios.



IPE Real Assets & Infrastructure Awards 2021

Newcomer

"This is an innovative approach in an area where strong leadership is desperately required. The ethos of the organisation and the investment structure and methodology that they have created is impressive and worthy of recognition. Only entry to mention commitment to net zero + Paris alignment. It has a strong relationship with chosen external managers and solution on how to invest DC funds in illiquid assets. Their approach is outstanding and they would have been my top pick if they had a track record of investing in infrastructure which will come in time."



Pensions Age Awards 2022

Innovation Award (Investment)

Recognised for truly adding value to the pensions space with originality and innovation.



Corporate Adviser Awards 2022

Ultimate Default Fund



Chapter 8

Meeting the principles of the FRC's Stewardship Code

The information in this report is intended to meet the reporting expectations against the FRC Stewardship Code's 12 principles. We reference content in the report that covers the expectations of the Code in the table below.

Stewardship code principle	Page reference
Principle 1: Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.	7-8; 47-49
Principle 2: Signatories' governance, resources and incentives support stewardship.	50-56
Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	41
Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	33-35; 39
Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.	37-38
Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	5-6; 42-46
Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	9-24; 25-33
Principle 8: Signatories monitor and hold to account managers and/or service providers.	28-31; 36

Stewardship code principle	Page reference
Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.	9-24
Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers.	9-24; 34-35; 40
Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers.	39-40
Principle 12: Signatories actively exercise their rights and responsibilities.	28-29; 33

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