Nest's responsible investment report

Our responsible investment activities and outcomes over 2024/25



nestpensions.org.uk

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Foreword

The past year was marked by significant change for investors, driven by major geopolitical, environmental, and market developments. We have navigated an increasingly complex landscape, defined by volatility, uncertainty, complexity, and ambiguity (VUCA). Conflicts in Ukraine and the Middle East have continued to cause grave humanitarian and health impacts, with repercussions felt across the global economy.

As long-term stewards of our members' savings, we remain committed to protecting their investments from the risks posed by conflict, and to managing any actual or potential negative human rights impacts connected to our holdings. This year, we strengthened our risk monitoring by enhancing our United Nations Global Compact (UNGC) approach to identifying human rights-related controversies, which we talk more about in this report.

The year also brought stark reminders of the accelerating physical impacts of climate change. From devastating floods in Spain to wildfires in Los Angeles, catastrophic events underscored the urgent need for investors to build climate resilience. As a globally diversified investor, we recognise both the risks to our members' long-term returns and our responsibility to manage them.

That is why, in partnership with UBS Asset Management and the Oxford Sustainable Finance Group, we published Harnessing Climate Data, a white paper highlighting the critical role of complete and consistent data in identifying climate risks and strengthening portfolio resilience. You can read more about this work in the pages ahead, alongside details of our broader efforts to work with industry peers and policymakers to achieve meaningful emissions reductions.

While climate action has never been more urgent, the responsible investment landscape has faced significant headwinds. The increasing politicisation of environmental, social, and governance (ESG) issues in the United States has placed further pressure on asset managers to exercise caution in how they describe their ESG and stewardship activities. Over the past year, more of the world's largest managers – particularly those based in the US – have scaled back their public commitments, with several leaving collaborative investor initiatives such as Climate Action 100+ and the Net Zero Asset Managers Initiative (NZAM). This trend, which gathered pace in early 2024, has continued into 2025.

Despite these challenges, we firmly believe that coordinated investor action remains the most effective way to address the systemic ESG risks we face. Collaboration is essential if we are to deliver the scale of change needed.

Against this backdrop, we have continued to diversify Nest's portfolio and build our capabilities through strategic partnerships. We were delighted to acquire a 10% stake in IFM Investors, a global investment company. This partnership supports our ambition to expand our private market investments, including here in the UK. With over a third of the UK workforce saving with Nest, increasing our exposure to private markets enables us to invest more in the jobs, communities, and vital infrastructure that matter most to our members.

Finally, our commitment to high standards of stewardship remains unwavering. We were pleased to have our signatory status to the Financial Reporting Council's Stewardship Code renewed, recognising our stewardship practices and transparency. However, we were disappointed by revisions to the Code that weakened its definition of stewardship and diluted key principles. We believe that it is more important than ever for leading industry codes to uphold the highest standards and be transparent about how investments depend on, and impact, the environment and wider society.

Looking ahead, our focus remains clear: to deliver strong long-term returns for our more than 13 million members, while helping to build a more sustainable and inclusive financial system. We thank our stakeholders, partners, and colleagues for their continued support as we work together towards building a better future for our members – and for all UK workers.



Elizabeth Fernando
Chief Investment Officer

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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 9th annual responsible investment report produced by Nest. It mostly covers our activities between 1 April 2024 to 31 March 2025, but we also include a few more recent examples of our work.

We designed the report to meet the principles of the Financial Reporting Council's (FRC) Stewardship Code 2020. By outlining our mission, purpose, governance, approaches, and processes, and explaining why they're appropriate, we aim to remain signatories to the Code. A breakdown of how this report addresses each principle can be found on page 87.



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How we have ensured this report is fair, balanced and understandable

The process has given us confidence that our reporting is fair, accurate and balanced – as well as of interest and use to our members, the employers who use our scheme and our wider stakeholders.

This report has been developed and reviewed by a range of internal and external stakeholders and draws on various sources of information.

The report was written by Nest's responsible investment team, to make sure it was informed by those team members responsible for the various work areas covered in the report and therefore is as accurate and up to date as possible. Data and evidence were gathered from a combination of sources, including from our third-party service providers and internal tracking systems. Information on our work provided by our fund managers and other partners has been reviewed and assured by them. In addition, our in-house compliance team has reviewed this report, and Nest's communications team have been extensively involved to offer objective challenge to make sure the report is clear for the intended readership, and claims made are backed up by evidence and examples. Finally, Nest's investment committee has reviewed and approved the full report.

Further information on our review and assurance processes can be found on page 68.

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At a glance

Our 13.8 million members in numbers



5,027,640
are active [1]

8,757,129
are inactive [2]

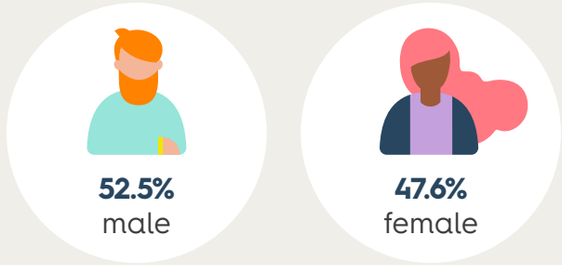


3,994,427
contributing members

9,790,342
non-contributing members

Members by gender

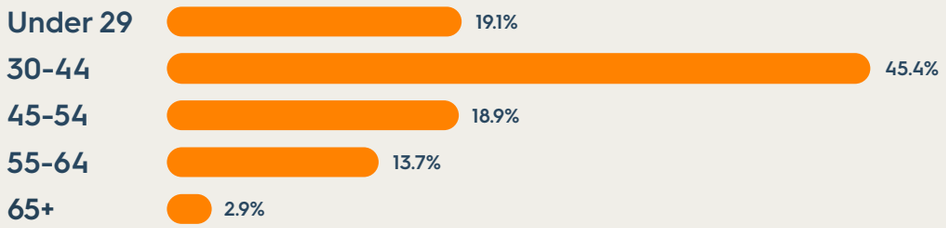
0.2% did not have a gender listed on their Scheme enrolment



52.5%
male

47.6%
female

Age profile of Nest members



1. 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).
2. 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.

All data above as of 31 March 2025.
All figures are rounded and therefore may not total 100%.

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Key figures as at 31 March 2025

£49.1bn
Assets under management



£8bn
Total annual contributions

21
Fund managers

7.2%
10-year rolling annualised returns in the Nest 2045 Retirement Date Fund after annual management charges to 31 March 2025[3]: 7.2%

1
Financial Conduct Authority (FCA) regulated and authorised subsidiary – Nest Invest



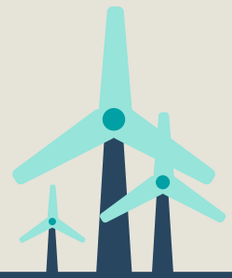
Our engagement activity

48,637
Votes cast on our behalf by our equity managers primarily at company annual general meetings (AGMs)



254
Engagements carried out by our main equity managers, UBS, Lombard Odier and Northern Trust, on our behalf

58
Companies directly engaged with, across our 7 priority areas[4] (see page 13).





3. After annual management charges to 31 March 2025.
4. Direct engagement refers to when Nest has been involved in a meeting with a company (either one-to-one or as part of a broader investor meeting) and/or has written to a company directly.

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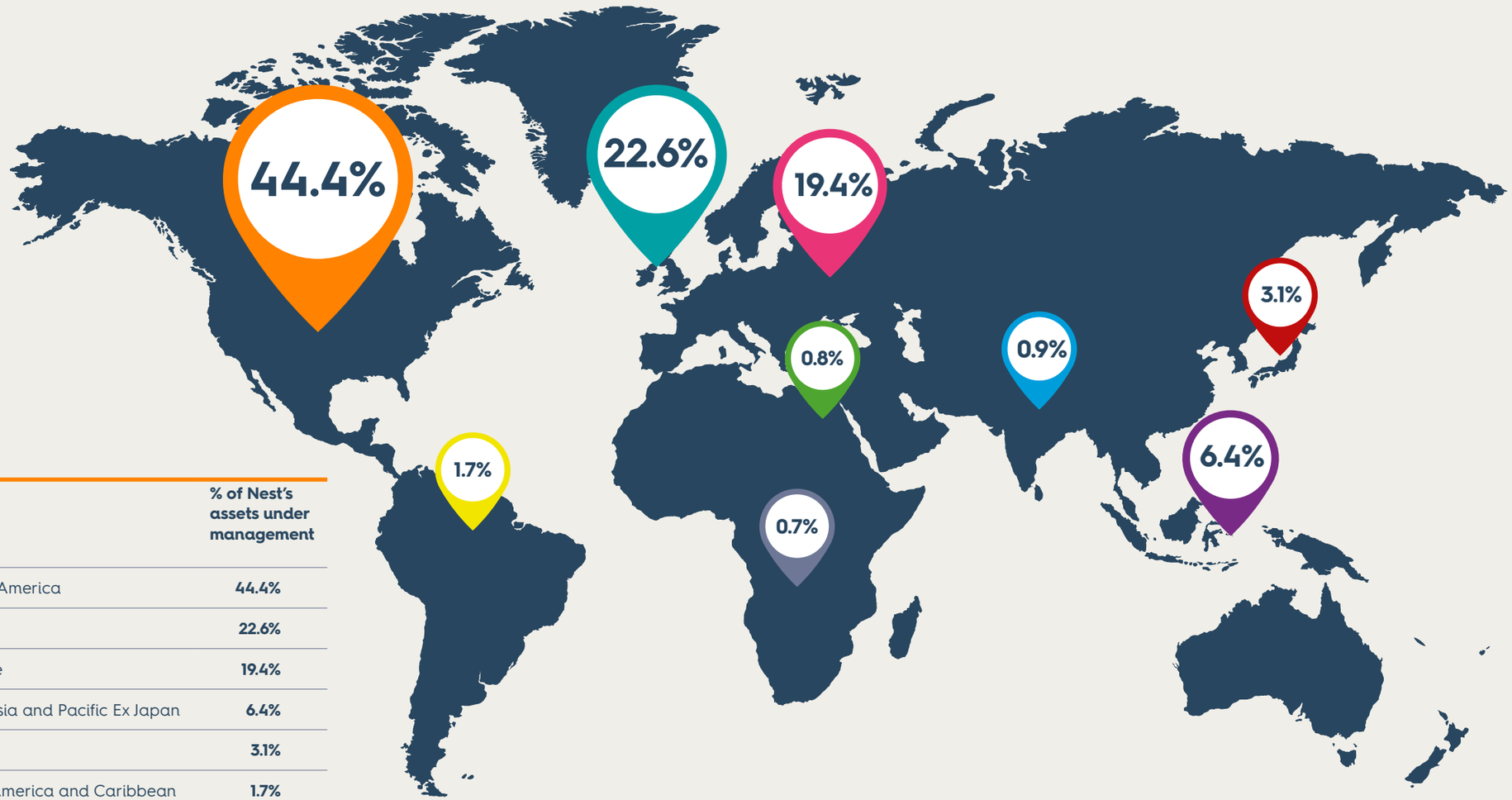
Assets under management by region



Region	% of Nest's assets under management
North America	**44.4%**
UK	**22.6%**
Europe	**19.4%**
East Asia and Pacific Ex Japan	**6.4%**
Japan	**3.1%**
Latin America and Caribbean	**1.7%**
South Asia	**0.9%**
Middle East and North Africa	**0.8%**
Sub-Saharan Africa	**0.7%**

All data above as of 31 March 2025.

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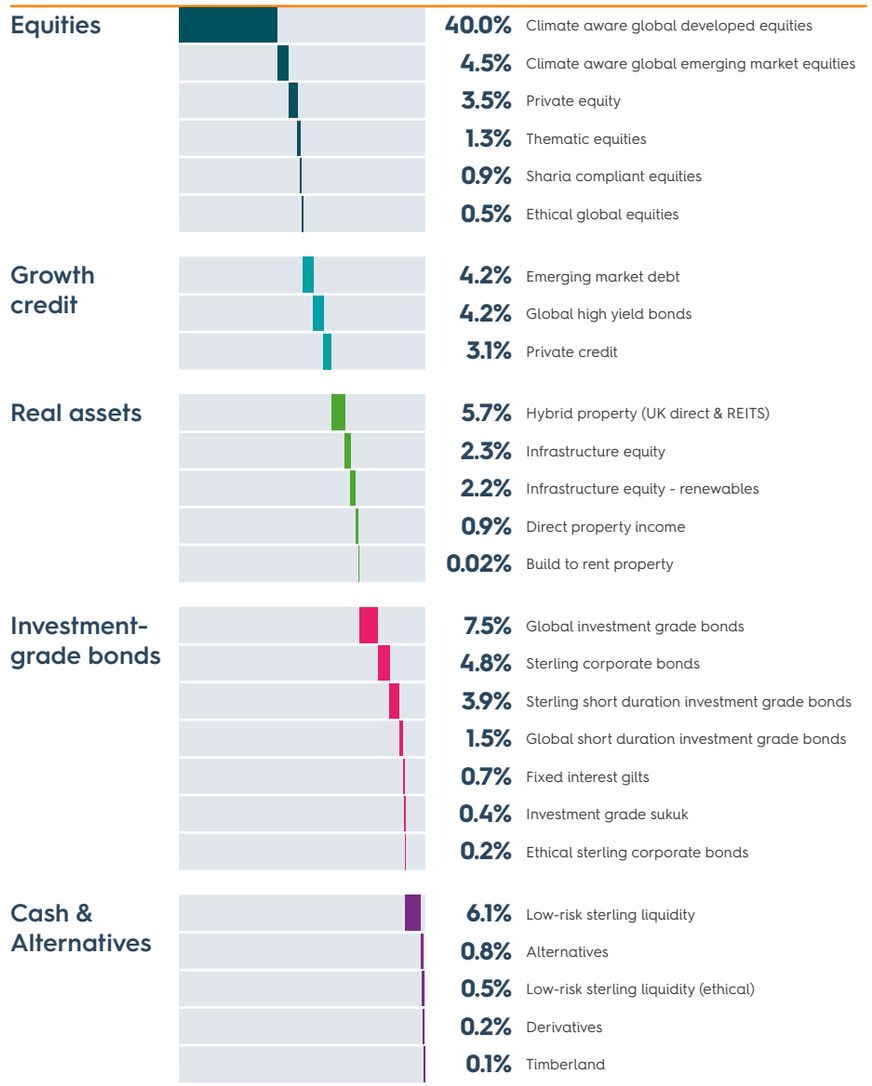
Our portfolio, asset classes and investment mandates

Data below as of March 2025

Asset class	Fund strategy	Investment manager
Cash	Money market funds	BlackRock
		Legal & General Asset Management
		State Street Global Advisors
	UK government bonds	BlackRock
		Royal London Asset Management
Investment-grade bonds	Investment-grade corporate bonds	Allspring
		BlackRock
		Columbia Threadneedle
		Royal London Asset Management
Growth credit	Emerging market debt	Amundi Asset Management
	Global high-yield bonds	J.P. Morgan Asset Management
	Private credit	Amundi Asset Management
		BlackRock
		BNP Paribas Asset Management
		IFM Investors
Equities	Developed markets equity	Columbia Threadneedle
		HSBC Global Asset Management
		UBS Asset Management
	Emerging markets equity	Northern Trust Asset Management
	Private equity	HarbourVest Partners
		Schroders Investment Management Limited
	Listed property	Legal & General Asset Management
	Thematic equity	Lombard Odier Investment Managers
Real assets	Direct property	Legal & General Asset Management
	Infrastructure equity	CBRE Investment Management
		GLIL Infrastructure
		Octopus Energy Generation
Alternatives	Derivatives	Amundi Asset Management
	Natural capital	Campbell Global



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Our mission

More than one in three workers in the UK save with Nest. The privilege of looking after their money comes with the responsibility to sustainably grow our members' savings and help them enjoy a better retirement.

We're unlike other pension schemes in the UK. We're open to every UK employer, 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 organisation. This means in addition to seeking to provide better investment outcomes for our members, we also seek to make a difference to the society and world our members live in.

To find out more about Nest's goals and purpose, please see page 80.



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Our investment beliefs

Our investment beliefs help us make better, more consistent 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.

As set out in the SIP, risks and opportunities are assessed for materiality and impact within a broader risk management framework, which takes account of the Trustee's investment time horizon for a diverse member demographic. Our investment approach recognises the changes in people's investment return objectives and risk tolerances in different phases of life

For example, we recognise that we currently have a large cohort of young members who will be nearing or in retirement by 2050. This was an important consideration in developing our climate change policy and setting an ambition 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. Further information on our members' age profile and what it means for our investment approach can be found in our member investment research report.

A number of our evidence-led beliefs set out the importance of sustainability and the consideration of environmental, social and governance (ESG) risk factors:

- **Incorporating and acting upon climate risk and other ESG factors is a significant driver of investment outcomes.**
  - Integrating sustainability factors into our investment process, from asset allocation and benchmark construction to manager selection and risk management, supports the identification and ultimately the pricing of ESG risk and opportunity.
  - Capital allocation by investors and corporations can make a difference in how ESG risks play out and is particularly effective when aligned with policy and regulation.
- **Acting as responsible long-term stewards has a positive and broad impact on member outcomes.**
  - Where portfolios are well diversified, performance is broadly determined by the global economic systems in which investees operate – engaging with companies, fund managers, and policy makers to improve financial markets and influence the long-term health of these systems is in our members' best interests and part of our fiduciary duty.
  - We consider the impact of our investments as an economic actor in our own right and as part of a wider investor community. We believe we can deliver on our investment objectives and have a net positive impact on externalities that affect members' investments and retirement outcomes.
- **Building and maintaining Nest members' trust in our investment approach throughout their time saving with us will support better retirement outcomes.**
  - Transparency and clear communications about how we invest promotes trust and leads to better member outcomes.
  - Our members have agency as to where, when, and how much they save for their pension – we do not assume inertia is the same as indifference to the investment experience members have, or the way their capital is allocated.
  - Member behavioural as well as socio-economic factors influence how we manage different risk premia at different times – this is complementary to our fiduciary responsibility to achieve the best risk adjusted returns to meet members' different investment objectives.
  - As a large institutional investor, we can be increasingly circumspect about where and to whom we allocate members' capital; consideration of reputational risks and their impact on members' trust in Nest is a factor in some investment decisions.

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. In addition, how we act as an investor will have an impact on how our members and employers view Nest as an organisation, and whether we are seen as a trusted partner.

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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. These objectives are due to be updated this year.



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.

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.

Manage reputational risks

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

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.

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Our ESG priorities

We have continued to work, and make good progress on our environmental, social & governance (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 resources researching these areas to understand how they impact our members' investments. Each of our responsible investment priorities has been carefully selected. We use a prioritisation framework described on page 45 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 companies who perform better at managing their wider impacts are more likely to be economically successful in the long-term.



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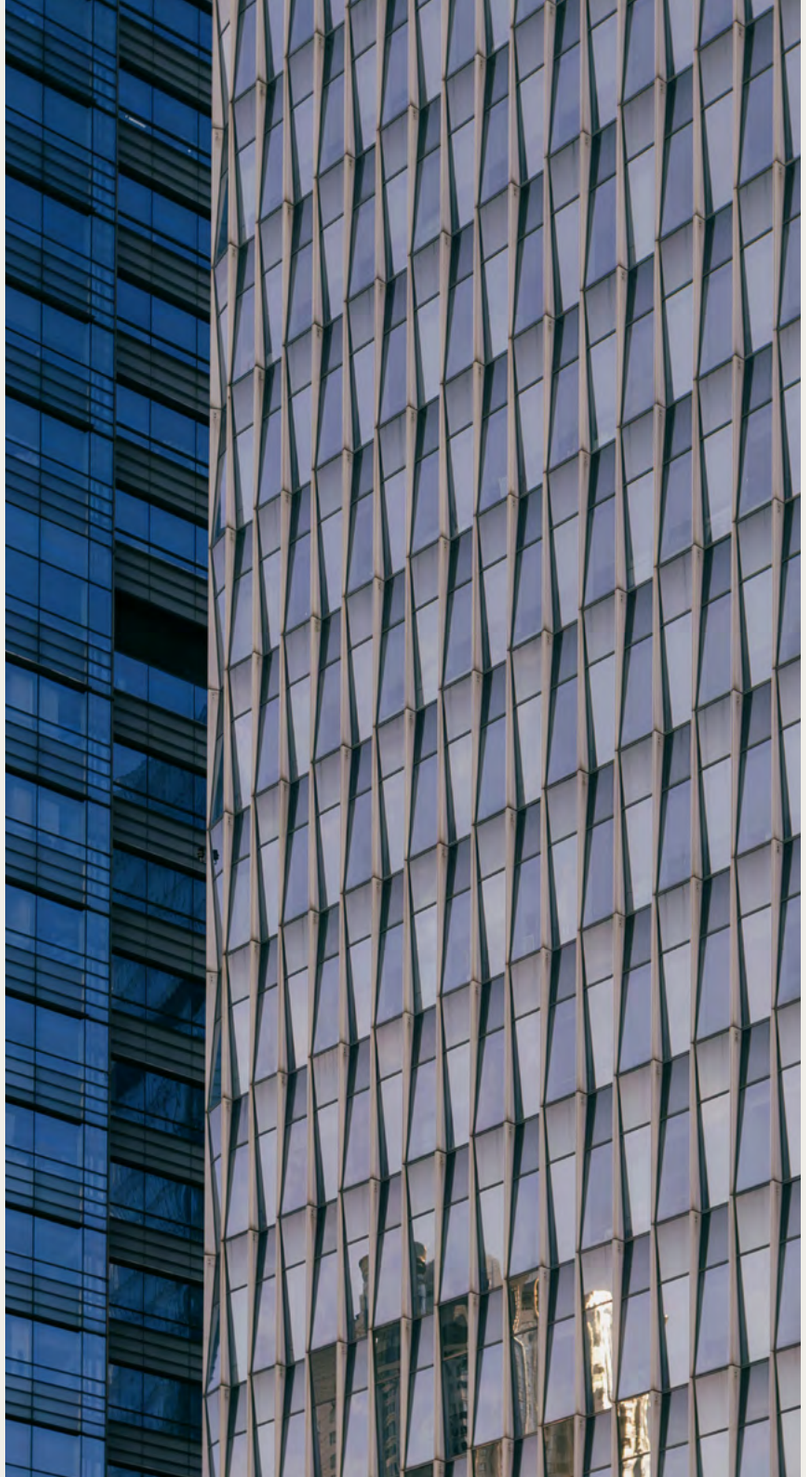

Our current ESG priorities

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

Our investment team has identified seven priority areas that guide our current work. These priorities remain the same as the previous year's and are derived using our prioritisation framework based on thorough research and analysis.

- **Climate change:** We aim to address the physical impacts of climate change such as temperature rises and increased extreme weather events as well as the risks and opportunities arising from the transition to a low carbon economy on our portfolio. We also look to identify how investments, workers, and communities are affected by the transition to a low carbon economy.
- **Nature and biodiversity:** Many aspects of our natural environment such as forests, water, and agriculture are closely linked to climate change mitigation and adaptation. Achieving net zero emissions by 2050 will require the preservation of ecosystems and significant investments in nature-based solutions for carbon capture and storage.
- **Human capital:** Companies that treat and pay 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 and supply chains.
- **Human rights:** As an institutional investor, we have a responsibility to respect human rights in line with the UN Guiding Principles on Business and Human Rights and encourage our companies to manage and mitigate risks in their supply chains.
- **Digital rights and technology:** We have sizeable investments in a range of technology companies and the risks associated with the sector are wide ranging and multifaceted. As regulation tightens and societal expectations rise, we believe in encouraging companies to actively manage these risks to protect long-term value and uphold human rights.
- **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.
- **Health and food systems:** The food sector needs to manage a range of health and environmental concerns to remain profitable over the long term. With the likelihood of further government policy interventions, it's important that food retailers and manufacturers promote healthy eating.

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We use a range of tools to address and manage risks within each of our ESG priorities. This table sets out which responsible investment tools we have used over the last year to address these risks. The following section discusses the progress we're making on each theme and explains how and why we've used these tools.

	Research	Public policy	Voting	File shareholder resolutions	Direct engagement	Collaborative engagement	Capital allocation	Divestment
Climate change	✓	✓	✓		✓	✓	✓	✓
Nature and biodiversity	✓	✓	✓			✓	✓	
Human capital	✓	✓	✓		✓	✓		
Human rights	✓		✓		✓	✓	✓	✓
Digital rights and technology	✓		✓			✓		
Diversity	✓	✓	✓		✓	✓		
Health and food systems	✓	✓	✓		✓	✓	✓	



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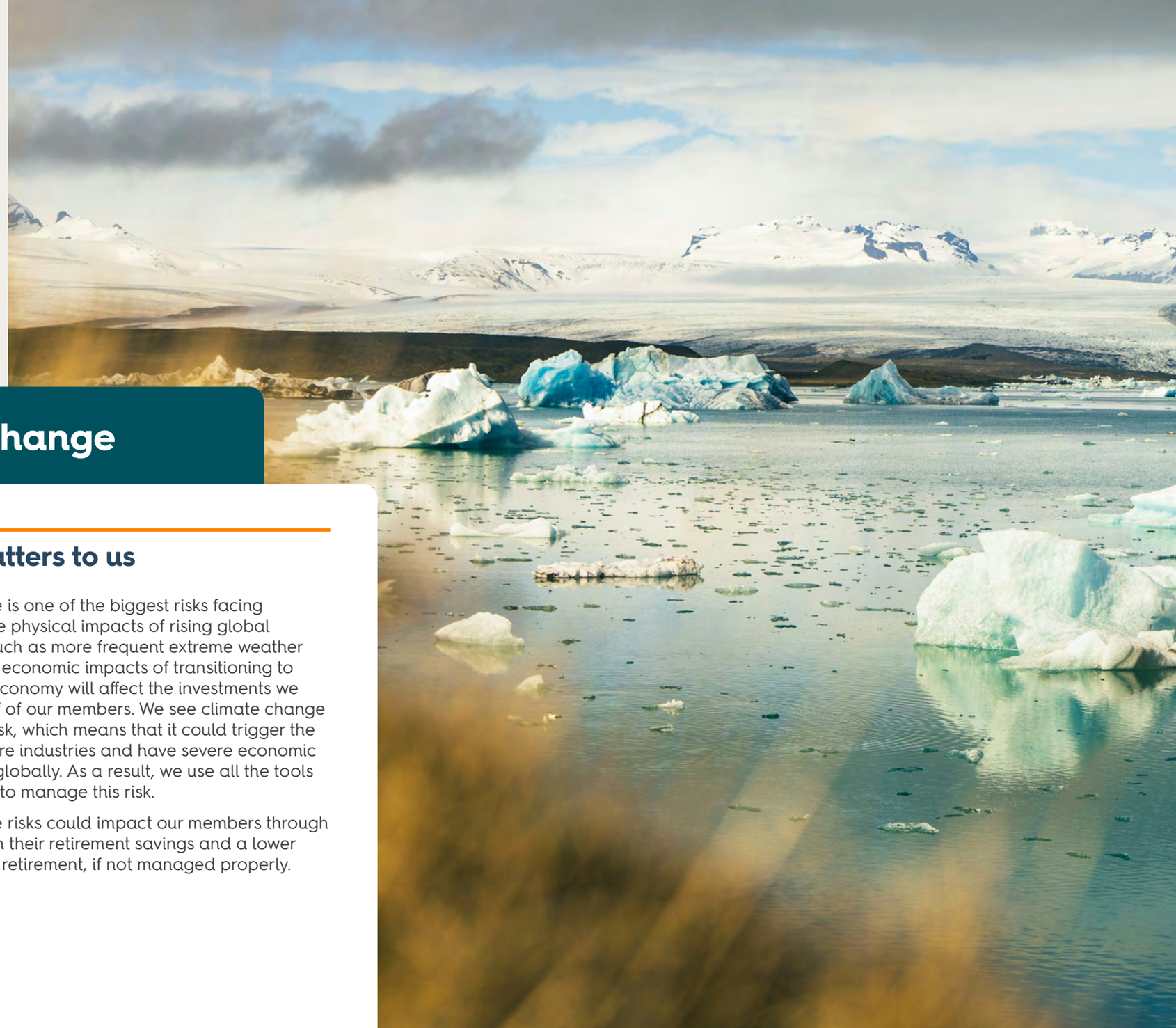

Climate change

Why it matters to us

Climate change is one of the biggest risks facing society. Both the physical impacts of rising 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. We see climate change as a systemic risk, which means that it could trigger the collapse of entire industries and have severe economic consequences globally. As a result, we use all the tools at our disposal to manage this risk.

Climate change risks could impact our members through lower returns on their retirement savings and a lower quality of life in retirement, if not managed properly.

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Our climate change policy

In 2020 we published our first climate change policy. We set an ambition 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. This is aligned with the commitment made by governments across the world through the Paris Agreement, and consistent with the UK's legislated target of net zero emissions by 2050. Aon's analysis on our portfolio showed that over 30 years, our assets perform best when warming is limited to 1.5C.[5]

During 2024, we carried out an in-depth review of the policy. This included engagement with our fund managers and peers and a workshop with our investment committee. While we kept the ambition and the key levers that we can use to get there, we identified several areas where the policy could be strengthened.



The main updates to the policy include:

- **Greater focus on physical risks:** The first iteration of the policy focused primarily on transition risk. This was in part driven by the belief that we should do all we can now to support the transition and help mitigate physical risk in the longer term, and in part by the lack of robust physical risk data. We are already seeing the impacts of increasing extreme weather events and believe that it is the right time to make physical risk and adaptation a core part of the policy.
- **Impacts and dependencies on nature and social issues:** Changes in climate can lead to shifts in natural ecosystems, and conversely, changes in ecosystems can influence the climate. The climate is one of the major factors determining the distribution of flora and fauna, while natural processes like photosynthesis play a significant role in regulating the climate.

  The social elements of the transition, such as impacts on local communities, are often neglected but are crucial to gain buy-in for new policies. Failure to address these impacts could undermine public support and delay climate action. We believe that the social dimension of the transition should be central to our work to ensure that the transition is fair and inclusive – also referred to as a 'Just Transition'.
- **The role of climate solutions:** Climate finance flows have been increasing, but it is estimated that a total of almost $200tn in climate finance is required to deliver net zero emissions by 2050. This brings investment opportunities, which we wish to access for our members. They include low-carbon technologies such as renewable energy and electric vehicles. Increasingly, we are also seeing opportunities to invest in adaptation finance, which supports communities to reduce the risks from climate change and the damages from the physical impacts of climate change.

The climate change policy and the headline ambition are underpinned by four actionable levers – asset allocation and risk management, manager selection and monitoring, stewardship and advocacy. We have not assigned weights to the different levers we may use as we expect this could change over time. Instead, we have added further information on how we use the different levers and which may be most appropriate to manage different risks and opportunities, which we describe in more detail below.

The updated policy can be found on our **website**.

Nest's climate change policy was developed as a principles-based document to guide our approach, rather than a prescriptive plan of how to achieve our target. To achieve this long-term goal, we have set out several short- and medium-term targets, in our roadmap. Following the update of the policy, we will be updating the roadmap in 2025.

5. See our **2023/2024 TCFD report** for more detail on this analysis.

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Our climate change roadmap

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

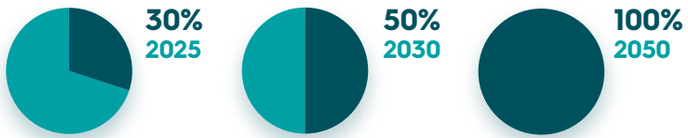
Aim to halve emissions in our investments

2050

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



Carbon reduction targets across our investment portfolio*



* 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

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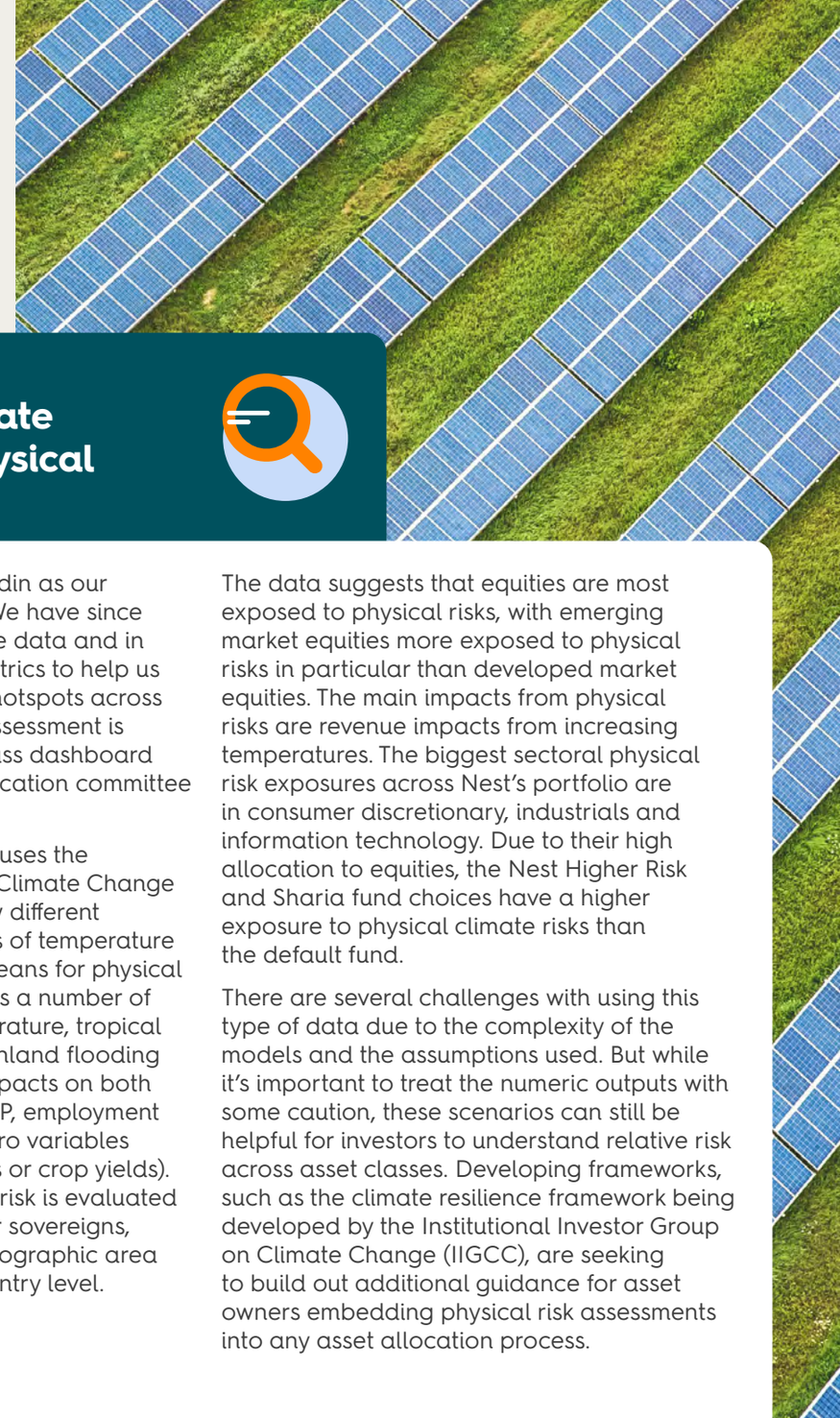
Our actions and outcomes

Asset allocation and risk management

We research the impact of climate change on asset classes, including on their expected risk and returns, and seek to integrate them into how we make investment decisions. In practice, this means considering climate change when deciding which asset classes to invest in, as well as the allocation within a particular asset class. There are still significant data and methodology gaps in some asset classes, in particular when it comes to the physical risks of climate change. We therefore also consider climate change risks and opportunities at the portfolio level by looking at the individual companies and assets we invest in.

Some of the actions we have undertaken include:

- We're transitioning our portfolios to directly manage transition risk. More than two-thirds of our assets are now in mandates with specific climate change objectives.
- Increasing the amount of money we invest in assets that will benefit from a transition to net zero, such as renewable energy infrastructure. Last year, we appointed Lombard Odier as the manager for a new thematic equity fund that looks to invest in companies across three key themes, which include climate change mitigation and adaptation.



Case study

Using Aladdin climate data to identify physical climate risks

In 2024, we onboarded Aladdin as our new investment risk system. We have since started using Aladdin climate data and in particular its physical risk metrics to help us better identify potential risk hotspots across portfolios. This climate risk assessment is now included in the asset class dashboard reviewed by Nest's asset allocation committee every 6 weeks.

The physical risk assessment uses the Intergovernmental Panel on Climate Change (IPCC) scenarios, which show different pathways and different levels of temperature rises to 2100 and what this means for physical climate risk. The model covers a number of key hazards including temperature, tropical cyclones, sea level rise and inland flooding and wildfire and assesses impacts on both macro variables (such as GDP, employment and mortality) as well as micro variables (such as energy expenditures or crop yields). Both revenue and operation risk is evaluated for corporate operations. For sovereigns, climate risk is assessed at geographic area level and aggregated to country level.

The data suggests that equities are most exposed to physical risks, with emerging market equities more exposed to physical risks in particular than developed market equities. The main impacts from physical risks are revenue impacts from increasing temperatures. The biggest sectoral physical risk exposures across Nest's portfolio are in consumer discretionary, industrials and information technology. Due to their high allocation to equities, the Nest Higher Risk and Sharia fund choices have a higher exposure to physical climate risks than the default fund.

There are several challenges with using this type of data due to the complexity of the models and the assumptions used. But while it's important to treat the numeric outputs with some caution, these scenarios can still be helpful for investors to understand relative risk across asset classes. Developing frameworks, such as the climate resilience framework being developed by the Institutional Investor Group on Climate Change (IIGCC), are seeking to build out additional guidance for asset owners embedding physical risk assessments into any asset allocation process.

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We are progressing well towards our interim targets set out in the roadmap. The Scope 1+2 carbon intensity of our developed market equities portfolio, which makes up nearly 40% of our total assets, has reduced by 58% since 2019. This was achieved through the portfolio's approach to tilting away from the most carbon-intensive companies as well as selective exclusions. In the past year, the Scope 1+2 carbon intensity of this fund has reduced by -5%. These metrics are estimates based on Enterprise Value Including Cash (EVIC).

Financed emissions are a useful measure but they do not give a full picture. Making asset allocation decisions based on financed emissions alone can lead to 'paper decarbonisation' – where highly carbon-intensive companies are excluded with little impact on real-world emissions. Many carbon-intensive companies in sectors such as energy, steel and cement are crucial to the transition and are working on developing solutions to reaching net zero.

We are therefore also making additional checks to see how committed companies are to the transition in line with science-based pathways to reaching net zero for their sector. We are tracking the number of companies in the portfolio that have science-based targets accredited by the Science-Based Targets Initiative (SBTi).[6] For the developed market equities fund, 43% of companies have an accredited science-based target.

We believe that the transition to a net zero economy can also be an investment opportunity. We have so far invested £1.34 billion in climate solutions in our infrastructure equity and debt portfolios and are well on track to meet our target of £1.4 billion by 2030 as at 31 March 2025.

6. The SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). Companies submit their targets to SBTi for validation based on sector-specific science-based criteria.

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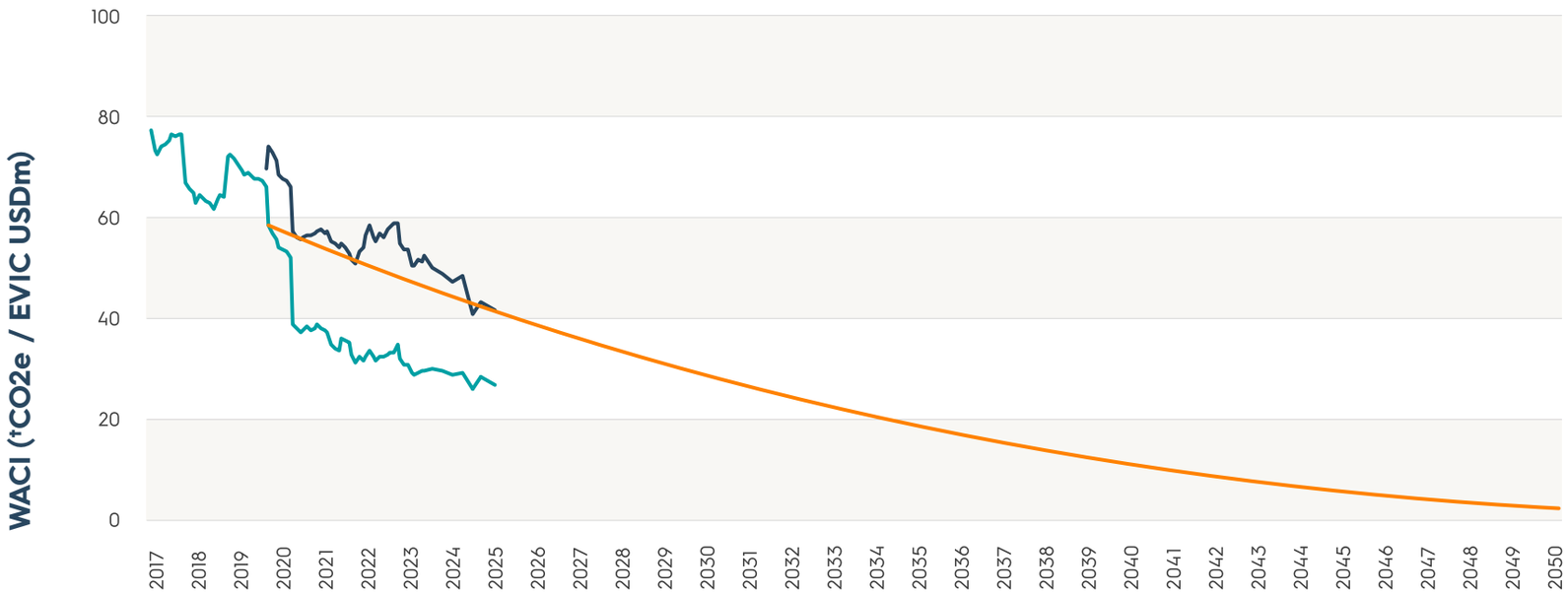
Developed market equities Carbon intensity trajectory (scope 1 + scope 2 CO2e / EVIC USDm)



Source: UBS Asset Management Data as at June 2025

For illustrative purpose: The long-term nature of climate models and data, new scientific evidence and newly available data may have an impact on the accuracy of net zero targets. These changes may occur for a number of reasons and may alter the baseline data regarding portfolio issues, such as: recalibration of data due to significant changes in data coverage, availability or quality, and recalibration of data due to a significant change in the composition of the benchmark.

Climate solutions are not limited to renewable energy but encompass a range of activities, goods and services that either contribute substantially to enable emissions reductions or to adapting to the physical impacts of climate change. Our developed market equities fund manager has also developed a 'Green Opportunities Score' for the portfolio, which will capture companies involved in activities including alternative energy, energy efficiency, green building, and pollution prevention. This enhances the existing methodology which was only able to capture renewable energy. We have a target to increase the allocation to Green Opportunities by 10% relative to the benchmark.

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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 - amongst other reasons - their strong focus on responsible investment. We work closely with our fund managers on how each of our portfolios is aligning with the goals of the Paris Agreement.

As part of the update of the climate change policy, we refreshed the manager expectations to reflect developments in the market. All managers are expected to:

- Identify, assess and manage the physical and transition risks of climate change, and key impacts with other environmental and social issues.
- Where feasible, set portfolio-level decarbonisation and portfolio alignment targets.
- Use their stewardship resources to manage climate change risks and encourage companies to set net zero targets and robust transition plans.
- Take a consistent approach to managing the risks of climate change and not undermine progress made on climate-aware strategies by counteraction elsewhere in the business.
- Disclose key climate-related information to clients.
- Work with clients and peers to stay informed on the latest scientific, policy and industry developments.

In addition to these high-level objectives, we also set more targeted objectives and benchmarks for each manager. These are dependent on the asset class and on how far they have already progressed in evolving their investment approach towards a low-carbon economy. Our initial objectives for fund managers for 2020-2023 were focused on disclosure and target-setting. We made good progress against them with a total of 83% objectives met.

Over the last year, we have assessed our managers against the expectations of the climate change policy and developed new objectives for them. Examples of these include:

- Asking managers to build out their stewardship resources and expand engagement programmes to include physical risks and the Just Transition.
- Asking our private markets managers to work with us to develop an approach to assessing investment in climate solutions beyond renewable energy.
- Asking managers to develop a framework for assessing the alignment of companies or assets with the goals of the Paris Agreement.

We will report on progress against these objectives annually.



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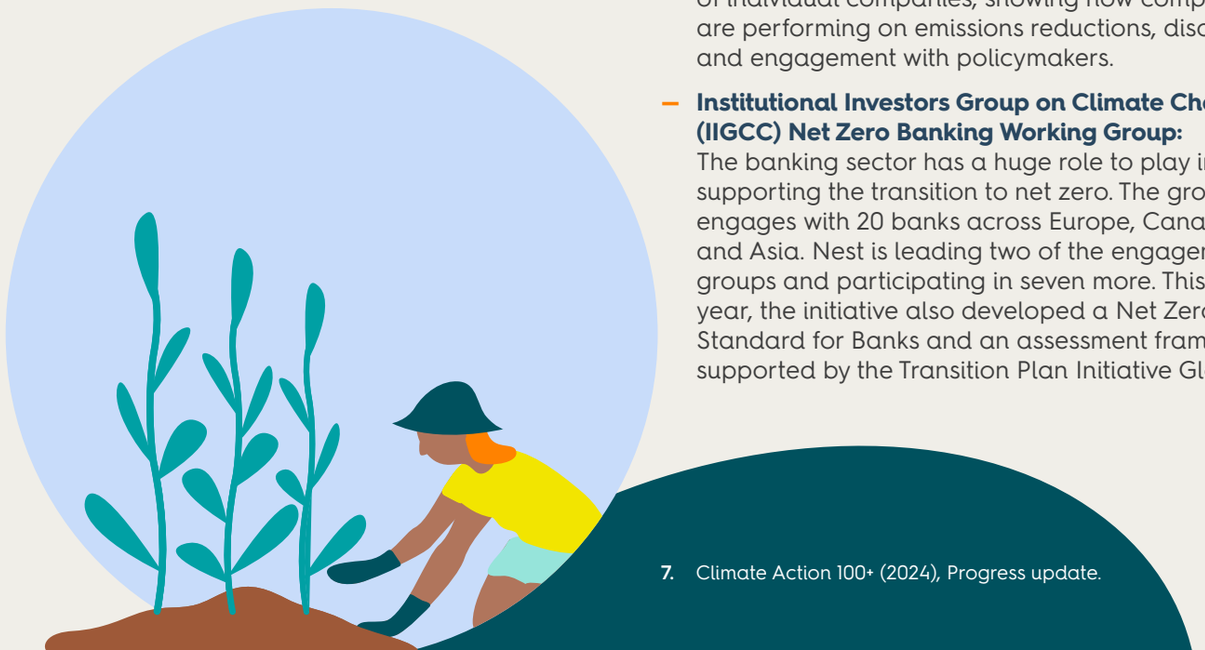
Stewardship

While it's possible to reduce the financed emissions from our portfolios simply by selling the most carbon-intensive assets, this does not necessarily lead to a reduction in real-world emissions because other investors will purchase the assets. Instead, we want to stay invested and work to encourage companies to decarbonise, be that via our fund managers, on our own or in collaboration with others. 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.

We believe collective engagement with like-minded investors is more likely to yield positive results. We currently take part in three collaborative engagement initiatives on climate change:

- **Climate Action 100+:** This is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. We collaboratively engaged with three companies in emerging markets on improving climate change governance, cutting emissions and strengthening climate-related financial disclosures. We believe the initiative delivers positive impact in pushing companies to increase their climate change ambitions and actions. 80% of companies Climate Action 100+ focuses on now have an ambition to reach net zero emissions by 2050 or sooner across at least Scope 1 and 2 emissions.[7] Our engagement with companies increasingly focusses on their action plans to meet the targets they have set. The Net Zero Company Benchmark is also a key tool in helping us assess the alignment of individual companies, showing how companies are performing on emissions reductions, disclosure and engagement with policymakers.
- **Institutional Investors Group on Climate Change (IIGCC) Net Zero Banking Working Group:** The banking sector has a huge role to play in supporting the transition to net zero. The group engages with 20 banks across Europe, Canada and Asia. Nest is leading two of the engagement groups and participating in seven more. This year, the initiative also developed a Net Zero Standard for Banks and an assessment framework, supported by the Transition Plan Initiative Global Climate Transition Centre. The framework covers 10 areas including net zero commitments, targets, strategy, financing climate solutions and policy engagement. The initial assessment shows that there is still a lot of work to be done. While many banks now have net zero commitments and governance structures in place, scores were much lower for areas such as their decarbonisation strategies and engagement with policymakers. We are using the assessments to set more targeted objectives for the companies we engage with.
- **Net Zero Engagement Initiative:** This initiative builds on Climate Action 100+ by extending the engagement to companies that are heavy users of fossil fuels. The main objective is for companies to develop robust net zero transition plans, that set out how they will decarbonise their businesses in line with a pathway to net zero. We currently engage with two companies that are large contributors to our portfolio's Scope 3 carbon emissions. One is a global chemicals company and the other is a food company.

In the past year, we have also continued engaging with several energy companies on their plans to transition to net zero generally, and on their plans to reduce fossil fuel production specifically. In total, over the past year, Nest and its external fund managers have engaged with 109 companies on climate change.



7. Climate Action 100+ (2024), Progress update.

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Case study

Managers leaving collaborative engagement initiatives

Over the last year we've witnessed the rise of anti-ESG sentiment across the investment industry. The ongoing war in Ukraine, anti-ESG regulation, and legal threats primarily in the US have made it more difficult for fund managers to continue to vote and engage with companies to drive action on sustainability issues. As a result, we've seen all of our US-based asset managers withdraw from climate initiatives including Climate Action 100+ and the Net Zero Asset Managers (NZAM) alliance.

Earlier this year, we spoke to all of our US managers about their exit from climate initiatives and what this means for their stewardship activities and wider ESG commitments. In all cases, managers sought to reassure us that their departures from these initiatives do not change their practical day-to-day approach but rather they felt they had to take these actions to avoid becoming embroiled in litigation risk, which would have been detrimental to the firm. We also met with US-based managers who we do not currently have existing relationships with, to help us understand if these positions are consistent with the broader industry and proportionate in the current political environment in the US.

While we acknowledge the challenging legal environment our managers are facing in the US, we still expect all managers to adhere to the expectations set out in our climate change policy. We believe that collaborative engagement is one of the most effective and efficient ways of driving change, though it is not the only route for engagement. Where managers exit collaborative initiatives due to legal concerns, we expect to see them bolster their in-house stewardship capabilities to allow them to do more direct engagements. If concerns arise about their commitment or resources, they may be placed on a watch list and closely monitored. Failure to make meaningful progress in factoring in the financial risks of climate change, including through stewardship, may ultimately result in us withdrawing our members' assets.

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Case study

Continuing engagement with oil majors

Over the past year, we have continued to engage with oil and gas companies, whose business activities we view as pivotal in combatting climate change. In particular, we have been disappointed to see that some companies have been rolling back on their climate commitments, and refocussing their strategies on oil and gas production at the expense of lower-carbon sources of energy, like renewables.

BP is one such example. At the beginning of 2025, we co-signed an investor letter to BP's chair which expressed concern with what was then a rumoured strategic pivot at BP. The letter asked that BP allow shareholders to vote on any updates to its strategy at the 2025 Annual General Meeting (AGM), which the company declined to do. We expressed our dissatisfaction with the updated strategy – and the absence of a shareholder vote - with the company during engagements. We ultimately decided to escalate our concerns and voted against the Chair at the 2025 AGM, as did 24% of the investor base.

Equinor, the majority state-owned Norwegian oil and gas company, also updated its Energy Transitions Plan this year. Previously, the company had intended to keep oil and gas production flat to 2030, but its updated plans signal that it will now look to increase production by around 10% over the same time frame. The company also scaled back its commitment for 50% of investment to be allocated to low carbon technologies, and reduced its 2030 target for renewable power generation. We were disappointed by this redirection of strategy, and so voted against the adoption of the transition plan.

We also supported a shareholder resolution co-filed by the Australasian Centre for Corporate Responsibility (ACCR) and pension funds asking for Equinor's board to assess the consistency of Equinor's strategy with the expectations of its majority shareholder – the Norwegian government – around the company being aligned with the goals of the Paris Agreement.

In last year's report, we highlighted our engagement with **Shell**. In 2024, we co-filed a resolution with Follow This and 27 other institutional investors asking for Shell to align its medium-term scope 3 greenhouse gas (GHG) emissions reduction targets with the goals of the Paris Agreement. The resolution ultimately received the support of 19% of investors.

This year, our engagements with Shell have largely focused on Liquefied Natural Gas (LNG), which the company has made a core part of its strategy. We engaged with Shell to raise concerns around their forecasts for future LNG demand, as well as the compatibility of an expansionary LNG strategy with the company's climate targets. On these grounds, we voted in favour of a shareholder resolution co-filed by the Australasian Centre for Corporate Responsibility (ACCR) and three pension funds which asked Shell for greater disclosure around its LNG demand forecasts, production targets and capital expenditure plans. The resolution was supported by just over 20% of Shell's investor base; the company is now engaging further with supportive shareholders and will respond formally in early 2026. Shell has indicated that it will disclose additional details about the assumptions driving its LNG strategy.

We continue to believe that engagement remains one of the most effective ways of addressing pressing issues such as climate change. Where engagements with companies do not lead to much success, we will likely escalate our engagements. However, over a period of time, if we think that engagement has been ineffective or reached its limits, or the risk of holding the asset outweighs the benefits, we may decide to remove our exposure to a holding. See page 69 on our approach to escalation and divestment.

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Public policy and advocacy

As one of the UK's largest pension schemes, we aim to work with our peers to engage policymakers on how climate change will affect the pensions industry, our members 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's crucial that all parts of the economy work together if we are to be successful in transitioning to net zero.

When we first published our climate change policy, our advocacy workstream focused mainly on disclosure. Specifically, we supported the adoption of mandatory reporting on climate change using the Taskforce on Climate-related Financial Disclosures (TCFD) across the economy. In the last couple of years, we have also been very active in the Transition Plan Taskforce and have supported policy initiatives like the Green Taxonomy.

Building on this foundation, our policy review is now focusing increasingly on real-economy policies that support the transition. For Nest to be able to meet its net zero ambition, it's crucial that there are sufficient opportunities to invest in businesses that are delivering solutions to address climate change, and regulatory frameworks that encourage companies to transition their business models in line with net zero.

Our advocacy work takes place primarily in collaboration with other investors as part of industry groups, such as the UK Sustainable Investment and Finance Association (UKSIF), where Nest is a member of the Policy Committee. A full list of the initiatives we take part in can be found on page 65.



Case study

Mobilising pension capital for net zero: a policy blueprint for the UK

In October 2024, we contributed to a new energy transition blueprint co-authored by UK and Australian pension funds. The blueprint recommended policy action to unlock pension capital to help the Government deliver on its Clean Power 2030 pledge. As part of this pledge, the Government had stated its intention to work with the private sector to double onshore wind, triple solar power, and quadruple offshore wind by 2030. Emerging net zero technologies and industries, like carbon capture and storage and hydrogen, will also need to expand. Achieving these ambitious targets will require significant investment from both public and private sources.

The key recommendations of the blueprint included:

Reform public sector net debt to treat unlisted productive assets as assets and create fiscal headroom and incentivise long-term public investment through the National Wealth Fund and Great British Energy;

- **Generational planning reform** including incorporating the government's legally-binding emissions reduction targets in the National Planning Policy Framework and rapid permitting of repowering wind farms;
- **Fast-tracking the deployment of renewable energy** with clearly-defined commercial objectives for Great British Energy which harness the unique role of the Crown Estate, as well as longer CFD contracts to bring down the cost of capital.
- **Support industrial decarbonisation and emerging net zero industries** by focusing the National Wealth Fund on supporting the commercial development of higher risk essential green technologies.

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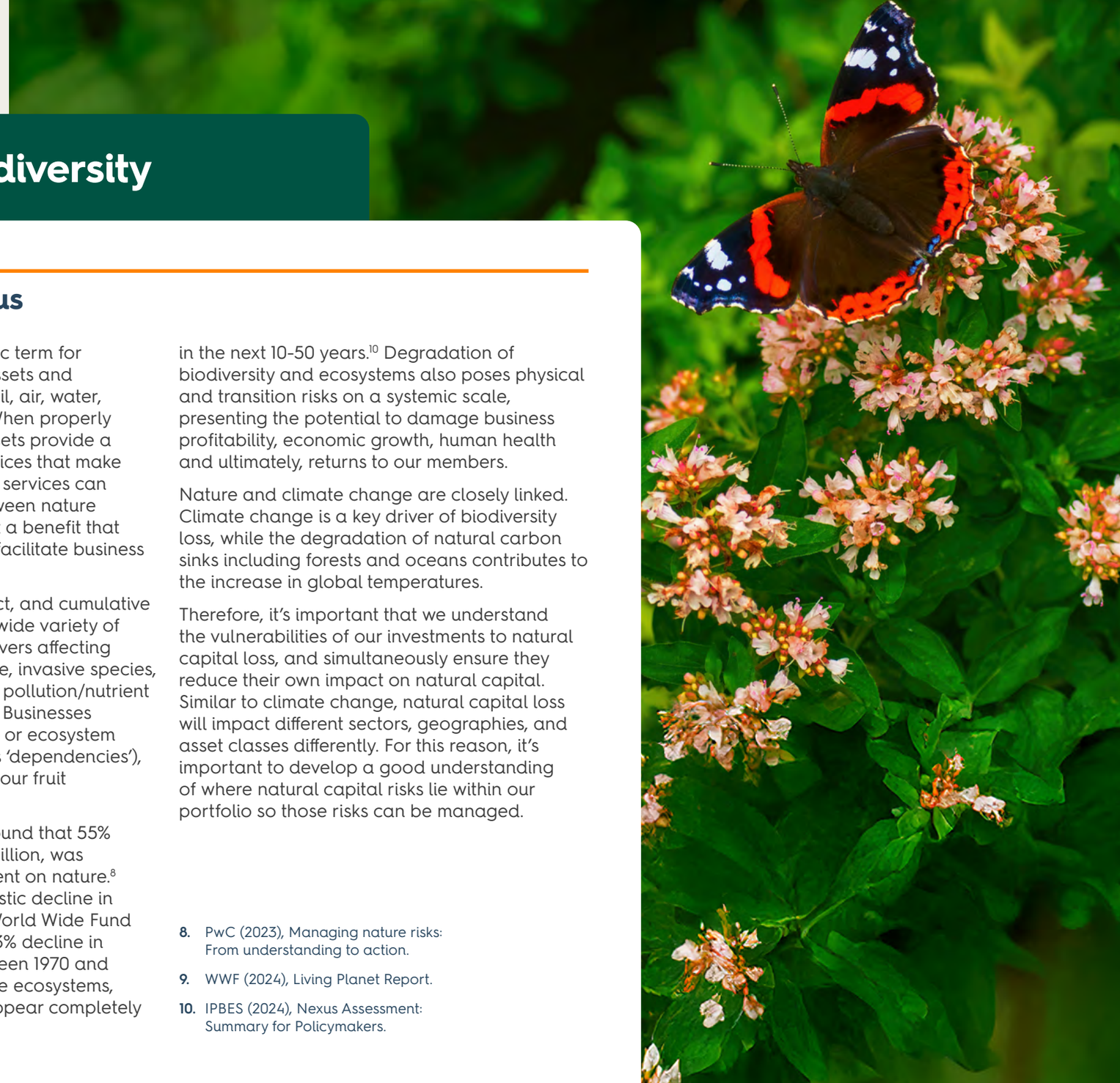
Nature and biodiversity



Why it matters to us

Natural capital is an economic term for the world's stock of natural assets and biodiversity, which includes soil, air, water, forests, and all living things. When properly preserved, natural capital assets provide a wide range of ecosystem services that make life possible. These ecosystem services can be described as the links between nature and business, which represent a benefit that nature provides to enable or facilitate business production processes.

Businesses have direct, indirect, and cumulative impacts on nature through a wide variety of activities. The main impact drivers affecting nature loss are habitat change, invasive species, overexploitation of resources, pollution/nutrient loading, and climate change. Businesses also rely on aspects of nature or ecosystem services to function (known as 'dependencies'), for example, bees pollinating our fruit and vegetables.

Research from PwC in 2023 found that 55% of global GDP, equal to $58 trillion, was moderately or highly dependent on nature.[8] However, we are facing a drastic decline in nature and biodiversity. The World Wide Fund for Nature (WWF) reports a 73% decline in wildlife population sizes between 1970 and 2020.[9] Some of the most fragile ecosystems, such as coral reefs, may disappear completely in the next 10-50 years.[10] Degradation of biodiversity and ecosystems also poses physical and transition risks on a systemic scale, presenting the potential to damage business profitability, economic growth, human health and ultimately, returns to our members.

Nature and climate change are closely linked. Climate change is a key driver of biodiversity loss, while the degradation of natural carbon sinks including forests and oceans contributes to the increase in global temperatures.

Therefore, it's important that we understand the vulnerabilities of our investments to natural capital loss, and simultaneously ensure they reduce their own impact on natural capital. Similar to climate change, natural capital loss will impact different sectors, geographies, and asset classes differently. For this reason, it's important to develop a good understanding of where natural capital risks lie within our portfolio so those risks can be managed.

8. PwC (2023), Managing nature risks: From understanding to action.
9. WWF (2024), Living Planet Report.
10. IPBES (2024), Nexus Assessment: Summary for Policymakers.

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Our actions and outcomes

Last year, we reported on our first risk screening exercise to assess our exposure to nature impacts and dependencies across our funds using the ENCORE platform. While there are limitations to the tools available today, this exercise was helpful in identifying priority areas for us to focus on.

We have decided to initially focus our work on deforestation and water risk. The screening exercise showed that water and habitats were the two ecosystems on which companies in our portfolio were most dependent. In turn, these companies through their direct operations had the highest impacts or pressure on water, species and habitats. Although data remains a challenge, deforestation and water have more readily available information than other areas such as species extinction. Finally, regulatory frameworks such as the EU Deforestation Regulation, which requires companies to ensure that key forest commodities such as wood, coffee and palm oil are deforestation-free and legally produced in their country of origin, are already starting to affect companies.

As we build knowledge on this issue, we primarily address it through stewardship. We currently engage through several engagement initiatives on nature:

- **Nature Action 100:** Nature Action 100 is a global engagement initiative with the aim of driving greater corporate action on tackling nature and biodiversity loss. It targets the 100 companies with the greatest impact on nature and biodiversity loss. Nest participates in six company engagement groups. Five of the six companies fall within the consumer staples sector, of which, three are in the food industry and two are in the personal products industry.
- **Investor Coalition on Microfibre Pollution:** We are a member of this engagement initiative led by First Sentier Investors, aiming to support the delivery of circular economy sensitive policies and the deployment of filter technologies in washing machines to protect nature in marine ecosystems. This year, the initiative engaged with washing machine manufacturers like Samsung Electronics and Haier selling into the French market as the French government passed a law in 2021 requiring commercial and domestic washing machines to be equipped with a microfibre filter from 1st January 2025. We also asked if they would adapt their products sold into other markets. The working group is engaging with the UK Government on their approach to microfiber pollution and to review how the UK's water strategy, which mentions microplastic filtration on washing machines, will be executed.
- **Engagement with UK water utilities:** Since 2022, we have had growing concerns about UK water utilities, the regulatory environment they operate in, and their impact on people and the environment. Water utilities have been criticised for the hundreds of thousands of spill events across the UK from storm overflows (used to relieve the sewage system in times of 'heavy downpours'), the lack of investment in sewage and water treatment systems, and excessive dividends and debt levels. We have engaged directly with publicly listed companies in our portfolio such as United Utilities, as well as with the water regulator Ofwat, which is due to be abolished by the UK Government and replaced by a new regulator. We will continue to monitor the risks associated with UK water utilities and review the most effective ways of addressing these.



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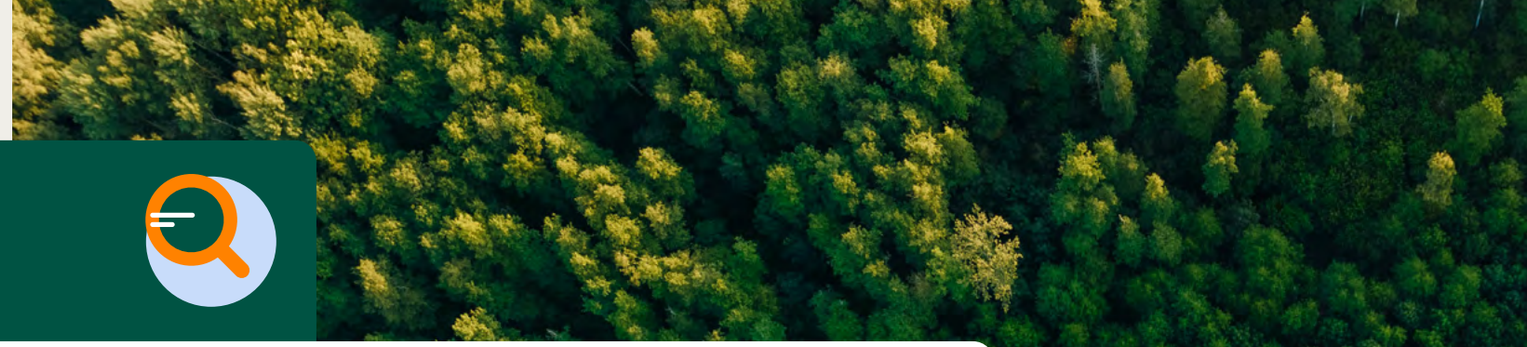

Case study

Procuring a timberland mandate

In August 2024, Nest appointed Campbell Global, J.P. Morgan Asset Management's timberland investment advisory company, to manage a global portfolio of direct investments, focused on core traditional timberland.

Timberland is an attractive asset class for institutional investors because of key benefits such as a low correlation with traditional stocks and bonds and a positive correlation with GDP growth, making it both an effective inflation hedge and adding diversification to our portfolio. Historically, timberland has delivered strong returns, though this depends on the way investors have approached the asset class, particularly in how the assets have been managed and the level of diversification achieved.

Well-managed forests can provide critical ecosystem services such as carbon sequestration, water filtration, soil preservation, and habitat for wildlife, enhancing the overall environmental value of the investment. Timberland investments also provide a renewable resource for a growing economy, from supplying construction materials to biodegradable packaging. However, the poor management of forests can have very detrimental impacts on the environment as well as communities and workers. The following ESG considerations were therefore a key part of our due diligence:

- Governance considerations including bribery and corruption risk, quality of forest management plans and grievance mechanisms.
- Climate change considerations including carbon sequestration properties[11] as well as the exposure to and impact of physical climate change risks (especially wildfires).
- Wider environmental considerations including water use and availability, impact on watersheds, pollution and waste management, biodiversity and ecosystems.
- Social considerations such as land rights, relationships with local communities, labour standards including health and safety and supply chain custody.

Part of the due diligence process for this mandate included site visits with the shortlisted managers in the US. We also worked with a specialist consultant, Indufor Asia Pacific, to support us with the ESG due diligence. In addition to reviewing the potential managers' policies and taking part in the site visits, Indufor arranged interviews with representatives of stakeholders associated with some of the assets, including regional managers, advocacy groups and local communities. For example, Indufor interviewed representatives from indigenous communities in the Pacific Northwest region of the US who provided feedback on Campbell Global's engagement on topics such as protecting treaty-reserved resources and access to important cultural sites.

We were impressed both by Campbell Global's scale, coverage and resources as well as their ethos. They wish to be good stewards of the environment and the forests, and be considerate neighbours to their peers and the communities around the forests.

In the fourth quarter of 2024, Nest acquired a 50% holding in 16,511 hectares of managed timberland in the Pacific North West. The region is home to an abundance of diverse ecosystems, including temperature rainforests, rugged coastlines, and glaciated mountains. The property was named Tyee Forests ("ty-EE"), which translates to "chief" or "leader" in Chinook, a local indigenous dialect, to acknowledge the region's deep tribal history.

11. We consider timberland to count towards Nest's objective to invest more into climate solutions and work with managers to assess the carbon sequestration properties of assets, but we do not net these against our financed emissions and we currently don't seek to generate carbon credits from the assets we invest in.

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Tyee Forests is certified in accordance with independent Sustainable Forestry Initiative standards which assure forest management activities are conducted in a responsible manner and considerations are given to biodiversity, stakeholder engagement, and fair/safe labour practices. On the property, there are approximately 20 million standing trees of different ages and species, including Douglas-fir, Western Hemlock, Sitka Spruce, cedar, and alder.

Tyee's aboveground carbon stock, i.e. the total amount of carbon stored amongst the stems, branches, leaves, and other aboveground living biomass of the trees, was estimated to be 6,285,772 metric tonnes of carbon dioxide equivalent (tCO2e) as of 31 December 2024.[12] For perspective, that is equivalent to the emissions generated by providing 1,309,928 US homes with electricity for one year.[13] Aboveground forest carbon stocks are reported year over year and helps us understand the property's impact on climate change mitigation.

It is estimated that Tyee had a net sequestration, or climate positive, impact during our Q4 holding with our pro-rata impact being c. 27,188 tCO2e sequestered.[13] That is equivalent to mitigating the emissions of 6,342 gasoline powered passenger vehicles driven for one year.

Over 580 kilometres of freshwater streams flow through Tyee Forests, 266 of which are known to have fish presence, providing critical habitat for steelhead and salmon species. It also affords a mosaic of diverse terrestrial habitats for northern spotted owls, bald eagles, osprey, deer, elk, and black bear.

Marbled Murrelets are a rare, threatened, and endangered species also known to occur on the property. The small seabird forages in marine waters for small schooling fish and invertebrates and seeks old growth forests for nesting as it lays eggs directly on moss, lichen, or debris accumulation on large branches. Roughly 127 hectares of the property have been set aside to preserve their nesting habitats.

Shortly after acquisition, Campbell Global reached out to tribal neighbours and held a series of meetings to personally engage and identify opportunities for collaboration. As Tyee's watersheds and lands contribute to sustenance for the tribes, we entered into an access agreement to allow tribal members to conduct population surveys for spawning fish, blacktail deer and Roosevelt elk. Such studies enable tribes to responsibly manage the fish and wildlife that support their local communities and economies.

12. Source: Campbell Global.
13. Source: EPA Greenhouse Gas Equivalences Calculator as of July 2025.

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Human capital



Why it matters to us

We believe that businesses that invest in their workers will outperform those that don't; taking care of employees directly impacts company performance, productivity, business resilience and reputation. A well-treated, fairly paid workforce is likely to have positive staff morale and satisfaction - with lower turnover rates, making a company more likely to be successful over time. Put simply, poor workforce management is a material risk to the companies in which we invest.[14]

In addition, as universal owners, we essentially own 'a slice of the market'. This means that our investment returns to our members are heavily reliant on sustainable economic growth, which is supported by a healthy and productive workforce.[15]

With over one third of UK workers saving with Nest, we also believe that better management of risks and opportunities related to working conditions including decent pay, freedom of association and collective bargaining and social protections, can directly impact our members' working lives as well as their financial outcomes at retirement.

14. SASB Standards, Materiality Finder; Cardiff Business School (2021), The study: Twenty years of the Living Wage - The Employer Experience; Ingolf Dittmann et al, (2018), The Real Cost of CEO Compensation: The Effect of Behindness Aversion of Employees; Principles for Responsible Investment (2022), Diversity, equity & inclusion: Key action areas for investors; Principles for Responsible Investment (2022), How investors can advance decent work; Harvard Business Review (2019), The Financial Case for Good Retail Jobs.
15. The Shareholder Commons (2023), Living Wage and the Engagement Gap.

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Our actions and outcomes

Engaging companies on their pay practices

Stewardship is the main tool used to achieve our responsible investment objectives on human capital. It allows us to inform companies of the financial and societal benefits of prioritising human capital, whilst encouraging them to take necessary action.

Nest continues to participate in the ShareAction-led Good Work Coalition, which encourages companies to pay a wage that meets the cost of living, the Real Living Wage, to their employees and ensure that their work contracts provide for set working hours, sick pay, and holiday pay. The coalition has recently focused on encouraging UK-based retail companies to pay this wage to their workers, including those directly employed and those contracted through third parties.

This year, we continued engaging with a number of these companies, including Currys, to understand their current approach to setting worker pay, especially in the context of rising National Insurance costs and increases in the National Living Wage. There has been good progress amongst some of these companies. For example, following conversations with one company, they have set up an internal working group to explore introducing regional pay weightings. Many companies have also collected information on the pay practices of their third-party contractors and shared this information to the coalition.

We've also seen evidence of the impact of pay on business performance, with one company sharing that they have observed an increase in recruitment and retention of workers since increasing its base pay.

Despite good engagement levels from many of these companies in the retail sector, a handful of companies were unresponsive to the coalition's requests to meet and find out more about their approach to setting worker pay. As a result, we decided to escalate these engagements by co-signing investor letters to these unresponsive companies expressing our disappointment and setting out our intention to decide on appropriate next steps if there was no demonstrable progress on pay made by the company.

Improving the quality and availability of workforce data

We also recognise the importance of having tangible, comparable data from companies to allow investors to make informed investment decisions and hold companies to account on their workforce policies and practices.

Where there is a lack of information on company performance related to human capital, we aim to work with companies and peers to drive better company disclosure and accessibility of data.

For instance, Nest was a founding member of the Workforce Disclosure Initiative (WDI) in 2018. The WDI is focused on encouraging better workforce disclosure from companies around the world, including disclosures on talent retention and satisfaction.

More recently in 2023, we joined the steering group of the Fair Reward Framework, an asset owner initiative providing better transparency on corporate pay and reward. The initiative was created because we identified that there was a significant gap to address in being able to freely access clear, comparable data on how value creation is rewarded across different levels within an organisation. In 2024, the initiative pilot year was launched by publishing assessments of the pay governance processes and reward outcomes of the UK's FTSE 100 companies. We have found this data useful and – where relevant – incorporate this information into our voting analysis. This is publicly accessible and stakeholders have been invited to access the data and provide feedback on the tool's usability, and improvements to future iterations.

We also recognise the role policy and advocacy can play in improving the quality of human capital data. For instance, we recently attended a workshop, hosted by the WDI, where we provided feedback to the technical staff of the International Sustainability Standards Board (ISSB) on the importance of mandatory human capital reporting and the type of data that is useful to us. The ISSB used these insights from investors to inform their research project focused on exploring the feasibility and necessity of developing ISSB requirements related to particular sustainability-related matters, taking into account investors' information needs and the likely costs for companies of preparing such information.



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Human rights

Why it matters to us

Respect for human rights in business is strongly associated with value chain resilience and a stable business operating environment. As investors, we recognise the operational, financial, legal, and reputational risks companies may face when they fail to manage human rights risks.

Companies that get caught up in human rights crises and don't effectively manage these risks are susceptible to hefty fines, media scrutiny, public backlash and high costs of reorganising supply chains and ensuring they are compliant with the emerging law and regulation in this space.

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Our actions and outcomes

As an institutional investor, we believe we have a responsibility to respect human rights and manage human rights risks across our investments. We use a variety of tools to help us to identify and address key human rights risks throughout our portfolio.

Last year, we developed a portfolio-wide policy requiring our fund managers who manage our segregated funds to screen our portfolio to identify whether companies have been assessed as violating or have potentially violated one or more of the UN Global Compact (UNGC) principles, which includes respecting international proclaimed human rights. By having a screen in place, Nest can assess human rights risks associated with our investments and work with fund managers to make informed decisions when breaches occur. Further information on our UN Global Compact policy can be found on the Nest website here.

We also use stewardship as a key tool for encouraging companies to better identify and address human rights risks across their business activities and relationships and ensure they are compliant with existing and new laws. We take part in several investor initiatives focused on driving company progress on human rights issues.

Monitoring modern slavery risks

For the third year, Nest has remained part of the Rathbones Votes Against Slavery engagement. The campaign engages UK-listed companies that do not comply with the section 54 reporting requirements of the Modern Slavery Act. The Act requires companies to prepare a slavery and human trafficking statement each year and provide overall transparency in supply chains. Breaching this Act can lead to hefty fines and reputational damage, so it's important to engage with companies if they are deemed to be non-compliant.

Nest signed onto investor letters in 2024 that were sent to 32 potentially non-compliant FTSE 350 companies. By the end of 2024, 31 of the FTSE 350 companies had become compliant (or confirmed that no statement was required - and committed to make this clearer in future reporting).

Addressing forced labour in the Uyghur region

Over the past year, we have continued to work with companies as part of the Investor Alliance for Human Rights (IAHR) engagement on Uyghur forced labour in the automotive sector. This was developed as a result of a report on automotive supply chains and forced labour in the Uyghur region in China. The report found there to be more than 100 international automotive parts or car manufacturers exposed to products made by people in forced labour in the Uyghur region.

Since last year, we have had follow-up conversations with three companies, BMW, General Motors and Tesla, to get updated information on their due diligence processes and push for greater transparency within their supply chains. A number of these companies are taking further action to mitigate human rights risks and adhere to the stricter regulatory landscape. Actions taken include expanding the supply chain mapping team and using third-party tools to try and better identify relationships with banned entities.

11 companies have been excluded from our investible universe who were found to have very severe direct involvement regarding forced labour in the Uyghur region, and we continue to monitor the list of companies operating in the area.



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Digital rights and technology

Why it matters to us

Technology has advanced rapidly in recent years, particularly with the widespread adoption of generative artificial intelligence (AI), the growth of social media consumption, and the rise of digital labour platforms like those in the gig economy. Over the past two decades, technology has significantly transformed major sectors. Generative AI, for instance, is now a crucial business tool in industries such as healthcare and financial services.

The market value of tech companies has also grown substantially, leading to the emergence of tech giants known as the 'Magnificent Seven': Amazon, Alphabet, Apple, Microsoft, Meta, Nvidia, and Tesla. The Magnificent Seven make up over 8.2% of Nest's total AUM (as of 31 March 2025).

The surge in digital innovation offers numerous benefits. Generative AI, for example, can revolutionise industries by creating content, enhancing customer service, improving efficiency, and fostering new businesses. It has already shown potential in improving medical diagnoses, personalising treatment plans, and expanding financial inclusion through advanced data analysis and risk assessment.

However, this growth also brings significant risks. AI systems can perpetuate biases present in their training data, leading to unfair or discriminatory outcomes. There are also concerns about data privacy and security, as AI systems often require vast amounts of personal data to function effectively. Additionally, the increasing reliance on AI could lead to job displacement in certain sectors, raising socio-economic concerns. AI systems also rely on vast amounts of energy, largely through the operation of data centres, which drives up the energy demand of technology companies. They also consume considerable volumes of water, mainly for cooling these centres and producing the electricity they use. This growing demand must be managed sustainably to prevent a sharp rise in greenhouse gas emissions from the tech sector.

To mitigate these risks, it is essential to implement strong governance frameworks that ensure ethical AI development and deployment. This includes establishing clear guidelines for data usage, ensuring transparency in AI decision-making processes, and promoting accountability for AI-driven outcomes. Companies must also invest in continuous monitoring and evaluation of AI systems to detect and address any unintended consequences promptly. Responsible innovation, coupled with robust oversight and transparency, will be crucial for the long-term success of companies and the returns on investments. By prioritising ethical considerations and proactive risk management, we can harness the transformative potential of AI while safeguarding against its potential downsides.

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Our actions and outcomes

Advancing ethical AI policies

In 2024, Nest joined the Collective Impact Coalition for Ethical Artificial Intelligence (or "Digital CIC"), a coordinated engagement campaign aiming to push technology companies to advance ethical AI policies and practices. The investor workstream focuses on collaborative engagements with companies in the Information and Communication Technology (ICT) sector. It has been running since 2022 and entered its second phase in 2024, with further expectations for its focus companies. The initiative is supported by the World Benchmarking Alliance (WBA). It is focused on addressing some of the largest risks posed by AI. As we've discussed earlier in this report, AI is evolving rapidly and as capabilities become more powerful, the risks associated with the technology increase. As companies deploy AI in a multitude of different ways, adhering to laws, regulations and ethical standards will be critical to building a sound AI foundation.

One of the main risks associated with AI is its lack of governance and oversight. As a result of fast evolving AI models, management and executive teams are not well-informed on the technology, which leaves less room for checks and balances. Thus, one of the asks of companies is that they implement and disclose a set of ethical principles that guide the company's development, deployment, and/or procurement of AI tools. Nest selected eBay as one of our priority companies to engage with, as it is a large holding and a company that we believe has quite a significant global reach and influence.

Engaging on the potential impact of technology on health and wellbeing

In 2024, we continued to work alongside the tech, mental health and wellbeing engagement group led by AXA Investment Management and Sycomore Asset Management. We joined this engagement in 2023, as we believe excessive technology usage can harm people's mental health by causing concentration issues, depression, and social isolation – especially when introduced at a young age.[16]

We consider these to be a systemic risk to society and future economic growth, as well as a material risk for investors in the hardware, media, internet, gaming, and fintech space. Globally, there has been a rising regulatory focus on technology's impact on mental health. Initiatives like the European Union's Digital Services Act aim to hold digital platforms accountable for harmful content distribution, while laws such as the UK's Children's Code Legislation and the US's Children's Online Privacy Protection Act seek to protect children from targeted advertising and excessive online engagement. These regulations signal growing pressure on tech companies to prioritise user well-being.

In 2023, we signed an investor statement asking companies in the hardware, media, internet, gaming, and fintech industries to develop a policy, and to implement measures to mitigate risks of addiction and potential adversary effects on end consumer mental health and wellbeing. Over the past year, Nest and a group of investors have been engaging with Meta and seen some positive developments. In its 2024 Responsible Business Practice report, Meta has a dedicated chapter on 'Well-being and Technology' showcasing the company's progress and recent efforts. Despite Meta making positive progress in some areas, we still had concerns on particular topics such as generative AI, misinformation and disinformation risks, and so decided to escalate our engagement with Meta. Please see **page 70** for details on this escalation.



16. Social media and young people's mental health and wellbeing, UK Royal Society for Public Health, 2017.

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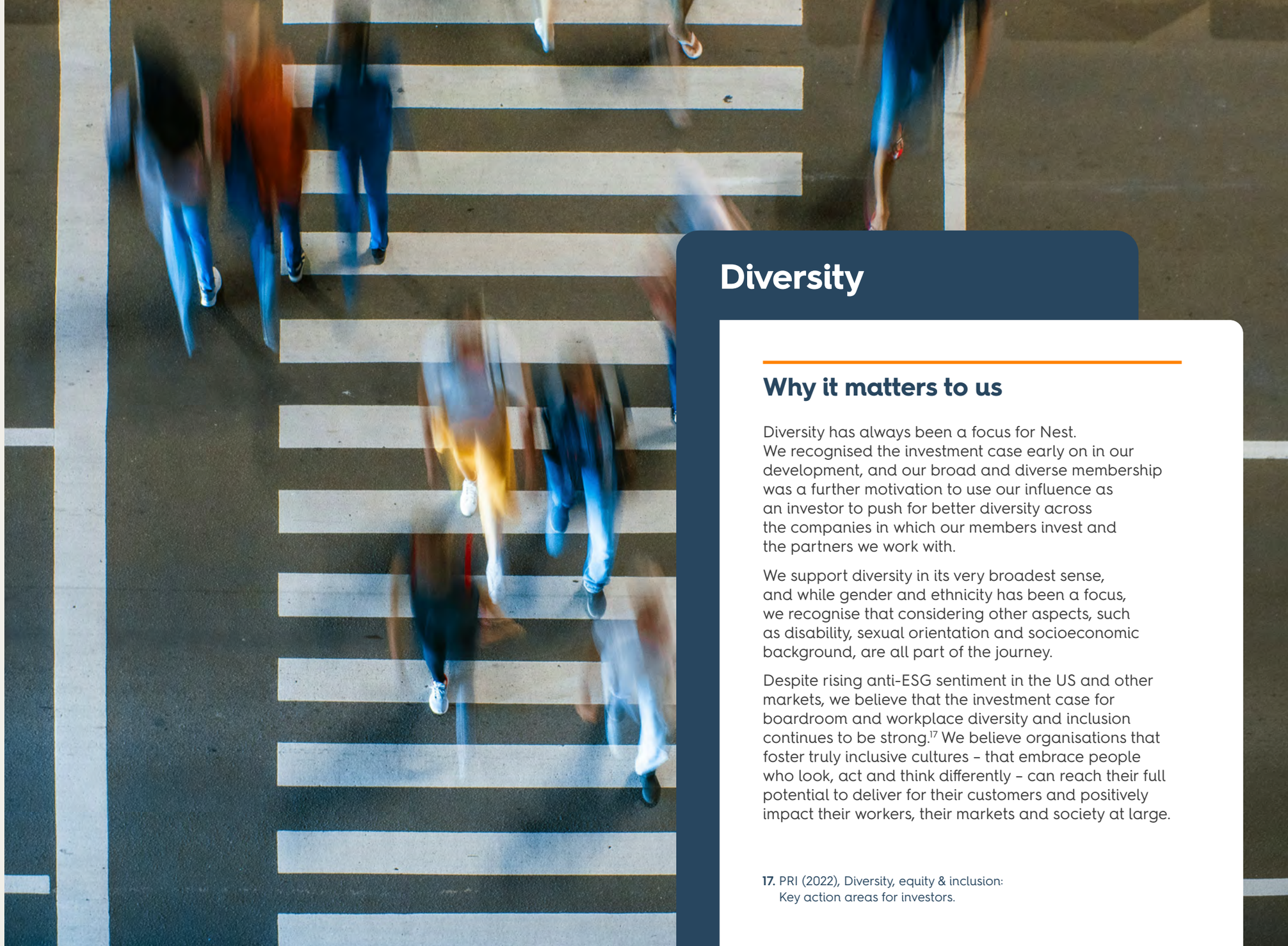

Diversity

Why it matters to us

Diversity has always been a focus for Nest. We recognised the investment case early on in our development, and our broad and diverse membership was a further motivation to use our influence as an investor to push for better diversity across the companies in which our members invest and the partners we work with.

We support diversity in its very broadest sense, and while gender and ethnicity has been a focus, we recognise that considering other aspects, such as disability, sexual orientation and socioeconomic background, are all part of the journey.

Despite rising anti-ESG sentiment in the US and other markets, we believe that the investment case for boardroom and workplace diversity and inclusion continues to be strong.[17] We believe organisations that foster truly inclusive cultures – that embrace people who look, act and think differently – can reach their full potential to deliver for their customers and positively impact their workers, their markets and society at large.

17. PRI (2022), Diversity, equity & inclusion: Key action areas for investors.

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Collaboration through the 30% Club UK Investor Group

Our leading role as co-chair, and our active participation in the 30% Club UK Investor Group, are central to our work on diversity. By working together and combining investor resources, influence and action, we have played a key role in improving diversity in UK companies.

According to the FTSE Women Leaders Review, on average, women hold 32.7% of executive positions in the FTSE 100 and 27% in the FTSE 250. In addition, the Parker Review finds that as of December 2024, only 11% of senior management in the FTSE 100 are from an ethnic minority background, which is below the 18% of ethnic minorities in the UK population[18], indicating there is still room for improvement.

This year, the 30% Club UK chapter refreshed its targets. When setting these targets, we wanted to ensure that the goals were ambitious, trackable, and distinctive – ensuring we're not duplicating the efforts of other initiatives but instead complementing them. The refreshed goals are:

1. Beyond 30% female representation of FTSE 100 CEOs and Chairs by 2035.
2. 50% female representation in FTSE 100 in ExCo and ExCo-1 by 2035.
3. Fully support the Parker Review's race targets.

To support the pursuit of these new targets, the investor working group assessed the level of gender diversity at ExCo level across the FTSE 100 by reviewing companies' annual reports and external diversity reporting. Our analysis found that over half of all companies assessed had between 20-30% gender diversity and almost 20 companies had less than 20%. This prompted us to focus our engagements on those companies with less than 20% gender diversity and prioritise the worst-performing laggards.

We have since sent investor letters to these companies, urging them to address the underrepresentation of gender diversity at executive level and inviting them to meet with us and discuss their efforts in more detail.

Over the past year, we have also been engaging with our fund managers and other stakeholders on how they are navigating the changing political backdrop and subsequent de-prioritisation of ESG within certain markets. Diversity was a key discussion topic, having seen less publicly reported targets/quotas alongside a change in language on diversity, equity and inclusion (DEI). One such example was an event we co-hosted at Bloomberg as part of the Global Investor Strategy Forum focused on the growing backlash against DEI in investment contexts. It brought together asset owners, managers and industry experts to discuss how investors can respond to this backlash while maintaining a commitment to inclusive and responsible investment practices.

Following these engagements, we feel assured that this work is continuing, and that fund managers still believe prioritising DEI has a clear business benefit. We will continue to closely monitor this political landscape and the approach of our fund managers.



18. Data collected from the UK 2021 Census for England and Wales.

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Advocating for ethnicity pay gap reporting

Nest has been a longtime advocate for companies measuring and reporting on their ethnicity pay gaps across their workforces. We believe this is an important first step in addressing and understanding corporate performance on racial equality and pay fairness. It allows organisations to monitor the effectiveness of their inclusion strategies and ensures they are held to account by their relevant stakeholders. We have also voluntarily published our own internal ethnicity pay gap data for over six years.

Beyond internal reporting, as part of ShareAction's Good Work Coalition engagement, we have actively engaged with UK companies in the finance and low-paying sectors to encourage them to publish their pay gaps. According to ShareAction, ten target companies have begun voluntarily publishing their data since engagements commenced. More broadly, the number of FTSE 100 companies reporting their ethnicity pay gaps has increased from just 15 at the start of the campaign (in 2022) to 38 by 2024.

Our influence also extends to policy advocacy. Tom Sanders, Senior ESG Analyst at Nest, sits on ShareAction's Ethnicity Pay Gap Reporting Advisory Committee, contributing to sector-wide guidance for ethnicity pay gap reporting and advocacy efforts to champion the value of pay gap reporting. In March 2025, Nest participated in a roundtable hosted by the Minister for Equalities, Seema Malhotra, alongside other investors and corporates. The discussion focused on the benefits and challenges of mandatory ethnicity pay gap reporting, with Nest advocating for legislative change.

Off the back of this roundtable, we were pleased to see that the UK government published a formal consultation on mandatory ethnicity and disability pay gap reporting. We responded to this consultation, reinforcing Nest's position on the value of pay gap reporting. We also advocated for standardised, quantitative disclosures and action plans to enhance transparency and accountability across employers, and we called for a unified reporting framework to streamline the reporting process for companies and support a holistic view of pay gaps across ethnicity, disability and gender. Responses to this consultation are now under review and outcomes are likely to be published by the end of 2025.



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Health and food systems

Why it matters to us

The food sector faces a number of risks and opportunities; not only does it have an impact on nature and global carbon emissions, but it also has an impact on our health. The food industry must evolve and meet changing consumer preferences and regulation to remain competitive in their business practices, whilst making healthier food and drink more accessible.

We consider health to be a system-level risk that affects consumers and workers across the whole economy. The growing issue of obesity and related disease in the UK and other developed nations is an issue that investors are increasingly acknowledging as a long-term investment risk. With the likelihood of further government policy interventions, it is important that food retailers and manufacturers promote healthy eating. There is growing consumer demand for healthier products, and we want to invest in companies that are ahead of the curve and taking advantage of this opportunity. We have actively engaged with the largest food and beverage manufacturers to improve transparency on their strategies to address these issues.



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Our engagements have moved beyond simply understanding the strategies companies have in place, to encouraging preparedness for upcoming regulation. In addition, we continue to seek transparency in the market, and are maintaining engagement with manufacturers and retailers to encourage them to share data on health with investors. Nest is also part of the Healthy Markets Initiative led by ShareAction. Last year, Nest continued its dialogue with companies in Europe, specifically Nestlé, having met with the new CEO Laurent Freixe in 2024. We highlighted several key areas for improvement in the meeting, including an opportunity for Nestlé to grow its healthier product lines and improve its disclosure of the healthiness of its product portfolio in line with government endorsed Nutrient profile models.[19]

Following a meeting with the company in 2025, the CEO of Nestlé announced that, starting with their next non-financial report, the company will evolve their nutrition reporting with the following actions:

- Complementing existing reporting with new data that is aligned with the scope of the Access to Nutrition initiative (ATNi).
- Include a sales-weighted average measure both for relevant categories, and for the total portfolio.
- Continue to use the government-approved Health Star Rating system as the basis of our nutrition profile reporting.

Nestlé's progress on disclosure and reporting shows a real step in the right direction and highlights the role good stewardship can play in shaping long-term company best practice. However, there is still a likelihood of further government policy interventions coming, due to a global growth in health crises. Therefore, it remains important that food manufacturers play a significant role in promoting healthy eating.

Earlier this year, the US Secretary of Health and Human Services (HSS) ordered the Food and Drug Administration (FDA) to strengthen oversight of food nutrients and look at potential ways to revise its Substances Generally Recognized as Safe (GRAS). It's likely this will have a big impact on the US food sector and further changes may follow over the next few years.[20]

Nest has also remained members of the FAIRR Initiative and Food Foundation, as both organisations continue to show their commitment to address the systemic risks associated with health and unsustainable food systems. The organisations take a number of steps to achieve their goals, including engaging directly with food companies and influencing food policy to help governments make successful evidence-based decisions. Nest is also a member of the FAIRR policy working group, helping to provide an investor voice to assist on the decisions around the future direction of work taken by the group.



19. Nutrient profile models (NPMs) are a scientific scoring system which evaluate the nutritional quality of food and beverages by assessing the breakdown of their nutrients, such as salt, sugar and fat. Reporting using selected NPMs and consistent guidelines will help investors to get a fuller understanding, of the healthiness of companies' product portfolios. **Sector Alignment on the Use of Nutrient Profile Models (NPMs) – ATNi (Access to Nutrition initiative).**
20. **Robert F. Kennedy Jr. directs FDA to tighten up food safety rules.**

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Fund manager case study

Lombard Odier – Investing in the food system transformation

Last year, Nest appointed Lombard Odier Investment Managers (LOIM) to manage a new thematic equity fund focusing on three themes: climate change mitigation and adaptation, natural capital and social factors.

Lombard Odier identified the food system as a priority area of focus within consumer goods. This is because the food system is undergoing significant transformation, driven by rising health-related externalities, regulatory responses, and evolving consumer expectations. Unlike sectors facing existential disruption (e.g., energy or automotive), the food system offers resilience due to its consumer-facing nature and entrenched brand loyalty. This creates a stable yet dynamic environment for investment.

LOIM expects health factors to emerge as a material driver of food system transformation, and policy action, potentially even overtaking environmental considerations as a driver of change. It sees opportunities in some "healthy product" segments but note that it currently faces lacklustre growth prospects. It also believes that a meaningful transition towards healthier product ranges also requires regulatory support (including mandatory labelling, sugar or salt taxes, calorie disclosures) to drive downstream behavioural adjustments and promote healthier consumer choices.

Therefore, rather than merely looking at product range, LOIM particularly favours players with strong innovation and R&D capabilities and a demonstrated ability to reformulate products to reduce levels of fat, sugar, and/or salt content and to be able to respond, or accelerate, shifting market expectations.

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How we invest responsibly

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



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



Manager selection and monitoring

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



Active ownership

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



Advocacy

We engage with policymakers and standard setters to help develop regulation to mitigate systematic ESG risks and enable a transparent and sustainable market system.

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Risk monitoring

We believe that certain ESG issues are financially material and could impact our ability to achieve good risk-adjusted returns for our members. We seek to identify, prioritise and manage ESG risks across the different asset classes we are invested in.

Prioritising ESG risks

Our starting point is to identify ESG risks 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 academic, qualitative, quantitative and news flow.
- Discussions with fund managers on current and emerging risks.
- Updates from investor groups, such as the ShareAction's Good Work Coalition and Climate Action 100+.
- Information from industry bodies, standard-setters, and non-governmental organisations.
- 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. To help us take a well-rounded view of whether we should pursue an issue and prioritise it within our investment approach, we consider the three-pillar framework presented below.



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Our three-pillar framework for prioritising ESG risks

Risk and return considerations



- Empirical or academic evidence linked to risk-adjusted returns
- Company compliance with current or forthcoming regulation
- System-level risk

Broader value to members



- Clear member concern or preference
- Reputational risk to Nest
- Risk of harm to members' broader financial outcomes or quality of life
- Positive or social impact on members

Actionability



- Nest and fund managers' abilities to assess the risk/opportunity
- Direct or collaborative stewardship opportunities
- Codes and initiatives
- Public advocacy opportunities
- Capital allocation opportunities
- Additionality of involvement

Once we've established that an issue meets enough criteria set out by the framework (which is research and evidence based), we conduct more in-depth research to better understand the substance of the issue, the key risks and opportunities, which sectors or underlying companies in our portfolios are affected, and what tools we might use to address it.

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Applying our prioritisation framework to antimicrobial resistance

A recent example of how we applied our framework was when we were considering antimicrobial resistance. Antimicrobial resistance (AMR) occurs when bacteria, viruses, fungi and parasites no longer respond to antimicrobial medicines. It is exacerbated by the use of antibiotics in animal agriculture.

By applying the framework, we were able to identify this issue as a high priority for us, due to research into its damaging impact on global public health, workforce participation and productivity, and subsequent projected reduction in global GDP.

AMR may also be linked to longer-term financial risks for food manufacturers that we invest in. This is because rising resistance can lead to stricter regulations, increased production costs, and supply chain disruptions. For example, if antibiotics become less effective, livestock may suffer higher disease rates, leading to lower yields, greater losses, and the need for alternative (often more expensive) health management practices - all of which can impact profitability and operational stability. In addition, due to its impact on public health and potential healthcare costs, we identified antimicrobial resistance as an issue that could harm our members' quality of life.

With regards to actionability, we found that there are many opportunities for us to address this risk, such as through FAIRR's collaborative engagement on antibiotic use in the quick-service restaurant sector, which we have now joined. We believe that by joining this initiative, we can amplify our voice by working alongside other investors to encourage restaurant chains to adopt stronger antibiotic stewardship policies, which in turn can drive more responsible practices throughout the meat supply chain and help mitigate AMR risks at scale. We are expecting to meet with companies within this sector later this year.

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.

The dashboard 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 it does not regularly monitor the labour practices of businesses in its supply chain. Similarly, if it acquires a subsidiary that may be involved in the manufacture of controversial weapons, it could risk breaching our policy and international law.

In 2023, we procured Aladdin, a risk management system, which has helped us further build out the dashboard. It includes data on climate change physical and transition risks across bonds and equities and also allows us to bring together other external data sources into one platform.

The dashboard gathers information from various sources, including:

- Financial data through Bloomberg.
- Screening for breaches of the UN Global Compact principles, controversial activities and products, and negative media coverage through Clarity AI.
- Carbon emissions, climate transition and physical risk from our fund managers and Aladdin.
- Workforce-related issues through the Workforce Disclosure Initiative (WDI).
- Nest's voting history through Minerva Analytics.

Any risks arising within our investment mandates are reviewed, and risks deemed to be most significant are flagged at our manager monitoring committee and escalated to our investment risk committee if necessary.



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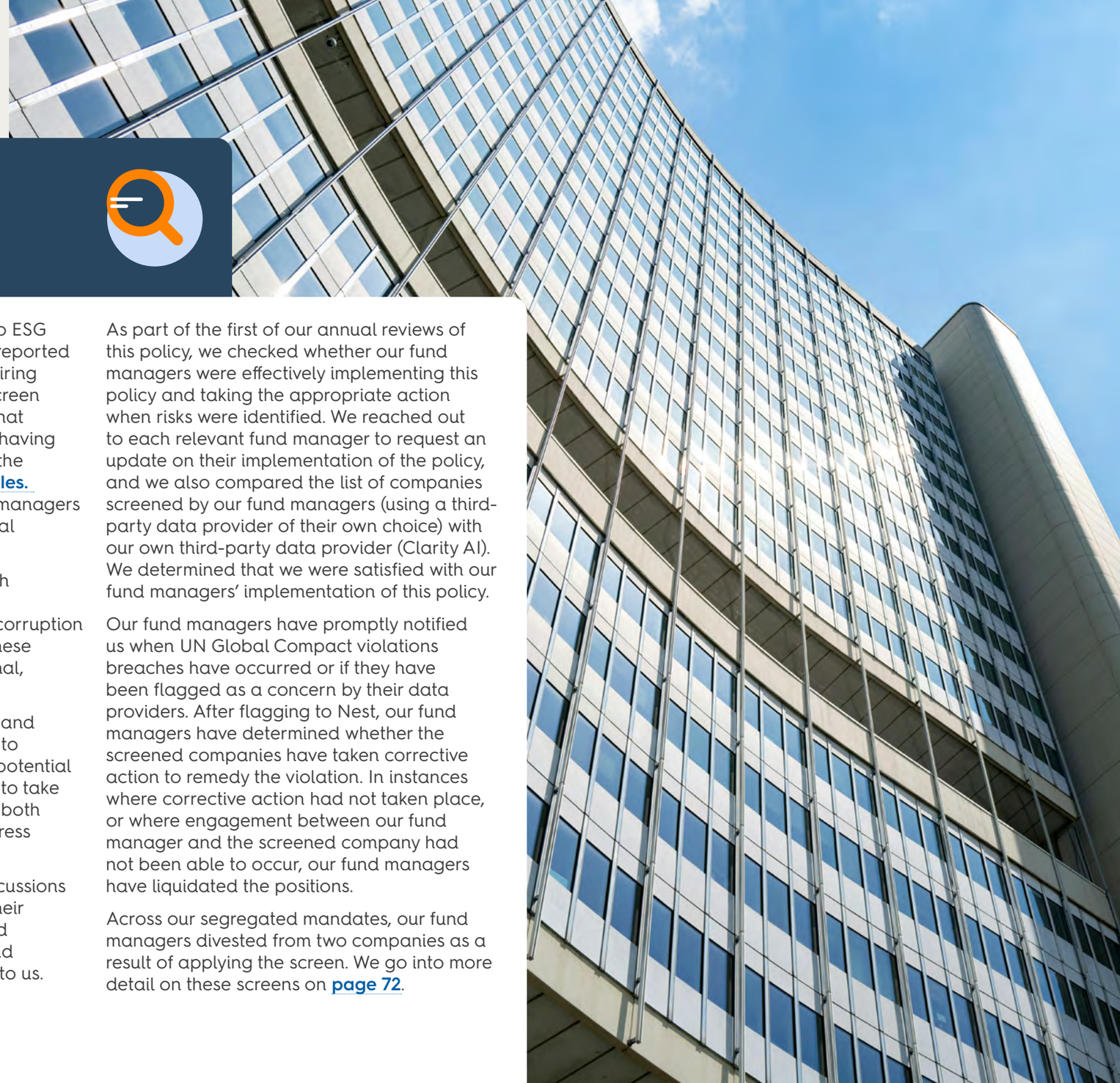

Case study

Implementing our UN Global Compact policy

Last year, to mitigate our exposure to ESG risks in some of our investments, we reported on the development of a policy requiring our segregated fund managers to screen our portfolio to identify companies that have been assessed as violating, or having potentially violated, one or more of the UN Global Compact (UNGC) principles. Collectively, these segregated fund managers manage more than half of Nest's total invested assets.

These principles cover key areas such as human rights, labour standards, environmental protection, and anti-corruption measures. Companies that breach these principles may face legal, reputational, and operational risks.

The policy sets out our requirements and expectations for our fund managers to screen our investment portfolios for potential breaches against the principles and to take appropriate action – which includes both engagement and exclusion – to address breaches that may have occurred.

In developing the policy, we had discussions with our fund managers who gave their support to our approach and agreed to include updates on monitoring and implementation in regular reporting to us.

As part of the first of our annual reviews of this policy, we checked whether our fund managers were effectively implementing this policy and taking the appropriate action when risks were identified. We reached out to each relevant fund manager to request an update on their implementation of the policy, and we also compared the list of companies screened by our fund managers (using a third-party data provider of their own choice) with our own third-party data provider (Clarity AI). We determined that we were satisfied with our fund managers' implementation of this policy.

Our fund managers have promptly notified us when UN Global Compact violations breaches have occurred or if they have been flagged as a concern by their data providers. After flagging to Nest, our fund managers have determined whether the screened companies have taken corrective action to remedy the violation. In instances where corrective action had not taken place, or where engagement between our fund manager and the screened company had not been able to occur, our fund managers have liquidated the positions.

Across our segregated mandates, our fund managers divested from two companies as a result of applying the screen. We go into more detail on these screens on page 72.

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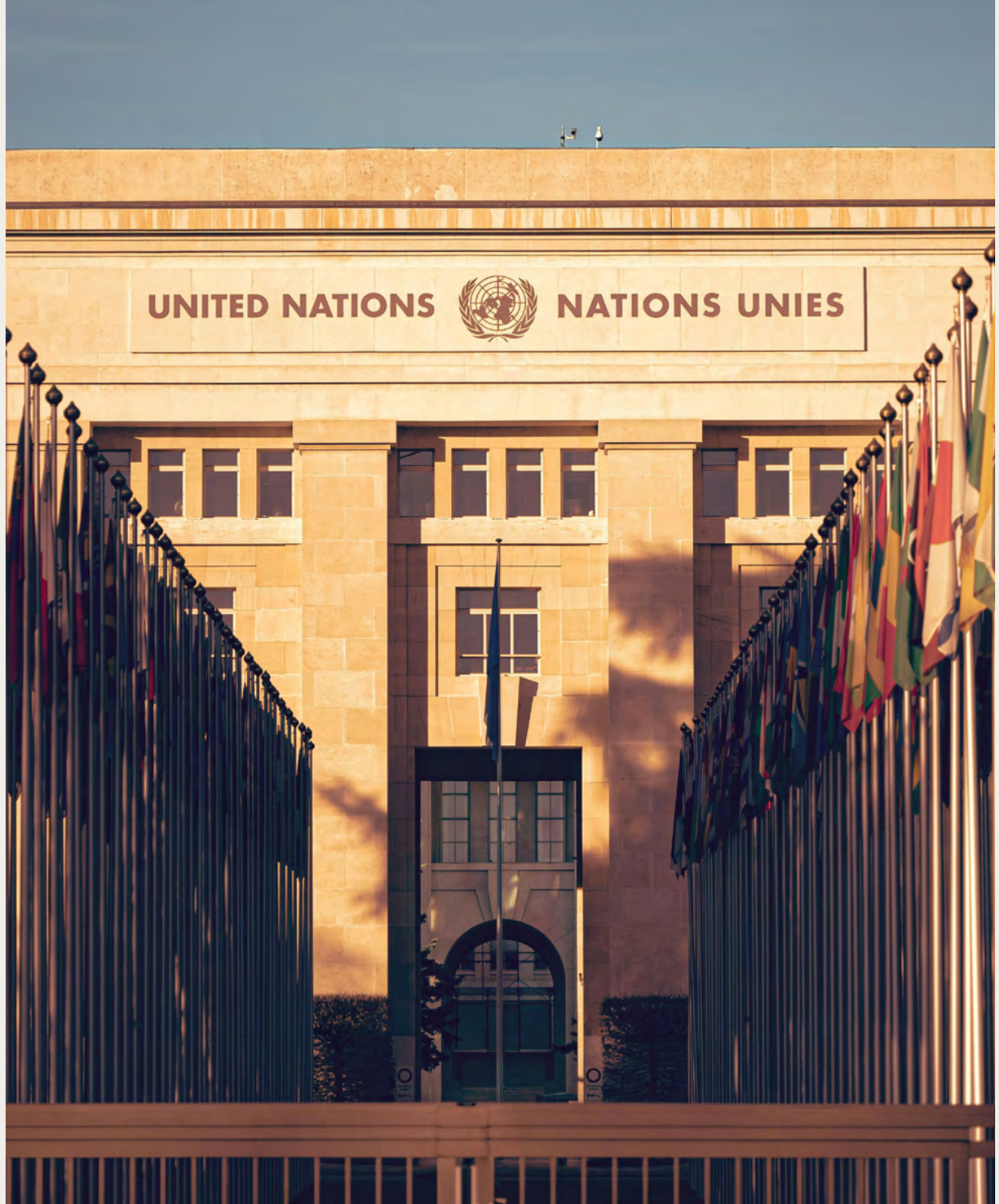

Managing geopolitical risk

Geopolitical events, such as those in Ukraine and the Middle East, continue to harm communities and disrupt global markets. Our aim is to protect members' savings from these risks and manage any human rights concerns linked to our investments.

For long-term investors, two issues stand out: information often lags behind fast-moving events, and simple exclusion rules may not capture the full extent of conflict-related risks. We already apply portfolio-wide safeguards to remove companies that we believe are engaged in highly controversial activities such as manufacturing of controversial weapons. We also expect our segregated fund managers to screen our portfolio to identify companies that have been assessed as violating, or having potentially violated, one or more of the UN Global Compact (UNGC) principles. But in today's environment we recognise that we need to keep evolving.

This year we have strengthened our screening approach. We have raised the bar for companies entering our global equities portfolio by reducing the number of small holdings with the highest controversy risk ratings. At the same time, we are developing a framework to monitor country-level ESG risks more closely. A key part of this will likely be to use the Global Peace Index to help identify sovereign-linked risks and assess corporate holdings within high-risk countries. These proposals are still being finalised, and we will report on progress in next year's update.

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Our investment risk committee

We have an investment risk committee that meets quarterly to oversee investment risk management activities across the investment process.

The committee aims to support a holistic investment risk management approach. It therefore monitors investment risk management activities across the different teams within our investment risk governance structure and ensures adequate checks and balances are embedded consistently within those activities. Its remit includes reviewing key ESG issues, including climate-related risks, for Nest portfolios as well as developments in the responsible investment space that could have negative impacts on Nest's portfolios. It also ensures ESG risks are properly integrated and considered across the different sub-teams' processes within Nest's 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; and
- The action which could be taken to resolve it.



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Asset allocation

ESG considerations are a key element when we decide whether to add a new asset class to our portfolio. We look to understand the ESG implications of different asset classes that will help us achieve our responsible investment objectives.

Identifying and addressing risks across our asset allocation

Our investment team meets every 6 weeks to review how different asset classes are performing, how markets are performing, and what investment risks and opportunities exist or could emerge.

We have developed an Asset Class Dashboard, which monitors the likelihood of each asset class to meet our investment objectives. As part of this, we include data from Aladdin that shows how asset class performance might be impacted under the worst climate transition and physical risk scenarios, as described in the case study on page 19.

If we identify an asset class with increasing climate risk, we discuss the best way to approach the issue. This may include asking the relevant fund manager to conduct further research that may help us assess whether to:

- Reduce or increase investments in specific asset classes; or
- Place the fund manager on a watchlist, which could ultimately lead to terminating the mandate if concerns about an asset class cannot be addressed.

We are currently running a project on embedding climate scenarios in capital markets assumptions, which aims to help us assess how return projections may differ subject to different degrees of warming.

We also consider how asset allocation can help us access opportunities. For example, our decision to invest directly in renewable energy infrastructure was partly driven by our ambition to align the portfolio with net zero emissions by 2050.

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Case study

Investing in infrastructure debt

As part of our long-term strategy to increase our allocation to private markets and tap into sustainable investment opportunities across our portfolio, Nest has taken a landmark equity stake in IFM Investors - an infrastructure specialist. As part of this partnership, we've committed €530 million (approximately £450 million) to a new European-focused infrastructure debt fund - marking our first major initiative since becoming a strategic partner and international owner of the firm.

This investment is a key step in our ambition to nearly double our allocation to private markets – from 17% to 30% of assets under management by 2030 as at 30 June 2025. It also supports our commitment to the Mansion House Accord, where we and other leading UK pension providers have pledged to invest at least 10% of default defined contribution (DC) funds in private markets by 2030, with a minimum of 5% directed toward UK-based assets (which Nest has also surpassed).

Why infrastructure?

Infrastructure plays a vital role in building a sustainable future. Through this new fund with IFM, we have the potential to support projects that:

- Power the digital economy – such as fibre broadband networks.
- Accelerate the energy transition – including wind and waste-to-energy facilities.
- Promote sustainable transport – like electric bus and rail systems.

These investments not only offer long-term, stable returns for our members but also contribute to reducing carbon emissions and enhancing the resilience of essential services.

ESG risk management

The fund will be aligned with IFM Investors' firm-wide sustainability framework, ensuring that sustainability considerations are embedded in every investment decision. Nest and IFM are working closely to uphold strong sustainability standards across all assets in the fund. This includes rigorous due diligence, ongoing monitoring, and where possible, active engagement with project partners to drive continuous improvement.

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Manager selection and monitoring

Once we have decided which asset classes to invest in, we need to ensure that we have selected the right fund managers to invest on our behalf, set expectations on their approaches to responsible investment and stewardship, and monitor and engage with them on an ongoing basis.



Fund manager selection

An important requirement in our fund manager selection process is the demand for high quality ESG integration 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 positive behavioural change and reduce long-term investment risk for clients. For our listed equity funds, part of our procurement process for choosing fund managers also involves ensuring their voting policies are sufficiently rigorous and voting decisions are executed thoughtfully.

We also 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 practices. That's because we're committed to identifying opportunities for growth and setting a higher benchmark for the industry.

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Ongoing monitoring

Reviewing fund managers' approaches to responsible investment and stewardship doesn't stop with their appointment. Engaging with our existing fund managers to ensure they continue to evolve their approach in line with best practice for their asset class is a core part of our work. We set expectations for our fund managers on their responsible investment and stewardship activities. These are tailored to each individual fund manager and vary depending on the market and asset class. These expectations are formally articulated in our Investment Management Agreements (IMAs) with each fund manager. For example, we have set expectations for our timberland fund manager to monitor and report on a range of environmental and social metrics, including sequestration impacts, preservation of critical habitats and engagement with indigenous and local communities.

We also hold regular meetings with our fund managers to hear more about their stewardship activities, including engagement, voting, collaboration and any escalation they have undertaken. We use these meetings to push for more ambitious stewardship and escalation where necessary.

Nest's investment team also holds an internal quarterly fund manager monitoring meeting to discuss our fund managers' performance, update each other on key meetings, and review any potential breaches to our mandates, including to ESG criteria. Where we have concerns, fund 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.



Case study

Monitoring our fund manager

Over the last two years, we have had growing concerns about one of our pooled fund managers. One of our key concerns was around poor communication, including slow response rates and a lack of engagement with clients on changes made to their responsible investment policy.

The manager was placed on our manager watchlist, and we had several meetings with them to discuss our concerns in more detail. However, we were disappointed to see little improvements made.

We raised our dissatisfaction with our executive investment committee, who recommended that we explore options for procuring an alternative manager.

We have since conducted a limited market warming exercise to explore the broader range of fund offerings available in the market that might better suit our members' needs.

We will be taking our findings to our executive investment committee to review and recommend next steps.

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Active ownership

As an asset owner invested in thousands of companies across many asset classes, sectors, and geographies, we need to 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 fund managers carefully so that we can feel confident that their approach to active ownership is aligned with our long-term way of thinking. 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.



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Nest's voting and engagement policy

Annual general meetings (AGMs) present an opportunity for shareholders to vote on the re-election of directors and resolutions relating to company issues, such as the annual report and accounts, capital structure, structure of the board, audit, and executive pay.

In addition to casting votes at AGMs, shareholders can also submit shareholder resolutions. They often raise issues not typically covered by traditional resolutions, such as special reports and reporting of sustainability issues, and are typically opposed by company management. Shareholder resolutions and the right to vote on them are a valuable tool at an investor's disposal.

Whilst our fund managers generally vote on our behalf, we have our own voting and engagement policy that sets out our own viewpoints and expectations of companies. Our policy also outlines our position and expectations to our fund managers on good corporate behaviour. We use it to hold our fund managers to account on the decisions they make.

We use Minerva Analytics to help us monitor the voting intentions of our fund managers and to vote in line with our views as 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 also have the ability to override our fund managers' votes if we have different views. Please see vote overrides section on page 57 for further details.

We regularly review our voting and engagement policy to ensure it reflects our responsible investment objectives, research and regulatory developments.

This year, we strengthened our policy in a number of areas, such as:

- **New guidance on artificial intelligence:** AI continues to create new capabilities with wide ranging potential impacts on businesses and society. We expect boards to thoroughly oversee AI-related risks and opportunities, integrating them into strategic planning. In cases where companies fail to establish adequate oversight, risk assessment, or ethical guidelines around AI, we may consider voting against the re-election of the most relevant director(s).
- **New guidance on human rights:** We expect the board and senior management to have clear oversight of human rights issues and processes in place to address how they are intertwined into the organisation's strategy and operations.
- **Enhanced guidance on commodity related sector:** We introduced language in the policy to vote against directors at companies in high-risk sectors that don't have a satisfactory deforestation and sustainable land use policy.
- **Additional guidance on lobbying:** We introduced a lobbying principle, to reflect our belief that companies should be transparent about their political engagement on all material ESG issues, including but not limited to climate change.
- **Enhanced sector-specific guidance for digital and technology companies:** We incorporated wording on mis/disinformation and harmful content. We expect companies that host user generated content to manage the dissemination of harmful content.
- **New sector-specific guidance on health and food:** We have had a strong focus on health in our engagements with food manufacturers, and the risks surrounding processed food and anti-microbial resistance (AMR) are becoming more relevant and material. We expect companies in high-risk sectors to implement and disclose clear AMR management practices in alignment with World Health Organization (WHO) guidelines.

Full details can be found in our voting and engagement policy.



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Voting activities

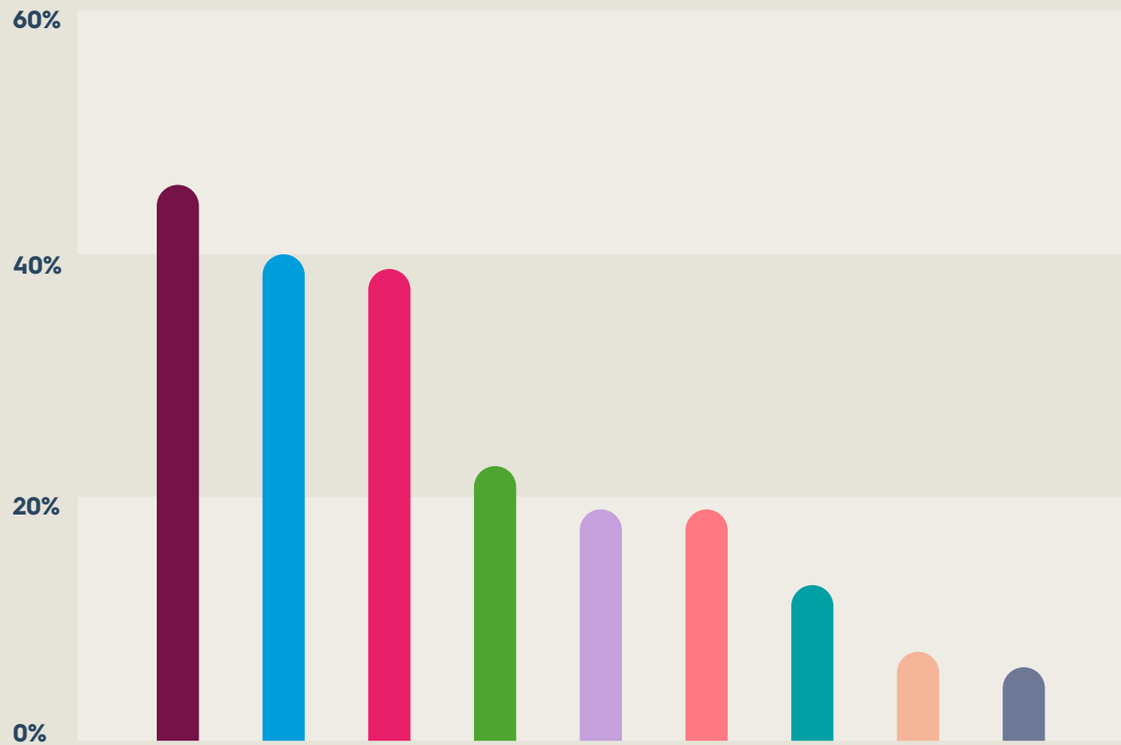
Due to the high number of companies held in our equity funds and the short time period during which multiple AGMs occur, it's not possible to analyse how our fund managers plan to vote on our behalf for every vote. For this reason, we focus and prioritise efforts on a smaller list of companies – a voting subset.

The total number of companies on this voting subset list now stands at 305. The majority of companies in the voting subset are in our developed market fund, as the majority of our significant holdings are in developed markets.

The voting subset comprises a list of our largest holdings – companies that we're currently engaging with, and companies identified as having had ESG issues in the past.

From our voting subset list, we cast 4,749 voted as at 31 March 2025. Of these votes cast, 19.9% were against management (946 votes). Of all the different types of resolutions we voted on, we voted against management on resolutions related to remuneration, sustainability and the board (i.e. votes on the re-election of board directors) the greatest number of times. Sustainability-related votes also had the highest proportion of votes against management, with just over 45% of our votes related to sustainability opposing them. Please see the chart to the right for more detail.

Percentage of votes against management



45% Sustainability
23% Capital
14% Board
40% Remuneration
19% Audit & Reporting
7% Corporate Actions
38% Political Activity
19% Shareholder Rights
6% Charitable Activity

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Vote overrides

We have the ability to override our fund managers' votes for a number of companies in our equity portfolios in the default fund (our voting subset) when their voting decisions don't align with our views. We review the variance between our fund managers' voting intentions and our own policy for companies within our voting subset list. 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.

During the 2024-25 voting season, we overrode our fund managers' voting intentions 413 times to better align with our voting policy and beliefs. The vast majority of times we overrode our fund managers was to vote against company management. This is a significant increase from the 2023-24 season, in which we overrode our fund managers' voting intentions 152 times. This increase was mostly due to the introduction of an additional equities mandate.

Voting-led engagement

If we override our fund managers to vote against management recommendations, we engage with the company directly where we think an issue is particularly important to raise. In the last year, we wrote letters to several companies to explain our voting decisions and areas of concern, seeking resolution or ongoing dialogue. Many of these engagements are part of our broader active ownership approach for addressing and making progress on our ESG priorities.

We had direct engagement with the following companies on the matters listed below:

- **BP:** Climate transition plan and remuneration.
- **Shell:** Scaling back climate targets.
- **United Utilities:** Remuneration and water pollution.
- **Amazon:** Reporting on freedom of association and working conditions.
- **Glencore:** Reduced commitment to cut coal expansion.
- **UBS:** Climate strategy due to Credit Suisse integration.

Engagement with fund managers on voting

When deciding to override votes, we often engage with our fund managers on the voting decisions they make. We want to understand their rationale for voting differently and what research and engagement they've undertaken to inform their voting decisions.

At the end of each voting season, we have a debrief with each of our fund managers to discuss the development of any trends and key voting results that might have emerged. We also seek to understand and discuss how much our fund managers deviated from their voting policies and why.



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Case study

Engaging with our fund manager on shareholder resolution on worker pay

At the 2025 AGM of Next, the UK-based retailer, a shareholder resolution was filed by ShareAction and a handful of institutional investors seeking further disclosure from the company on how worker pay is determined.

Ahead of the vote, we contacted one of our fund managers to discuss their approach to worker pay, understand their views on this resolution, and share our perspective. We emphasised that worker pay and human capital management are material risks to the company and a priority issue for us, given their potential impact on long-term returns. We also highlighted the company's lack of meaningful disclosure on worker pay and that it had been unresponsive to our attempts to engage with them.

The fund manager carefully considered our views and decided that the requested disclosures would provide investors with useful insights into employee compensation and how decisions are made to incentivise better performance. We were pleased that our manager chose to support the resolution.

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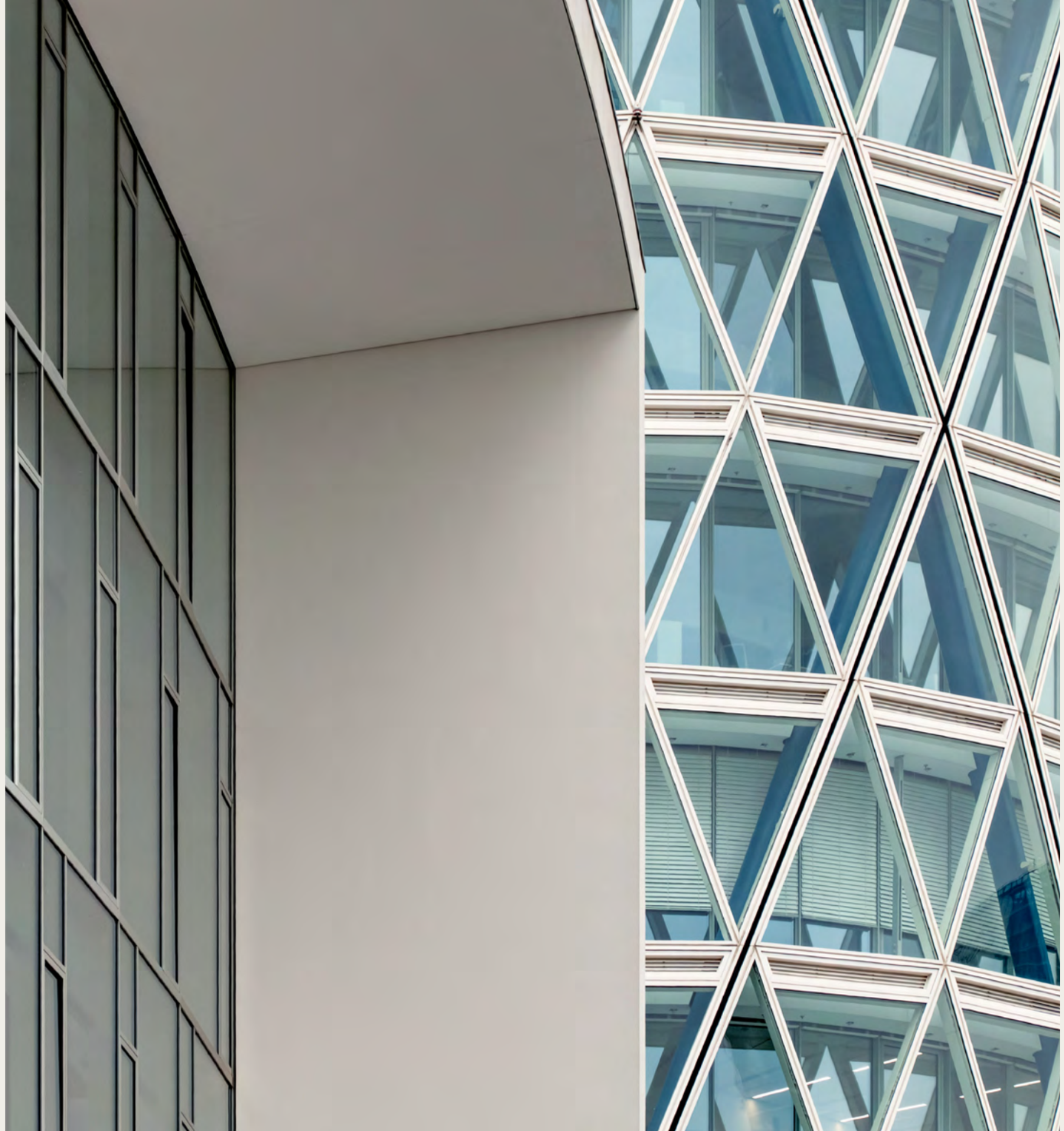

Stewardship across asset classes

Our diversified investment approach means that we invest not only in listed equities and bonds, 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 by voting, co-filing shareholder resolutions, and company and industry engagement. In listed corporate debt and private credit, we focus more on assessing the approaches that the fund managers take by conducting thorough due diligence, engagement with, and ongoing monitoring of issuers.
In the case of private credit specifically, we also want to ensure the manager develops good relationships with the equity sponsors who are tasked with providing capital and managing the assets. We conduct regular reviews of our fund managers across each asset class to understand their approach to stewardship, objectives they have set and progress to date.

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Fund manager case study

HarbourVest – Using stewardship in private equity

On behalf of Nest and its beneficiaries, HarbourVest engages with General Partners (GPs) to actively manage short-term, acute risks such as business misconduct and reputational concerns and seeks opportunities to drive value creation through strong sustainability practices. More broadly, HarbourVest uses its longstanding influence in private markets to participate in industry initiatives that promote the adoption of responsible investment standards and benefit its investors. Industry collaboration is particularly effective for building traction around voluntary sustainability disclosure standards in private markets, and a much-needed focus has recently been put on the collection and disclosure of actionable climate data.

Our Private Markets Decarbonisation Roadmap

	Not Started	Capturing Data	Preparing to Decarbonise	Aligning	Aligning to Net Zero
Definition	Not started to **measure emissions or plan** how to **reduce** them	**Reporting emissions** data but currently no plan in place to reduce emissions	Planning to **reduce emissions** in-line with an approach agreed with the GP[2]	Committed to a decarbonisation plan **aligned to a transition pathway**	Delivering against a new zero plan and operations aligned to **science-based** target
Criteria	– **Minimal or no** emissions data – **No decarbonisation plan** in place	– **Measuring** Scope 1 and 2 emissions from operations, alongside **material** Scope 3 emissions, and making data available to fund[1]	– Decarbonisation **plan meeting minimum requirements in place** but level of ambition **not aligned to net zero pathway**[3]	– Committed to **near-term science-based target** aligned to a long-term net zero pathway	– Demonstrated YoY **emissions profile** in line with net zero pathway

(1) Emissions criteria apply across all subsequent stages.

(2) To progress to this stage companies must have reasonable scope to reduce emissions from their operations; companies operating in thermal coal and exploration of new oil/tar sands production sites cannot progress to this stage.

(3) See Section 3.2.3 of HarbourVest's Private Markets Decarbonisation Roadmap for minimum requirements; pathway can be sector pathway or company-specific reduction trajectory aligned to net zero.

Source: Bain & Co, Initiative Climate International, and Sustainable Markets Initiative as of November 2024.

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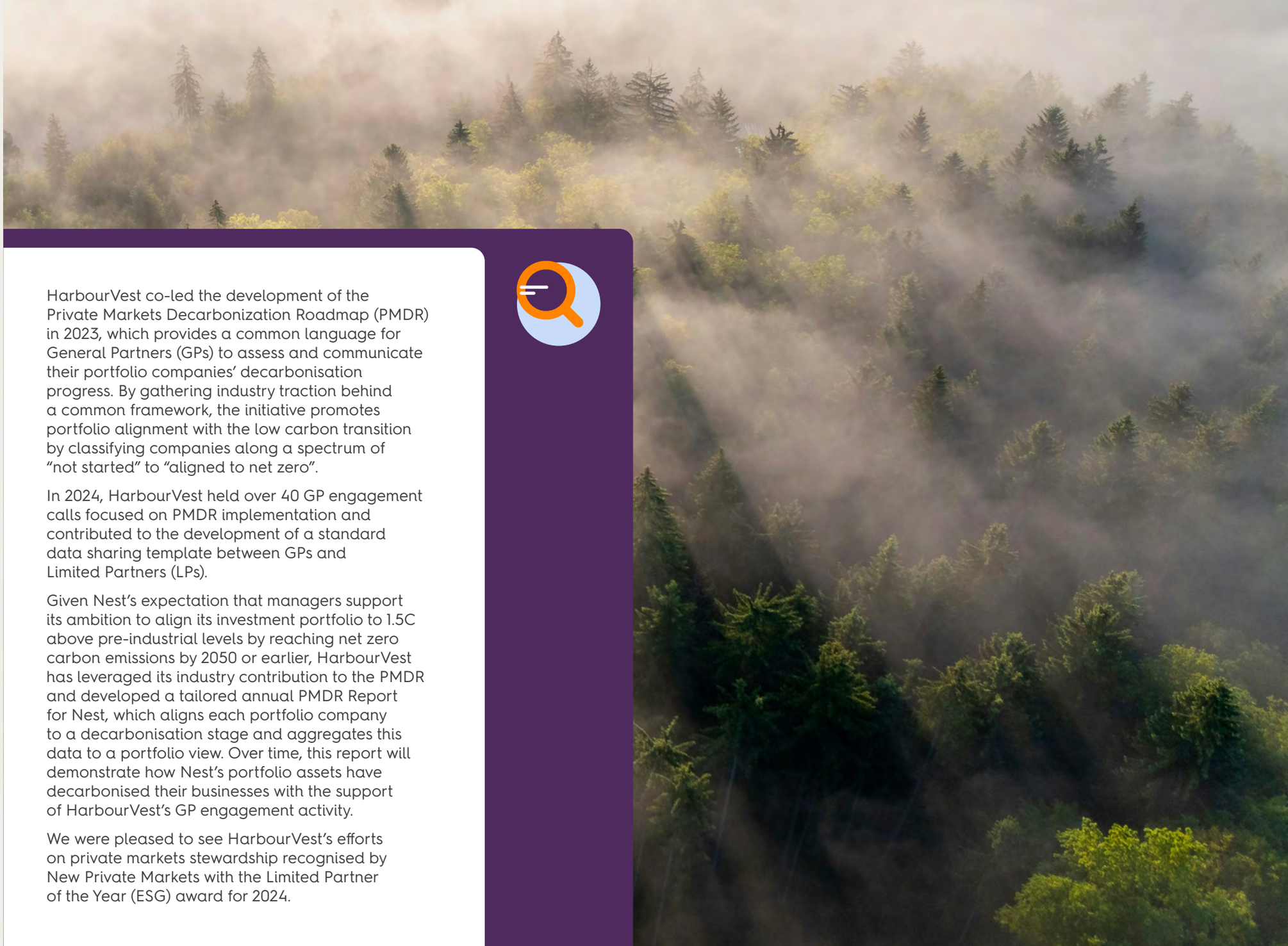

HarbourVest co-led the development of the Private Markets Decarbonization Roadmap (PMDR) in 2023, which provides a common language for General Partners (GPs) to assess and communicate their portfolio companies' decarbonisation progress. By gathering industry traction behind a common framework, the initiative promotes portfolio alignment with the low carbon transition by classifying companies along a spectrum of "not started" to "aligned to net zero".

In 2024, HarbourVest held over 40 GP engagement calls focused on PMDR implementation and contributed to the development of a standard data sharing template between GPs and Limited Partners (LPs).

Given Nest's expectation that managers support its ambition to align its investment portfolio to 1.5C above pre-industrial levels by reaching net zero carbon emissions by 2050 or earlier, HarbourVest has leveraged its industry contribution to the PMDR and developed a tailored annual PMDR Report for Nest, which aligns each portfolio company to a decarbonisation stage and aggregates this data to a portfolio view. Over time, this report will demonstrate how Nest's portfolio assets have decarbonised their businesses with the support of HarbourVest's GP engagement activity.

We were pleased to see HarbourVest's efforts on private markets stewardship recognised by New Private Markets with the Limited Partner of the Year (ESG) award for 2024.

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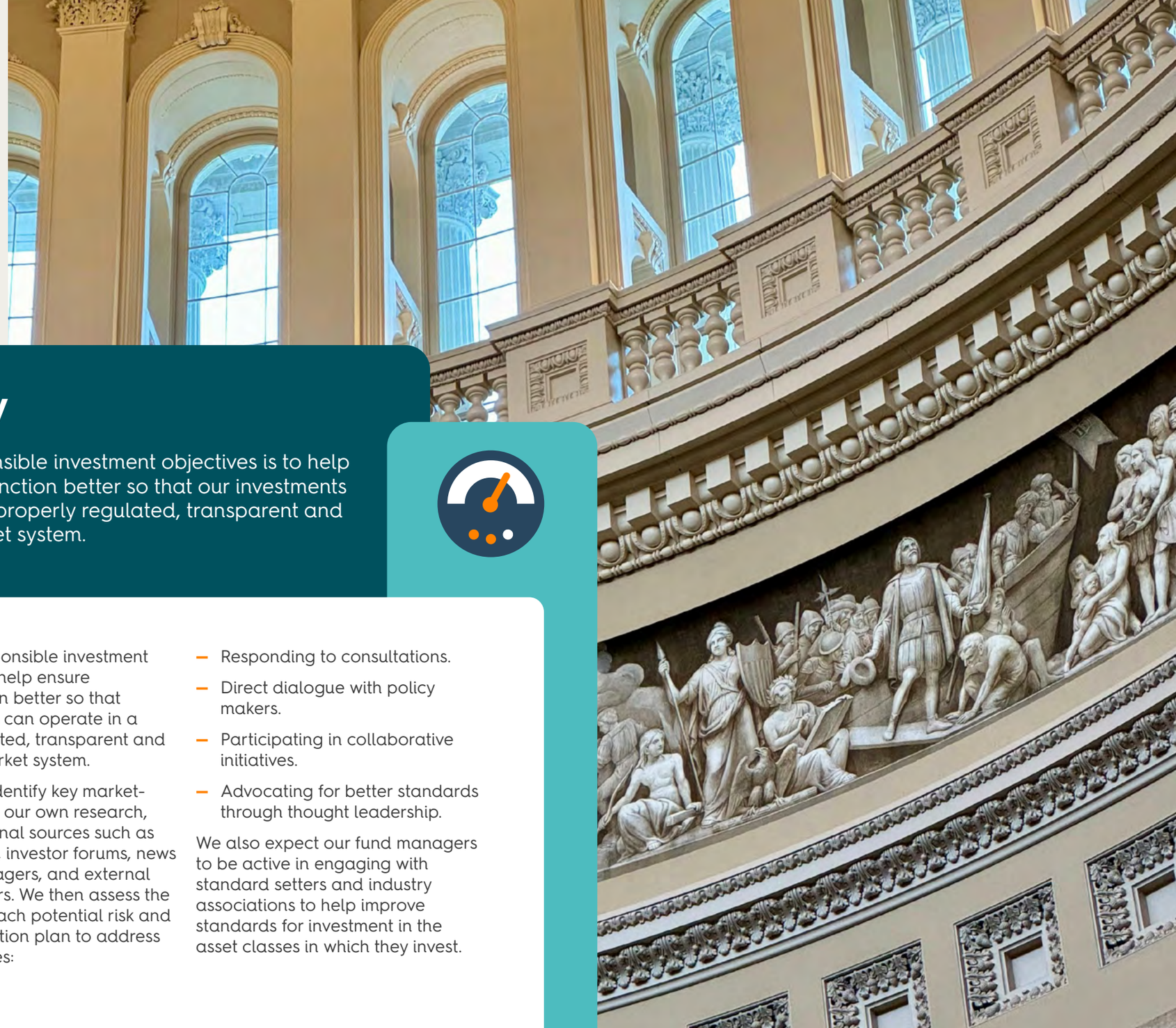

Advocacy

One of our responsible investment objectives is to help ensure markets function better so that our investments can operate in a properly regulated, transparent and sustainable market system.

One of our responsible investment objectives is to help ensure markets function better so that our investments can operate in a properly regulated, transparent and sustainable market system.

To do this, we identify key market-wide risks using our own research, as well as external sources such as industry bodies, investor forums, news flow, fund managers, and external service providers. We then assess the materiality of each potential risk and agree on an action plan to address it, which includes:

- Responding to consultations.
- Direct dialogue with policy makers.
- Participating in collaborative initiatives.
- Advocating for better standards through thought leadership.

We also 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.

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Responding to consultations and advocating for better standards

The blocks below illustrate a number of the consultations and thought leadership efforts that we have contributed to this period:

UK Stewardship Code

We responded to Financial Reporting Council's (FRC) consultation on updating the UK Stewardship Code.

Given the importance of the Code in setting standards for leading stewardship, both domestically and globally, we spent a lot of time communicating our views to the FRC and other stakeholders.

Our general position was that we welcomed FRC's efforts to strengthen this leading standard through, for example, its proposed measures to streamline signatory reporting, and reduce the overall reporting burden. However, we encouraged the FRC to retain its ambitious standards and high barrier for signatory status, to allow the Code to continue to serve as an indicator of leading practice.

We submitted a written response to the FRC, engaged with our fund managers on the topic to ensure alignment between our positions, and fed our views through industry initiatives, including UKSIF and IIGCC.

We were pleased to see that some of our feedback was addressed, particularly around how to streamline reporting. However, we were disappointed with an overall weakening of its definition of stewardship and removal of escalation and collaboration as standalone principles. We are concerned that these changes may undermine the Code's role as a marker of leading practice and make it harder for asset owners to distinguish between the quality of stewardship approaches among managers.

We will continue to work with our UK asset owner peers to ensure our fund managers are meeting our stewardship expectations. We will also continue to engage with the FRC. For example, the FRC has introduced draft guidance accompanying each principle to support implementation, which we have provided feedback to the FRC on.

UK Green Taxonomy

We responded to a consultation by HM Treasury, which was seeking to gather views on the value case for a UK Green Taxonomy as part of the UK's wider sustainable finance framework.

Our position was that, given the development of taxonomies in other jurisdictions and increasing evidence of the benefits of these approaches, the UK should proceed with developing a robust, science-based taxonomy, drawing on the most useful and relevant elements of the existing frameworks, such as the EU taxonomy, rather than developing an entirely new approach.

A reported drawback of other taxonomies has been the reporting burden on companies facing disclosure requirements. We therefore encouraged HM Treasury to consider the number of reporting requirements across multiple taxonomies and to strive for a high level of interoperability.

In July 2025, the UK government announced that it would not proceed with plans to develop and implement a UK Green Taxonomy and would focus on other policies to accelerate investment into the transition to net zero.

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Direct dialogue

Certain systemic risks are best addressed through direct dialogue with a market regulator that can implement or change regulations to benefit the market as a whole.

For example, we are a member of a UK asset owner collaboration aimed at ensuring our viewpoints are communicated to UK policymakers and governments. The group meets with different bodies on a quarterly basis to find out about relevant planned and upcoming work and to share our own positions and perspectives on various topics.

We also recognise that some market improvements require companies and investors to work together to identify and address common material concerns. For example, Nest joined the Investor & Issuer Forum (I&IF), which was launched in September 2024. The forum provides a structured space for corporates and investors to come together to discuss critical issues facing the UK market, with a focus on improving transparency, long-term value creation, and trust across the investment chain.

Our Chief Investment Officer, Elizabeth Fernando, serves on the forum's Steering Committee, which is responsible for setting the agenda, prioritising key issues, encouraging cooperation between investors and companies, and championing initiatives that strengthen UK equity markets.

As a newly launched initiative, the Steering Committee will oversee the development of an Investor & Issuer Covenant, which will lay the foundation for the forum's work, and identify priority issues to shape an agenda for 2025 and beyond.



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Working with industry initiatives

Our effectiveness in identifying and responding to market-wide and systemic risks is reflected in our track record as early adopters of and advocates for key issues. 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 in achieving our objectives for the millions of members we act on behalf of.

Nest is currently a member of the following global and domestic initiatives. Our level of involvement within these initiatives varies. Throughout the report we have provided examples of how we have contributed to some of these initiatives:

- 30% Club UK Investor Group
- Access to Nutrition initiative (ATNi)
- Asset Owner Council (formerly Occupational Pensions Stewardship Council)
- Asset Owner Diversity Charter
- Climate Action 100+
- Collective Impact Coalition for Ethical AI
- Emerging Markets and Developing Economies (EMDE) Investor Taskforce
- Emerging Markets Just Transition Investment Initiative
- Fair Reward Framework
- Farm Animal Investment Risk and Return (FAIRR)
- Financing a Just Transition Alliance
- FRC UK Stewardship Code
- Global Canopy's Deforestation-Free Pensions Guidance Working Group
- Global Principles for Sustainable Securities Lending (GPSSL)
- Green Taxonomy Working Group
- Institutional Investor Group on Climate Change (IIGCC)
- IIGCC Banks Engagement and Research Initiative
- Investor & Issuers Forum
- Investor Alliance for Human Rights (IAHR)
- Investor Alliance for Human Rights' (IAHR) Human Rights Crisis in the Uyghur Region initiative
- Investor Alliance for Human Rights' (IAHR) Technology and Human Rights initiative
- Investor Coalition for Equal Votes (ICEV)
- Labour Rights Investor Network (LRIN)
- Microfibre Engagement Programme
- Nature Action 100
- Net Zero Engagement Initiative
- Paris Aligned Investment Initiative
- Pensions UK (formerly PLSA) Stewardship Advisory Group
- Pensions for Purpose
- Rathbones' Votes Against Slavery
- ShareAction's Banks Initiative
- ShareAction's Good Work Coalition
- ShareAction's Healthy Markets Initiative
- Social Impact Investment Advisory Group (SIIAG)
- Sustainable Markets Initiative (SMI)
- Transition Pathway Initiative (TPI)
- UK Sustainable Investment and Finance Association (UKSIF) including representation on the Policy Committee and Green Taxonomy Advisory Group
- UK Transition Plan Taskforce
- UN Office for Disaster Risk Reduction (UNDRR) Advisory Group
- Workforce Disclosure Initiative (WDI)

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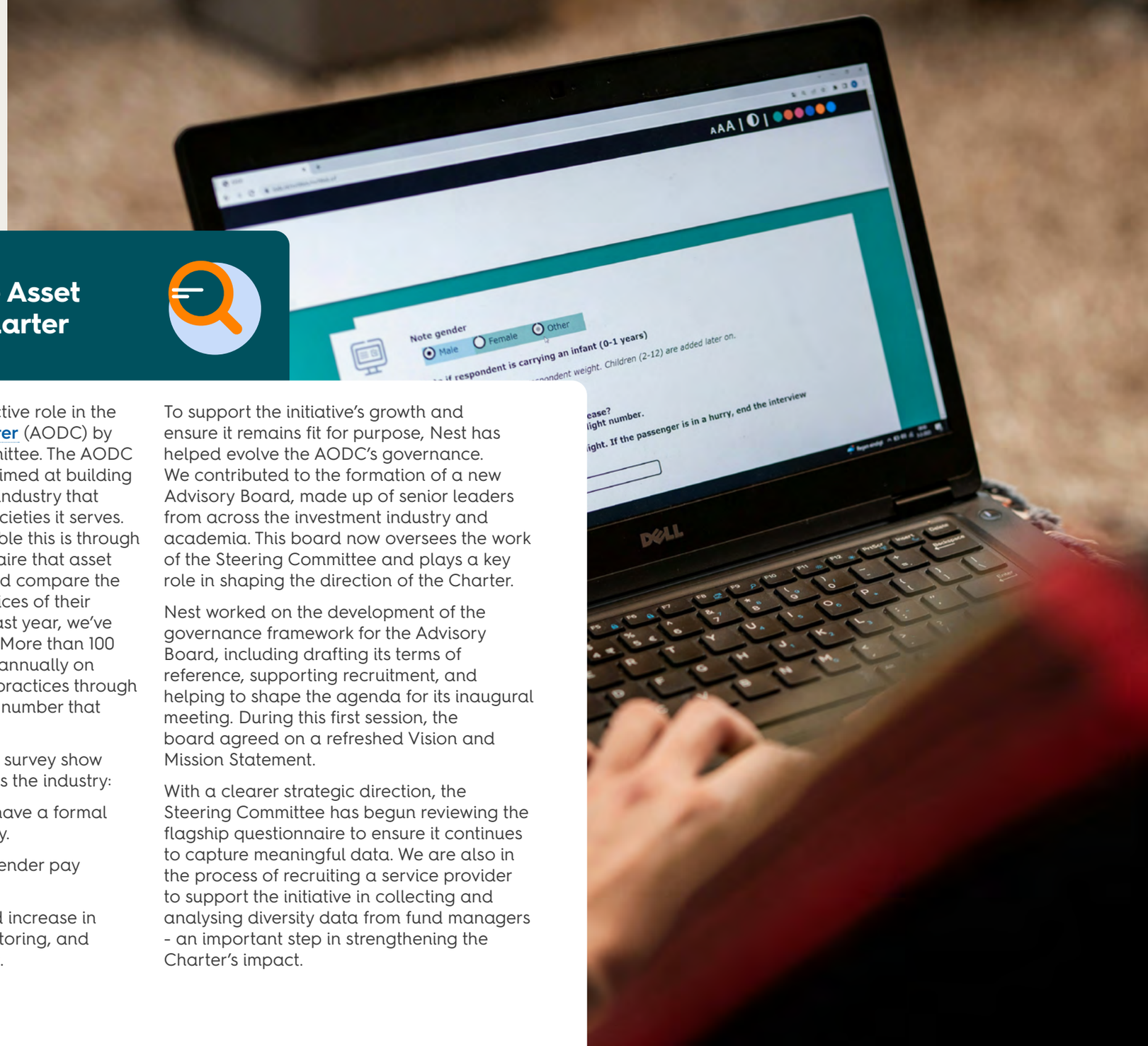

Case study

Contributing to the Asset Owner Diversity Charter

Nest continues to play an active role in the Asset Owner Diversity Charter (AODC) by sitting on the Steering Committee. The AODC is a collaborative initiative aimed at building a more inclusive investment industry that better reflects the diverse societies it serves. One of the key ways we enable this is through the provision of a questionnaire that asset owners can use to assess and compare the diversity and inclusion practices of their asset managers. Over the past year, we've seen encouraging progress. More than 100 asset managers now report annually on their diversity and inclusion practices through the AODC questionnaire - a number that continues to grow.

Initial findings from the 2024 survey show positive developments across the industry:

- 81% of respondents now have a formal diversity strategy or policy.
- 49% have conducted a gender pay gap analysis.
- There has been a marked increase in the use of coaching, mentoring, and sponsorship programmes.

To support the initiative's growth and ensure it remains fit for purpose, Nest has helped evolve the AODC's governance. We contributed to the formation of a new Advisory Board, made up of senior leaders from across the investment industry and academia. This board now oversees the work of the Steering Committee and plays a key role in shaping the direction of the Charter.

Nest worked on the development of the governance framework for the Advisory Board, including drafting its terms of reference, supporting recruitment, and helping to shape the agenda for its inaugural meeting. During this first session, the board agreed on a refreshed Vision and Mission Statement.

With a clearer strategic direction, the Steering Committee has begun reviewing the flagship questionnaire to ensure it continues to capture meaningful data. We are also in the process of recruiting a service provider to support the initiative in collecting and analysing diversity data from fund managers - an important step in strengthening the Charter's impact.

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How we make and implement decisions

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.



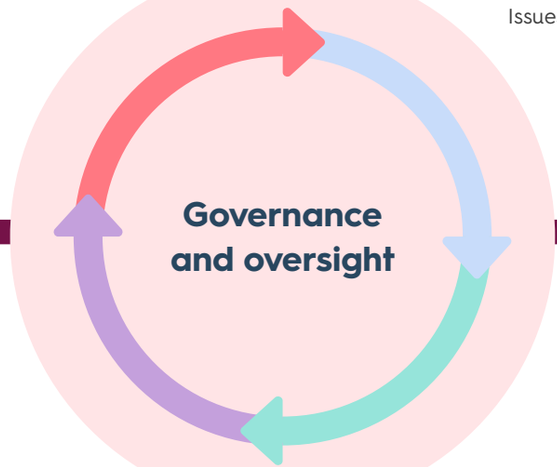
Identify and prioritise

- Proprietary investment research carried out
- Issues selected on relevance and interest for members
- Analysis conducted to understand the market-wide and real-world impact of the issue
- Understanding of codes and standards that allow us to meaningfully address issues
- Objectives are defined



Implement

- Develop an evidence-based policy
- Asset allocation decisions are made
- External fund managers are informed
- Issues are incorporated in our voting and engagement standards
- Issues are reflected in our voting subset
- Direct or collaborative engagement is carried out





Monitor

- Regular meetings with external fund managers
- Company engagement and progress against objectives are recorded
- Risk monitored through the ESG risk dashboard
- Escalation options are considered



Review

- Our responsible investment strategy is reviewed annually
- Policies and standards are reviewed periodically
- Third-party ESG data provision is reviewed tri-annually
- Members are surveyed on their interests and priorities
- Our stewardship reporting is reviewed annually
- Gaps in our reporting process are assessed
- Areas of improvement are identified

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Review and assurance

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

Internally, our formal policies, and the implementation of these policies by our fund managers are reviewed either annually or triennially by our investment committee. They provide feedback on our research and position papers on emerging topics and industry developments. There is a diverse range of investment industry experience on our investment committee and the feedback and challenge we receive from the committee has led us to enhance many of our policies and improve transparency.

As a public corporation and a large and fast-growing institutional investor, we recognise the potential influence we have in the market, as well as the large interest in our work from a wide variety of stakeholders (including our members, peers and standard setters).

We take this responsibility seriously and carefully select external stakeholders to provide us with reliable, robust validation and insights. We draw on this input from a broad range of organisations, such as auditors, fund managers, service providers, industry bodies and advocacy groups.

We believe that this approach:

- Leads to more informed stewardship policies and processes – by drawing on a diverse set of perspectives and expertise (for example, by gathering input into our engagement priorities from experts on ESG issues, such as ShareAction).
- Maintains trust with our members and others – by seeking assurances from stakeholders with strong credibility (such as auditors) and demonstrating our commitment to accountability and transparency.
- Ensures more objective assessments of our responsible investment approach – by seeking input from external organisations with wide-ranging viewpoints.



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Escalating high risk issues

When it comes to engagement, we strive to be a pragmatic investor. That involves broadly supporting company management to develop and drive forward the business strategy in the interests of its stakeholders.

Our escalation process

Triggers

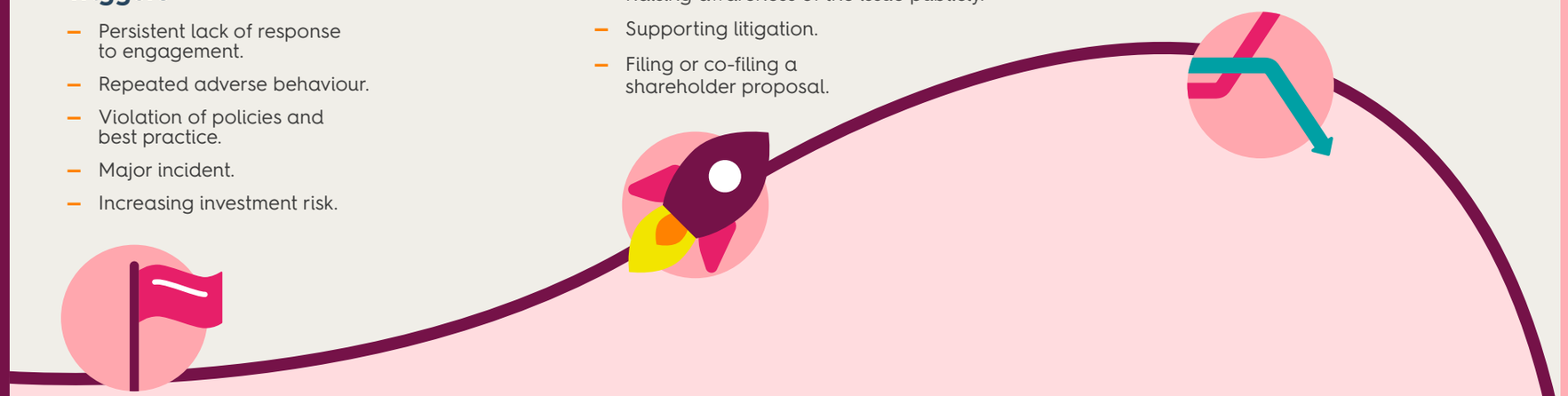
- Persistent lack of response to engagement.
- Repeated adverse behaviour.
- Violation of policies and best practice.
- Major incident.
- Increasing investment risk.

Escalation tools

- Voting against board directors.
- Writing an open letter to the chair of the board.
- Initiating or joining a targeted collaborative engagement.
- Raising awareness of the issue publicly.
- Supporting litigation.
- Filing or co-filing a shareholder proposal.

Investment action if escalation fails

- Divestment.
- Exclusion.



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 bring an issue to the spotlight and escalate our engagement.

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. We also regularly engage with our fund managers to ensure that they are considering escalating their engagements when progress is not met.

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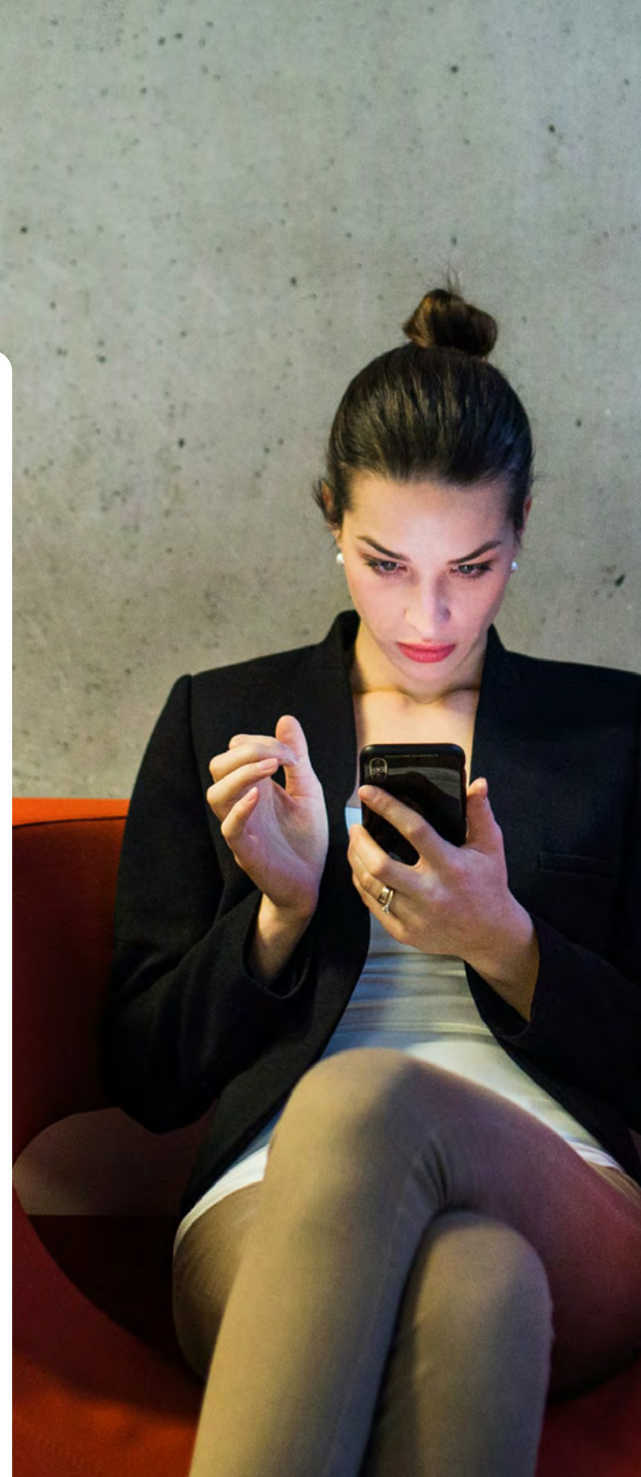
Case study

Escalating our engagement with Meta



Nest had been supporting engagements with Meta on its use of technology. Specifically, through an engagement coordinated by the Investor Alliance for Human Rights on technology and human rights, and an investor-led collaborative engagement on the use of technology and its impact on mental health.

Meta had been responsive to some of our outreach, but we were unhappy with their progress, especially with the growing use of AI and associated potential risks. For that reason, Nest co-signed an investor letter to Meta highlighting some of our pressing concerns, including generative AI misinformation and disinformation risks, online harm to children, the responsible use of data in AI training, and the governance of AI. The letter was addressed to Sir Nick Clegg, a high-profile ex-UK politician who was, at the time, President of Global Affairs at Meta and seemed to be well positioned to drive the subject of responsible AI.

We were disappointed that Meta declined further engagement with the group. Therefore, we followed-up via email to strongly encourage a meeting between Sir Nick Clegg and the investor group.

Since this letter, Meta has made some concerning changes, including eliminating its third-party fact-checking program and relaxing its rules on hate speech and political content. Sir Nick Clegg also stepped down from his role as President of Global Affairs.

These changes, alongside Meta's general unwillingness to engage with Nest, have prompted us to review our approach to engaging with large technology companies. We have since decided to shift our focus to our fund managers' engagement with such companies, noting that our fund managers are far larger in size than Nest and are more likely to get access to megacap companies. From our experience, large technology firms may tend to deprioritise engagement with small shareholders due to their vast shareholder bases, concentrated governance structures, and a strong focus on their largest institutional investors.

UBS using votes to address online safety at Meta

UBS is one of our fund managers using its influence to signal concern over Meta's approach to online safety.

UBS shared similar concerns to Nest on Meta's approach to online safety. In response to these concerns, UBS supported shareholder proposals at Meta's 2025 AGM, calling for enhanced reporting on child safety and harm reduction. UBS viewed this vote as a necessary signal of concern, given Meta's ineffective governance and resistance to regulation. Although the company's dual-class share structure made a majority support in favour of the resolutions unlikely, it was a clear indication to Meta that one of its large institutional investors has major concerns with its approach to online safety.

The proposals were ultimately rejected, receiving only 13% and 6% support from shareholders respectively.

However, UBS will be meeting with Meta in the second half of 2025 to discuss online safety and mis/disinformation issues, and it is hopeful that there will be a constructive two-way dialogue between them.

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Case study

Continuing our engagement with Barclays

Last year, we reported on how we escalated our engagement with Barclays on strengthening its energy policy by co-filing a resolution alongside ShareAction and other investors. This resolution asked Barclays to respond to the risk of new oil and gas infrastructure becoming "stranded". Following constructive engagement on Barclays' updated draft policy, which included a commitment to stop financing new oil and gas expansion projects, the group decided to withdraw the resolution.

As part of this engagement, Barclays agreed to hold a meeting between its CEO and the investor group once a year for the next three years. The first of these meetings took place in October 2024. We asked the bank for an update on the changes implemented as a result of the new commitments earlier in the year. We also reiterated our asks for Barclays to go further in its policy to stop financing pureplay oil & gas companies through both project and general corporate financing. Finally, we asked for further clarity on Barclays' sustainable finance target.

At the 2025 AGM, we also supported an investor statement coordinated by ShareAction, asking Barclays to publish a more detailed methodology explaining how it has quantified its sustainable finance targets and to set a target for the renewable power sector.

Following the AGM, Barclays published a Transition Update. While the update does not respond directly to our asks, we note that the bank has expanded coverage of its sector-based climate transition framework to include two additional important sources of emissions, mining and commercial real estate. The bank has also responded to investor requests for better insight into the methodologies behind its sustainable financing via the publication of its Sustainable Finance Framework and Sustainable Issuance Framework.

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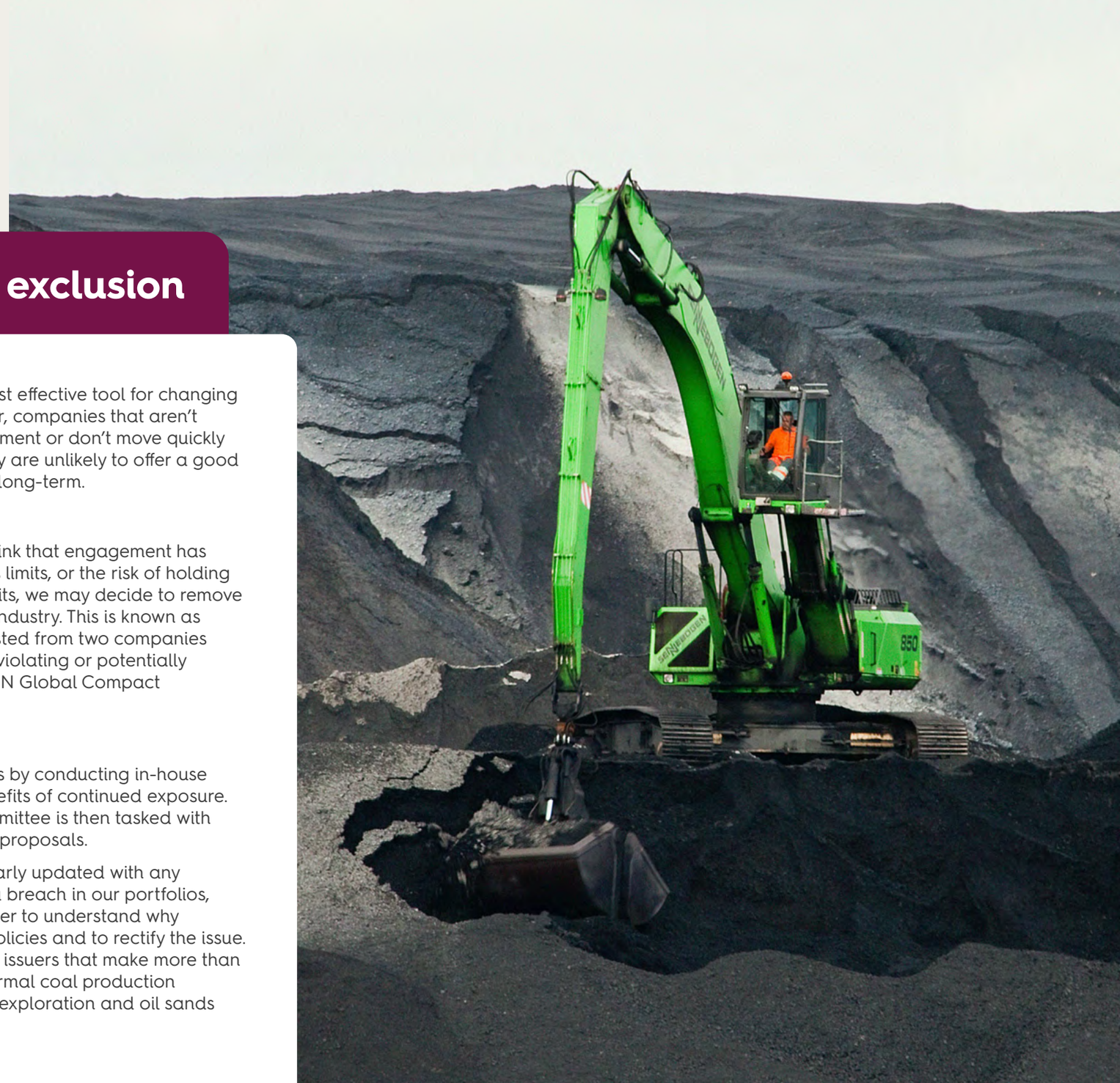
Divestment and exclusion



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

Divestment

Over a period of time, if we think that engagement has been ineffective or reached its limits, or 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 two companies which had been identified as violating or potentially violating one or more of the UN Global Compact principles.

Exclusion

We assess potential exclusions by conducting in-house research on the risks and benefits of continued exposure. Our executive 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 201 issuers that make more than 10% of their revenues from thermal coal production and power generation, arctic exploration and oil sands at the end of 2024.

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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.

We maintain a process to manage conflicts that may arise from our engagement with companies in our portfolio and publicly disclose our **stewardship conflicts of interest policy**.

The policy aims to:

- Demonstrate where potential conflicts of interest may arise.
- Demonstrate how Nest plans to manage these conflicts.
- Show responsibility and alignment with our members' likely values and interests.

As set out in our conflicts of interest policy, in order to manage these conflicts, we have a clearly articulated statement on how we will act as an institutional investor in the form of our voting and engagement policy. Decisions about voting and engagement activity are agreed by the responsible investment team, with no influence from any other areas of Nest Corporation, including any teams responsible for employer relationships, employer acquisition and fund manager relationships.

Where an issue is not clearly articulated in our published voting and engagement policy, or where there is a dispute across Nest Corporation as to the interpretation of those policies, the investment team will revert to our investment committee to determine how to resolve the conflict in accordance with their trustee responsibilities to act in beneficiaries' best interests.

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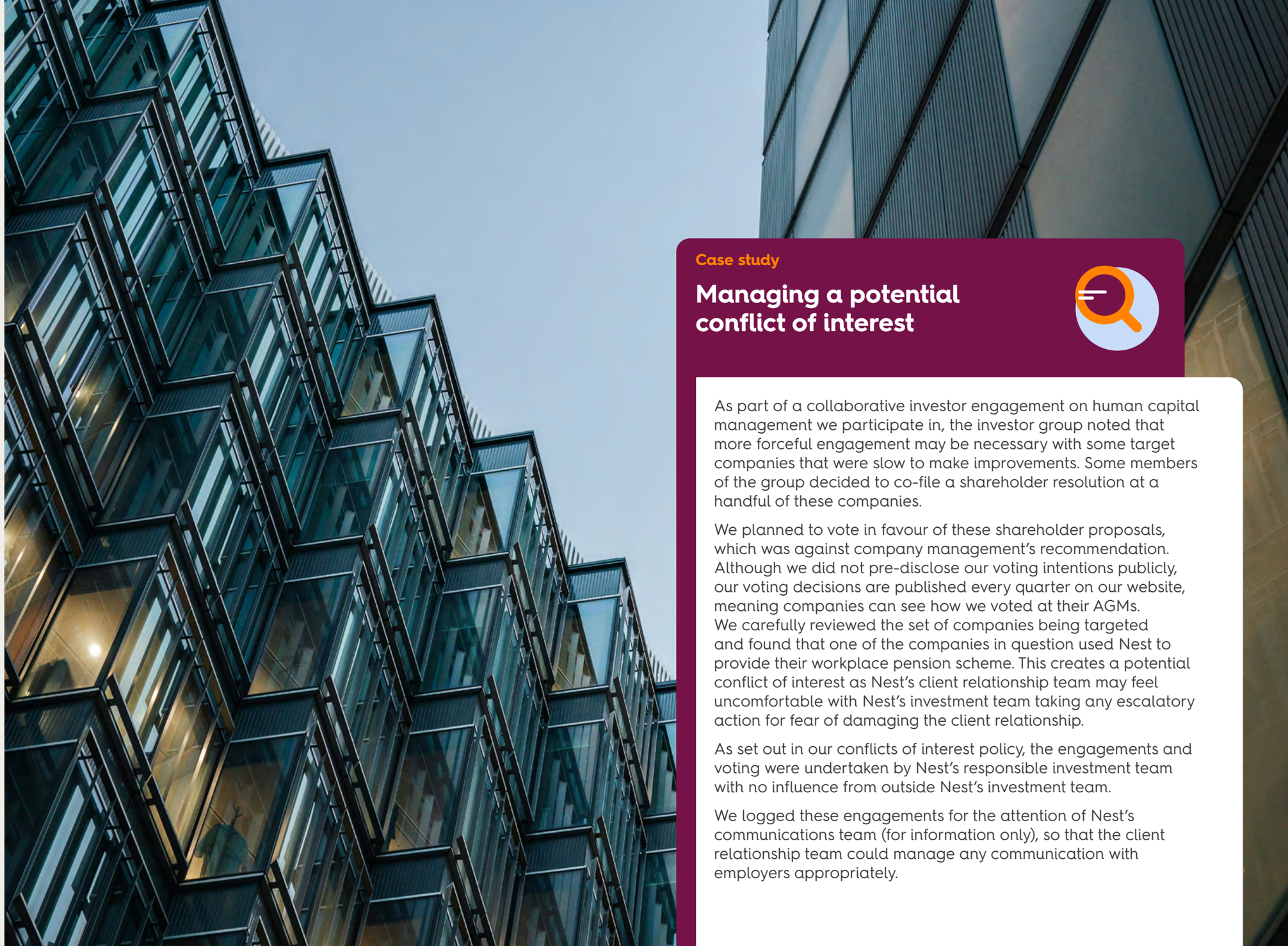

Case study

Managing a potential conflict of interest

As part of a collaborative investor engagement on human capital management we participate in, the investor group noted that more forceful engagement may be necessary with some target companies that were slow to make improvements. Some members of the group decided to co-file a shareholder resolution at a handful of these companies.

We planned to vote in favour of these shareholder proposals, which was against company management's recommendation. Although we did not pre-disclose our voting intentions publicly, our voting decisions are published every quarter on our website, meaning companies can see how we voted at their AGMs.
We carefully reviewed the set of companies being targeted and found that one of the companies in question used Nest to provide their workplace pension scheme. This creates a potential conflict of interest as Nest's client relationship team may feel uncomfortable with Nest's investment team taking any escalatory action for fear of damaging the client relationship.

As set out in our conflicts of interest policy, the engagements and voting were undertaken by Nest's responsible investment team with no influence from outside Nest's investment team.

We logged these engagements for the attention of Nest's communications team (for information only), so that the client relationship team could manage any communication with employers appropriately.

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How we engage with our members

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.

To understand what our members need and expect from their savings, we run regular surveys that include questions on how our members feel about investment and ESG issues, as well as getting feedback from our Members' Panel. Our latest member investment research report summarises a range of evidence about our members and their attitudes to investment which influences the evolution of our investment strategy.

We publish updates on our responsible investment approach and activities in many ways including our:

- Annual responsible investment report.
- Voting summary report, setting out how all our fund managers have voted and how this compares to Nest's voting policy.
- Task Force on Climate-related Financial Disclosures (TCFD) report.
- Responses to public consultations.
- Policies and frameworks.



Over the last year, we've also created email campaigns and videos, as well as social and digital content on a variety of investment topics, including sharing regular updates on our stewardship activities.

We're continuously looking for ways to adapt our communication to ensure content is easy to understand and accessible to all our members. It's led us to create more effective communications that aim to break down the barriers and demystify the world of pensions. Two examples of this are our Everyday Investor campaign and Pensions Made Simple video series.

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Everyday investor

Talking to our 13 million members about their pension, how it's invested (and where), is really important to Nest. That's because research from the **Pensions UK (formerly PLSA)** showed 53% of UK savers want their pension money invested closer to home, yet 63% have no idea where their pension investments actually go. Three-quarters know their pension schemes invest their money, but only one in four can tell you where. This disconnect is exactly what we have been tackling for three years with our 'Everyday Investor' campaign. But rather than just telling members they're investors, we decided to prove it.

We've taken members on a boat to see their investments in an offshore windfarm near Grimsby, hosted bake-offs with a Great British Bake-off winner, and shared stories like Steve's (pictured on this page) – an entrepreneur who opened his first high-street shop thanks to our partnership with Legal & General (L&G), which invested in the regeneration of the Kingland shopping centre and surrounding area. These campaigns have generated over 44 million social media impressions, over 20 million video views and transformed how we show our members how they're invested.

Bethany Holland (pictured on this page), owner of Lavendar Moon, was another one of the 10 entrepreneurs who benefited from the regeneration project at Kingland, much like Steve. She commented: "Having investments from companies like Legal & General and Nest means that we get to be showcased in our local towns, and it just builds such a wonderful spirit."

Pensions Made Simple

We recently launched a **YouTube series** with financial influencer Devamsha Gunput. One of the episodes features Chloe Horne, Nest's Responsible Investment Manager, who explained what responsible investment is, why we prioritise environmental, social, and governance (ESG) factors, and how it impacts our members' pension. With the series achieving 600,000 views (as of June 2025), it's clear members want to understand how their money makes a difference.

The full video series is available on Nest's **YouTube channel**, where we break down key pension topics in an accessible and engaging way for our members.



Bethany Holland, owner of Lavendar Moon



Steve Wyatt, owner of Restored Retro



On the left, Devamsha Gunput, Financial Influencer. On the right, Chloe Horne, Responsible Investment Manager

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Resourcing and support for responsible investment

Our responsible investment team is part of Nest's investment directorate (see organisation chart on page 84) and is made up of six dedicated and experienced individuals. Responsible investment is embedded across Nest's entire decision making and culture, and the responsible investment team works closely with the whole 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.

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.

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Diandra Soobiah

Diandra Soobiah is the Director of Responsible Investment and has 22 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 UK Investor Group and a member of the Pensions UK (formerly PLSA) Stewardship Advisory Group.



Katharina Lindmeier

Katharina Lindmeier is the Head of Sustainability Strategy, with 10 years of investment experience. Katharina joined Nest in 2019 having previously worked in responsible investment roles at RPMI Railpen and Aberdeen. Katharina is focussed on environmental issues and is primarily responsible for the development and delivery of Nest's climate change policy. She is a member of the Delivery Group of the UK's Transition Plan Taskforce and sits on the UKSIF Policy Committee.



Chloe Horne

Chloe Horne is a Responsible Investment Manager, with 7 years of experience in the sustainable finance sector. Chloe's previous roles include working at the Principles for Responsible Investment as a Senior Investment Stewardship Specialist, and the Financial Conduct Authority on corporate responsibility, with an academic background in economics, business ethics and corporate governance. Chloe joined Nest in 2024, with a primary focus on social issues.



Maeve O'Connor

Maeve joined Nest in February 2025 as a Responsible Investment Manager covering climate and nature issues. Before joining Nest, Maeve spent three years as an oil and gas analyst at Carbon Tracker, a financial think tank which researches climate-related investment risk. Maeve has a background in finance, having previously held positions in corporate finance and trading at Bank of Ireland, and in financial regulation at the European Central Bank. She holds an MSc in Economics from the College of Europe and a BA in Philosophy, Politics, and Economics from Trinity College Dublin.



Tom Sanders

Tom Sanders is a Senior ESG Analyst. Tom joined Nest in 2022, having previously worked for ISAM, a quantitative fund manager. He graduated from the University of Bath with a Bachelor of Science degree in Economics and International Development. Tom focusses on research and analysis of ESG issues, leads Nest's voting, and engages on social issues with some of Nest's member industry initiatives.



Saim Wafa

Saim joined Nest as an ESG Analyst in February 2025, having previously worked at Aviva Investors. Saim graduated from the University of Essex with a Bachelor of Science degree in Finance. Saim supports the team's work on research and analysis of ESG-related issues, and Nest's voting activity during AGM season.

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Monitoring service providers

We also rely on external service providers to support the team with the execution of our responsible investment strategy.

For example, we use Minerva Analytics to help us with our proxy voting research and analysis. We frequently discuss voting-related issues with Minerva Analytics – especially during voting season when there's a large concentration of activity. We also review global developments in governance and sustainability standards at the beginning of each year so we can update our voting and engagement policies where appropriate.

We meet with all our other providers on at least a semi-annual basis to ensure services are 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' services 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.



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Nest's purpose and strategy

It's been 10 years since Nest launched. Auto enrolment changed the shape of the industry, bringing millions into retirement saving - many for the first time. Nest has had a major role in helping to make pension saving accessible for everyone.

Recently, we've been reflecting on our purpose. We've spoken to our members, employers and Nest staff, as well as independent experts and other stakeholders. We wanted to answer a simple question – why does Nest exist?

The thread running through all our discussions has been meeting our duty to our members, making sure we think about not just their lives after they stop working, but also during the time they're saving with us.

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Setting out our purpose

Our new purpose straddles everything we've achieved over the last decade, as well as our ambition for the future. It's a guiding light for our strategy, vision and goals.

Building financial peace of mind for all

We believe that financial peace of mind is feeling secure about today and confident about tomorrow. It's about having the circumstances that allow us to live how we expect to live, now and in the future.

We're by our members' sides making this happen. It's something we build together—driving value and making a positive impact that leaves no one behind. Inclusivity is at the heart of this: financial peace of mind should be within reach for everyone.

We are bold and ambitious about what we can achieve with our members, our peers, and our partners. Together, we challenge ourselves to create a future where financial peace of mind is not a privilege, but a shared reality of the system around us.

Our strategic direction

We want to remain a customer-first organisation. More than that, we want to be a best-in-class pension provider delivering the best possible financial outcomes for our members to and through retirement.

This is how we plan to realise our purpose and our strategic ambition:

- Delivering world-class investment activity, helping to grow members' pots.
- Personalising experiences for members, making it easier for them to engage with their pension.
- Thinking about our members' saving journey with us, not just helping to build a better life after work .
- Shaping the system to better support low-to-moderate income earners.



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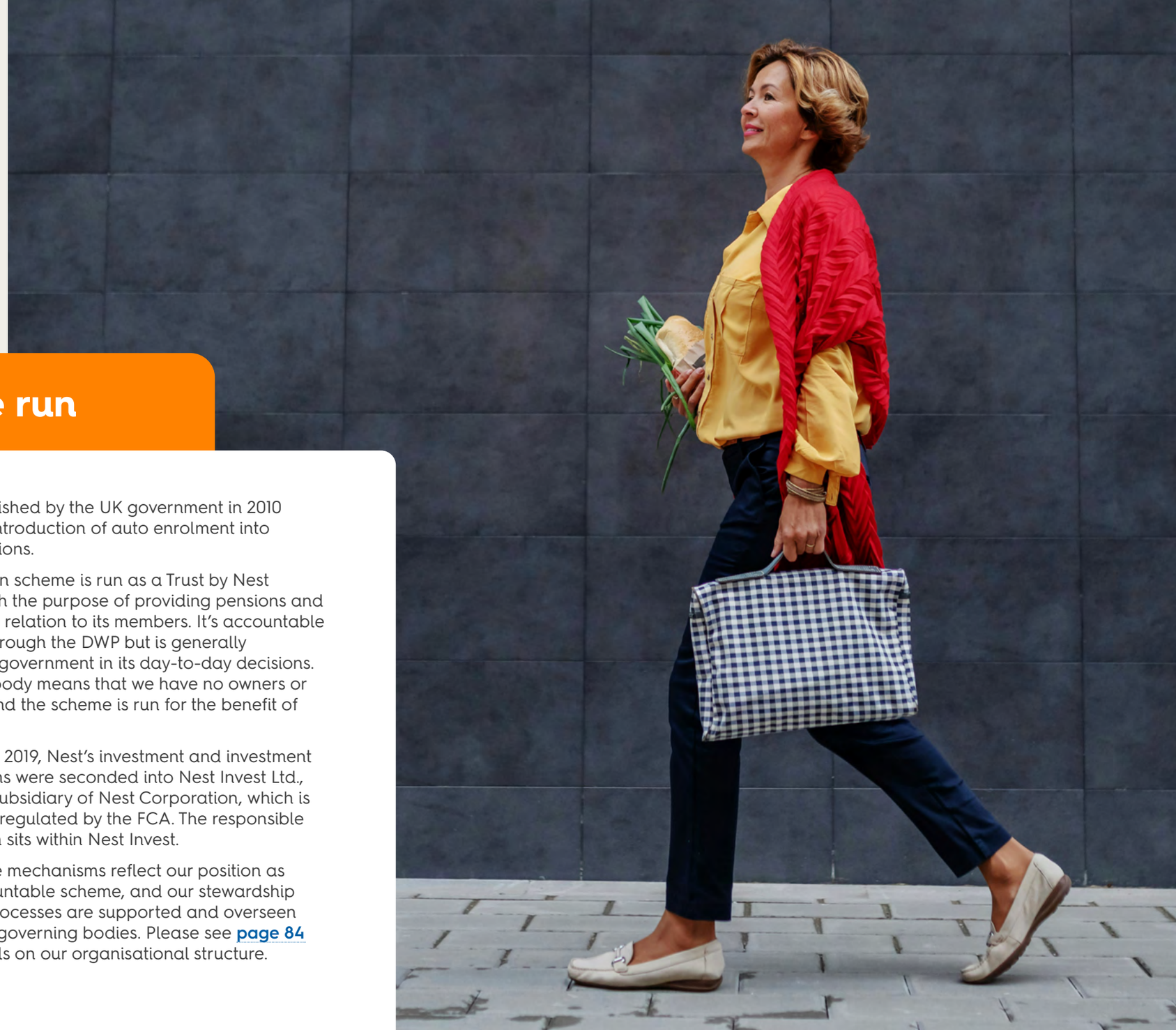
How we're run

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 84 for further details on our organisational structure.



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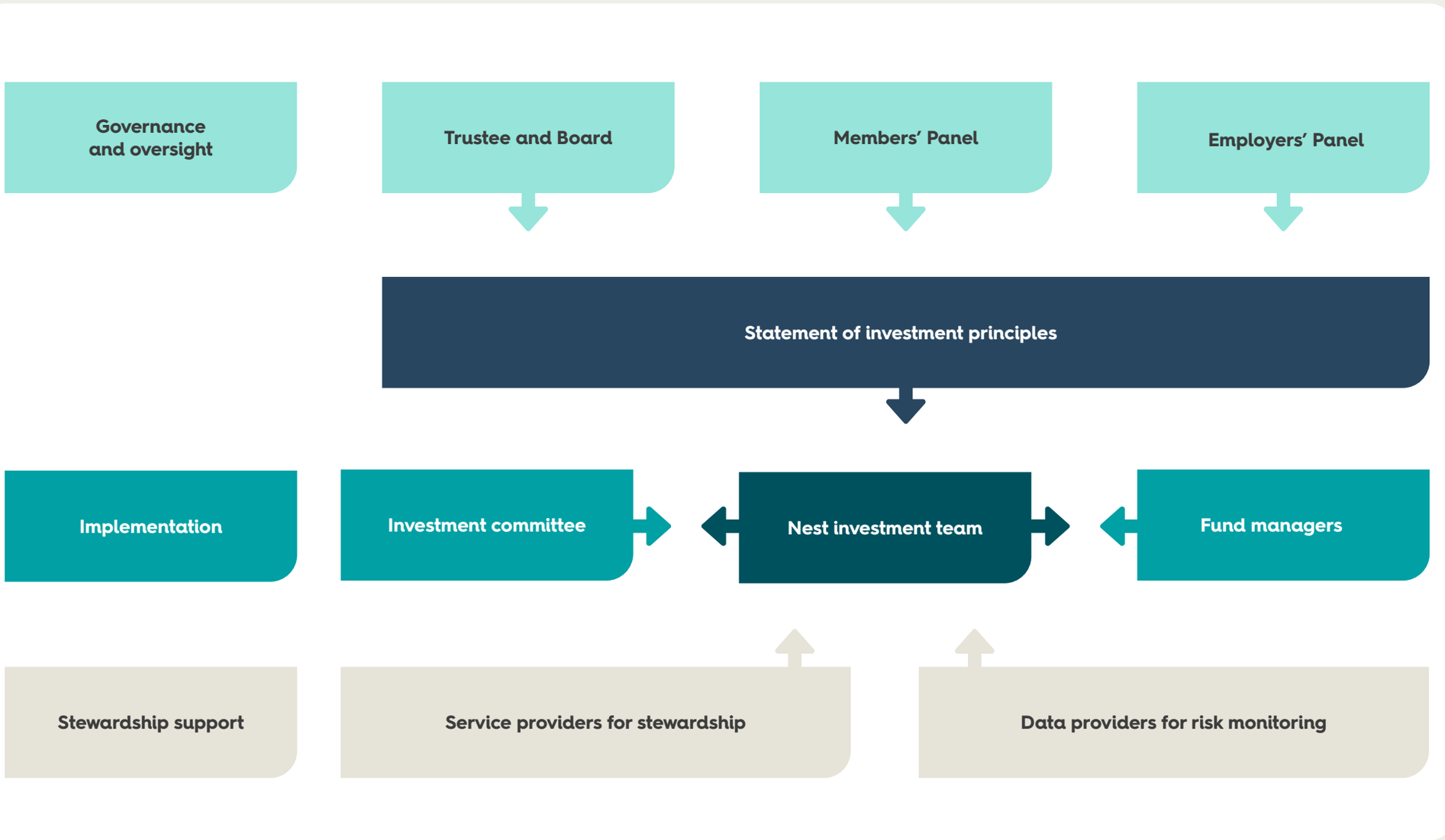
Governance at Nest



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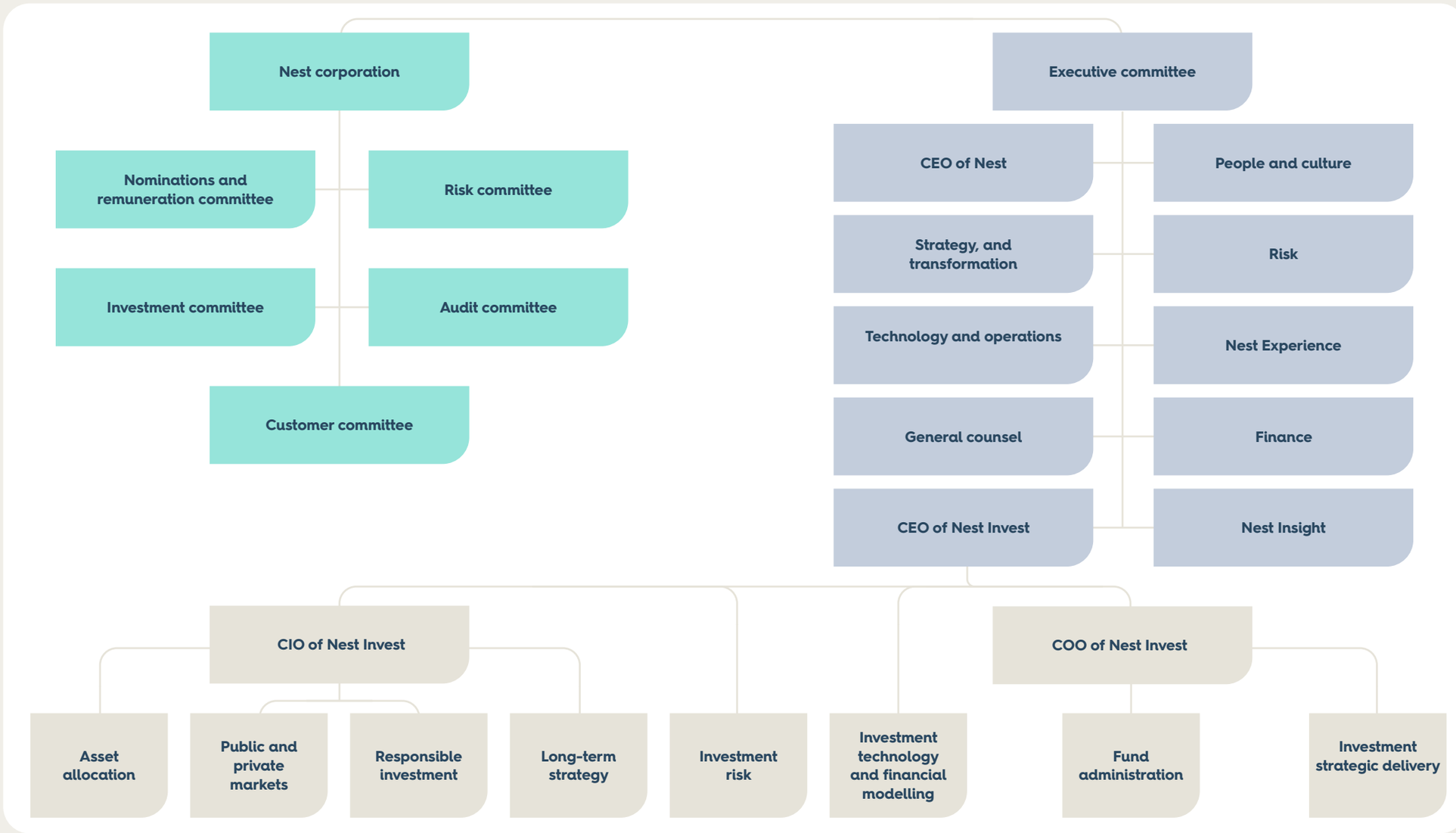
Organisation chart



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Roles and responsibilities

Trustee and Board members

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.

Fund managers

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.

Members' Panel and Employers' Panel

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 Statement of Investment Principles. These checks and balances provide Nest with a high level of oversight in its investment operations.

Nest Invest Ltd (In house investment team)

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.

Investment committee

All Nest's 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 allocation.
- 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.

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Nest was named as a Leader on the 2022-2025 RAAI Responsible Asset Allocator Initiative (RAAI) Leaders List, recognising us as one of the most responsible asset allocators in the world.

Selected from among 300 global peers by the RAAI at the Fletcher School, this recognition highlights Nest's commitment to responsible investing practices across ten key principles including disclosure, intention, integration, and accountability.

We were also awarded Best Investment Strategy at the Pensions Age Awards 2025. See more awards in the table below.

Award	Category	
European Pension Awards 2025	Best Investment Strategy	European Pensions AWARDS 2025 WINNER Best Investment Strategy Award
Corporate Advisor Awards 2025	Best Default Sustainability Strategy	corporate adviser awards 25 — WINNER Best Default Sustainability Strategy
IPE European Pension Fund Awards 2024	Long-Term Investment Strategy	IPE EUROPEAN PENSION FUND AWARDS 2024 — WINNER LONG-TERM INVESTMENT STRATEGY

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The information in this report is intended to meet the reporting expectations of the Financial Reporting Council (FRC) Stewardship Code's 12 principles.

We reference content in the report that covers the expectations of the Code on the next page.



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Stewardship Code Principle

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.

Page number

10-12, 45-47, 67, 80-82

Principle 2

Signatories' governance, resources, and incentives support stewardship.

Page number

19, 49, 67-68, 77-79, 82-85

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Page number

73-74

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Page number

13-42, 45-47, 54-55, 62-66

Principle 5

Signatories review their policies, assure their processes, and assess the effectiveness of their activities.

Page number

5, 17, 67-68, 85

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Page number

6-7, 10-11, 75-76

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Stewardship Code Principle

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Page numbers

13-42, 51-52

Principle 8

Signatories monitor and hold to account managers and/or service providers.

Page numbers

22, 24, 53, 57, 79

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

Page numbers

7, 13-42, 54-55, 57-59, 70-71

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Page numbers

13-42, 65, 70-71

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

Page numbers

25, 32, 34, 69-72

Principle 12

Signatories actively exercise their rights and responsibilities.

Page numbers

7, 54-61

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