National Employment Savings Trust pension scheme

Annual report and accounts 2019/20



Scheme registration number: 12004537

National Employment Savings Trust pension scheme

Annual report and accounts
2019/20

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Covid-19 statement

People around the world are facing uncertainty as the coronavirus pandemic continues to develop. The Trustee of the Nest pension scheme has ensured that services continue to be available in these challenging times.

On 11 March 2020 the World Health Organization declared the spread of the novel coronavirus causing Covid-19 disease to be a global pandemic. Many people have lost their lives, or lost loved ones, during the pandemic. Many have been furloughed from or lost their jobs, or seen reduced working hours.

The pandemic has had significant impact on the world's economies, markets and organisations, including Nest Corporation as Trustee of the Nest scheme. This statement summarises Nest Corporation's ongoing response to the Covid-19 crisis in support of its members and the employers using the scheme for their workers.

How we were prepared

As Trustee of the Nest pension scheme, Nest Corporation has a duty to run the scheme in the best interests of the scheme's members. This includes planning ahead for a crisis like the coronavirus pandemic.

As a result of comprehensive business continuity and disaster recovery (BCDR) risk management and mitigation plans, Nest Corporation was well prepared for the challenges of operating during this pandemic. (See the Corporate risk statement overview on page 38.)

Starting on 24 February Nest Corporation's executive team met daily to review the latest information from governments, health authorities and the markets about the effects of the virus, and to consider their evolving approach to the highly dynamic situation.

BCDR plans were reviewed and assessed against likely scenarios, such as the possibility of organisation-wide work from home (WFH) for both Nest Corporation and the scheme's service providers and suppliers. Nest Corporation's executive team identified areas where further contingencies were needed, for example in procuring additional IT servers.

How we adapted to deliver services

The impact of the pandemic has required several changes to the way Nest Corporation delivers the scheme's services. Following the government's guidance, it closed its head office and implemented corporation-wide WFH on 17 March.

Nest Corporation has worked closely with the scheme's administrator, Tata Consulting Services (TCS), to ensure TCS could deliver services to customers during an emergency. However, BCDR plans had not envisaged a situation where all scheme administration service locations were simultaneously unavailable and additional action was required. During the week of 16 March, Nest Corporation approved TCS's plan to carry out all of the scheme's contact centre and back office services on an entirely remote basis. This allowed Nest and TCS to continue services for the scheme's customers without disruption, even as the pandemic closed businesses and limited public transport around the world.

Nest Corporation also ensured continuation of investment activities with its third-party providers.

The scheme's diversified investment strategy continues to help reduce the impact of market volatility on members' money. However, the scheme has still seen significant reductions in the value of members' retirement pots over the pandemic period (see Investment developments on page 70).

Market shocks can be very worrying to scheme members and employers using the scheme for their workers. Nest Corporation moved to quickly identify the questions and concerns its customers would have in the wake of market turmoil and business closures, and created customer communications to address them.

Nest Corporation also liaised with the Department for Work and Pensions (DWP) and The Pensions Regulator (TPR) to understand how government support schemes, such as the Coronavirus Job Retention Scheme (CJRS) might affect auto enrolment pensions, including employer payments, member contributions and opt-out rates. It is closely monitoring how these compare to previous levels and pre-pandemic projections.

Throughout these challenges, Nest Corporation has been focused on the health and wellbeing of its people. Staff morale has remained high. The organisation has reiterated its flexible working policy to accommodate different hours and workflow when staff have extra care responsibilities for children and vulnerable individuals. The executive team has provided regular operations updates, and staff have been provided with WFH advice, mental health support and remote team-building activities.

How we are managing ongoing effects

The Trustee's risk appetite has not changed in response to the pandemic or its effects.

The pandemic has, however, introduced a number of uncertainties. For example, service failure risk is significantly increased, particularly if lockdowns, or a series of lockdowns, are needed over an extended period to control the spread of the virus. Nest Corporation is closely monitoring its key controls and taking mitigating actions to help ensure services are delivered to the scheme's customers in time, to the required quality and in compliance.

Scheme members' investments may fall in value during a prolonged reduction in stock market values. Nest Corporation believes its diversified approach to investing will continue to offer members good long-term returns with reduced volatility. Nearly 99 per cent of members are saving into the default strategy, the Nest Retirement Date Funds. The default strategy is well diversified across markets, industries and countries (see Nest's Statement of investment principles (SIP) on page 120).

As this Annual report and accounts goes to press in late June the extent of such negative impacts is unknown, but assessments have been made on the impact of the pandemic on Nest Corporation's long-range financial forecasts. For more detail, see the Basis of preparation on page 88.

Nest Corporation has planned for a number of stages, from the current situation through to a post Covid-19 stabilisation of economies.

Nest Corporation will continue to support the scheme's customers through this crisis, helping our members to build savings for the future. Never has it been more important for the UK to have a scheme like Nest to guarantee the provision of high-quality, low-cost pensions for all.

Chapter 1

Board report





Nest's diversified investment approach has helped to mitigate the impact of pandemic-related market volatility on our members' funds.

Otto Thoresen
Chair, Nest Corporation

1.1

Chair's introduction

Nest's scale has increased significantly over the last 12 months. As we face the ongoing challenges of the Covid-19 crisis, we must ensure that we continue to manage our members' investments effectively and evolve our governance and control structures appropriately.

Late January 2020 marked the arrival of the novel coronavirus and Covid-19 disease to the UK. By March countries around the world faced a pandemic and an economic crisis. Across Nest Corporation we set into action our business continuity and disaster recovery (BCDR) plans. Working closely with our partners we have been able to maintain service levels for our customers.

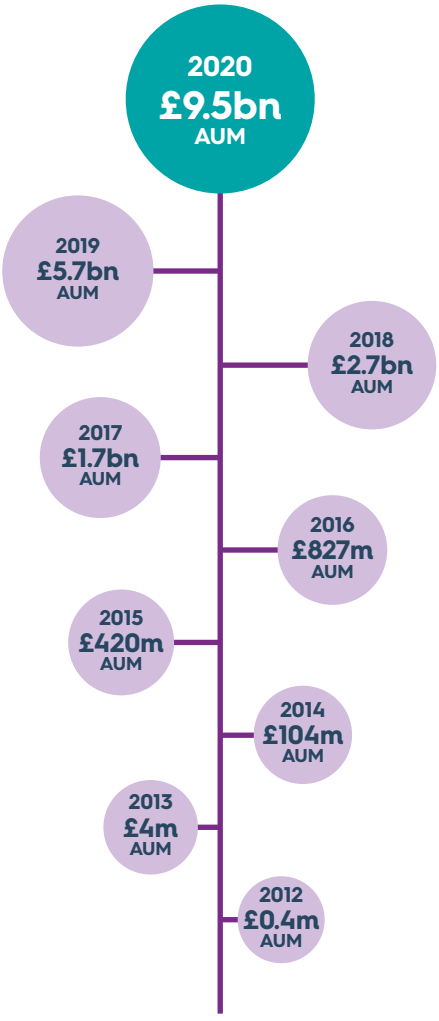
Shorter term investment performance in 2019/20 suffered due to the pandemic-related market volatility in March 2020. Although we fell short of our goal of outperforming inflation by 3 per cent after all charges in the growth phase of our default funds, returns on these funds over five years have continued to outperform inflation after all charges. This is a testament to the resilience of our investment strategy. A summary of our ongoing response to the crisis is set out in more detail in the Covid-19 statement on page 6.

We had accomplished a great deal before the onset of the Covid-19 crisis during a year of considerable growth for Nest.

We are now managing £9.5 billion of assets on behalf of our members, compared to £5.7 billion on 31 March 2019. The diagram opposite shows how our assets have grown since our launch in 2011. This is primarily due to the phased increases in auto enrolment minimum contributions over the last two years.

Minimum aggregate contribution levels are now 8 per cent of band earnings, and as at 31 March 2020 Nest is receiving around £400 million a month in new contributions.

Nest's assets under management since launch



Investment

Our shift in scale has required us to evolve our investment approach. We have done this while ensuring our investments remain diversified and aligned with our responsible investment principles, and that our portfolios have a level of risk appropriate for our membership's need for long-term savings growth.

In response to our growth in membership and assets, we formed Nest Invest Limited, which was authorised as our investment subsidiary by the Financial Conduct Authority (FCA) in January 2020. Nest Invest will provide regulated investment advice to Nest Corporation as the Trustee of the Nest scheme, giving us greater capacity to support the future evolution of our investment strategy.

Our Statement of investment principles (SIP)[1] was updated to describe the role of Nest Invest. Nest Invest will also support our ambition of further diversifying the scheme's portfolio, enabling members to achieve good long-term returns without excessive volatility. We have already taken a step on this journey by diversifying into private credit.

As long-term investors we believe there are opportunities for members to benefit from the additional returns available from 'illiquid' – that is, less easily bought or sold – assets. Our allocation to private credit, such as infrastructure debt, is consistent with that. Nest Invest will help us continue to seek out further appropriate investment opportunities in private markets. Our responsible investment principles continue to underpin all of our investment decision-making, including the new asset classes that we have added to the portfolio.

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

In June 2019 we announced our decision to remove tobacco investments from all of Nest's funds. This was based on careful research which led us to conclude that the tobacco industry is unlikely to be a sustainable investment in the future. Our aim is to make our entire portfolio tobacco-free by summer 2021 at the latest.

Governance

As our investment strategy becomes more complex, and as we manage the ongoing effects of, and recovery from, the pandemic, we must continue to maintain high standards of investment governance. In December 2019 Nest Corporation for the first time appointed two independent experts from outside the Trustee Board to our investment committee: Jennie Austin and Jaap van Dam. They bring additional experience and expertise to deepen Nest's investment governance and oversight.

We regularly review the Board's skills and experience needs. One of the key outputs of this is to assess whether any further expertise should be added to the Board. As a result of the 2018/19 review Karen Cham was appointed to the Board in July 2019. Karen is an internationally recognised expert in user experience design and behaviour change who, along with the rest of the Board, will support Nest as it explores ways to better engage our members.

Our Board members, as well as the Employers' Panel and the Members' Panel, have continued to contribute enthusiastically through the year. Iraj Amiri, Graham Berville, Sally Bridgeland and Caroline Rookes completed their terms as Board members on 30 June 2019, and Tomas Carruthers left the Board later in the year. I wish them well for the future and am grateful to all our Board members, past and present, for the expertise and personal commitment they have shown during a period of continued development at Nest.

In September 2019 Nest Corporation received master trust authorisation from The Pensions Regulator (TPR) (see Key phrases on page 14 for definition).

This is now a requirement for all master trust pension schemes operating in the UK and an important part of ensuring high standards across the master trust market. The process of applying for and receiving authorisation, as well as ongoing supervision from TPR, provided assurance that Nest meets these rigorous standards.

We have also completed our annual Audit and Assurance Faculty (AAF) 02/07 controls assurance report for Nest Corporation. This provides a further independent evaluation of the design and operation of our internal controls.

Customer service

With the peak of activity associated with the roll-out of auto enrolment behind us, we were able in the first quarters of 2019/20 to refocus on the challenges of delivering good service as the scheme begins to mature.

Nest evaluates key customer metrics associated with different processes such as call volumes, transaction times and customer queries and satisfaction levels to enable us to identify areas for improvement.

An area of focus for us has been transactions that carry a greater degree of complexity, or where extra sensitivity is required. During 2019/20 we introduced dedicated teams to support members who are retiring or transferring in or out of Nest, and the relatives and loved ones of members who have died. These are areas in which members and others need significant individual support.

Strengthening our support for members who are approaching retirement has become a higher priority as our membership has

grown. By 2025 Nest will have more than 1.75 million members aged 55 or over. We have refreshed the communications that we send to our members before retirement and introduced a new retirement hub to our website.

In March 2020, as part of a planned programme, we also introduced access to a new investment fund, the Nest Guided Retirement Fund, that can keep members' money appropriately invested should they choose not to withdraw it all immediately on their retirement date.

Nest's focus on providing a quality service that evolves with the needs of our customers is central to the procurement of our future scheme administration service (see page 47). The procurement process has continued across 2019/20 and we expect to be able to announce the outcome later in the 2020/21 financial year. This new contract, when awarded, will deliver Nest's customer experience for the next decade. Of course, moving to a new arrangement also introduces risks and we will continue to review how we mitigate them as the procurement progresses, to ensure continuity of service and data integrity during any transition.

Nest has made good progress over the last year. The ongoing growth and development of the scheme and the effects of the pandemic will demand continued strengthening of our capabilities across the organisation.

As I write this the full impact of Covid-19 on the UK is unclear. In the months ahead the Board, the executive team and Nest's staff will continue to focus on the interests of our members and the employers who use our scheme for their workers.

Otto Thoresen
Chair, Nest Corporation



Key phrases

The following are brief explanations of some key phrases and details relevant to Nest used throughout this report.

What is the structure of Nest?

The Nest scheme is a trust-based workplace pension scheme run by a Trustee, Nest Corporation. The Trustee is comprised of up to 15 Board members and the employees of Nest Corporation. It is a master trust and has received master trust authorisation from The Pensions Regulator (TPR).

What is a master trust?

A master trust is a pension scheme used by two or more employers to provide benefits on retirement based on the member's contributions into the scheme and the returns after charges on the investment of that money.

What is Nest Invest?

Nest Invest Limited (referred to as Nest Invest) is Nest's investment subsidiary, which was authorised by the Financial Conduct Authority (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.

What is phasing?

As part of the auto enrolment legislation, mandatory minimum pension contributions for employers and employees have increased twice, as shown in the table below. These increases are referred to as phasing.

What is a Nest Retirement Date Fund?

When a member is enrolled with Nest, their money will be invested in a Nest Retirement Date Fund unless they choose an alternative fund option. Their Nest Retirement Date Fund is based on the year they expect to retire. For example, if a member expects to retire in 2055, Nest Corporation will invest the member's retirement pot in the Nest 2055 Retirement Date Fund. More information on Nest's investment strategy and Nest Retirement Date Funds is available starting on page 62.

Why do we refer to the 2040 fund?

Nest's investment approach has four phases: foundation, growth, consolidation and post retirement.

The 2040 Retirement Date Fund is currently representative of the growth phase, which is where most members' money is invested for the longest period of time.

About Nest's charges

We have used the phrase 'after charges' throughout this report when referring to investment returns.

The return figures are net of costs and charges including the annual management charge (AMC) and transaction costs but not the contribution charge. The transaction costs include both explicit and implicit costs, where applicable. Explicit costs are directly observable, such as broker costs. Implicit costs, such as market impact, are not as clearly visible.

Effective date	Employer minimum contributions	Employee minimum contributions	Total minimum contributions
6 April 2019 onwards	3%	5%	8%
From 6 April 2018 to 5 April 2019	2%	3%	5%
Up until 5 April 2018	1%	1%	2%

This table outlines the requirements for employers using defined contribution (DC) schemes for auto enrolment and bases employers' and employees' contributions on the band of earnings prescribed in the auto enrolment legislation. Other contribution options are available.

1.2

Scheme facts and figures

Introduction and constitution

The Nest pension scheme, or simply the scheme as it will be referred to throughout this report, was established by the National Employment Savings Trust Order 2010, known as the Nest Order. The Nest Rules document sets out how the scheme is designed and operates.

Together these two documents make up the Nest Order and Rules[2] and are the legal framework that governs Nest. The scheme is a registered pension scheme for tax purposes under the Finance Act 2004 and was registered with HM Revenue & Customs on 21 January 2011. As such, most of the scheme's income and investment gains are free of direct taxation.

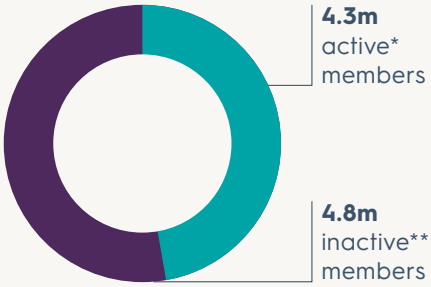
In September 2019 Nest Corporation as Trustee of the Nest scheme received master trust authorisation from The Pensions Regulator (TPR). Master trust authorisation and master trust supervisions were introduced as part of the Pension Schemes Act 2017. Authorisation requires all master trust pension schemes operating in the UK to meet TPR's standards in the areas of governance, operations, planning, funding and future sustainability.



2 nestpensions.org.uk/schemeweb/dam/nestlibrary/NEST-Order-and-Rules.pdf

Key figures as at 31 March 2020

About Nest



9.1m

Total members



53%

Male



47%

Female

0.007% of our membership have not been assigned a gender by their employer.



803k

Employers using Nest



11.8k

Self-employed members



24.6k

Nest Connectors



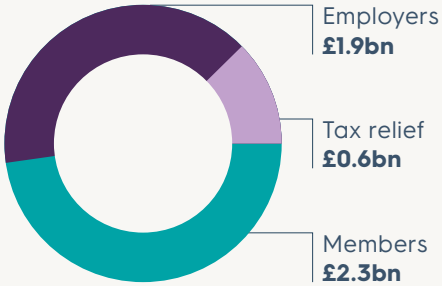
98%

of employers using Nest have less than 50 employees

* Active members are either employed workers enrolled into Nest by their employer or self-employed workers who have enrolled themselves into Nest. This excludes members that may have either left the employer that enrolled them, chosen to stop contributing or been transferred to a different provider by their employer.

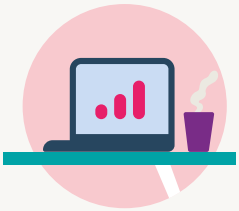
** Inactive members are members of the Nest scheme who have not retired, died or opted out but have either left their employment or have chosen to stop contributing.

How Nest manages members' money



£4.8bn

Total annual contributions



£9.5bn

Assets under management as at 31 March 2020, up from £5.7bn the previous year



4.6%

Five-year rolling annualised returns in the Nest 2040 Retirement Date Fund after annual management charges to 31 March 2020

Managing the scheme well



99%

Service channels were available more than 99% of the time in 2019/20



71%

Employer satisfaction

(from the 'Voice of customer' survey March 2020)



61%

Member satisfaction

(from the 'Voice of customer' survey November 2019)

Satisfaction scores are based on those giving an 8-10 score on a 10-point scale and excludes those responding 'don't know'. They are drawn from the most recent annual survey of employers or members. Quarterly surveys, with a smaller respondent base, are also conducted.

Trustee and Board members

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

As at 31 March 2020, the Board had 11 members, consisting of a Chair and 10 other Board members, two of whom have day-to-day executive responsibilities. Together they are responsible for setting the strategic direction and objectives for Nest Corporation, managing the Nest scheme and representing members' interests.

Service providers and advisers retained by the Board

Scheme administrator
Tata Consultancy Services Ltd
Investment funds administrator
State Street Bank and Trust Company
Custodian
State Street Bank and Trust Company
Bank
National Westminster Bank plc (joint tri-party contract between NatWest, Nest Corporation and Tata Consultancy Services)
Investment managers
Amundi Asset Management BlackRock Inc BMO Global Asset Management Ltd BNP Paribas Asset Management Nederland NV (from 31 October 2019) CoreCommodity Management LLC HSBC Global Asset Management (UK) Ltd J.P. Morgan Asset Management (UK) Ltd Legal & General Investment Management Ltd Northern Trust Global Investments Ltd Royal London Asset Management Ltd State Street Global Advisors Ltd UBS Asset Management (UK) Ltd Wells Fargo Asset Management (International) Ltd (from 2 December 2019)
Investment advisers
Nest Invest Ltd (from January 2020)
Lawyers
Eversheds Sutherland (International) LLP Pinsent Masons LLP Shakespeare Martineau LLP Travers Smith LLP
External auditors
KPMG LLP
Internal auditors
Ernst & Young LLP
Assurance reporting accountants of Nest Corporation
KPMG LLP
Secretary to the Trustee
Nest Corporation Deputy Corporate Secretary

Membership

Nest's membership in 2019/20 grew as follows:

Member numbers

	Year ended 31 March 2020	Year ended 31 March 2019
Members at the beginning of the period	7,869,161	**6,482,121**
New members[1]	1,471,229	1,565,002
Members opting out or de-enrolling	(187,513)	(131,355)
New members joining in the period	1,283,716	**1,433,647**
Less		
Members retired	(86,426)	(44,061)
Members deceased	(4,207)	(2,546)
Members at the end of the period[2]	9,062,244	**7,869,161**
Contributing members[3]	3,331,854	3,454,003
Non-contributing members	5,730,390	4,415,158
Members at the end of the period	**9,062,244**	**7,869,161**

Notes

1 New members enrolled by employers and self-employed registrations for the reporting period. This includes members who subsequently de-enrolled or opted out in the same period.

2 This includes 372,879 (2018/19: 197,533) members who have a zero pot.

3 Contributing members are those who made a contribution in March.



Contributions and charges

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

The second phased rise in minimum workplace pension contributions took place in April 2019. Minimum statutory contributions increased to 5 per cent of band earnings for members and 3 per cent of band earnings for employers of eligible workers. Nest's opt-out rate since scheme launch has remained consistent at 7.8 per cent. In the six months after the April 2019 increase, opt-outs rose to an average of 10 per cent, but have subsequently declined again. There was also a small seasonal rise in cessations of around 1 per cent in the month after the phasing increase, but otherwise there has been little change to member behaviour.

The Covid-19 crisis may potentially have an impact on the level of member opt-outs and cessations (see Covid-19 statement on page 6).

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

If member or employer contributions are not paid on time and Nest Corporation has reasonable cause to believe that the late payment is material, the Trustee must report the matter to The Pensions Regulator (TPR) and to the member concerned within a reasonable period after the due date. During the year 2.6 per cent of contribution events (2.5 per cent in 2018/19) were reported to TPR. That equates to 310,003 such reports in 2019/20, compared with 282,152 in 2018/19. This is in line with the growth in the scheme's membership.

The Nest scheme deducts a 0.3 per cent annual management charge (AMC) on the total value of a member's retirement pot and deducts a 1.8 per cent charge on the value of each new contribution paid into a member's retirement pot. For the contribution profiles of most members, these charges are broadly equivalent to a 0.5 per cent annual management charge over their expected period of saving with Nest. As such Nest's charges are within the charge cap set by the government, which is currently 0.75 per cent.

Deciding what to do at retirement

Nest Corporation supports members at retirement using appropriately tailored information and simple processes. When a member gets close to their selected retirement age, Nest Corporation gives them information on their options for changing how their money is invested, or for taking their money out of the scheme.

These include:

- Deferring their retirement date.
- Taking the whole pot as cash, either as a single withdrawal in full or as a series of partial withdrawals.
- Transferring their pot into a Nest retirement investment fund, the Nest Guided Retirement Fund (when eligibility requirements are met) or the Post Retirement Date Fund.
- Transferring to another registered pension scheme.
- Transferring to a retirement income (annuity) provider.

Retirement and transfers

There were 86,426 retirements during the year (2018/19: 44,061). The majority of members took their entire pot as a cash lump sum.

Once a member has taken all the money out of their retirement pot, they leave Nest and the scheme has no further responsibility to them.

During 2019/20 there were 34,657 transfers in (2018/19: 10,087) and 40,152 transfers out (2018/19: 16,015).

Nest Corporation regularly reviews its transfer and retirement processes and conducts surveys of its members to ensure these meet their needs. Nest's latest surveys show that for both processes 75 per cent or more of members are very satisfied with the service they receive.

Deaths of scheme members

During 2019/20 Nest introduced a new option to give its members greater choice about how their retirement pot is dealt with after they die. Nest members can now either nominate a beneficiary or opt in to discretionary decision-making by completing an expression of wish form.

Nomination: Typically, a nominated beneficiary is a family member or members, but they could be a combination of people and organisations such as charities. If a member has made a valid death benefit nomination then legally the Trustee must follow it and pay the value of the member's pot to the nominated beneficiary, provided they can be found and have not died before the member's own death.

Expression of wish: Nest members can opt in to discretionary decision-making by completing a simple form indicating who they would like their pension paid to after their death. An expression of wish is not legally binding but if a member has made one, the Trustee must take it into account when deciding who should receive the member's retirement pot.

Where the scheme has received no nomination or expression of wish, funds are paid in line with the Nest Order and Rules[3], which are published on Nest's website. The scheme does not provide members with death in service benefits other than the retirement pot.

There were 4,207 member deaths during 2019/20 (2018/19: 2,546).

Looking ahead

The Trustee will continue to develop solutions for members to support them in getting the best out of their pension in retirement. It will also continue to test the best approach for engaging with its members in the run up to retirement. As members' pot sizes grow, it will continue to signpost guidance and advice services such as the Money and Pensions Service that can help members with the complex decisions required at retirement.

Nest's priorities to help members

Nest's 'Voice of the customer' is a rolling programme of surveys of members and employers drawn from across its customer base. The surveys measure the quality of their experiences and satisfaction with the scheme, as well as their attitudes towards Nest.

The November 2019 'Voice of the customer' survey shows that 45 per cent of members were either very satisfied or fairly satisfied with Nest. A further 25 per cent responded, 'don't know', suggesting they may not have engaged with the scheme. Members who have registered to use the scheme were more likely to be very satisfied (56 per cent compared to 42 per cent of all respondents).

Nest's member strategy continues to focus on improving the member experience. This includes:

- Delivering improvements to communications to make them increasingly timely and relevant to members.
- Developing a mobile experience that ensures information and services are accessible across a range of devices.
- Enhancing digital channels to increase personalisation and improve customer experiences.
- Driving continuous improvements to member processes.

Nest Corporation will continue to conduct research to understand members' priorities, issues, wants and needs. To supplement its ongoing 'Voice of the customer' research, Nest also runs a wide range of research activity covering specific areas of focus. In 2019 it established an online member research community, 'Your way', in order to provide detailed insight and review of new developments.

The Trustee will use this information to inform the development and enhancement of services for members in 2020/21.

Nest's priorities to help employers and advisers

Nest's March 2020 'Voice of the customer' survey shows 69 per cent of employers are satisfied with Nest and 73 per cent feel that using Nest is straightforward and hassle-free.

Over 57 per cent of employers who use Nest work with a connector (third parties who manage access to the Nest scheme on their behalf). The March 2020 'Voice of the customer' survey shows that 57 per cent of connectors are satisfied with Nest.

The Trustee's focus, for both employers and connectors, is to ensure Nest is straightforward and hassle-free to use. Nest Corporation works closely with industry bodies, regulators and payroll providers to support employers in submitting contributions and fulfilling their duties.

Nest's web services allow employers of all sizes to send and collect data to and from Nest electronically via their payroll software. This reduces the amount of time needed to administer auto enrolment pensions and minimises data errors. These services are a key part of Nest Corporation's offering to help employers, so maintaining and developing them remained a priority throughout 2019/20. The number of employers using web services to process data increased from 161,618 in March 2019 to 186,089 in March 2020.

Nest Corporation will further develop its services for employers and connectors in 2020/21 and will continue to conduct research to understand these customers' priorities, issues, wants and needs.

3 nestpensions.org.uk/schemeweb/dam/nestlibrary/NEST-Order-and-Rules.pdf

1.3

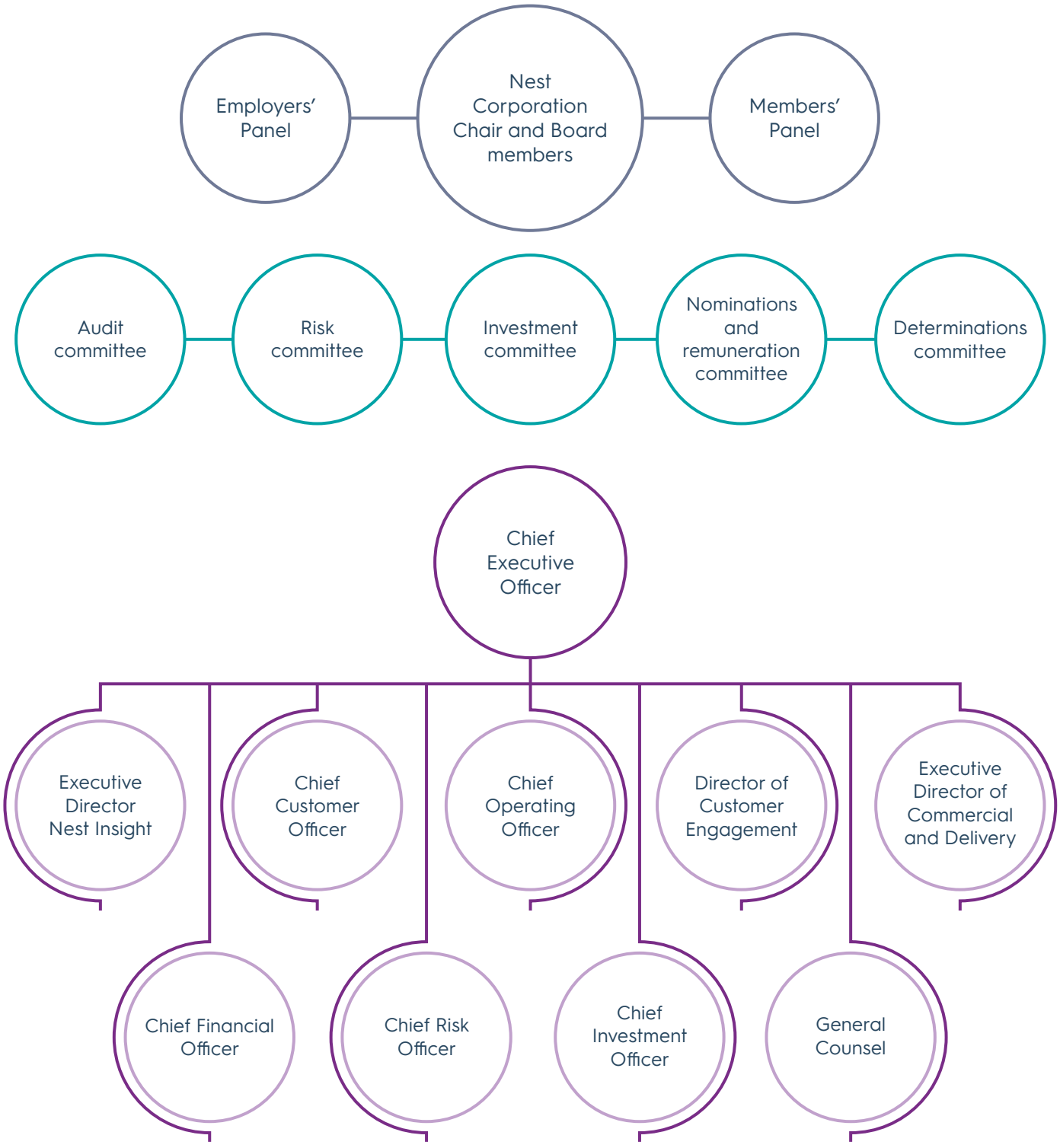
Report on governance

Chair's governance statement for the year ending 31 March 2020

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



Organisational chart



Executive team

Biographies of the executive team are available on Nest's website at **nestpensions.org.uk/schemeweb/NestWeb/public/aboutnestcorporation/contents/executive-team.html**

Organisational structure

The organisational structure of Nest Corporation is described in this section, beginning with the membership of the Board.

The Board



Otto Thoresen

Chair, Nest Corporation
from 1 February 2015

Otto will continue in his current role as Chair of the Nest Corporation Board until 31 January 2022, having been appointed for an additional term of two years.

Otto has extensive experience in pensions, financial services and consumer issues across a range of private and public sector organisations, including a period as Director General of the Association of British Insurers and Chief Executive of Aegon UK. Otto was appointed Independent Chair of the BT Pension Scheme Trustees in February 2019. He is also Chairman of the Board at Aviva International Insurance and the Board of Aberdeen Standard Investments Life and Pensions. He is a governor of the Pensions Policy Institute.



Iraj Amiri

Board Member
from 20 June 2011 to 30 June 2019

Chair, Audit Committee
from 1 April 2014 to 28 January 2019

Iraj led the National Internal Audit Group of Deloitte, where he was a partner. He is a former member of the regulatory decisions committee of the Financial Conduct Authority and former Chair of the audit and risk committee for the Institute and Faculty of Actuaries. Iraj is a non-executive director and Chair of the audit committee at the Development Bank of Wales and a non-executive member of the Board at Coventry Building Society.



Ian Armfield

Board Member
from 1 April 2014 (second term extended to 30 June 2021)

Ian is a non-executive director of Keystone Investment Trust plc and Managed Pension Funds Limited, an insurance company providing pooled investment management services to pension schemes. He is also Chair of the audit and risk committee for the Pearson Pension Plan. He was formerly an audit and risk assurance partner with PricewaterhouseCoopers LLP in the investment and pensions sectors.



Graham Berville

Board Member
from 1 June 2014 to 30 June 2019

Chair, Risk Committee
from 25 September 2017 to 20 February 2019

Graham has worked in financial services for 40 years. His executive career was with the Automobile Association (AA), Aviva plc and Police Mutual. In addition to general management roles he specialised in marketing and product development. Graham is Chair of the LV= With-Profits committee, Keycare Insurance, Furness Building Society and Yorkshire Cancer Research.



Sally Bridgeland

Board Member
from 1 April 2015 to 30 June 2019

Chair, Investment Committee
from 2 July 2017 to 28 May 2019

Sally's non-executive directorships include Royal London Group and the Local Pensions Partnership. Sally is a Trustee of pension schemes at Lloyds Banking Group and of the RAF Central Fund. She was formerly Chief Executive Officer and Trustee of the BP Pension Fund.

Sally is a member of The 300 Club and serves on the investment committee of Nesta. She was the first lady Master of the Worshipful Company of Actuaries in 2016–17.



Tomas Carruthers

Board Member
from 1 July 2016 to 28 November 2019

Tomas is an adviser in the field of social finance. He was Chief Executive Officer of the Social Stock Exchange, which was launched by the Prime Minister in 2013. Prior to that appointment he was Chief Executive Officer of Interactive Investor plc, which he founded.



Karen Cham

Board Member
from 1 July 2019

Karen is an internationally recognised expert in user experience design and behaviour change. Her research concerns designing for persuasion, emotion and trust and she specialises in the digital transformation of values and ethical practice. She is Professor of Digital Transformation Design at the University of Brighton and the Professorial Lead for Connected Futures research and enterprise, including in the areas of digital economy, digital health, immersive, simulations and virtualisation and complex systems.



Helen Dean

Board Member
from 1 June 2018

Chief Executive Officer, Nest Corporation

Helen is one of the architects of auto enrolment, having worked at the Department for Work and Pensions (DWP) to design a solution to the UK's problem of chronic under-saving in pensions.

She led the product marketing and operations arms of Nest before becoming Chief Executive Officer in September 2016.

Helen is a mentor to female professionals. She has established a senior leadership programme to cultivate the next generation of diverse leaders for Nest's future. Helen is a non-executive director of debt charity StepChange and a governor of the Pensions Policy Institute.



Clive Elphick

Board Member
from 1 June 2018

Chair, Audit Committee
from 29 January 2019

Clive is an independent director of National Grid Gas plc and of National Grid Electricity Transmission plc. He chairs the audit committees of both companies. He is also a former member of the Competition Appeal Tribunal and former Board Member of the Environment Agency, where he chaired the pension fund. He was formerly Chair of the Confederation of British Industry for the North West of England and has held a number of other board memberships.



Chris Hitchen

Board Member
from 1 June 2018

Chair, Investment Committee
from 28 May 2019

Chris rejoined the Board in 2018, having previously served as Board Member from 2010 to 2015.

He is Chair of the £40 billion Border to Coast Pensions Partnership and Chair of The Pension SuperFund, and sits on the investment committee for the Guardian Media Group. He is also Board Member for the Toronto-based International Centre for Pensions Management and the UK's Investor Forum. Previously, Chris was Chief Executive Officer of the UK Railways Pension Scheme.



Ron Jarman

Board Member
from 1 July 2016

Chair, Nominations and Remuneration Committee
from 28 May 2019

As a former President and Chair of the Chartered Institute of Procurement and Supply, Ron has extensive supply chain and procurement experience from working with many private and public sector organisations.

He is currently Board Chair at World at Play, an international development charity, and until the end of March 2020 was a senior member of Proxima's consulting practice.



Richard Lockwood

Board Member
from 1 September 2018

Chief Financial Officer, Nest Corporation

Richard is a chartered management accountant with broad financial experience and knowledge of corporate governance, commercial finance, strategic planning and mergers and acquisition activity.

His experience over the last 25 years includes supporting Nest's growth as Chief Financial Officer for over five years as well as leading financial roles in a number of blue-chip UK retail and consumer product companies such as Home Retail Group, BAA and Kingfisher.



Mutaz Qubbaj

Board Member
from 1 June 2018

Mutaz is the Chief Executive Officer of Squirrel. He has extensive financial services experience with a career spanning 20 years as both an investment banker in the US and UK as well as an established entrepreneur in the UK fintech space.



Caroline Rookes CBE

Board Member
from 1 April 2015 to 30 June 2019

Chair, Nominations and Remuneration Committee
from 28 November 2017 to 28 May 2019

Caroline is a Trustee of The Pension SuperFund. She is also a Trustee of the Civil Service Sports Council superannuation scheme. In January 2019 The Pensions Regulator released Caroline's review of the support provided to British Steel Pension Scheme members in 2017/18.

Caroline retired as Chief Executive Officer of the Money Advice Service in June 2017 and previously held director-level roles with the DWP and HM Revenue & Customs. In 2014 she was awarded an Alumni award by Lancaster University. Caroline was appointed interim Chair of The Pensions Ombudsman in September 2019.



Martin Turner

Board Member
from 1 June 2018

Chair, Risk Committee
from 21 February 2019

Martin has 37 years' experience in financial services within Barclays and Lloyds, ranging from front-line customer service and relationship management through to strategy and transformation, IT and operational service delivery, and the second-line risk function, with group-level accountabilities for operational risk, regulatory compliance, internal and external risk reporting and disclosures, the risk management framework and significant structural reform programmes.

Martin is currently a non-executive Board Member with AQA Education. He is Chair of its combined audit, risk and compliance committee and a member of its nominations committee and remuneration committee.



Jill Youds

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

Senior Independent Director
from 25 July 2017

Chair, Determinations Committee
from 24 March 2016

Jill is Chair of the Judicial Pensions Board for the Ministry of Justice. She is Chair of the Trustee Board for the National Assembly for Wales Assembly Members' Pension Scheme, Chair of Trustees for the Legal Services Commission pension scheme and a non-executive director at the Local Pensions Partnership.

Jill holds the Pensions Management Institute Award in Pension Trusteeship.

Committee membership

Details of meetings attended by Board members

	The Board	Audit committee	Risk committee	Investment committee	Nominations and remuneration committee	Determinations committee
No. of meetings	**8**	**6**	**5**	**6**	**8**	**11**
Otto Thoresen	8	-	-	-	7	8
Iraj Amiri	1 of 2	1 of 3	1 of 1	-	-	-
Ian Armfield	8	6	-	6	8	-
Graham Berville	2 of 2	3 of 3	1 of 1	0 of 1	-	-
Sally Bridgeland	1 of 2	-	1 of 1	1 of 1	-	-
Tomas Carruthers	4 of 5	-	-	-	-	4 of 7
Ron Jarman	8	-	5	-	8	-
Caroline Rookes	2 of 2	-	-	-	2 of 2	3 of 3
Jill Youds	8	-	-	-	6	11
Clive Elphick	7	6	2	5 of 5	-	-
Chris Hitchen	7	-	-	6	-	-
Mutaz Qubbaj	8	-	-	-	-	-
Martin Turner	8	6	5	-	-	-
Helen Dean	8	-	-	-	-	-
Richard Lockwood	8	-	-	-	-	-
Karen Cham	5 of 6	-	-	-	-	4 of 5
Jaap Van Dam	-	-	-	2 of 2	-	-
Jennie Austin	-	-	-	3 of 3	-	-

Explanatory notes

The Board

The terms of office for Iraj Amiri, Graham Berville, Sally Bridgeland and Caroline Rookes came to an end on 30 June 2019.

Karen Cham joined the Board from 1 July 2019.

Tomas Carruthers resigned from the Board with effect from 28 November 2019.

Investment committee

Clive Elphick joined the investment committee on 16 May 2019.

Jennie Austin joined the investment committee as a member with effect from 25 November 2019.

Jaap Van Dam joined the investment committee as a member with effect from 1 January 2020.

Determinations committee

Karen Cham joined the determinations committee on 24 October 2019.

During March 2020, the Board and the audit, investment and risk committees each held one of their meetings using 'virtual' online meeting video conferencing tools.

For details on Nest Corporation's response to the Covid-19 crisis, see the Covid-19 statement on page 6.

Committee membership as at 31 March 2020

Audit committee	
Clive Elphick	Chair
Martin Turner	Member
Ian Armfield	Member
Risk committee	
Martin Turner	Chair
Clive Elphick	Member
Ron Jarman	Member
Investment committee	
Chris Hitchen	Chair (from 28 May 2019)
Ian Armfield	Member
Clive Elphick	Member (from 16 May 2019)
Jaap Van Dam	Member (from 1 January 2020)
Jennie Austin	Member (from 25 November 2019)
Nominations and remuneration committee	
Ron Jarman	Chair (from 28 May 2019)
Ian Armfield	Member
Jill Youds	Member
Otto Thoresen	Member
Determinations committee	
Jill Youds	Chair
Karen Cham	Member (from 24 October 2019)
Otto Thoresen	Member

About Nest Corporation

The Nest scheme is run by Nest Corporation.

Nest Corporation was established on 5 July 2010 to be the Trustee of the scheme. Nest Corporation's function is set out in the Pensions Act 2008. The Nest Order and Rules[4] set out how the scheme will operate (see Scheme facts and figures on page 15). Nest Corporation's role is to develop and operate the Nest scheme.

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

Nest Corporation is a public corporation sponsored by the Department for Work and Pensions (DWP) as a key component of the UK's pension auto enrolment policy. Its working relationship with the DWP is set out in a framework document. Nest Corporation's Annual report and accounts are produced separately from this document and can be found on Nest's website.[5]

Members and committees

As at 31 March 2020, the Board had 11 members, consisting of a Chair and 10 other Board members, two of whom have day-to-day executive responsibilities. Collectively they are responsible for setting the strategic direction and objectives for Nest Corporation, managing the scheme and representing members' interests.

Nest Board members are appointed 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. A broad range of skills, experience and knowledge are required collectively on the Board. Appointments are made in line with the Commissioner for Public Appointments' Principles of public appointments[6] and Cabinet Office guidance. Provisions are in place within the terms and conditions of Board members that give appropriate controls for the removal from office of Board members and specify the conditions in which this can be done.

The current Chair, Otto Thoresen, will continue in his role as Chair of the Board of Nest Corporation from 1 February 2020 to 31 January 2022. Nest Corporation's senior independent director, Jill Youds, was reappointed from 1 July 2019 to 30 June 2024.

Four Board members stepped down from the Board on 30 June 2019 following the expiry of their terms. Another Board member resigned with effect from 28 November 2019.

As part of the process to support the Chair and the secretariat team with succession planning, the skills and experience of current Board members is regularly assessed. Based on this assessment, Karen Cham, an internationally recognised expert in user experience design and behaviour change was recruited and appointed to the Board on 1 July 2019.

Since Nest's Board members are appointed by the Secretary of State, Nest Corporation worked with the Public Appointments' team to undertake a recruitment process in line with the Cabinet Office's Governance code on public appointments 2016.[7] This ensured an open and transparent process.

All Nest Board members, including the Chair, are non-affiliated, having no current or previous material relationship with Nest Corporation or the scheme as an employee, officer or contractor, and having no connection to a service provider in respect of the scheme. This is with the exception of the Chief Executive Officer and Chief Financial Officer, who are employees of Nest Corporation, and Chris Hitchen, who previously served as a Board member between 2010 and 2015.

Board members bring a range of experience and skills, including investment, pensions, risk, member representation, finance, audit, procurement, supply, digital transformation, governance and business management. Biographies for Board members during all or part of 2019/20 are on pages 24 to 29.

4 nestpensions.org.uk/schemeweb/dam/nestlibrary/NEST-Order-and-Rules.pdf
5 nestpensions.org.uk/schemeweb/nest/resources/library.html

6 publicappointmentscommissioner.independent.gov.uk/regulating-appointments/governance-code/

7 assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/578498/governance_code_on_public_appointments_16_12_2016.pdf

Every Board member has completed The Pensions Regulator's (TPR) Trustee toolkit, an online learning programme. New Board members must complete this within their first six months in addition to an induction programme tailored to their requirements, skills, qualifications and experience.

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

Each year Nest Corporation's secretariat team undertakes a full skills and experience analysis of Board members. Board members are requested to complete a questionnaire detailing their essential and desirable skills. Any requirements are met through briefing sessions on relevant topics and an individual commitment to ongoing education and training. During 2019/20, Board members received briefings or training on a number of topics, including operating in a regulated environment, trustee legal duties and master trust authorisation.

The Board has a full working knowledge of the Nest Order and Rules, governing documentation and policies as they apply to the scheme. This is provided as part of the induction process and through appropriate approval processes surrounding these documents. On an ongoing basis, this knowledge is monitored as part of the annual skills and experience analysis within the questionnaire given to Board members.

During the induction process Board members are also provided with training on Nest's investment approach. This knowledge is monitored as part of the annual skills and experience analysis.

The investment objectives for the scheme are set out in its Statement of investment principles (SIP)[8] (see page 120) and the Board maintains a working knowledge of this document. The Board reviews on an annual basis whether Nest's investment approach is aligned with the SIP, and the investment committee meets quarterly to review the investment approach.

Following a review of investment governance arrangements, The Trustee sought additional expertise to ensure the continued effectiveness of its investment committee. In 2019/20 two additional members have been appointed to the investment committee but not the Board. Their addition does not impact the overall balance of skills on the Board but instead ensures continued appropriate oversight and challenge of Nest's investment strategy.

Effectiveness reviews for the Board and its committees take place annually. In line with best practice, Nest Corporation engages an external facilitator for this review once every three years. The next external review will take place in 2020/21.

During 2019/20 Nest Corporation's secretariat team conducted an internal effectiveness review. This review provided assurance that the Trustee's governance framework is operating effectively. This review contributes to the assessment of how the combined knowledge and understanding of the Board enables it to properly exercise its functions.

Throughout the year the nominations and remuneration committee has overseen the implementation of governance changes based on recommendations from the effectiveness review and evolving external best practice.

The combined knowledge and understanding of Board members, and the diversity of their background and experience, is supplemented with additional advice available to them. These include, for example, access to legal advice from Nest Corporation's general counsel. Collectively this enables the Board to properly exercise its functions as Trustee of the scheme. The resources available to the Board, along with the Board's overall diversity, are monitored and assured through the annual skills and experience analysis as well as ongoing oversight of Nest Corporation's secretariat function.

To support effective and robust decision-making, the Board has established five committees (see pages 34 to 36). The Board and its committees take decisions that affect the Nest scheme and ensure that Nest Corporation fulfils its obligations as a public corporation. The terms of reference for the Board and its committees are published on Nest's website.[9] Each committee makes recommendations for approval by the Board on specific decisions and items.

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

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

The Nest Order 2010, article 8 sets out the remit for the Employers' Panel and the Members' Panel in accordance with the requirements under the Pensions Act 2008. As requested by the Board, these panels must give assistance and advice about the operation, development or amendment of the Nest scheme. For further information on the panels, see page 36.

In addition to the feedback received from the Members' Panel and the Employers' Panel, the Board reviews research about its customers. Nest Corporation conducts research aimed at helping it understand what scheme members think and feel, and how Nest is performing against its objectives. The 'Voice of the customer' programme each year surveys approximately 3,000 members and 1,000 other people who are eligible for auto enrolment. This survey is sent twice a year to track indicators such as support for auto enrolment, satisfaction with Nest, engagement with Nest, retirement plans and scheme contact frequency. In addition to formalised research, Nest Corporation also makes it easy for members to provide feedback. It seeks feedback proactively by:

- Sending 'Voice of the customer' surveys twice a year to assess overall satisfaction with Nest.
- Surveying members who have experienced a key process, such as a transfer in or out of the scheme, to assess satisfaction and the ease of use of the process.
- Surveying a random selection of members who have used the contact centre to assess their level of satisfaction with the interaction.

In August 2019 Nest Corporation launched a new online member research community, 'Your way', enabling its product and investment teams to carry out research directly with Nest's membership.

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

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

Nest Corporation analyses any changes in the demographic characteristics of its membership. The data is then used to help design better communications and identify ways to improve the scheme. It is always looking to grow in the right direction for its customers and is committed to helping members achieve their retirement goals.

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

The Chief Executive Officer delegates authority to each member of the executive team and holds them accountable for delivery in their remit. To provide oversight of the operations of Nest Corporation and the scheme, an executive board, chaired by the Chief Executive Officer, meets regularly, and the Chief Executive Officer provides a report to each meeting of the Board.

Audit committee

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

During 2019/20 the audit committee met six times, including one 'virtual' online meeting during lockdown, and:

- Reviewed the Annual report and accounts for both Nest Corporation and the scheme and recommended their approval to the Board.
- Reviewed the plans of the external auditors for their audit of the annual accounts of both Nest Corporation and the scheme, and oversaw the delivery and effectiveness of external auditing.
- Approved the annual internal audit plan and provided oversight of its delivery and implementation of its recommendations.
- Approved the annual compliance plan and received regular updates on delivery and findings.
- Provided oversight of Nest Corporation's application for master trust authorisation to The Pensions Regulator (TPR), which was approved.
- Provided oversight of the quality and assurance of the three-year business planning process from 2020 to 2023.
- Reviewed the system of internal controls within Nest Corporation and the Nest scheme via the Audit and Assurance Faculty (AAF) 02/07 controls report and recommended its approval to the Board.

Risk committee

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

During 2019/20 the risk committee met five times, including one virtual meeting during lockdown, and:

- Provided oversight of the risks to Nest Corporation resulting from the creation of the investment subsidiary, Nest Invest. This included oversight of the Financial Conduct Authority (FCA) authorisation process to establish Nest Invest as an occupational pension scheme firm and gain the necessary permissions for additional regulated investment functions, including the ability to provide investment advice.
- Reviewed Nest Corporation's risk management and policy frameworks and recommended them for approval to the Board.
- Provided oversight of the risk appetite levels for each principal risk and recommended their approval to the Board.
- Reviewed and challenged key areas of risk in respect of Nest Corporation activities, including the change programme underpinning the retendering of outsourced administration services.
- Carried out a cybersecurity benchmarking exercise to assess the maturity of both Nest Corporation and scheme capabilities.

Investment committee

The investment committee is responsible for overseeing the Nest scheme's investment strategy and any changes to the investment approach or the funds made available to members. The committee also monitors investment performance and operational investment risks. Following a review of investment governance arrangements, Nest Corporation has sought additional expertise to ensure the continued effectiveness of the committee. In 2019/20 two additional members, Jennie Austin and Jaap van Dam, were subsequently appointed to the investment committee, but not to the Board. Their appointment ensures that the overall balance of skills on the Board remains consistent while enabling continued appropriate oversight and challenge to Nest's investment strategy.

During 2019/20 the investment committee met six times, including one virtual meeting during lockdown, and:

- Reviewed the Statement of investment principles (SIP) and recommended updated versions for approval to the Board.
- Provided oversight and made recommendations to the Board on the development of the overall investment strategy, including changes to the funds available to Nest members.
- Maintained oversight of the investment performance and risk management of all Nest retirement funds, including the approval of changes in asset allocation as required.
- Gave ongoing consideration to the development of the Nest investment approach.
- Approved infrastructure as a new asset class Nest can invest in.
- Approved the Nest Guided Retirement Fund rebalancing rates and the Statutory money purchase illustration (SMPI) rates for all fund options.
- Provided oversight of the developing work on responsible investment and considered the annual responsible investment report.

Nominations and remuneration committee

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

During 2019/20 the nominations and remuneration committee met eight times and:

- Considered recommendations arising from the annual internal Board and committee effectiveness review.
- Reviewed the results of the annual skills and experience analysis of Board members, approved recommendations relating to Board training requirements and induction processes and assessed any implications on recruitment of new Board members.
- Reviewed the responses of Board members' annual fitness and propriety questionnaires, and the questionnaires submitted with the master trust authorisation application to TPR.
- Approved the appointment of five new members to the Employers' Panel and four new members to the Members' Panel.

- Received regular reports from the Director of People and Development on people and remuneration matters across Nest Corporation, including senior executive remuneration, the results of the annual staff survey and the progress of the diversity and inclusion strategy.
- Approved changes to Nest Corporation's reward and performance management processes and policies.

Determinations committee

The determinations committee is responsible for adjudicating the disputes received about the scheme at Stage 2 of the internal dispute resolution (IDR) procedure. This is the final stage of the complaints process for members of the scheme.

The committee makes recommendations to the executive on learning outcomes from the Stage 2 IDR disputes to help improve the effectiveness of the scheme and members' experience.

During 2019/20 the determinations committee considered 24 cases (2018/19: 29 cases):

- 1 was upheld (2018/19: 7 cases).
- 14 were partially upheld (2018/19: 16 cases).
- 9 were not upheld (2018/19: 6 cases).

The committee also received information on no (0) cases which had been withdrawn by the complainant before consideration by the committee (2018/19: 6 cases) and 3 cases (2018/19: 5 cases) which were escalated to The Pensions Ombudsman after Stage 2.

Employers' Panel

The Employers' Panel was set up in accordance with the Pensions Act 2008 and Nest Order 2010. It represents participating employers by providing advice on the operation, development and amendment of the scheme. The Employers' Panel currently has 12 members. During 2019/20 it:

- Prepared and presented the Employers' Panel annual report to the Board.
- Completed a programme of work which focused on topics that were useful to Nest Corporation and relevant to the panel. A highlight of this year's work programme was the panel's input into Nest's employer segmentation research on how to grow the business in the right way and deliver a good service to Nest customers.
- Held a joint meeting between Board members, panel members and the executive team. The meeting explored how Nest should develop its brand strategy so that all its customers, including employers, understand and see the value of Nest's proposition.
- Was consulted on proposed changes to the Statement of investment principles (SIP), the formation of Nest Corporation's investment subsidiary, Nest Invest, and the pensions dashboard. Some panel recommendations were considered and implemented.

Members' Panel

The Members' Panel was set up in accordance with the Pensions Act 2008 and Nest Order 2010 to represent Nest scheme members and allow them to provide advice on the operation, development and amendment of the scheme. The Members' Panel currently has 12 members. During 2019/20 it:

- Prepared and published the Members' Panel annual report for submission to the Board and the Secretary of State for Work and Pensions.
- Completed a programme of work which focused on topics that were useful to Nest Corporation and relevant to the panel. A highlight of this year's work programme was the panel's advice on digital tools which are being developed to support Nest members in accessing, understanding and engaging with their retirement pot.
- Held a joint meeting between Board members, panel members and the executive team. The meeting explored how Nest should develop its brand strategy so that all its customers, including members, understand and see the value of Nest's proposition.
- Consulted on proposed changes to the SIP, the formation of Nest Invest and the pensions dashboard. Some panel recommendations were considered and implemented.

Governance framework

Board meetings

The Board met eight times during the year, including one virtual meeting during lockdown, with an additional meeting focused solely on business planning and strategy. The Board is responsible for agreeing the strategy for the organisation, as well as holding the Chief Executive Officer to account for the implementation of the strategy, providing support and challenge as appropriate.

The audit, risk, investment, nominations and remuneration and determinations committees also met on a regular basis and the Chair of each committee reported back on their work to a subsequent Board meeting. Details of the meetings and attendance can be found on page 30 and committee membership is set out on page 31.

The priority of the Board is to provide a robust, stable pension scheme which operates in the best interests of its members. It focuses on delivering a good service to members, employers and intermediaries such as advisers and payroll providers, and meeting its public service obligation to enable any employer to choose Nest to meet their auto enrolment duties as well as to accept self-employed people into the scheme. The quality of the data used by the Board is reviewed annually as part of the Board effectiveness review. This helps to ensure that the data continues to be appropriate and supports the Board in robust decision-making.

Information on strategy, scheme administration, member volumes and service, investment performance, risk management, internal controls, operational activities and financial performance is received and challenged by the Board during the course of the year. The Chief Executive Officer provides an update at each scheduled meeting on the key issues on her agenda and significant decisions made within her authority since the last meeting.

As part of the normal business cycle, in 2019/20 the Board of Nest Corporation:

- Approved the long-term financial projections, three-year business plan, annual budget and all associated funding plans.
- Approved the Annual report and accounts for both Nest Corporation and the Nest scheme.
- Approved the Audit and Assurance Faculty (AAF) 02/07 master trust controls assurance report for the scheme.
- Approved the revised Statement of investment principles (SIP).
- Approved the risk appetite statement on recommendation of the risk committee.
- Approved changes to committee membership, including changes to the Chairs of both the investment committee and the nominations and remuneration committee.
- Approved the Nest Corporate plan for 2019-22.
- Reviewed and approved Nest Corporation's Modern Slavery Act (MSA) statement, on recommendation from the audit committee.

In addition, during this year it:

- Approved the incorporation of a subsidiary company, Nest Invest, and the related application to the Financial Conduct Authority (FCA) for authorisation of Nest Invest as an occupational pension scheme firm.
- Approved the investment management agreement between Nest Corporation and Nest Invest.
- Reviewed and approved the addition of the Nest Guided Retirement Fund to Nest's range of retirement choices for members.
- Provided oversight of the procurement process for Nest's future scheme administration service.
- Received annual reports from the Members' Panel and the Employers' Panel.
- Approved the annual assessment of value for members and the conclusions.
- Provided oversight of the introduction of discretionary death benefits to members.



Corporate risk statement overview

Nest Corporation has established a culture and processes designed to manage risk in line with the expectations of its Board members. Both Nest Corporation and the Nest scheme take a single holistic approach to risks and uncertainties, so this risk statement applies to both Nest Corporation and the scheme.

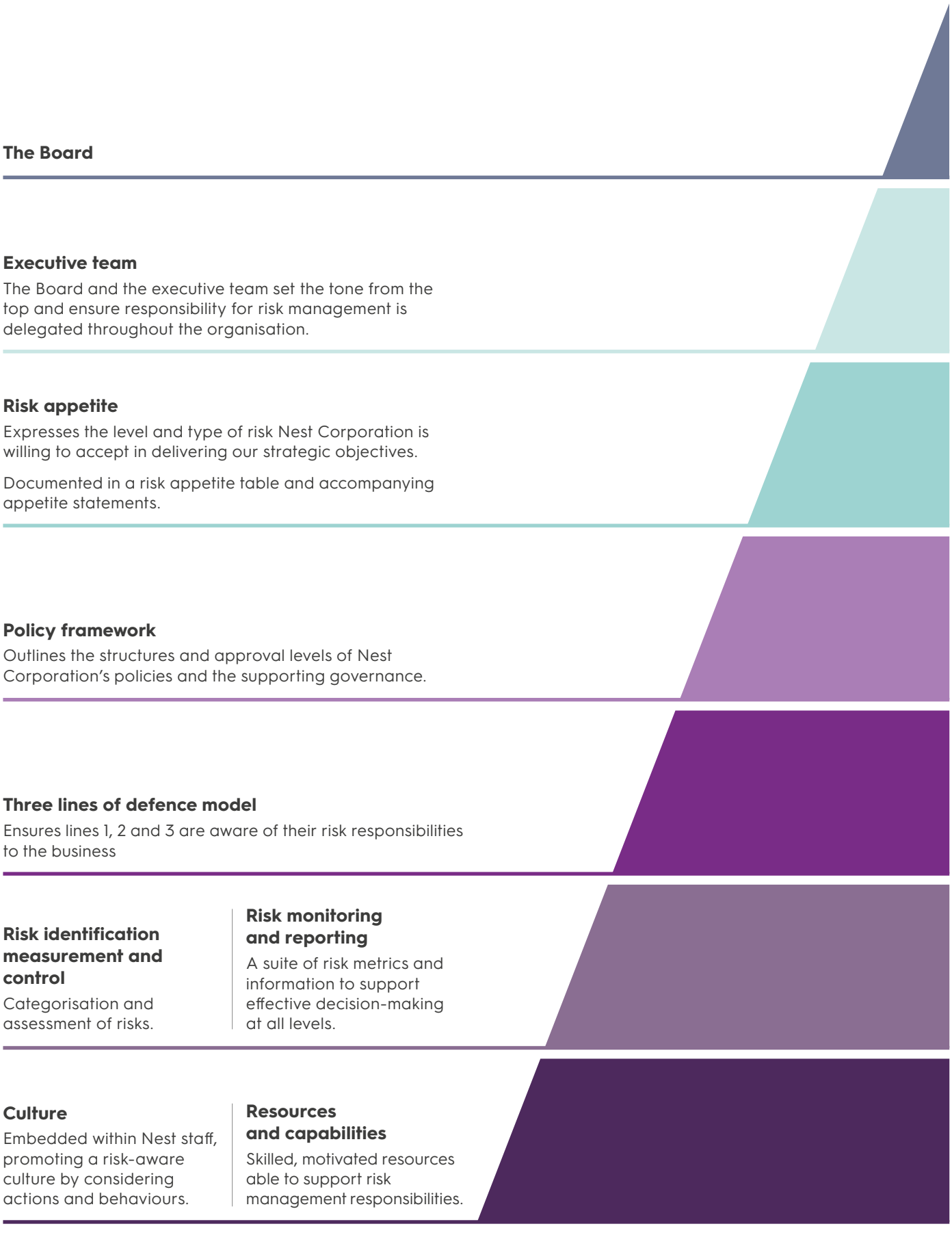
Nest Corporation must take risks to deliver its strategic priorities. Understanding the risks it faces, and how best to control or mitigate them, is integral to this. It does not do this alone. It also engages key stakeholders to understand and manage risk.

Nest Corporation's risk management framework

Nest Corporation's risk management framework is reviewed on an annual basis to ensure it remains fit for purpose and takes developments in industry practice into account. The framework ensures a robust and consistent approach to risk management is applied across all business areas and all risk types to drive improvements in Nest Corporation's risk profile in line with risk appetite. It articulates individual and collective accountabilities for risk management, risk oversight and risk assurance and supports the discharge of responsibilities to members, trustees and regulators.

The framework is made up of nine components in a structured hierachy, and encapsulates at a high level the risk management practices operating across Nest Corporation, outsourced providers, suppliers and Nest Invest.

Risk management framework



Nest Corporation's principal risks

Each business area across Nest Corporation maintains a log of its key risks which is reviewed regularly. Risk dashboards are used to report critical, principal and other significant risks, including emerging risks and risks that have emerged but are evolving, to the executive team and risk committee. Additionally, the Board receives regular information on emerging and principal risks. There is a business continuity plan and major incidents management process that detail the arrangements should a business continuity event or incident occur.

A risk is an uncertain event which, if it were to occur, could impact the delivery of Nest Corporation's objectives. This impact could be positive or negative.

Nest Corporation's risk profile is broken down into primary categories.

Nest Corporation has identified principal risks in relation to the delivery of its strategic priorities. Its definition of a principal risk is: 'A risk that is considered material to the development, performance, position or future prospects of Nest.'

Principal risks are monitored on a continuous basis and reviewed every year to ensure they remain appropriate and factor in any emerging risks. In addition, every three years the risks review takes the form of a comprehensive zero-based review. This zero-based review was last carried out during 2018/19. There were no new principal risks identified in the 2019/20 annual review. The current set of principal risks are explored in further detail below.

The risks that Nest Corporation reviews are continually monitored to ensure they are still appropriate and complete. The risk committee undertakes in-depth reviews of individual principal risks to scrutinise management's approach to risk mitigation and management.

> **"Nest recognises the importance of ensuring that it responds appropriately to risks but still allows flexibility within its approach to support the pursuit of its strategic objectives."**

Risk appetite

Nest Corporation recognises the importance of ensuring that it responds appropriately to risks but still allows flexibility within its approach to support the pursuit of its strategic objectives. Taking too much or too little risk could result in failure to deliver its strategic objectives. In doing so, Nest Corporation acknowledges that some risks may crystallise. It operates a pragmatic approach to risk with robust management controls. It prioritises its actions in terms of risk, impact to members and perceived benefits in a consistent and transparent way, choosing the most appropriate course of action to drive and inform good decision-making.

Nest Corporation's risk appetite statement details the risk parameters within which it operates. The statements form part of its risk management framework and are used to inform decision-making. The Board is responsible for setting this risk appetite annually, expressed in a series of risk appetite statements linked to key risk measures and, where possible, key risk indicators. An 'averse' disposition reflects a very low appetite for a specific category of risk and a need to develop a significant suite of controls, even if they are costly, to reduce the likelihood or impact of the risk, with due consideration for value for members. At the other extreme, an 'active' disposition reflects broad acceptance of risk within a category because of the associated potential for significant reward. Nest Corporation's risk appetite statement was approved by the Board in November 2019.

Nest Corporation's risk appetite has not changed in response to the pandemic or its effects.



I find Nest really easy to use. I learned more about pensions just by logging in to my account and clicking around the different tabs available - it's really intuitive and tells you more and more as you delve a bit deeper.

Arron Ward, Nest member
December 2019

Averse

Only activities that would be considered to carry virtually no inherent risk are considered permissible. A significant suite of controls, even if they are costly, are required to reduce the likelihood and/or impact of risk, with due consideration for value for members.

Minimal

Only activities that would be considered safe and have a low degree of inherent risk are permissible. The associated potential for reward or opportunity should not be a key driver in selecting activities.

Cautious

Only activities that have scope to achieve significant reward or realise a significant opportunity would be considered permissible. Activities may carry a high degree of risk that is believed to be well managed and mitigated.

Open

There is the opportunity to undertake activities that may carry or contribute to a reasonable degree of residual risk. Appropriate controls must always be considered.

Active

There is the opportunity to undertake activities that focus on maximising additional benefits and goals or on offering potentially high rewards, even if in some circumstances activities carry a high residual risk. Appropriate controls must always be considered.

Risk category	Risk appetite	Risk appetite statement
Environment – legal and regulatory		Nest Corporation seeks to comply with all relevant regulation and all applicable laws. Where legislation or regulatory obligations are not prescriptive and require interpretation, it applies a proportionate approach with the interests of its members as paramount.
Environment – political		Because the political environment is by definition uncertain, Nest Corporation must consider and respond to changing political contexts to maintain delivery of its strategic objectives.
Environment – economic and market		Nest Corporation is conscious of the broader economic environment in which it operates. Whilst it cannot control macroeconomic and market conditions, it develops business plans that deliver its strategic objectives under a range of potential scenarios.
Transformational change		Nest Corporation takes well managed risks where innovation and change create opportunities for discernible benefits and clear improvement in its ability to achieve its strategic objectives and deliver services to its members.
Operational service		Nest Corporation seeks to deliver resilient and reliable services that are easy to access by its members, employers and intermediaries through a range of channels. Business decisions are taken in the context of minimising actions that would impact service delivery. This leads to a healthy tension between transformation and operational delivery.
Conduct		Nest Corporation's product design processes and customer experience ensure that products are transparent, appropriate and meet members' needs. Its consideration for its members is paramount in its actions and development of any product. It acts with integrity, due skill, care and diligence to ensure its commitment to members is met.

Risk category	Risk appetite	Risk appetite statement
Cyber and information security		Nest Corporation is heavily reliant upon information and data to be able to operate an effective service for members. The disclosure of sensitive or personal information, through error or criminal action perpetrated against it or the scheme, has the potential to erode trust, damage its or the scheme's reputation and/or lead to regulatory sanction, and ultimately may prevent it from being able to operate.
Financial crime		Nest Corporation maintains robust controls to prevent, detect and act as a deterrent to this type of criminal behaviour. It balances these risks with operational service delivery and accessibility for members, employers and intermediaries.
Investment – financial		Nest Corporation recognises that members are exposed to financial risks. It gives judgement and quantitative consideration to these risks when deciding strategic asset allocation and choice of fund managers.
Investment – operational		Nest Corporation seeks to provide reliable and resilient investment and operational infrastructure. Business decisions are taken in the context of minimising the impact on operational reliability and resilience.
Financial – corporate performance		Nest Corporation maintains a prudent financial profile and strong cost management. It has governance arrangements that support transparent and controlled risk decisions across the organisation to deliver value to the scheme's members and deliver on the financial commitments to government.
People		Nest Corporation's people agenda embeds its values and maintains a prudent risk and compliance culture. It leads responsibly and proficiently, and manages its people effectively and with respect. It meets all legal and regulatory obligations related to its leadership and staff. Within this context, it seeks to be an outstanding employer that attracts and retains top talent, as well as enabling its employees to grow and develop professionally.

"Nest seeks to be an outstanding employer that attracts and retains top talent, as well as enabling its employees to grow and develop professionally."

The following sections detail each of Nest Corporation's and the Nest scheme's principal risks, and the key controls and mitigating actions that are in place to manage them. In addition, key risk indicators are linked to each principal risk, and linked assurance is monitored and reported within the principal risk dashboard.

Service failure risk

Service failure risk is the risk that there is a major service failure, or persistent low-level service failures, that prevent Nest Corporation from delivering services to scheme customers in time, to the required quality or that meet compliance standards.

Key controls and mitigating actions

- Nest Corporation works closely with its key suppliers to support them in providing a stable, resilient service to scheme customers. It undertakes a monthly capacity review with its scheme administrator to ensure that there is sufficient IT and headcount capacity to cope with predicted future transaction volumes. There are contractual service levels in place to underpin the timely and effective delivery of this work.
- Processes and systems are designed to be as straightforward as possible, and Nest Corporation consistently looks for ways to make its systems easier to use.
- Key outsourced providers are required to provide Nest Corporation with independent assurance reports on their controls, for example in accordance with the Audit and Assurance Faculty (AAF) 01/06. Nest Corporation reviews these reports and follows up on weaknesses or control failures if any are identified.
- Business continuity and disaster recovery (BCDR) plans are in place and reviewed regularly to ensure operational resilience.

Customer data and assets risk

Customer data and assets risk is the risk that Nest Corporation or its customers suffer detriment from a significant loss of data or assets. Cyber criminals and fraudsters are developing ever more advanced means to commit crimes and Nest must keep ahead of these developments.

Key controls and mitigating actions

- The information security management systems operated by Nest Corporation, its scheme administrator and its IT managed services provider are all independently certified to the International Organization for Standardization (ISO) 27001:2017 standard. This gives assurance that systems and processes are robust and help protect customers' data.
- The scheme administrator has strict operational procedures in place to safeguard customers' data as well as assets to support cyber resilience.
- On an annual basis, an independent reporting accountant reviews the design of, and compliance with, key controls of the scheme administrator and provides Nest Corporation with an AAF 01/06 report. Nest Corporation follows up on any exceptions identified within this report. The scheme administrator also regularly conducts penetration testing and responds appropriately to any findings.

Legal and regulatory compliance risk

Legal and regulatory compliance risk is the risk that Nest Corporation fails to comply with relevant laws or regulations resulting in a major breach.

Nest Corporation and the Nest scheme are required to comply with pension-specific legislation including the Pensions Act 2008, The Pensions Regulator's (TPR) codes of practice[10] and TPR's new supervisory regime for authorised master trusts.[11] Nest Corporation has a compliance assurance function which undertakes an annual plan of activity to monitor compliance with pensions legislation. This function also undertakes assurance activities to ensure compliance with the Data Protection Act 2018 and financial crime legislation.

"Processes and systems are designed to be as straightforward as possible, and Nest Corporation consistently looks for ways to make its systems easier to use."

10 thepensionsregulator.gov.uk/en/document-library/codes-of-practice

11 thepensionsregulator.gov.uk/en/master-trust-pension-schemes/supervision-of-master-trusts/supervisory-return

Key controls and mitigating actions

- To ensure Nest Corporation remains compliant, it must react in a timely fashion to regulatory change. It continually scans the legislative, regulatory and policy landscape to identify change as early as possible and plan ahead as far as possible, which allows it to manage and incorporate changes into its systems and processes. Its ability to manage and respond effectively to legislative and regulatory change aims to prevent such changes from adversely impacting scheme members and minimise any associated costs.
- The significant change in the regulatory environment for Nest Corporation over 2019/20 has been the approval by TPR of Nest as an authorised master trust. In this process Nest Corporation provided adequate evidence to demonstrate that its governance and operational systems and processes, together with its financial and continuity planning, met or exceeded the standards defined by TPR. This risk continues to evolve to reflect TPR's requirements for authorised master trusts through the new supervisory regime.
- A further change in this risk over the last year has been authorisation from the Financial Conduct Authority (FCA) for Nest Invest, which will enable the evolution of the investment strategy within the appropriate regulatory framework.

Financial performance risk

Financial performance risk is the risk that Nest Corporation fails to meet its financial objectives as agreed with government, which include repaying its loan facility with the Department for Work and Pensions (DWP) and becoming self-funded.

Key controls and mitigating actions

- Nest Corporation generates revenue from its contribution charge and annual management charge. Its public service obligation requires it to accept all employers that wish to use the scheme to meet their auto enrolment obligations. This means Nest Corporation must also accept business that potentially generates a loss. However, it aims to be profitable overall through maintaining a diverse membership base and continuing to strive for cost efficiencies.
- Nest Corporation continually invests in service improvements and keeps costs as low as possible. It has a strategic plan, a rolling three-year business plan and an annual budget-setting process where every directorate outlines their resource requirements for the forthcoming year, consistent with Nest Corporation's strategic plan and strategic priorities. These plans are reviewed and challenged by the Board. A funding requirement is then submitted to the DWP, which provides additional oversight, scrutiny and challenge of these plans before making any funding decisions.
- Senior members of Nest Corporation's management team meet with DWP colleagues on a regular basis to provide them with oversight of the organisation's finances and assurance of value for money for the taxpayer.

Investment performance risk

This is the risk that the Nest pension scheme's investments fail to perform to targets and that stakeholders, especially members, lose confidence in the investment approach. Nest Corporation's approach to investment is underpinned by its Statement of investment principles (SIP) (see page 120) and investment beliefs, which provide the Board with a transparent framework for consistent and good-quality decision-making.

Key controls and mitigating actions

- Nest Corporation's SIP is reviewed at least every three years by the Board, and more frequently when required. The last review was in March 2020.
- Nest's funds are diversified across different asset classes and fund managers. Nest Corporation continually monitors its investment performance and financial risk, for example liquidity risk and market risk, and where appropriate makes changes to its investment portfolio.
- Oversight of investment risk is primarily the responsibility of the investment committee.
- The creation of Nest Invest has been authorised by the FCA so as to enable the evolution of Nest's investment strategy within the appropriate regulatory framework.

Corporation, culture, capability and capacity risk

This is the risk that Nest Corporation does not develop and maintain the right capabilities, capacity and culture to run and steer the organisation as it grows and develops. Nest Corporation has been able to attract talented individuals who want to work with it to help millions enjoy a better retirement. If it cannot continue to do so it could face higher operating costs, professional fees and increases in errors and losses, with consequences to its reputation.

Key controls and mitigating actions

- Nest Corporation's staff handbook sets out the values, behaviours and standards it expects from employees along with the core policies and procedures that its staff should follow. It is aligned to the organisation's internal values of transparency, ease, empowerment and respect.
- All staff are required to attend mandatory training about diversity and inclusion and complete e-learning modules relating to financial crime, information security, the General Data Protection Regulation (GDPR) and competition law. Nest provides training to further develop leadership and management capability as well as encouraging and supporting training on technical topics.
- Nest Corporation holds an annual staff conference, along with quarterly town hall briefings, to ensure core messages are communicated and understood. It publishes regular communications for staff on its intranet.
- Nest Corporation values the opinions of its staff and seeks to understand and identify how to respond to staff needs through annual staff surveys.
- Nest Corporation has developed a diversity and inclusion strategy which will further support it in attracting and retaining capable, skilled staff. It has contracted with a diversity and inclusion business partner to deliver training and other resources. This work is overseen by the nominations and remuneration committee.
- Nest Corporation has launched a new people and development strategy to ensure that it can attract and retain the skills it needs for the future.

Failure to deliver compliant and effective member and employer proposition risk

This is the risk that Nest Corporation does not keep its proposition and service aligned to regulatory requirements, or to the changing needs or expectations of scheme customers.

Key controls and mitigating actions

- Nest Corporation continues to work with policymakers, regulators and the wider pensions industry to engage and contribute to the development of regulatory changes. It performs regular horizon-scanning activities to monitor the impact of new legislation and regulations.
- Nest Corporation continues to assess and monitor the needs of its members and employers through a detailed programme of research and customer insight tracking. It has implemented two new workstreams, one for members and one for employers, to identify, understand and prioritise necessary operational and product improvements to key customer processes.

- Nest Corporation continues to invest in improvements to member engagement, including the development of new communication tools and strategies and updates to the Nest scheme website. These allow members to better engage with Nest across a range of devices and to more effectively manage their pension and plan for their retirement.
- Nest Corporation has developed a product roadmap setting out the changes it is likely to make over the next three years to ensure that change is managed in line with its strategic priorities. The roadmap incorporates potential legal and regulatory change. Nest Corporation works alongside its scheme administrator to plan, design and build these changes into its software systems and processes.
- Nest Corporation is reviewing the way that change is delivered as it nears the end of its current scheme administration contract and work progresses to procure a new contract. It has sought to limit procurement risk by exploring new approaches to change and put in place a framework and an approach to limit transition and migration risk.

Ensuring competitiveness risk

This is the risk that Nest Corporation's competitiveness is compromised either by its inability to compete effectively, or the risk of being perceived to abuse a position of market dominance. Nest Corporation's public service obligation requires it to accept all employers that wish to use the Nest scheme to meet their auto enrolment obligations.

Key controls and mitigating actions

- Nest Corporation performs regular horizon-scanning activities to monitor market trends and potential upcoming competitive challenges. It also engages with the wider pensions market and participates in government consultations, industry groups and working groups to maintain a positive relationship with government, regulators and industry peers.
- Nest Corporation plans to further improve its employer experience through changes to its products and processes. Incremental improvements to web services and functionality have been made, and refreshed branding and tailored communications have been developed which better demonstrate Nest's personality and values in order to engage customers.
- To enable effective engagement with employers and intermediaries such as advisers and payroll providers, Nest Corporation develops thought leadership content and publishes a wide range of media through trade publications and digital channels. Its account management team attends key trade events and facilitates two events each year for large employers.
- Product innovations such as Nest Connect and payroll integration through web services have allowed Nest Corporation to create a simple and hassle-free service that matches Nest's processes to the way people work. Nest Corporation continues to evaluate this service and engages regularly with Nest Connectors, employers and payroll providers to maintain these relationships and ensure it has an effective and competitive proposition.

Future scheme administration service risk

One of Nest Corporation's key outsourced contracts, the scheme administration contract, is due to expire in 2023. Nest is running a programme to procure future scheme administration requirements. This will ensure that Nest Corporation continues to meet its scheme and statutory duties and remains effective and efficient.

The future scheme administration service risk is the risk that the programme fails to deliver the necessary transformation of Nest's scheme administration services.

Key controls and mitigating actions

- A programme-specific governance structure ensures that decisions are made appropriately.
- This programme has identified critical success factors, their related risks and mitigation and controls activities for the procurement. There are structures in place to ensure success factors are achieved, mitigation and control activities occur and the future scheme administration procurement is assured.
- The programme regularly reassesses the impacts, if any, it has on the overall risk exposure for Nest Corporation through an impact assessment across all principal risks.

Conflicts arising from Nest Corporation's government funding/sponsorship risk

This is the risk of conflict between Nest Corporation, a public corporation, and its sponsoring department, the Department for Work and Pensions (DWP), or the government, which provides funding through a loan facility.

The DWP has a wide pensions policy agenda and the government has an even broader interest in promoting the general health of the UK economy. In contrast, Nest Corporation's sole function is to be Trustee of an occupational pension scheme and act in the interests of its members.

These differing remits and interests could cause conflicts. As government policy develops, Nest Corporation will continue to fulfil its public service obligation and act in scheme members' interests.

Key controls and mitigating actions

- Nest Corporation has key relationships at a strategic level with central government and the DWP, as well as an agreement with the DWP setting out its operating framework and accountabilities.
- Nest Corporation has a governance structure in place designed to ensure that appropriate decisions can be made, and that the Board acts in scheme members' interests.

Processing core scheme financial transactions

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

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

Nest Corporation operates a primarily outsourced business model. The processing of these transactions is undertaken on behalf of the Trustee by the scheme administrator, Tata Consultancy Services (TCS), the investment funds administrator, State Street Bank and Trust Company (SSB), and investment managers as detailed on pages 68 to 69.

The Board has reviewed the process for monitoring the services provided by these key outsourced service providers including consideration of:

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

In addition, Nest Corporation commissions an independent assurance report, prepared in accordance with the Audit and Assurance Faculty (AAF) 02/07, which provides assurance of the scheme's overall controls framework including the processing of core scheme transactions. TCS also provides Nest Corporation with an independently audited annual AAF 01/06 report which tests the operational effectiveness of their administration controls framework.

Automated reconciliation of core scheme financial transactions is carried out by the scheme administrator, TCS and the investment funds administrator, State Street Bank and Trust Company. Reconciliations are performed for all member records on daily, weekly and monthly cycles and reported to Nest Corporation accordingly.

The Trustee has in place contractual requirements and service levels which cover the accuracy and timeliness of the processing of core transactions including those relating to investments and payments out to members. These service levels have been consistently met during 2019/20.

On a monthly basis a Nest governance meeting considers detailed information on the administration of the scheme, including reporting against service levels, the sustainability of key elements of the service, compliance reporting, risks and activities undertaken by TCS to mitigate these risks.

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

These monitoring and reporting activities, together with the multiple sources of assurance, enables the Trustee to be confident that core financial transactions were processed promptly and accurately during 2019/20 and that the requirements for processing core financial transactions specified in the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (regulation 24) have been met.

"The Trustee has a specific responsibility to ensure that core scheme financial transactions are processed promptly and accurately."

Charge levels

The Nest pension scheme has the same charge for all members, no matter who their employer is, what their level of contributions is or which retirement fund they invest in.

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

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

Nest's annual management charge covers all custodian, accounting and legal costs. There are no other charges for members, so the annual management charge also meets the definition of the total expense ratio. This charge structure applies to all the retirement funds offered by Nest, including the default funds.

Nest's investment return figures are net of costs and charges including the annual management charge and transaction costs but not the contribution charge. See page 14 About Nest's charges for more details.

See Appendix 4 on page 114 for illustrations of the cumulative effect of Nest's costs and charges on members' pots over time using three different age profiles. These figures are based on qualifying earnings figures for 2020/21.

The illustrations were prepared in line with guidance issued by DWP in Reporting costs, charges and other information: guidance for trustees and managers of relevant occupational schemes (September 2018).[12]

12 gov.uk/government/publications/reporting-costs-charges-and-other-information-guidance-for-trustees-and-managers-of-occupational-pension-schemes

Transaction costs

The transaction costs for the default Nest Retirement Date Funds are detailed in Appendix 3 on pages 112 to 113. Nest does not charge these costs separately but accounts for them within the overall investment returns.

Transaction costs for the Nest Retirement Date Funds are between 0.000 and 0.062 per cent. Transaction costs for other Nest fund choices are between 0.000 and 0.046 per cent.

The explicit transaction costs and dealing spreads of the individual Nest Retirement Date Funds vary depending on the types of investment that they hold. Some asset classes, such as money market investments, have no explicit transaction costs. Others, such as property, incur higher costs due to associated legal, survey and valuation fees and stamp duty. This does not alter the rationale for investing in such assets, and differing transaction costs should not be used in isolation as a measure of value for money.

When trading in investments there are also implicit costs, which are the difference between the buying and selling prices of securities or property, commonly known as the bid-offer spread.

There are also implicit costs due to market impact. Market impact is the amount the prices of securities move against investors when they buy or sell.

Nest structures its funds to minimise trading costs. This, in effect, creates an internal market between Nest Retirement Date Funds. Funds which are reducing exposure to certain asset classes in accordance with their investment strategy and asset mix can transfer those investments to funds seeking to increase their exposure.

This internal market also keeps costs down for members leaving the scheme and those joining. New member contributions can be used to balance investment allocations and provide cash flow for paying lump sums to members taking their money out.

The scheme's positive cash flow also means that Nest can continually rebalance funds to be in line with its target asset allocations without having to sell less liquid assets. Nest Corporation frequently analyses costs and spreads.

Default arrangements

Most members do not make an active investment choice when they join the Nest scheme. This means they are automatically enrolled into the default strategy. The Trustee is responsible for the scheme's investment governance, which includes setting and monitoring the investment strategy for the scheme's default arrangement.

Nest's default strategy is made up of a series of yearly target date funds known as the Nest Retirement Date Funds, which are invested based on how far away members in each fund are from their expected retirement date.

Members can change their Nest Retirement Date Fund at any time without charge to reflect a different expected retirement year.

Each Nest Retirement Date Fund has the objective of outperforming inflation after charges over the long term. It does this by taking the appropriate risk on members' behalf at different times in their savings career.

Details of the objectives and the Trustees' policies regarding the default arrangement can be found in the SIP, included in Appendix 5 on page 120.

Nest's default funds

In delivering the overall investment objective for the Nest scheme's default strategy, the Nest Retirement Date Funds, the Trustee pays attention to the following supporting objectives:

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

The Trustee recognises that there will at times be tensions between these supporting objectives and will seek to find an appropriate balance between them when this arises.

The Nest scheme and its default funds have been designed so that members, the vast majority of whom do not wish to take an active role in the investment process, can be confident in how their contributions are invested. The availability of a well constructed, low-cost default fund is an essential part of auto enrolment and is central to Nest's investment approach.

As at 31 March 2020, 99.2 per cent of members were invested in the default Nest Retirement Date Funds.

The default funds' glide path

The varying allocation between higher risk and lower risk assets through time is known as the glide path. Nest Corporation has split the glide path into four phases: foundation, growth, consolidation and post retirement.

The foundation phase

The foundation phase refers to the early years of younger members' working lives as they develop the savings habit. This phase typically lasts five years. The objective for the foundation phase is to keep pace with inflation, as measured by the consumer price index (CPI), after charges (see page 63).

The growth phase

The growth phase is where the maximum growth in assets is being targeted through asset classes that are expected to grow in value relative to inflation. The objective for this phase is to outperform CPI inflation by 3 per cent a year after charges (see page 63) over the long term.

The consolidation phase

The consolidation phase prepares a member's assets for retirement and typically begins 10 years before their Nest Retirement Date Fund matures. Investments in this phase are progressively switched out of higher risk assets and into lower risk investments. The primary objective of the consolidation phase for funds maturing after 2020 is to outperform CPI inflation after charges (see page 63) while aiming to progressively reduce investment volatility as a member's fund approaches maturity. For Nest Retirement Date Funds maturing through 2020, the consolidation phase objective is to manage the risks associated with converting a member's accumulated savings into a cash lump sum.

The post retirement phase

The post retirement phase is for those members who have not chosen to withdraw all their savings when their Nest Retirement Date Fund matures.

Those members whose pot size is below £10,000 will be automatically moved into the Nest Post Retirement Date Fund. This fund will invest in asset classes with low volatility in order to minimise conversion risk, as members are expected to access their pots and take one, or a number of, uncrystallised funds pension lump sums relatively quickly.

Those members who are aged 60 to 70 and whose pot sizes are £10,000 or more, will be automatically moved to the Nest Guided Retirement Fund (NGRF). This is an investment strategy consisting of four sub funds. Members will have different allocations in each of the sub funds depending on their age. As they get older and progress through the strategy they will be gradually de-risked from a sub fund which has an objective of outperforming CPI inflation after all charges (see page 63) to a sub fund that is predominantly invested in liquid, low-volatility assets, or assets that reduce conversion risk for the purchase of a later life annuity at the age of 85. Nest manages and invests the member's pot with the aim of providing them with sustainable withdrawals until age 85. The remaining pot can then be used to purchase a lifetime income from age 85, if the member wishes.

Review of the default fund

A review of the default funds and the Statement of investment principles (SIP) (see page 120) must take place at least every three years and without delay after any significant change in investment policy.

On an annual basis, the Board reviews whether Nest Corporation's investment approach is aligned with its SIP. The investment committee meets quarterly to review the investment approach and the performance of the default Nest Retirement Date Funds and Nest's other fund choices.

After considering the written advice of Nest Corporation's Chief Investment Officer (CIO), the Board updated the SIP in September 2019. This brought the SIP in line with new requirements to include a scheme's policies in relation to:

- Financially material considerations, including those relating to environmental, social and governance (ESG) considerations such as climate change, over the appropriate time horizon of the scheme's investments.
- The exercise of the rights, including voting rights, attaching to the scheme's investments, and undertaking engagement activities in respect of the investments.
- The extent to which members' views on non-financial matters are considered in the selection, retention and realisation of investments.

The Board also updated the SIP in January 2020 to account for the establishment and authorisation by the Financial Conduct Authority (FCA) of Nest Invest as an occupational pension scheme firm. Nest Invest provides regulated investment advice to, and undertakes some investment management on behalf of, the Trustee.

The Board further updated the SIP in March 2020 to reflect the creation of the Nest Guided Retirement Fund as a fund choice and as part of the default strategy. In addition changes were made to reflect new regulatory requirements that will come into effect in October 2020. These are mainly concerned with the monitoring of external fund managers.

The SIP as at 31 March 2020 is included in Appendix 5 on page 120. The latest version of the SIP is available online at **nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/statement-of-investment-principles.html** or by request using the contact information on page 104.

The next full review of the default Nest Retirement Date Funds and the SIP is due to take place no later than March 2023.

The Nest investment approach is determined following extensive and continuing research into scheme member characteristics, circumstances and attitudes. This research is a mixture of quantitative data on socioeconomic characteristics of the scheme's membership, qualitative research into members' attitudes towards and aspirations for their retirement savings and, increasingly, management information about members' savings patterns and behaviours. The Board reviewed the latest available data in September 2018 to ensure Nest's default strategy and other fund choices remain suitable for members.

The Board assessed the default strategy and performance of the default funds and other fund choices in May 2019. This included analysis and consideration of the following key issues:

- Performance of Nest's default funds against objectives.
- Performance of each fund's underlying asset class building blocks against their benchmarks.
- Three-year return by volatility.
- Performance attribution.
- Active and passive manager performance.
- Fund management costs.
- Consideration of written advice from the Chief Investment Officer.

The review process was informed by an understanding of the membership that the scheme has developed and that Nest Corporation continues to test through research.

The Board and staff of Nest Corporation as Trustee of the Nest scheme assesses the historic performance of the default funds against investment objectives which are aligned with the needs of the scheme's members. It also reviews the factors underlying this performance, including asset allocation, transaction costs and the performance of the fund managers that invest in the individual asset class building blocks from which the default funds are constructed. The volatility and other risks being taken by fund managers are considered, which feeds into the overall risk management of the default funds.

To ensure the ongoing suitability of the default funds, there is also a forward-looking element. This forms part of the annual review of the reference portfolios and is used to develop a view of the expected returns and volatility for each phase of the default fund's glide path.

Any recommendations from this review help to inform the advice provided to and considered by the Board with respect to the default funds.

The Chief Investment Officer is qualified to provide this advice by his ability and practical experience of investment matters. The Board has confidence that the Chief Investment Officer of Nest Corporation, now also the Chief Investment Officer of Nest Invest, has the appropriate knowledge and experience of managing investments for a trust-based scheme.

Based on this review the Board was satisfied that the strategy and returns remain consistent with the aims and objectives of Nest's default funds and other fund choices and therefore all funds remain fit for purpose. No changes were made to the existing funds.

However, over the course of the year, the Trustee has kept a close eye on the activities of members approaching their scheme retirement age (SRA). Based on surveys with members and scheme data on members' actual behaviour, it became clear that some members need more support to help manage their investments beyond their SRA. The Trustee considered a number of options, and determined to provide a more suitable investment fund for those members with relatively larger pots who may remain invested with Nest for some time after their Nest Retirement Date Fund matures.

The Trustee considered and determined what the objectives of this new fund should be based on evidence gathered and presented by teams from across Nest Corporation. In February 2020, after considering written advice from Nest Invest, the investment committee determined the strategic asset allocation to meet the agreed objectives.

The new Nest Guided Retirement Fund was introduced in March 2020 as a fund choice for members who meet the eligibility criteria. Members in the default strategy who fulfil the eligibility criteria and take no action when their Nest Retirement Date Fund matures will be invested in this new fourth phase of Nest's existing default strategy from July 2020. The SIP was updated to reflect these changes and reviewed and approved by the Board without delay in March 2020 (see The post retirement phase on page 51).

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

Value for members

The Trustee must calculate, at least annually, the charges and transaction costs that members pay. Charge levels (see page 49) and transaction costs (see page 49) are described in the relevant sections above. The Trustee must also assess the extent to which these charges and transaction costs represent good value for members, including by comparison with other options available in the market.

The Board carried out this assessment based on a review year ending 30 September 2019 using the guidance set out in The Pensions Regulator's (TPR) Code of practice 13 and the accompanying Guide to value for members.[13] The process included defining the criteria for the assessment, agreeing the evidence framework and collecting evidence for review. The completed assessment was approved by the Board on 26 March 2020.

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

13 thepensionsregulator.gov.uk/en/trustees/managing-dc-benefits/5-value-for-members

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

The benefits of Nest membership

- Scheme features[14]
- Scheme management and governance
- Scheme investment and governance
- Communications
- Administration

The costs of Nest membership

- The charges and transaction costs that a member pays.

Comparison with other schemes

- How Nest's charges compare to those of similar schemes in light of Nest's public service obligation and pricing structure that applies to all members, as well as the cap on member charges. To do this a charges comparison exercise was carried out in October 2019.

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

- Nest is delivering against members' needs and wants by providing a quality service with high standards of governance and administration to all members regardless of their level of contribution or employer size.
- Nest has an accessible online account for members to use. Help and support is available via a range of channels, alongside the guidance provided by government services.

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

- Members benefit from high-quality investment strategies and governance. Other fund choices have been made available to members should they choose not to stay in their default fund.
- Communications to members are clear and easy to understand and provide the information, help and support members might need across their savings journey.
- Nest's price structure works out to be fair given the characteristics of the membership. Nest undertakes to make sure its charges are transparent and that the effect on members' pots is clear.
- The Trustee believes that Nest's charges are comparable with the costs, charges and benefits its members might experience in other similar schemes.

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

Otto Thoresen
Chair, Nest Corporation

25 June 2020

1.4

Statement of Trustee responsibilities for the financial statements

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

- Show a true and fair view of the financial transactions of the scheme during the scheme year, and of the amount and disposition at the end of the scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.
- Contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice (SORP): Financial Reports of Pension Schemes.

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

- Assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.
- Using the going concern basis of accounting unless it either intends to wind up the scheme, or has no realistic alternative but to do so.
- Making available on an annual basis, commonly in the form of a Trustees' annual report, information about the scheme prescribed by pensions legislation, which it should ensure is consistent with the accompanying financial statements.

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

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

Otto Thoresen
Chair, Nest Corporation

25 June 2020



Chapter 2

Investment report



2.1

Statement of investment principles

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

The Trustee updated its SIP in September 2019 to reflect changes to reporting requirements on policies including its stewardship policy, and then in January 2020 to reflect the establishment of Nest Invest as a wholly owned subsidiary of Nest Corporation. It further updated the SIP again in March 2020 to reflect the establishment of the Nest Guided Retirement Fund.

The investment committee meets on a quarterly basis to review the investment approach and confirm that it is in line with the SIP. Since January 2020 this meeting includes a review of Nest Invest to confirm that it is operating in accordance with the investment management agreement between Nest Corporation and Nest Invest. The Trustee is satisfied that all investments during the year were made in accordance with the SIP.

The SIP as at 31 March 2020 is included in Appendix 5 on page 120. The latest version of the SIP is available online at **nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/statement-of-investment-principles.html** and by request using the contact information on page 104.

Nest funds

Based on Nest Corporation's understanding of the diverse needs of its membership, it has developed an approach to investment that offers:

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

"Nest's approach to investment offers a well constructed default strategy that has clear return objectives and a carefully managed risk profile."

2.2

Implementation report

New regulations introduced in 2019 require trustees to produce an annual implementation report setting out how they have acted on their Statement of investment principles (SIP). These regulations come into force in October 2020 and the implementation report will be a legal requirement for the Nest scheme's Annual report and accounts from 2020/21 onwards. Nest has produced this implementation report a year early in the interests of transparency and good practice.

Responsible investing and stewardship

The Trustee has a voting and engagement policy, which is published on Nest's website[15] and available to all customers and stakeholders.

This policy is regularly reviewed and updated to ensure it remains in line with best practice and the latest evidence and research. Nest Corporation reviewed the policy during 2019/20 and presented an updated version to the investment committee for review in February 2020.

When the Trustee appoints equity fund managers it provides them with this voting policy, so they know its position at shareholder meetings. Nest Corporation publishes how its managers are voting in relation to its voting policy and uses this to hold its fund managers to account on decisions they make. It also publishes a report quarterly on its website on the votes its managers make.

Nest Corporation reports each year on its voting and engagement activities in its responsible investment report.[16]

It also monitors its fund managers and regularly reviews how they are implementing their stated investment strategy, including consideration of environmental, social and governance (ESG) risks.

During the year, Nest Corporation surveyed members on their views and understanding of responsible investment, how their retirement fund is invested and particular social and environmental themes. Around three quarters of Nest's members continue to say it is important that Nest invests their money in a way that takes account of how companies behave on social and environmental issues. Only 11 per cent say this is not important to them.

Further details on Nest Corporation's responsible investment activities over the year can be found in the annual responsible investment report.

15 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment/how-we-voted.html

16 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment/responsible-investment-reports.html

Management of Nest assets

During 2019/20 the Trustee awarded five new mandates covering private credit and global investment-grade bonds. The procurements followed a rigorous and transparent process, including meeting in person at the offices of shortlisted managers where Nest staff were able to test the knowledge and implementation of the managers' stated investment strategy across each team.

Nest Corporation also issued a tender for three private infrastructure equity mandates and is currently reviewing responses.

The Nest investment team conducts regular fund-manager monitoring meetings to scrutinise managers' performance against key metrics. From January 2020 these reviews are done by Nest Invest.

In the interests of delivering value for members, Nest Corporation has held its fund managers to account on costs and driven efficiencies in line with its growing scale.

Types of assets held

As at 31 March 2020, 91.2 per cent of the Nest scheme's assets were invested in regulated markets.

Some of the scheme's fund managers have used derivatives over the last 12 months for efficient portfolio management purposes. Nest Corporation carefully monitors the use of derivatives within the scheme's portfolios.

The use of derivatives is set out in the investment management agreement between Nest Corporation and Nest Invest. The scheme has not used derivatives directly in the last 12 months.

Since January 2020, Nest Invest has provided advice to the Trustee about a range of new asset classes. Section 36 letters, which are required to ensure trustees have taken appropriate advice on the suitability of funds before investing, have been provided by Nest Invest and Nest Corporation's consultants, where required. Both Nest Invest and Nest Corporation's consultants are authorised and regulated by the Financial Conduct Authority (FCA).

The balance between different types of investments

Every year Nest Corporation conducts a review of its reference portfolios. This was last done in February 2020.

The Trustee is confident that the scheme's portfolios remain appropriately diversified across both asset classes and fund managers. It monitors this based on a range of metrics.

Illiquidity

The Nest scheme's assets are primarily invested in liquid markets and there is sufficient liquidity to manage outflows. In 2019/20 Nest Corporation has begun investing in less liquid private credit assets because, as a long-term investor, it believes there are opportunities for members to benefit from the illiquidity premium they offer. Nest Corporation has created an illiquidity committee reporting to the Chief Investment Officer to ensure it manages its cash flows efficiently and that assets are valued appropriately as it grows its illiquid portfolio. However, the scheme is strongly cash-flow positive, with strong annual inflows. The Trustee therefore has no current concerns about liquidity.

Investment risk

The SIP identifies the investment risks that the Nest scheme faces, and Nest Corporation as Trustee of the scheme reviews these risks annually. This annual review sets out the Trustee's appetite for the different types of investment risks. The last review, conducted in February 2020, approved the following positions:

- **Inflation risk**
  The Trustee invests in a diversified range of growth and real assets which are likely to grow in real terms. Inflation hedging is too expensive to undertake.
- **Pension conversion risk**
  In the consolidation phase, the Trustee increases the proportion of assets that more closely match how it expects scheme members to use their pots in retirement. The Trustee's minimal risk appetite is a key motivator in the development of the Nest Guided Retirement Fund.

- **Market risk**
  The Trustee actively takes risk in a range of investment markets where it believes the risk is rewarded in order to generate investment growth for scheme members.
- **Counterparty risk (1)**
  The Trustee has zero appetite for default on settlement of investments, custody of investments or fund managers, as this risk is unrewarded and reputationally damaging in the event of default.
- **Counterparty risk (2)**
  However, the Trustee believes credit risk is rewarded in the debt markets, and therefore accepts there will be, from time to time, defaults by corporate borrowers.
- **Operational risk**
  Nest Corporation seeks to provide reliable and resilient investment and operational infrastructure. Business decisions are taken in the context of minimising the impact on operational reliability and resilience.
- **Liquidity risk**
  Most of the scheme's investments are in liquid assets which can be quickly realised as required. However, the Trustee believes there is an illiquidity premium which it should reap for scheme members given their long-term investment horizon.
- **Valuation risk**
  The Trustee invests primarily in liquid quoted assets to manage the valuation risk. However, the Trustee accepts that with illiquid assets the day-to-day valuations will not be completely accurate. The extra reward from investing in these assets, combined with the relatively small proportion of illiquid assets and therefore the minor impact of such valuation discrepancies, makes it open to this risk.
- **Environmental, social and governance (ESG) risk**
  Nest Corporation along with its fund managers seeks to understand and manage ESG risk in the scheme's portfolios as it does not believe these risks are rewarded over the long term. However, due to the nature of the portfolios and the challenge in identifying, evaluating and mitigating these risks, it has to tolerate a significant amount of ESG risk in the funds.
- **Currency risk**
  Investments denominated in currencies other than the scheme's base currency carry the risk of adverse exchange rate movements. This risk is generally considered to be unrewarded, albeit over the long term. The Trustee looks to manage currency risk by hedging a proportion of the scheme's foreign currency exposure back into sterling while assessing the costs and benefits of such hedging.

Targeted return on investments

The investment strategy for the default funds and the other fund choices is expected to meet investment objectives over the long term.

Realisation of investments

Given the age profile of Nest's membership, the number of members taking their money at retirement remains very low and there has been little transfer activity over 2019/20. The Trustee is comfortable that the scheme funds are positioned appropriately for the level of demand for realisation of investments.

Policy on divestment

In general, divestment or exclusion goes against Nest Corporation's principles of corporate engagement and responsible investment. However, in certain rare circumstances the Trustee believes this is merited, for example with regards to controversial weapons.

In 2019/20 Nest Corporation delivered a report to the investment committee which provided confirmation from all fund managers that they are operating in line with Nest's policy on the exclusion of controversial weapons.[17]

Fund choices

Nest's other fund choices, beyond the default strategy, are performing in line with expectations.

Nest Corporation conducts research to check that the other fund choices it has in place are suitable for the scheme's membership. Research in 2017 found that a majority of the members who know that there are other fund choices available are satisfied with the type and number of those fund choices. However, a majority of members (56 per cent) are not aware that there are fund choices.

17 nestpensions.org.uk/schemeweb/dam/nestlibrary/Divestment-controversial-weapons-policy.pdf

2.3

Nest Retirement Date Funds

When members join the Nest pension scheme, their contributions are invested by default into a Nest Retirement Date Fund unless they actively choose a different fund (see Nest's other fund choices on page 64).

A member's default Nest Retirement Date Fund will match either their State Pension age or age 65, depending on the member's date of birth.

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

Members can change their Nest scheme retirement age (SRA) at any time and their retirement pot will be switched automatically into the matching Nest Retirement Date Fund.

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

There are 49 separate Nest Retirement Date Funds. These, plus the post retirement fund paths, the Nest Guided Retirement Fund and the Nest Post Retirement Fund (see page 64) make up Nest's default strategy.

> **"The overarching investment objective for the Nest Retirement Date Funds is to target investment returns in excess of inflation after all charges over the long term."**

Default investment strategy and phased risk management

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

Nest uses a reference portfolio approach to risk management. This is described, together with Nest's views on asset classes and how it accesses them, on Nest's website.[18] The Nest Retirement Date Funds' four phases – foundation, growth, consolidation and post retirement – each have distinct objectives which focus on the needs of members at different times in their savings career. The objectives of the four phases of risk management are set out in the table to the right.

Foundation phase objectives	Preserve capital while seeking sufficient return to match inflation after all charges (see page 78) over the long term. The Trustee expects to achieve this with average investment volatility of around 7 per cent over the long term. Significantly reduce the likelihood of extreme investment shocks.
Growth phase objectives	Target investment returns at least equivalent to inflation plus 3 per cent after all charges (see page 78) over the long term. The Trustee expects to achieve this with average investment volatility of between 10 and 12 per cent over the long term. Aim for steady growth in real terms over the life of the fund. Maximise retirement incomes by taking sufficient investment risk at appropriate times while reducing the likelihood of extreme investment shocks.
Consolidation phase objectives	For funds maturing through to 2020: Manage the risks associated with converting members' accumulated savings into a cash lump sum. For funds maturing after 2020: Outperform inflation after all charges (see page 78) over the long term while aiming to progressively dampen investment volatility as members' fund approaches maturity.
Post Retirement phase objectives	The post-retirement phase is for those members who have not chosen to withdraw all their savings when their Nest Retirement Date Fund matures. Those members whose pot size is below £10,000 will be automatically moved into the Nest Post Retirement Date Fund. This fund will invest in asset classes with low volatility in order to minimise conversion risk, as we expect members to access their pots and take one, or a number of uncrystallised funds pension lump sums, relatively quickly. Those members who are aged 60 to 70 and whose pot sizes are £10,000 or more, will be automatically moved to the Nest Guided Retirement Fund. This is an investment strategy consisting of four sub-funds. Members will have different allocations in each of the sub-funds depending on their age. As they get older and progress through the strategy they will be gradually de-risked from a sub-fund which has an objective of outperforming CPI after all charges, to a sub-fund that is predominantly invested in liquid low volatility assets, or assets that reduce conversion risk for the purchase of a later life annuity at the age of 85. Nest manages and invests the members' pot with the aim of providing them with sustainable withdrawals until age 85. The remaining pot can then be used to purchase a lifetime income from age 85, if the member wishes.

18 nestpensions.org.uk/schemeweb/dam/nestlibrary/NESTs-strategic-asset-allocation-v1.2.pdf

2.4

Nest's other fund choices

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

Nest Ethical Fund

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

Nest Sharia Fund

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

Nest Higher Risk Fund

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

Nest Lower Growth Fund

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

Nest Pre Retirement Fund

This fund is suitable for members close to retirement who intend to take a tax-free cash lump sum and purchase an annuity or take their whole pot in cash when they retire.

Nest Guided Retirement Fund

This fund is an option for members who want to start taking money from their Nest pot in retirement. It is available for members aged at least 60 and no more than 70 who have at least £10,000 in their pot. Nest will automatically move eligible members' pots into the Nest Guided Retirement Fund if they meet the criteria above, are invested in a Nest Retirement Date Fund and do not specify what they want to do with their pot when they reach their retirement date.



When I check my pot I feel good. It's not just a deduction from my wages, it's going somewhere... I feel it's building towards something important.

Sylvia Eboigbe, Nest member
December 2019

2.5

Investment managers

All of the Nest scheme's funds are built from a range of pooled and segregated funds supplied by external investment managers, each of which is authorised and regulated by the regulatory body in the country where the fund is domiciled.

The scheme's default funds and its other fund choices invest in a diversified range of asset classes. The investment managers are selected through a competitive tender process.

The majority of the scheme's assets are invested in public markets with good liquidity and are valued daily.

A small proportion of the assets – about 11 per cent – are invested in illiquid assets which are valued by the relevant fund manager on a monthly or quarterly basis.

Nest's mandates and current managers

Policy group	Asset class	Fund manager
Cash	Money market securities	Amundi Asset Management
		BlackRock
Investment grade bonds	Fixed-interest gilts	State Street Global Advisors
	Inflation-linked gilts	State Street Global Advisors
	Public investment grade bonds	BlackRock
		BMO Global Asset Management
		Royal London Asset Management
		Wells Fargo Asset Management
Growth credit	Emerging market debt	Amundi Asset Management
	Global high yield credit	J.P. Morgan Asset Management
	Private credit	Amundi Asset Management
		BlackRock
		BNP Paribas Asset Management Nederland
Equities	Developed market equities	BMO Global Asset Management
		HSBC Global Asset Management
		UBS Asset Management
	Emerging market equities	Northern Trust Global Investments
Real assets	Direct property	Legal & General Investment Management
	Listed property	Legal & General Investment Management
	Infrastructure equity	*mandate tendered*
Alternatives	Commodities	CoreCommodity Management

Policy in relation to the Trustee's arrangement with existing asset managers

The Trustee's approach to constructing its investment strategy is to use a 'fund-of-funds' model. It works with multiple fund managers with multiple mandates for different asset classes. It is not reliant on any one fund manager to deliver the investment objectives of the default strategy or in most cases the other fund choices that members can make.

Each fund manager is procured through an open competition to find the most suitable manager for each asset class. A thorough procurement process and regular ongoing monitoring ensures that each fund manager is fully aware of the Trustee's particular objectives for any given asset class in order to align its investment approach with that of Nest and to ensure each manager is appropriately incentivised.

Nest Corporation shares a summary of its standards on issues such as responsible investment, engagement and voting, divestment, unit pricing and fair value, and the use of derivatives with fund managers as part of the procurement process, and provides managers with updates to these standards when relevant.

As part of the procurement process Nest Corporation sets out the detail of its responsible investment standards, and prospective managers are evaluated where relevant on their approach to being long-term and responsible stewards of the assets they manage on behalf of scheme members. Nest Corporation shares with its managers its SIP, within which it sets out investment beliefs about the importance of making decisions with a long-term mindset.

Nest Invest conducts regular fund-manager monitoring and meets in person with each of the managers at least once a year, and more frequently for active managers. Manager performance is reported to the investment committee on a quarterly basis. As part of its regular evaluation of fund managers to ensure they are delivering in line with the objectives for which they were appointed, Nest Corporation monitors fees and charges in the context of its ongoing market evaluation of the price of fund management services.

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

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

2.6

Custodial arrangements

The Nest scheme invests in pooled and segregated funds. When the assets are invested in pooled funds, the assets will be held by the custodians appointed by the respective asset manager.

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

Underlying funds and custodians

Underlying fund	Custodian
Amundi Funds Global Emerging Blended – IE	CACEIS Bank Luxembourg
Amundi Global Commercial Real Estate Debt Fund	Société Générale Bank & Trust
Amundi Money Market Fund	CACEIS Bank Luxembourg
BlackRock ICS Sterling Liquid Environmentally Aware Fund	J.P. Morgan Bank (Ireland) plc
BlackRock Institutional Sterling Ultra Short Bond Fund	J.P. Morgan Bank (Ireland) plc
BlackRock GBP Infrastructure Debt LP	BNY Mellon (Ireland) Ltd
BMO Responsible Global Equity Fund	State Street Bank and Trust Company
BMO Responsible Sterling Bond Fund	State Street Bank and Trust Company
BNP Paribas Diversified Private Credit Fund	BNP Paribas Securities Services, Luxembourg Branch
CoreCommodity Management Program	State Street Bank and Trust Company
HSBC Islamic Global Equity Index Fund	HSBC Securities Services (Luxembourg) SA
JPMorgan Life High Yield Opportunities Fund	J.P. Morgan Chase

Underlying fund	Custodian
LGIM Global Real Estate Equity Index Fund	HSBC Securities Services and Citibank NA
LGIM Hybrid Property Fund	HSBC Securities Services and Citibank NA[19]
LGIM Managed Property Fund	HSBC Securities Services and Citibank NA[20]
Northern Trust Emerging Markets Custom ESG Equity Index Fund	Northern Trust Fiduciary Services (Ireland) Ltd
Royal London Investment Grade Short-Dated Credit	HSBC Bank plc
Royal London UK Corporate Bond Pooled Pension Fund	HSBC Securities Services
State Street Global Advisors UK Conventional Gilts All Stocks Index Fund	State Street Bank and Trust Company
State Street Global Advisors UK Index Linked Gilts Over 5 Years Index Fund	State Street Bank and Trust Company
UBS Life Climate Aware World Equity Fund	J.P. Morgan
UBS Life Climate Aware World Equity GBP Hedged Fund	J.P. Morgan
UBS Life UK World Equity Tracker	J.P. Morgan
UBS Life World Equity Tracker Fund	J.P. Morgan
UBS Life World Ex-UK Tracker GBP Hedged	J.P. Morgan
Wells Fargo global investment grade corporate debt mandate	State Street Bank and Trust Company

19 The legal deeds are held by Eversheds Sutherland (International) LLP and Maples Teesdale LLP.
20 The legal deeds are held by Eversheds Sutherland (International) LLP and Maples Teesdale LLP.

2.7

Investment developments

The 2019/20 financial year was characterised by an uncertain investment landscape. The major event of the year was widespread market disruption caused by the coronavirus pandemic, which affected lives and livelihoods worldwide.

With governments enforcing increasingly severe measures to halt the spread of the coronavirus through the first three months of 2020, lives and livelihoods were affected around the world. Markets fell significantly and a global recession became increasingly likely.

The pace of recovery from these economic shocks will be determined by the speed with which lockdowns are unwound. If countries reopen in stages, recovery may well be gradual. In the immediate face of the crisis, cash flow for companies and individuals was a main concern. In response the UK and US governments took steps in early March 2020 to shore up credit markets.

The Nest scheme's credit portfolios have been carefully constructed to focus on investing in companies with strong cash flows to service debt and, where possible, with strong asset backing. The portfolios are also constructed to balance investments in more liquid markets with those in less liquid markets. Nest is also strongly cash-flow positive, with strong annual inflows. The Trustee therefore has no current concerns about liquidity.

Equity markets have also experienced dramatic falls and continuing volatility. The Nest scheme has a strategic equity weighting of 55 per cent for its growth phase, with the capacity to have this weighting be higher within the scheme's reference portfolio framework when appropriate. This is relatively low among UK defined contribution (DC) schemes, many of which are 70 to 100 per cent equity weighted in their default funds.

This put Nest members' funds in a stronger position going into the crisis. It also provides the Trustee with an opportunity to seek value by increasing its equity allocation while markets are down. The Trustee believes this will help Nest members to benefit once there is a return to growth.

Before the Covid-19 crisis, the Trustee had made several strategic decisions to position scheme members' investment portfolios for the future. It set up and gained Financial Conduct Authority (FCA) authorisation for its wholly-owned subsidiary Nest Invest to support the evolution of Nest's investment approach into more sophisticated areas. This move will ensure the oversight and governance of Nest's investment strategy remains robust as its assets under management, and consequently the opportunities available to it, continue to grow.

Strategic asset allocation is a key driver of returns. As Nest Invest continues to evolve the scheme's investment strategy this will be an important area for analysis and development. Nest Corporation has conducted comprehensive research on international best practice in this area and will be acting on lessons learnt. These include, but are not limited to, strengthening the decision-making processes and structures of the Nest Invest team and enhancing its in-house capabilities in strategic asset allocation.

This will be vital as Nest Corporation moves into more asset classes. For example, in 2019/20 Nest Corporation brought private credit into its asset mix. This move is designed to exploit new investment opportunities in a low-growth environment and align members' investments to appropriate long-term horizons. A significant portion of the allocation to private credit will be targeted at positive impact sectors including renewable energy projects such as wind power, solar power and smart meter development.

Nest Corporation is in the process of seeking managers for new private infrastructure equity mandates as well, including direct allocations to green energy and UK infrastructure assets. It believes these investments can offer stable, long-term returns even in difficult market conditions, gaining from the economic shift away from fossil fuels and contributing positively to global efforts to tackle climate change.

It has also added global investment-grade bonds to its portfolios to build on the success of its UK corporate bond mandate. The environmental, social and governance (ESG) credentials of the fund manager Nest Corporation chose were a key part of its selection decision. Evidence shows that companies with good ESG practices are more likely to sustain long-term value, and Nest Corporation believes these are vital factors in assessing creditworthiness. Nest Corporation has instructed its fund manager to actively consider attractive opportunities in green bonds. It believes the growing green bond market could provide new sources of return for scheme members while helping to position their funds ahead of the global energy transition.

Nest Corporation's approach to responsible investment is part of its fiduciary duty to members. For example, in June 2019 Nest announced it would be going tobacco-free across its investments within two years. This decision was based on its analysis of the increasingly unsustainable financial futures of tobacco companies. Nest Corporation also announced it would be testing ways to align its equity allocation further and faster with global climate change efforts, including whether Nest's Climate Aware Fund – one of the underlying funds that makes up part of the default scheme's strategy – can meet a 1.5C global warming target.

Nest Corporation published its latest responsible investment report, *Paving the way*, in December 2019. The report details the actions Nest has taken across its portfolio to manage ESG risks and opportunities.[21]

21 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment/responsible-investment-reports.html

As measured by the performance of the 2040 fund, annualised total returns net of annual management charge over the year to 31 March 2020 were minus 5.8 per cent. The benchmark returns of the consumer price index (CPI) plus 3 per cent was 4.5 per cent in the same period. Over a five-year period annualised returns to 31 March 2020 were 4.6 per cent compared to the benchmark returns of 4.8 per cent. (See Why do we refer to the 2040 fund? on page 14.)

Periods of volatility are to be expected in pension saving. While equity markets have predominately experienced growth in the last decade, Nest Corporation's investment approach has always anticipated that this growth would eventually be interrupted, as is currently being experienced around the world.

Significant short-term events such as those seen over the course of the fourth quarter of 2019/20 are clearly concerning for scheme members, and Nest Corporation has taken steps to reassure them (see Covid-19 statement on page 6). While the Trustee has kept a close eye on the unfolding developments, its focus remains on the long term.

Nest Corporation will therefore continue to diversify the scheme's portfolio to help members achieve good long-term performance and help reduce the level of volatility within their investments.

Taskforce for Climate-related Financial Disclosures

The warming of the planet caused by greenhouse gas emissions poses serious risks to the global economy and will have an impact across many economic sectors in which the Nest scheme invests. The long-term time frames over which these risks and opportunities will play out are likely to have an impact on members' retirement pots, the majority of which will be invested in the scheme for over 30 years. The Trustee sees the consideration of climate change as a key part of its fiduciary duty to members and is working to embed it into Nest's wider investment strategy.

The Climate Aware Fund (CAF), which Nest Corporation helped to develop and launch in 2017, continues to be fundamental to its approach to integrating climate change risks and opportunities in the equities portfolio of the default funds. Nest's investment in the CAF has now increased to £1.3 billion. The CAF enables Nest Corporation to understand which companies in the portfolio are most at risk from climate change, which are best prepared and which are taking action. Part of this understanding comes from encouraging companies in which Nest Corporation invests to disclose a range of information on how they are managing climate-related risks and opportunities in line with the Task Force for Climate-related Financial Disclosures (TCFD).[22]

As the scheme continues to grow, Nest Corporation is increasingly investing in more illiquid asset classes and working on how to approach climate change across its whole investment approach.

The TCFD recommends that all organisations, including those in the financial sector, provide climate-related financial disclosures in their mainstream annual report and accounts. Nest Corporation has committed to disclose its approach to managing climate-related risks and opportunities in this scheme Annual report and accounts.

It is important to the Trustee that stakeholders and scheme members have transparency on how it is considering climate risks and opportunities. It is also hoped that Nest Corporation's adoption of the framework will encourage the companies in which Nest invests, its asset managers and other asset owners to follow suit. In this way, standards of reporting can be raised across the industry, and in time the TCFD should become the global standard for climate disclosure.

In line with the recommendations, the Nest scheme makes disclosures against the four thematic areas of the TCFD framework – governance, strategy, risk management and metrics and targets – using the supplementary asset owner guidance.

> **"The Trustee sees the consideration of climate change as a key part of its fiduciary duty to members."**

22 fsb-tcfd.org

Governance	What Nest is doing
a) Describe the Trustee's oversight of climate-related risks and opportunities.	Nest Corporation's investment committee manages and monitors climate-related investment risks as part of its remit of having responsibility for Nest's investment policy and strategy. Information on climate-related risk and opportunities is regularly provided through quarterly updates to the investment committee. Nest Corporation carries out a comprehensive performance review of the CAF once a year as part of the annual responsible investment report. The investment committee also has ultimate oversight of Nest's climate change policy and strategy.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	As of January 2020, day-to-day management of Nest Corporation's investment strategy is delegated to Nest Invest. This includes management of the CAF, how scheme fund managers embed climate-related decisions into the investment process and consideration of climate risk and opportunities in Nest's stewardship approach. Nest Corporation is also a member of the CAF's climate aware advisory group. The group convenes quarterly to discuss insights from engagement with companies, climate change trends and data development to improve CAF's methodology.
Strategy	**What Nest is doing**
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Nest Corporation considers both transition and physical risk resulting from climate change to be financially material. At the same time, it believes there will be opportunities to invest in companies that provide solutions to the challenge of decarbonising. It leverages CAF research to better understand the sectors of the economy that are most impacted by climate change over short-, medium- and longer-term time frames. It assesses how companies are currently positioned, for example whether their carbon emissions are rising or if they are currently generating power from coal. It also factors in companies' future position, that is, the rate at which their carbon emissions are declining. When Nest Corporation refers to carbon it means carbon dioxide equivalent CO_2e, which is a widely accepted standard for measuring emissions from all greenhouse gases.
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	Prior to helping to set up the CAF in 2017, Nest Corporation conducted research and analysis to assess how climate change might impact its portfolios. It concluded that climate change is a significant risk over the medium to long term and should be addressed. It has enhanced its investment strategy to ensure that climate-related risks and opportunities are directly addressed in the scheme's equity allocation via the CAF. Nest Corporation is now exploring ways to address climate-related risks and opportunities in other asset classes.
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios including a 2C lower scenario.	Nest Corporation's climate-aware equity strategy positively tilts towards companies that are assessed as having a higher probability of achieving the requirements of a 2C scenario. More detail on the methodology can be found at the website for the underlying fund with UBS.[23] Nest Corporation and UBS are now stress-testing the climate-aware equity strategy using a 1.5C scenario. At the same time, Nest Corporation is exploring how a 1.5C alignment might affect its asset allocation. Nest Corporation 's UK direct property fund manager Legal & General Investment Management (LGIM) is committed to modelling climate scenarios including a 2C scenario. The fund manager is working with Carbon Clear to set appropriate targets for this scenario.

23 ubs.com/uk/en/asset-management/institutional-investors/investment-capabilities/passive-etfs/index-funds/climate-aware-solution.html

Risk management	What Nest is doing
a) Describe the organisation's process for identifying and assessing climate-related risks.	The CAF allows Nest Corporation to identify the biggest climate-related risks across the scheme's equity portfolio. Where data permits, the fund manager assesses company-specific greenhouse gas emissions at scope 1, 2 and 3 levels,[24] as well as the company's carbon intensity, CO_2e growth rates, oil, coal and gas reserves and whether it generates energy from coal. Nest Corporation procures ESG data, including on climate-related metrics such as coal reserves, from Sustainalytics and RepRisk. It also uses other public data sources such as the Transition Pathway Initiative to assess companies' positions.
b) Describe the organisation's processes for managing climate-related risks.	Nest Corporation works closely with the scheme's fund managers on integrating climate risk in the investment strategy. For example, it is working with its current emerging markets equity manager Northern Trust to reduce exposure to the biggest climate risks and invest more in companies with green revenue streams. The CAF systematically increases or decreases investment in companies based on their contribution to climate change. It is built on a glide path model that plots a company's carbon footprint trend with the required carbon emission reduction target set by the International Energy Agency (IEA) for that sector. Weightings will vary and be adjusted over time based on how companies are adjusting to a low-carbon economy. Climate-related risks and opportunities are also factored into Nest Corporation's UK direct property portfolio. LGIM has been working to keep ahead of future legislation and is de-risking the portfolio by increasing the energy efficiency of portfolio assets and including sustainability requirements in the property selection and acquisition process. LGIM manages risks and opportunities through its Climate Impact Pledge and the Carbon Disclosure Project. It considers issues ranging from weather pattern impacts in insurance businesses to the opportunities to create new products that support transition to a low-carbon economy. Nest Corporation recently started to invest in private credit. Approximately 50 per cent of assets in its infrastructure debt mandate are invested in positive impact sectors like social housing, health facilities and renewable energy including wind power, solar power and smart meter providers. The fund does not invest in coal power plants and climate risk considerations must be considered in all loans. Climate change also forms a key part of Nest Corporation's stewardship activities. For companies in its equity portfolios, Nest Corporation engages with the companies that pose the biggest risk, explains why they've been underweighted and sets out its expectations for change. Nest Corporation is also part of the Climate Action 100+ investor initiative, which actively engages with the world's biggest CO_2 emitters, seeking to curb emissions and improve the governance of climate-related issues. More information on Nest's engagement strategy can be found in its annual responsible investment reports.[25] Nest Corporation's voting standards[26] include specific reference to climate change. Nest Corporation has also introduced sector-specific voting principles for more carbon-intensive sectors to reflect more stringent expectations for these higher-risk companies. It engages with its equity fund managers on their voting positions and encourages managers to support all climate-related shareholder resolutions where reasonable.
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	Nest Corporation's responsible investment team is tasked with identifying and managing climate-related risks. It works closely with the investment risk team and has developed a dashboard to keep track of this risk data across Nest's portfolios. Climate-related risk exposures are discussed at the quarterly asset allocation meetings.

24 The Greenhouse Gas Protocol defines emissions under scope 1 (direct), scope 2 (purchased electricity) and scope 3 (upstream and downstream).
25 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment/responsible-investment-reports.html
26 nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/voting-policy,PDF.pdf

Metrics and targets	What Nest is doing
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	For the CAF, Nest Corporation uses a set of metrics that guide portfolio construction towards exposures that reflect the transition to a low-carbon economy and a 2C scenario. These include company-specific greenhouse gas emissions at scope 1, 2 and 3 levels as well as a company's carbon intensity, CO_2e growth rates, oil, coal and gas reserves and whether the company generates energy from coal, or generates or supports renewable energy. These metrics help to reduce carbon risk and support the green economy, aligning the fund with its 2C trajectory. BlackRock, one of Nest Corporation's private credit managers, has developed metrics to measure the impact of financing assets, including emissions avoided.
b) Disclose scope 1, 2 and if appropriate 3 greenhouse gas emissions and the related risks.	As at 31 March 2020 the CAF had these carbon intensity exposures: — Carbon intensity scope 1: 47 tonnes of CO_2e per million-dollar revenue — Carbon intensity scope 2: 25 tonnes of CO_2e per million-dollar revenue — Carbon intensity scope 3: 125 tonnes of CO_2e per million-dollar revenue Currently, the absolute carbon emissions for scopes 1, 2 and 3 is -41 per cent, -11 per cent and -7 per cent respectively relative to the FTSE Developed Index. The current total renewable energy production and related supply chain for the fund is 40 per cent more than the index. Nest Corporation's UK direct property fund manager LGIM achieved a 21 per cent reduction in like-for-like carbon emissions in 2019 when compared with baseline 2010 performance. This exceeded the existing 10 year target to reduce carbon emissions by 20 per cent by 2020. When Nest Corporation refers to carbon it means carbon dioxide equivalent CO_2e, which is a widely accepted standard for measuring emissions from all greenhouse gases. BlackRock, Nest's private debt infrastructure manager, estimates that investments in renewable energy projects in the fund generate enough power to supply clean energy to approximately 66,000 households annually.
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Nest Corporation's ambition is to decarbonise its portfolios to help align with the target of limiting global warming to 1.5C. It is currently exploring paths to reach this goal. The CAF is currently aiming to reduce exposure to carbon intensity scopes 1, 2 and 3 by 65 per cent, 25 per cent and 12 per cent respectively by 2050 relative to the FTSE Developed Index. However, these targets are subject to review and are likely to be strengthened over time. The implied reduction target for the overall fund which is set by the IEA is -3.4 per cent. The fund also aims to target 40 per cent more renewable energy generation relative to the index. Nest Corporation's direct property manager LGIM works with a specialist consultancy to ensure that its targets are in line with climate science. Its science-based target for 2030 is to reduce the carbon intensity of its assets by 60 per cent. This milestone target is also in line with LGIM's overarching aim of achieving net-zero carbon for all real estate assets by 2050, as a signatory to the Better Buildings Partnership's Climate Change Commitment.

2.8

Investing responsibly

Financially material considerations

Financially material considerations include but are not limited to environmental, social and governance (ESG) considerations such as climate change. The Trustee considers that these matters could have a material impact on scheme investments.

One of the Trustee's investment beliefs is that, as long-term investors, integrating ESG considerations into the investment management process improves risk-adjusted returns.

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

The Trustee requires its fund managers where appropriate to integrate ESG factors into their investment analysis and decision-making process.

Nest Corporation's investment team regularly monitors its fund managers in this regard. On an annual basis the investment committee receives a report on fund managers' voting performance and approach to responsible investing more generally.

The Trustee expects its fund managers where appropriate to have integrated climate risk into their risk analysis and investment process. Where appropriate and practical, the Trustee will take this into account in the selection of new fund managers.

When monitoring the performance of fund managers, the Trustee will also regularly consider how fund managers are performing with reference to climate risk issues.

More details about Nest Corporation's approach to financially material considerations are set out in its Statement of investment principles (SIP). The SIP as at 31 March 2020 is included in Appendix 5 on page 120. The latest version of the SIP is available online at **nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/statement-of-investment-principles.html** and by request using the contact information on page 104.

Non-financial matters and Nest's investment strategy

'Non-financial matters' means the views of Nest's members and beneficiaries. This includes but is not limited to their ethical views and views related to social and environmental impact, as well as the present and future quality of life of scheme members and beneficiaries.

The Trustee does not currently take into account members' views on non-financial matters in the selection, retention and realisation of investments for its default funds. It provides other fund choices where members' views on non-financial matters can be sought and expressed.

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

Nest Corporation surveys members about Nest's responsible investment approach in general and provides an annual report on its responsible investment activities to scheme members and stakeholders.[27]

More details about Nest's approach to non-financial considerations are set out in its Statement of investment principles (SIP).

27 nestpensions.org.uk/schemeweb/dam/nestlibrary/paving-the-way-2019.pdf

Nest's stewardship policy

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

The Trustee takes its responsibilities as an asset owner seriously. Nest Corporation works closely with the scheme's fund managers to support good corporate behaviour. Part of the procurement process for choosing fund managers involves ensuring their voting policies are well thought out and documented.

The Trustee, or its agents on its behalf, exercises its ownership rights, including voting and engagement with investee companies on matters including performance, strategy, risks, social and environmental impact, and corporate governance, to safeguard sustainable returns in the long term.

The Trustee's scheme-specific voting and engagement policy[28] sets out how the Trustee expects its voting and engagement rights to be exercised. This policy documents the Trustee's position and expectations to its fund managers on good corporate behaviour. It is used to monitor and hold fund managers to account on the decisions they make, as well as enabling Nest Corporation to have healthy discussion and debate with the scheme's fund managers.

The Trustee always seeks to vote and engage in the interest of its members and encourages its fund managers to consider its voting policy in their voting decisions.

28 nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/voting-policy,PDF.pdf

Each year Nest Corporation publishes a voting summary report[29] setting out how all its fund managers have voted and how this compares to Nest's voting policy. The votes that the scheme's fund managers make are published on Nest's website every quarter.

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

Responsible investment and stewardship

Given the systemic nature of climate change, the Trustee seeks to discharge its duties through robust engagement, alongside its fund managers, with the companies in which Nest invests. It encourages alignment with a low-carbon economy and engages with policymakers and governments to advocate for the same.

Nest Corporation reports to scheme members and stakeholders on its stewardship activities through its annual responsible investment report.[30] It has signed up to the UK stewardship code[31] and the UN-supported Principles for responsible investment.[32]

More details about Nest's stewardship are set out in its Statement of investment principles (SIP).

29 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment/how-we-voted.html
30 nestpensions.org.uk/schemeweb/dam/nestlibrary/paving-the-way-2019.pdf
31 frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code_Dec-19-Final-Corrected.pdf
32 unpri.org

2.9

Fund performance

The major event of the 2019/20 financial year was the widespread market disruption caused by the coronavirus pandemic, which led to falls in most asset classes. Nest funds experienced these falls to a greater or lesser degree, with members closest to retirement in the default strategy largely protected. See page 70 Investment developments.

Fund[1]	Objective or benchmark	Fund performance one year to 31 March 2020	Objective or benchmark returns over one year to 31 March 2020
		%	%
Nest Retirement Date Fund in the foundation phase[4]	CPI *	-3.4	1.5
Nest Retirement Date Fund in the growth phase[5]	CPI + 3% **	-5.8	4.5
Nest Ethical Fund in the growth phase	CPI + 3% ***	1.3	4.5
Nest Sharia Fund	Dow Jones Islamic Titans 100 Index	8.1	6.5
Nest Higher Risk Fund	****	-8.6	-
Nest Lower Growth Fund	*****	0.4	0.0
Nest Pre Retirement Fund		4.8	-

Notes

1. There was less than one month of performance for the Nest Guided Retirement Fund this financial year. These funds will be included in performance tables from financial year 2020/21 onwards.
2. Inception for all funds is 1 August 2011 except for the 2062 Nest Retirement Date Fund, for which inception is 1 January 2016.
3. Inception for all funds is 1 August 2011 except for the 2062 Nest Retirement Date Fund, for which inception is 1 January 2016.
4. 2062 Nest Retirement Date Fund.
5. 2040 Nest Retirement Date Fund.

* Nest Retirement Date Funds in the foundation phase have an objective to target investment returns equivalent to consumer price index (CPI) inflation and coverage of all scheme charges.

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

Annualised fund performance three years to 31 March 2020	Annualised objective or benchmark returns over three years to 31 March 2020	Annualised fund performance five years to 31 March 2020	Annualised objective or benchmark returns over five years to 31 March 2020	Annualised fund performance since inception[2]	Annualised objective or benchmark returns since inception[3]
%	%	%	%	%	%
1.4	2.0	-	-	5.0	1.9
0.8	5.0	4.6	4.8	7.0	4.8
5.2	5.0	7.2	4.8	9.2	4.8
8.7	9.0	11.0	11.6	12.2	12.9
0.0	-	5.0	-	7.9	-
0.7	0.0	0.5	0.0	0.3	0.0
2.9	-	2.8	-	4.5	-

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

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

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

2.10

Employer-related investments

The scheme is not in contravention of subsection (1) of section 40 of the Pensions Act 1995. See note 9.1 of the financial statements and the table in Appendix 1 on page 108.



Chapter 3

Financial statements



3.1

Independent auditor's report to the Trustee of the Nest pension scheme

Opinion

We have audited the financial statements of National Employment Savings Trust (the scheme) for the year ended 31 March 2020 which comprise the Fund account and the statement of net assets (available for benefits) and related notes, including the accounting policies in note 2 on page 89.

In our opinion the financial statements:

- Show a true and fair view of the financial transactions of the scheme during the scheme year ended 31 March 2020 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.
- Have been properly prepared in accordance with UK accounting standards, including FRS 102: the financial reporting standard applicable in the UK and Republic of Ireland.
- Contain the information specified in regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

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

Going concern

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Trustee's conclusions, we considered the inherent risks to the scheme and analysed how those risks might affect the scheme's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the scheme will continue in operation.

Other information

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

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

Trustee's responsibilities

As explained more fully in its statement set out on page 54, the scheme Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to wind up the scheme, or has no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

Nadia Dabbagh-Hobrow
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

25 June 2020

3.2

Financial statements

Fund account for the year ended 31 March 2020

	Note	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Contributions and benefits			
Contributions - employers	3	1,949,477	1,229,613
Contributions - members	3	2,256,789	1,313,266
Contributions - HMRC	3	565,687	327,791
Transfers in	4	186,926	69,586
Other income		200	-
		4,959,079	**2,940,256**
Benefits	5	(140,654)	(50,001)
Administrative expenses	6	(107,374)	(61,262)
Net additions from dealings with members		**4,711,051**	**2,828,993**
Returns on investment			
Investment income and management fee rebates	7	22,360	9,219
Change in market value of investments	8.1	(753,835)	272,667
		(731,475)	**281,886**
Net increase in the fund during the period		**3,979,576**	**3,110,879**
Net assets of the scheme at the start of the period		**5,949,315**	**2,838,436**
Net assets of the scheme at the end of the period		**9,928,891**	**5,949,315**

Statement of net assets (available for benefits) as at 31 March 2020

	Note	31 March 2020 £000	31 March 2019 £000
Assets and liabilities allocated to members			
Investment assets			
Equities	8.1	43,048	44,788
Bonds	8.1	541,742	158,960
Pooled investment vehicles	8.1	8,720,997	5,464,545
Derivatives	8.1	12,163	5,457
Foreign currency cash	8.1	78,511	18,050
Other investment assets	8.3	258,027	26,489
Total assets		**9,654,488**	**5,718,289**
Investment liabilities			
Derivatives	8.1	(57,652)	(4,560)
Other investment liabilities	8.3	(80,786)	(26,390)
Total investments		**9,516,050**	**5,687,339**
Net current assets			
Current assets	9.1	433,684	278,416
Current liabilities	9.1	(21,208)	(16,486)
Total net assets allocated to members		**9,928,526**	**5,949,269**
Assets and liabilities not allocated to members			
Net current assets			
Current assets	9.2	831	225
Current liabilities	9.2	(466)	(179)
Total net assets not allocated to members		**365**	**46**
Total assets of the scheme at the end of the period		**9,928,891**	**5,949,315**

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the Trustee. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the scheme year. The financial statements on pages 86 to 87, including the notes to the financial statements on pages 88 to 103, were signed on behalf of Nest Corporation by:

Otto Thoresen
Chair, Nest Corporation
25 June 2020

Clive Elphick
Chair, Audit Committee
25 June 2020

3.3

Notes to the financial statements

1. Basis of preparation

The Nest pension scheme is established as a trust under English law. The address for enquiries is Nest Corporation, 10 South Colonnade, Canary Wharf, London, E14 4PU.

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

1.1 Going concern

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

The Trustee has considered a severe but plausible downside scenario in respect of the scheme's contributions and assets under management for at least 12 months from approval of these financial statements. The severe but plausible downside scenario considered is markets falling and not recovering for the next 18-24 months and contributions being below the pre-Covid forecast level for 2020/2021 and 2021/2022. The Trustee has several mitigating actions that could be used should the need arise including the use of provisions and reserves as well as savings from the budget and asset management fees.

While the impact of the Covid-19 situation cannot be accurately predicted and it is not possible to assess all possible future implications for the scheme, based on this analysis and taking into account the mitigations available, the Trustees believe that the scheme has a secure financial position that will enable it to trade through the current disruption. The Trustees therefore have a reasonable expectation that the scheme will be able to continue in operation and meet its liabilities as they fall due over at least the next twelve months and that the going concern basis of accounting remains appropriate.

The going concern statement of Nest Corporation has been updated in light of the pandemic. (See Nest Corporation's Annual report and accounts on the Nest website.[33]) In summary, Nest Corporation continues to be a going concern based on four key considerations:

Loan funding from government: Nest Corporation is financed in part through a loan agreement with the Department for Work and Pensions (DWP). This provides some assurance that future funding will continue to be provided to the funding entity until revenue from the Nest pension scheme's charges is sufficient to meet future costs and settle the loan liability.

Revenue from the Nest scheme: Nest Corporation receives revenue from charges on the scheme's assets under management and on contributions.

Revenue from charges on assets under management will be impacted by any falls in global asset values. However, the scheme has a diversified portfolio and so far its assets have performed relatively better compared to the headline falls in pure equities, such as those seen in the FTSE 100. In addition, any fall in this revenue will be partly offset by a fall in the costs of investment, which are calculated based on asset values.

Nest Corporation has also assessed the pandemic's potential impact on revenue from contribution charges. The scheme has a very broad range of participating employers, with just over 60 per cent of contributions coming from employers with fewer than 250 workers. This income is not concentrated in any one sector, so there is no disproportionate exposure to companies which have been adversely impacted by the lockdown.

In addition, the measures taken by the UK government during the early months of the pandemic have been designed to preserve as many employers and jobs as possible. The Coronavirus Job Retention Scheme (CJRS) allows employers to claim for their National Insurance contributions and minimum auto enrolment pension contributions on furloughed workers' allowable wages.

For these reasons, the revenue from contribution charges has been deemed to be resilient.

Automatic enrolment policy: There has been no cessation in nor changes to the UK's automatic enrolment policy. The Trustee's public service obligation remains in place to provide a workplace pension scheme to any employer that requires one.

The Pensions Regulator (TPR) expects employers to continue to comply with their auto enrolment duties. However, it has relaxed some enforcement activities, for example increasing the threshold for when schemes report an employer as being late in making payments from 90 to 150 days, to accommodate CJRS claims and cash flow.

33 nestpensions.org.uk/schemeweb/nest/resources/library.html

Master trust supervision assurance: In establishing that the scheme's funding entity is a going concern, the Trustee has evidenced that a triggering event has not occurred as a result of the Covid-19 crisis. The scheme therefore also meets this requirement of the going concern test.

Although there is still great uncertainty around the pandemic's effects over the next 18 months, by taking the above into account and running a range of sensitivity scenarios on Nest Corporation's financial forecast, the Trustee believes it is appropriate to continue to adopt a going concern basis for the Nest scheme.

2. Accounting policies

The principal accounting policies of the scheme are as follows:

2.1 Contributions

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

Contributions made directly by members or other permitted parties are accounted for when received.

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

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

2.2 Transfers

Transfers in and out are accounted for on a cash basis.

2.3 Benefits

The Nest scheme may pay benefits to members including:

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

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

2.4 Other income and expenses

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

2.5 Administrative expenses

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

2.6 Investment income

Investment income comprises dividends from equities and interest on bonds held directly by the scheme. Investment income arising from the underlying investments of pooled investment vehicles is rolled up and reinvested within the pooled investment vehicles as and when declared by the investment fund manager. This is reflected in the unit price and reported within 'change in market value'. Investment income includes interest bought and sold on bond transactions.

Accounting policies:

i. Dividends from quoted securities are accounted for when the security is declared ex-div.

ii. Interest is accrued on a daily basis.

iii. Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.



2.7 Investments

Investments are included at fair value.

i. Pooled investment vehicles are stated at the closing single price as provided by the investment fund manager.

ii. Equities are stated at the bid price at the date of the statement of net assets.

iii. Bonds are stated at their clean price where possible, including the indexation element which is payable on maturity. Accrued interest is included in investment income receivable.

iv. Derivatives are stated at fair value.

Exchange-traded derivatives are stated at fair value, which is determined using market-quoted prices. All gains and losses arising on derivative contracts are reported within 'change in market value'. Receipts and payments arising from derivative instruments are reported as sale proceeds or purchase of investments.

2.8 Foreign currencies

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

2.9 Change in market value of investments

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



3. Contributions

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Contributions from:		
Participating employers	1,951,603	1,230,696
less employers' share of refund of contributions for members opting out	(2,126)	(1,083)
	1,949,477	**1,229,613**
Members	2,259,254	1,314,367
less members' share of refund of contributions for members opting out	(2,465)	(1,101)
	2,256,789	**1,313,266**
HMRC	565,717	327,811
less HMRC share of refund of contributions for members opting out	(30)	(20)
	565,687	**327,791**
Total	**4,771,953**	**2,870,670**

4. Transfers in

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Transfers in - registered pension schemes	181,629	65,824
Transfers in - pension sharing orders	5,297	3,762
Total	**186,926**	**69,586**

5. Benefits

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Trivial commutations	58,218	24,399
Uncrystallised funds pension lump sums (UFPLSs)	16,864	5,881
Death benefits payable to beneficiaries	5,855	2,049
Serious ill health	456	173
Annuities purchased through open market option	373	98
Transfers out	58,888	17,401
Total	**140,654**	**50,001**

6. Administrative expenses

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Contribution charge	82,900	49,095
Annual management charge	24,389	12,226
Sundry costs	85	(59)
Total	**107,374**	**61,262**

7. Investment income, management fee rebates and withholding tax

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Dividend income from equities	1,296	-
Income from bonds	2,662	-
Interest income	1,787	463
Income from pooled investment vehicles	14,213	6,838
Management fee rebates	3,055	1,918
Withholding tax	(653)	-
Total	**22,360**	**9,219**

8. Investments

8.1 Investment movements

	Note	B'fwd as at 1 April 2019 £000	Purchases £000	Sales proceeds £000	Change in market value £000	C'fwd as at 31 March 2020 £000
Equities		44,788	84,540	(58,608)	(27,672)	43,048
Bonds		158,960	1,165,483	(794,017)	11,316	541,742
Pooled investment vehicles	8.2	5,464,545	6,612,502	(2,708,051)	(647,999)	8,720,997
Derivatives	8.8	897	2,531,597	(2,487,445)	(90,538)	(45,489)
Total pooled and other investments		**5,669,190**	**10,394,122**	**(6,048,121)**	**(754,893)**	**9,260,298**
Foreign currency cash		18,050			1,058	78,511
Other investment assets	8.3	26,489				258,027
Other investment liabilities	8.3	(26,390)				(80,786)
Total investments		**5,687,339**			**(753,835)**	**9,516,050**
Represented by:						
Allocated to members		5,687,339				9,516,050
Not allocated to members		-				-
Total investments		**5,687,339**				**9,516,050**

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

	31 March 2020 £000	31 March 2019 £000
Unit-linked insurance contracts	6,290,061	4,207,162
Undertakings for collective investment in transferable securities (UCITS)	2,430,936	1,257,383
Total	**8,720,997**	**5,464,545**

8.2 Pooled investment vehicles

	31 March 2020 £000	31 March 2019 £000
Amundi Funds Global Emerging Blended - IE	433,082	227,945
Amundi Global Commercial Real Estate Debt Fund	110,535	-
Amundi Money Market Fund	114,753	145,423
BlackRock Aquila Connect Cash Fund	-	140,538
BlackRock ICS Sterling Liquid Environmentally Aware Fund	205,575	-
BlackRock GBP Infrastructure Debt Fund	81,452	-
BlackRock Institutional Sterling Ultra Short Bond Fund	253,041	210,995
BMO Responsible Global Equity Fund	34,676	13,078
BMO Responsible Sterling Bond Fund	13,881	5,159
BNP Paribas Diversified Private Credit Fund	189,555	-
HSBC Global Investment Funds Economic Scale Index GEM Equity Fund	-	107,648
HSBC Islamic Global Equity Index Fund	25,265	8,453
JPMorgan Life High Yield Opportunities Fund	440,826	270,737
LGIM Global Real Estate Equity Index Fund	232,701	158,502
LGIM Hybrid Property Fund	631,916	422,418
LGIM Managed Property Fund	7,941	3,108
Nest Equity Risk Management Fund	-	76,122
Northern Trust Emerging Markets Custom ESG Equity Index Fund	374,754	167,029
Royal London UK Corporate Bond Pooled Pension Fund	1,035,450	752,347
Royal London Investment-Grade Short-Dated Credit	361,666	295,531
SSGA UK Conventional Gilts All Stocks Index Fund	869	4,390
SSGA UK Index Linked Gilts Over 5 Years Index Fund	-	3,863
UBS Life Climate Aware World Equity Fund	629,001	764,281
UBS Life Climate Aware World Equity GBP Hedged Fund	631,327	-
UBS Life UK World Equity Tracker Fund	-	66,024
UBS Life World Equity Tracker Fund	1,466,839	471,604
UBS Life World Equity Tracker GBP Hedged Fund	1,445,892	1,149,350
Total pooled investment vehicles	**8,720,997**	**5,464,545**

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

	31 March 2020 £000	31 March 2019 £000
Equity	4,840,455	2,905,967
Bonds	2,538,815	1,770,968
Cash	320,328	362,084
Property	639,857	425,526
Private credit	381,542	-
Total	**8,720,997**	**5,464,545**

8.3 Other investment balances

	31 March 2020 £000	31 March 2019 £000
Investment cash including cash in transit	214,751	25,946
Management fee rebates receivable	513	421
Other receivables	42,763	122
Other investment assets	**258,027**	**26,489**
Liability in respect of outstanding trades	(78,307)	(25,086)
Annual management charge accrued	(2,479)	(1,304)
Other investment liabilities	**(80,786)**	**(26,390)**

8.4 Investment assets allocated to members

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

	31 March 2020 £000	31 March 2019 £000
Nest Retirement Date Funds[34]	9,251,189	5,569,562
Nest Higher Risk Fund	166,495	83,053
Nest Ethical Fund	61,446	23,116
Nest Sharia Fund	25,289	8,452
Nest Lower Growth Fund	8,860	1,474
Nest Pre Retirement Fund	2,771	1,682
Total assets allocated to members	**9,516,050**	**5,687,339**

8.5 Fair value hierarchy

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

Level 1: the unadjusted quoted price in an active market for identical assets or liabilities that the entity can assess at the measurement date

Level 2: inputs other than quoted prices included with level 1 that are observable (that is, developed using market data) for the assets or liabilities, either directly or indirectly

Level 3: inputs that are unobservable (that is, for which market data is unavailable) for the assets or liabilities

A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

For the purposes of this analysis, listed funds have been included in level 1, daily and weekly priced funds in level 2, monthly net asset values for absolute return funds in level 2 and monthly net asset values for private equity funds in level 3.

34 The Nest Post Retirement Fund is included with Nest Retirement Date Funds as the fourth phase of the glide path (see page 50).

Investment fair value hierarchy policies

The approach to fair value determination, in accordance with the hierarchy on page 95 for the main investment types is:

i. The majority of listed investments are stated at bid price at the date of the Statement of net assets.

ii. Bonds are stated at their clean prices where possible. Accrued income is accounted for within investment income.

iii. Pooled investment vehicles are stated at the closing single price as provided by the investment fund manager.

iv. Derivatives are stated at fair value. Exchange-traded derivatives are stated at fair value, which is determined using market-quoted prices.

The scheme's investment assets and liabilities have been fair valued using the hierarchy levels on page 95 as follows:

31 March 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equities	43,048	-	-	43,048
Bonds	541,742	-	-	541,742
Pooled investment vehicles	-	7,699,598	1,021,399	8,720,997
Derivatives	(45,489)	-	-	(45,489)
	539,301	**7,699,598**	**1,021,399**	**9,260,298**
Foreign currency	78,511	-	-	78,511
Other investment balances	177,241	-	-	177,241
Total	**795,053**	**7,699,598**	**1,021,399**	**9,516,050**

31 March 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equities	44,788	-	-	44,788
Bonds	158,960	-	-	158,960
Pooled investment vehicles	-	5,464,545	-	5,464,545
Derivatives	897	-	-	897
	204,645	**5,464,545**	**-**	**5,669,190**
Foreign currency	18,050	-	-	18,050
Other investment balances	-	99	-	99
Total	**222,695**	**5,464,644**	**-**	**5,687,339**

8.6 Investment risk disclosures

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

Credit risk: This is the risk that one party to a financial transaction will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: This comprises currency risk, interest rate risk and other price risk.

Currency risk: This is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes to foreign exchange rates.

Interest rate risk: This is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes to market interest rates.

Other price risk: This is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes to market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines the scheme's investment strategy after taking advice from professional investment advisers and the in-house investment team. Nest Invest has provided investment advice to the Trustee from January 2020.

The scheme has exposure to the risks set out in FRS 102 because of the investments it makes to implement its investment strategy which is described in Chapter 2, Investment report, starting on page 58. The Trustee manages investment risks within agreed risk limits which are set taking into account the scheme's strategic investment objectives.

Nest invests in a diversified range of asset classes. The day-to-day management of the underlying investments is the responsibility of the fund managers. Their responsibilities include the direct management of credit and market risk. A full list of the mandates and managers is set out on page 66.

From 19 March dealing in the LGIM Hybrid Property Fund and the LGIM Managed Property Fund has been temporarily suspended in order to protect the interests of investors. These funds represent 6.4 per cent of scheme assets and the suspension of dealing in these funds does not impact on the liquidity of members funds. Nest Invest continues to monitor the funds and the property market closely and to take actions in considers to be in the best interests of investors.

The in-house investment team and, from January 2020, Nest Invest monitor on a monthly basis the underlying risks based on holdings data received from the pooled fund managers.

8.6.1 Credit risk

The scheme is subject to direct credit risk in relation to its investment in pooled funds and from directly held bonds. The pooled investment vehicles used by the Trustee comprise unit-linked insurance funds and regulated undertakings for the collective investment in transferable securities (UCITS) funds. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and, on an ongoing basis, monitors any changes to the regulatory and operating environment of the pooled fund manager. The Trustee has direct credit risk in relation to the following insurance companies through its holding in unit-linked insurance funds:

i. Legal & General Assurance (Pensions Management) LTD

ii. Royal London Mutual Insurance Society Ltd

iii. BlackRock Life Ltd

iv. Managed Pension Funds Ltd

v. UBS Asset Management Life Ltd

vi. JPMorgan Life Ltd

The insurance companies are regulated by the Financial Conduct Authority (FCA) and maintain separate funds for its policyholders. There is no reinsurance risk as the insurance companies do not use reinsurance agreements for the funds the Trustee invests in. In the event of a default by an insurance company, the scheme is an eligible claimant and is therefore protected under the UK Financial Services Compensation Scheme (FSCS).

The Trustee is also exposed to indirect credit risk in the underlying pooled investment vehicles. Direct credit risk arising from UCITS funds is mitigated as the assets are held independently from the manager by a depositary.

Analysis of direct credit risk

31 March 2020	Investment grade £000	Non-investment grade £000	Unrated £000	Total £000
Bonds	541,742	-	-	541,742
Foreign currency cash	78,511	-	-	78,511
Pooled investment vehicles	-	-	8,720,997	8,720,997
Total	**620,253**	**-**	**8,720,997**	**9,341,250**

31 March 2019	Investment grade £000	Non-investment grade £000	Unrated £000	Total £000
Bonds	158,960	-	-	158,960
Foreign currency cash	18,050	-	-	18,050
Pooled investment vehicles	-	-	5,464,545	5,464,545
Total	**177,010**	**-**	**5,464,545**	**5,641,555**

Credit risk arising on bonds held directly or through pooled investment vehicles is mitigated either by investing in government bonds where the credit risk is minimal, or in corporate bonds which are rated at least investment-grade, or where the scheme invests in high yield through diversification.

Derivatives are all exchange-traded so there is no credit risk.

Credit risk also arises on forward foreign currency contracts. There are no collateral arrangements for these contracts, but all counterparties are required to be at least investment-grade.

Sterling cash and foreign currency cash is held within financial institutions which are at least investment-grade credit-rated.

8.6.2 Currency risk

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

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

	31 March 2020 £000	31 March 2019 £000
US Dollar	75,506	18,050
Euro	2,829	-
Other currencies	176	-
Total	**78,511**	**18,050**

8.6.3 Interest rate risk

The scheme is subject to interest rate risk on bonds held as segregated investment. The scheme's interest rate risk on bonds held as segregated investments at the year end was as follows:

	31 March 2020 £000	31 March 2019 £000
Bonds	541,742	158,960
Total	**541,742**	**158,960**

8.6.4 Indirect credit and market risk

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

	Holdings as at 31 March 2020 £000	Foreign exchange risk	Other price risk	Interest rate risk	Credit risk[1]
Amundi Funds Global Emerging Blended - IE	433,082	●	◐	●	●
Amundi Global Commercial Real Estate Debt Fund	110,535	◐	◐	●	●
Amundi Money Market Fund	114,753	○	○	●	●
BlackRock ICS Sterling Liquid Environmentally Aware Fund	205,575	○	○	●	●
BlackRock GBP Infrastructure Debt Fund	81,452	○	◐	●	●
BlackRock Institutional Sterling Ultra Short Bond Fund	253,041	○	◐	●	●
BMO Responsible Global Equity Fund	34,676	●	●	○	◐
BMO Responsible Sterling Bond Fund	13,881	◐	◐	●	●
BNP Paribas Diversified Private Credit Fund	189,555	◐	◐	●	●
HSBC Islamic Global Equity Index Fund	25,265	●	●	○	◐
JPMorgan Life High Yield Opportunities Fund	440,826	●	◐	●	●
LGIM Global Real Estate Equity Index Fund	232,701	●	●	○	◐
LGIM Hybrid Property Fund	631,916	◐	●	◐	◐
LGIM Managed Property Fund	7,941	○	●	◐	◐
Northern Trust Emerging Markets Custom ESG Equity Index Fund	374,754	●	●	○	◐
Royal London UK Corporate Bond Pooled Pension Fund	1,035,450	○	◐	●	●
Royal London Investment-Grade Short-Dated Credit	361,666	○	◐	●	●
SSGA UK Conventional Gilts All Stocks Index Fund	869	○	◐	●	●
UBS Life Climate Aware World Equity Fund	629,001	●	●	○	◐
UBS Life Climate Aware World Equity GBP Hedged Fund	631,327	○	●	○	◐
UBS Life World Equity Tracker Fund	1,466,839	●	●	○	◐
UBS Life World Equity Tracker GBP Hedged Fund	1,445,892	○	●	○	◐
Total pooled investment vehicles	**8,720,997**				

Notes

[1] This includes balances with security lending and over-the-counter derivative counterparties.

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

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

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

8.7 Concentration of investment

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

	31 March 2020 £000	31 March 2019 £000
UBS Life World Equity Tracker Fund	1,466,839	471,604
Representing (of total net assets)	**14.8%**	**7.9%**
UBS Life World Equity Tracker GBP Hedged Fund	1,445,892	1,149,350
Representing (of total net assets)	**14.6%**	**19.3%**
Royal London UK Corporate Bond Pooled Pension Fund	1,035,450	752,347
Representing (of total net assets)	**10.4%**	**12.6%**
LGIM Hybrid Property Fund	631,916	422,418
Representing (of total net assets)	**6.4%**	**7.1%**
UBS Life Climate Aware World Equity GBP Hedged Fund	631,327	-
Representing (of total net assets)	**6.4%**	**-**
UBS Life Climate Aware World Equity Fund	629,001	764,281
Representing (of total net assets)	**6.3%**	**12.8%**
Royal London Investment-Grade Short-Dated Credit	361,666	295,531
Representing (of total net assets)	**3.6%**	**5.0%**

8.8 Derivatives

Derivatives held at the year end were as follows:

	31 March 2020		31 March 2019	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Futures	1,798	(46,681)	5,457	(4,560)
Forward foreign exchange (FX) contracts	10,365	(10,971)	-	-
Total	**12,163**	**(57,652)**	**5,457**	**(4,560)**
Total net derivatives		**(45,489)**		**897**

Futures

The scheme had exchange-traded commodity futures outstanding at year end relating to its commodities portfolio as follows:

Commodity futures bought	Notional amount £000	Duration	Asset value at year end £000	Liability value at year end £000
Chicago Board of Trade (CBOT)	50,654	May 2020	1,121	(2,303)
Chicago Board of Trade (CBOT)	5,926	July 2020	-	(1,234)
Chicago Board of Trade (CBOT)	1,755	December 2020	-	(51)
Chicago Mercantile Exchange (CME)	1,426	June 2020	-	(361)
Chicago Mercantile Exchange (CME)	5,812	October 2020	-	(1,678)
COMEX Division of NYMEX (CMX)	14,816	May 2020	-	(2,856)
COMEX Division of NYMEX (CMX)	23,897	December 2020	181	(3,911)
ICE Futures US Softs (NYB)	8,462	May 2020	496	(1,600)
ICE Futures US Softs (NYB)	5,393	October 2020	-	(1,553)
ICE Futures US Softs (NYB)	3,000	December 2020	-	(353)
Intercontinental Exchange (ICE)	3,531	May 2020	-	(2,329)
Intercontinental Exchange (ICE)	8,646	July 2020	-	(2,419)
Intercontinental Exchange (ICE)	242	December 2020	-	(105)
LME Benchmark Monitor (LME)	15,365	May 2020	-	(2,343)
LME Benchmark Monitor (LME)	10,798	June 2020	-	(3,129)
NYMEX Exchange (NYM)	36,772	May 2020	-	(19,391)
NYMEX Exchange (NYM)	1,382	July 2020	-	(1,065)
Total 2020	**197,877**		**1,798**	**(46,681)**
Total 2019	182,090		5,457	(4,560)

Forward FX settlement	Currency bought	Local value £000	Currency sold	Local value £000	Asset value £000	Liability value £000
One to six months	GBP	5,621	CAD	9,450	269	-
One to six months	GBP	110,507	EUR	121,100	3,239	(1)
One to six months	GBP	321,146	USD	399,783	6,857	(8,176)
One to six months	EUR	11,580	GBP	10,689	-	(436)
One to six months	USD	47,658	GBP	40,807	-	(2,358)
Total 2020					**10,365**	**(10,971)**
Total 2019					-	-
Total 2020 net forward FX contracts						**(606)**
Total 2019 net forward FX contracts						-

8.9 Transaction costs

Included within the purchases and sales of equities and futures are direct transaction costs of £180k (2019: £126k) comprising fees, commissions and stamp duty. These costs are attributable to the key asset classes as follows:

	Fees £000	Commission £000	Stamp duty £000	Total £000
Equities	-	43	5	48
Futures	-	132	-	132
Total 2020	**-**	**175**	**5**	**180**
Total 2019	-	126	-	126

9. Current assets and liabilities

9.1 Current assets and liabilities allocated to members

	31 March 2020 £000	31 March 2019 £000
Contributions due from:		
Participating employers	122,138	82,430
Members	134,086	81,785
HM Revenue & Customs	121,547	72,226
Cash awaiting investment	55,913	41,975
Current assets	**433,684**	**278,416**
Benefits payable	(3,587)	(2,276)
Amounts to be invested	(2,188)	(1,503)
Contributions yet to be allocated to member accounts or returned to employers	(15,433)	(12,707)
Current liabilities	**(21,208)**	**(16,486)**
Total net assets allocated to members	**412,476**	**261,930**

The contributions yet to be allocated to member accounts relate to cash being held after the year end for investment in the next few days. Outstanding member and employer contributions at the year end totalled £256,224k (2019: £164,215k). In respect of these outstanding contributions, £225,685k was received by 31 May 2020 (2019: £150,222k by 31 May 2019).

Employer-related investments

The balance at 31 March 2020 includes contributions due from employers totalling £35,754k (2019: £34,152k), which were due after their statutory due dates as required by the payment schedules. These represent employer-related investments at the year end of 0.4 per cent (2019: 0.6 per cent) of the scheme's total net assets, but they did not contravene subsection (1) of section 40 of the Pensions Act 1995.

9.2 Current assets and liabilities not allocated to members

	31 March 2020 £000	31 March 2019 £000
Cash	400	65
Other receivables	431	160
Current assets	**831**	**225**
Contribution charge payable	(188)	-
Other payables	(278)	(179)
Current liabilities	**(466)**	**(179)**
Total net assets not allocated to members	**365**	**46**

10. Related parties transactions

The scheme's Trustee is Nest Corporation, a public corporation accountable to the Secretary of State for Work and Pensions. The scheme pays the Trustee the contribution charge and annual management charge set out in note 6 on page 93. The total amount for the year was £107,289k (2019: £61,321k). Nest Corporation paid £200k (2019: nil) into the scheme's general account during the year. The scheme's general account holds undesignated money that is used to ensure the smooth running of scheme operations.

Nest Corporation is a participating employer in the scheme. Contributions of £2,309k (2019: £2,035k) were payable by Nest Corporation to the scheme during the year.

Remuneration and pay for Board members is set by the Secretary of State for Work and Pensions. Total Board member remuneration for 2019/20 was £836k (2019: £698k). The reason for the large increase is due to Helen Dean, Nest Corporation's Chief Executive Officer, and Richard Lockwood, Nest Corporation's Chief Financial Officer, being Board members for the entire financial year. In the previous year they were Board members for only part of the year.

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

The Trustee pays for all of the running costs of the scheme including the payment of fees for the investment fund managers, investment fund administrators, the scheme administrator Tata Consultancy Services (TCS) and the auditors. The details of these fees can be seen in the Annual report and accounts for Nest Corporation for the year ended 31 March 2020 at **nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-CARA-2019-20.pdf**

3.4

Other useful information

Nest's contact details

nestpensions.org.uk

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

Nest
Nene Hall
Lynch Wood Business Park
Peterborough
PE2 6FY

0300 020 0393

Regulation and disputes

The Pensions Regulator

The Pensions Regulator (TPR) has powers to regulate occupational pension schemes.

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

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

Contact:

Phone: 0845 600 1011

Online enquiry form: **automation.thepensionsregulator.gov.uk/ContactUs**

Website: **thepensionsregulator.gov.uk**

Pensions Advisory Service

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

Contact:

Phone: 0800 011 3797

Online enquiry form: **pensionsadvisoryservice.org.uk/contacting-us/online-enquiry-form**

Website: **pensionsadvisoryservice.org.uk**

The Pensions Ombudsman

The Pensions Ombudsman investigates and determines any complaint or dispute of fact or law, in relation to an occupational pension scheme, which cannot be settled through PAS and the Nest internal disputes resolution procedure.

Phone: 0800 917 4487

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

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

Pensions information

Money and Pensions Service

The Money and Pensions Service provides help and information on pensions and wider money matters.

Phone: 01159 659570

Email: **contact@maps.org.uk**

Website: **moneyandpensionsservice.org.uk**



Appendices


LOVE LOCAL
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Appendix 1

Top 100 investments

The top 100 investments as at 31 March 2020 have been calculated on a look-through basis to the underlying holdings of the pooled funds invested in by the scheme.

Employer-related investments* are participating employers in which the scheme invests at arm's length through its investment fund managers. Any employer-related investments as a result of late contributions are disclosed in the financial statements. See note 9 on page 102.

Number	Investments	% of investments
1	Microsoft Corp	1.55%
2	Apple Inc	1.37%
3	Amazon.com Inc	1.02%
4	Alphabet Inc	0.89%
5	Facebook Inc	0.51%
6	Bank deposit CACEIS	0.46%
7	Johnson & Johnson	0.46%
8	Samsung Electronics Co Ltd	0.45%
9	Berkshire Hathaway Inc	0.44%
10	Nestle SA	0.39%
11	Visa Inc	0.36%
12	JPMorgan Chase & Co	0.36%
13	Industrial Property Investment Fund	0.35%
14	BNP Paribas Institutional Cash GBP 1D Short-Term Fund	0.35%
15	Procter & Gamble Co	0.33%
16	Intel Corp	0.30%
17	UnitedHealth Group Inc*	0.30%
18	Mastercard Inc	0.30%
19	Alibaba Group Holding Ltd	0.30%
20	Terres d'énergie maturity 12/2032	0.29%
21	Verizon Communications Inc	0.29%
22	Prologis Inc	0.28%
23	Fairmont Monaco maturity 12/2024	0.28%
24	Roche Holding AG	0.28%
25	AT&T Inc	0.28%
26	Pioneer Public Properties AS maturity 10/2026	0.27%

Number	Investments	% of investments
27	The Home Depot Inc	0.26%
28	Merck & Co Inc	0.26%
29	Korean Republic won forward exposure	0.25%
30	Tri-Party BNP Paribas Repo	0.25%
31	Tencent Holdings Ltd	0.25%
32	Natural gas future maturity 05/2020	0.24%
33	Strand Island site, London	0.24%
34	Central Saint Giles, London	0.24%
35	Chinse yuan forward exposure	0.24%
36	Novartis International AG	0.24%
37	United States Treasury Note maturity 02/2030	0.23%
38	Voltaire maturity 04/2024	0.23%
39	Pfizer Inc	0.23%
40	West Cross Industrial Park, Brentford	0.23%
41	Cisco Systems Inc	0.23%
42	Bank of America Corp	0.22%
43	Walt Disney Co	0.22%
44	PepsiCo Inc	0.21%
45	JPMorgan Money Market Fund	0.21%
46	Walmart Inc	0.21%
47	Coca-Cola Co	0.21%
48	Coöperatieve Rabobank UA GB	0.21%
49	Adobe Inc	0.21%
50	Taiwan Semiconductor Manufacturing Co	0.21%

Number	Investments	% of investments
51	Toyota Motor Corp	0.21%
52	Comcast Corp	0.20%
53	NVIDIA Corp	0.20%
54	Horizon maturity 05/2030	0.19%
55	Netflix Inc*	0.19%
56	Électricité de France maturity 01/2114	0.19%
57	Exxon Mobil Corp	0.18%
58	Colisée Gardens maturity 11/2022	0.18%
59	Bristol-Myers Squibb Co	0.17%
60	Semperian PPP Investment Partners	0.17%
61	EUR USD swaps	0.17%
62	Mexican peso forward exposure	0.17%
63	Digital Realty Trust Inc	0.17%
64	TeleGuam Holdings maturity 11/2025	0.17%
65	Thermo Fisher Scientific Inc	0.17%
66	Spartech Intermediate Holdings loan	0.17%
67	Medtronic plc	0.17%
68	Abbott Laboratories	0.16%
69	Singapore dollar forward exposure	0.16%
70	Woodside Industrial Estate, Dunstable	0.16%
71	McDonald's Corp*	0.16%
72	Amgen Inc	0.16%
73	Amundi Funds Emerging Markets Corporate Bond	0.16%
74	soybean future maturity 5/2020	0.16%
75	Eli Lilly and Co	0.16%
76	Costco Wholesale Corp	0.16%
77	Corn future maturity 5/2020	0.16%
78	Royal Dutch Shell plc	0.16%
79	AstraZeneca plc	0.16%
80	Chevron Corp	0.15%
81	Salesforce.com Inc	0.15%
82	PayPal Holdings Inc	0.15%
83	HSBC Holdings plc	0.15%
84	Apex, Reading	0.15%
85	One Piccadilly Gardens and The Pavilion, Manchester	0.15%
86	76-88 Wardour Street, London	0.15%
87	Kingsland Business Park, Basingstoke	0.15%
88	245 Hammersmith Road, Hammersmith	0.15%
89	Public Storage	0.15%
90	AbbVie Inc	0.15%
91	Philip Morris International Inc	0.15%
92	Vonovia SE	0.14%
93	SAP SE	0.14%
94	Accenture plc*	0.14%
95	Wells Fargo & Co	0.14%
96	AIA Group Ltd	0.14%
97	NIKE Inc	0.14%
98	Honeywell International Inc	0.13%
99	Oracle Corp	0.13%
100	Grenfell Island, Maidenhead	0.13%

Appendix 2

Nest Retirement Date Funds performance
(net of annual management charges)

Nest Retirement Date Fund*	Fund performance one year to 31 March 2020 %	Annualised fund performance three years to 31 March 2020 %	Annualised fund performance five years to 31 March 2020 %	Annualised fund performance since inception %	Inception
UK CPI INDEX[1]	1.5	1.95	1.75	1.78	August 2011
2019 Retirement Fund	0.39	0.77	1.7	4.52	August 2011
2020 Retirement Fund	0.86	1.18	2.33	5.04	August 2011
2021 Retirement Fund	-1.43	1.39	3.53	5.89	August 2011
2022 Retirement Fund	-1.85	1.39	3.79	6.2	August 2011
2023 Retirement Fund	-2.27	1.38	4.1	6.6	August 2011
2024 Retirement Fund	-2.72	1.36	4.31	6.84	August 2011
2025 Retirement Fund	-3.17	1.34	4.52	6.99	August 2011
2026 Retirement Fund	-3.62	1.31	4.75	7.13	August 2011
2027 Retirement Fund	-4.08	1.29	4.88	7.23	August 2011
2028 Retirement Fund	-4.57	1.19	4.82	7.14	August 2011
2029 Retirement Fund	-5.06	1.06	4.73	7.12	August 2011
2030 Retirement Fund	-5.78	0.81	4.59	7.04	August 2011
2031 Retirement Fund	-5.77	0.81	4.58	7.01	August 2011
2032 Retirement Fund	-5.77	0.81	4.58	7.02	August 2011
2033 Retirement Fund	-5.77	0.81	4.58	7.03	August 2011
2034 Retirement Fund	-5.77	0.8	4.57	7.03	August 2011
2035 Retirement Fund	-5.77	0.81	4.58	7.02	August 2011
2036 Retirement Fund	-5.77	0.81	4.58	7.03	August 2011
2037 Retirement Fund	-5.77	0.81	4.58	7.03	August 2011
2038 Retirement Fund	-5.77	0.81	4.58	7.04	August 2011
2039 Retirement Fund	-5.77	0.81	4.58	7.03	August 2011
2040 Retirement Fund	-5.77	0.81	4.58	7.04	August 2011
2041 Retirement Fund	-5.77	0.81	4.58	7.03	August 2011
2042 Retirement Fund	-5.77	0.81	4.58	7.02	August 2011
2043 Retirement Fund	-5.77	0.81	4.58	7.03	August 2011
2044 Retirement Fund	-5.77	0.81	4.58	7.04	August 2011
2045 Retirement Fund	-5.77	0.81	4.58	7.04	August 2011

Nest Retirement Date Fund*	Fund performance one year to 31 March 2020 %	Annualised fund performance three years to 31 March 2020 %	Annualised fund performance five years to 31 March 2020 %	Annualised fund performance since inception %	Inception
2046 Retirement Fund	-5.77	0.81	4.58	7.04	August 2011
2047 Retirement Fund	-5.77	0.81	4.58	7.03	August 2011
2048 Retirement Fund	-5.77	0.81	4.58	7.08	August 2011
2049 Retirement Fund	-5.77	0.81	4.58	7.08	August 2011
2050 Retirement Fund	-5.77	0.81	4.58	7.03	August 2011
2051 Retirement Fund	-5.77	0.81	4.58	7	August 2011
2052 Retirement Fund	-5.77	0.81	4.68	6.89	August 2011
2053 Retirement Fund	-5.77	0.81	4.5	6.62	August 2011
2054 Retirement Fund	-5.77	0.71	4.25	6.37	August 2011
2055 Retirement Fund	-5.77	0.63	4.01	6.16	August 2011
2056 Retirement Fund	-5.95	0.51	3.71	5.95	August 2011
2057 Retirement Fund	-6.11	0.4	3.52	5.82	August 2011
2058 Retirement Fund	-5.38	0.66	3.56	5.88	January 2012
2059 Retirement Fund	-5.56	0.59	3.54	5.7	January 2013
2060 Retirement Fund	-5.16	0.73	3.62	4.83	December 2013
2061 Retirement Fund	-3.37	1.37	3.99	4.51	January 2015
2062 Retirement Fund	-3.37	1.35	-	4.99	January 2016
2063 Retirement Fund	-3.38	1.34	-	2.12	January 2017
2064 Retirement Fund	-3.39	-	-	0.26	January 2018
2065 Retirement Fund	-3.38	-	-	1.24	December 2018
2066 Retirement Fund	-	-	-	-8.79	January 2020
Starter Fund[2]	-3.79	1.1	3.8	6.08	August 2011
Post Retirement Date Fund[3]	0.38	0.6	0.53	0.45	November 2013

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

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

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

* There was less than one month of performance for the Nest Guided Retirement Fund this financial year. These funds will be included in performance tables from financial year 2020/21 onwards.

Appendix 3

Transaction costs for the year ended 31 March 2020

These transaction costs have been disclosed in accordance with the Chair's governance statement on page 22.

Fund	Average weighted transaction costs
2018 Retirement Fund	0.026%
2019 Retirement Fund	0.027%
2020 Retirement Fund	0.029%
2021 Retirement Fund	0.050%
2022 Retirement Fund	0.050%
2023 Retirement Fund	0.050%
2024 Retirement Fund	0.051%
2025 Retirement Fund	0.051%
2026 Retirement Fund	0.051%
2027 Retirement Fund	0.052%
2028 Retirement Fund	0.052%
2029 Retirement Fund	0.052%
2030 Retirement Fund	0.052%
2031 Retirement Fund	0.052%
2032 Retirement Fund	0.052%
2033 Retirement Fund	0.052%
2034 Retirement Fund	0.052%
2035 Retirement Fund	0.052%
2036 Retirement Fund	0.052%
2037 Retirement Fund	0.052%
2038 Retirement Fund	0.052%
2039 Retirement Fund	0.052%
2040 Retirement Fund	0.052%
2041 Retirement Fund	0.052%
2042 Retirement Fund	0.052%
2043 Retirement Fund	0.052%
2044 Retirement Fund	0.052%
2045 Retirement Fund	0.052%
2046 Retirement Fund	0.052%
2047 Retirement Fund	0.052%

Fund	Average weighted transaction costs
2048 Retirement Fund	0.052%
2049 Retirement Fund	0.052%
2050 Retirement Fund	0.052%
2051 Retirement Fund	0.052%
2052 Retirement Fund	0.052%
2053 Retirement Fund	0.052%
2054 Retirement Fund	0.052%
2055 Retirement Fund	0.053%
2056 Retirement Fund	0.055%
2057 Retirement Fund	0.056%
2058 Retirement Fund	0.058%
2059 Retirement Fund	0.060%
2060 Retirement Fund	0.061%
2061 Retirement Fund	0.061%
2062 Retirement Fund	0.061%
2063 Retirement Fund	0.061%
2064 Retirement Fund	0.061%
2065 Retirement Fund	0.062%
2066 Retirement Fund	0.002%
Nest Ethical Consolidation Fund*	0.006%
Nest Ethical Foundation Fund*	0.039%
Nest Ethical Growth Fund*	0.046%
Nest Pre-Retirement Date Fund*	0.026%
Higher Risk Fund*	0.043%
Lower Growth Fund*	0.026%
Post Retirement Fund	0.026%
Sharia Fund*	0.000%
Starter Fund	0.061%
Nest Guided Retirement Fund – Wallet**	0.000%
Nest Guided Retirement Fund - Safe**	0.000%
Nest Guided Retirement Fund - Vault**	0.010%
Nest Guided Retirement Fund - Later Life**	0.015%

* These funds are available for Nest members to select, rather than being default funds which individual members will be placed in at enrolment, based on their expected retirement age.

** The Nest Guided Retirement Fund is for members who leave their money with Nest beyond their intended retirement date. It was launched as a fund choice for eligible members in March 2020. From July 2020 members will be defaulted into this fund if they meet the eligibility criteria; are saving in a Nest Retirement Date Fund; and make no other choices at their intended retirement date.

Appendix 4

Nest's costs and charges

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

The table below shows the costs and charges that you might pay with Nest. We've provided four different age profiles to demonstrate how much of your pot will be affected by our costs and charges. Your own circumstances may differ. The calculations are based on the following assumptions: a real income of £22,000 (based on an illustrative member), real qualifying earnings of £15,760 that will grow with inflation set at 2.5 per cent.

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

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

	Retirement Date Fund		Ethical Fund		Higher Risk Fund (non-lifestyled)	
Years saving	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	1,264	1,239	1,264	1,239	1,287	1,262
3	3,811	3,723	3,811	3,720	4,015	3,927
5	6,551	6,382	6,551	6,373	6,960	6,789
10	14,608	14,151	14,603	14,099	15,378	14,908
15	24,106	23,216	24,085	23,079	25,540	24,617
20	35,285	33,795	35,231	33,520	37,787	36,229
25	48,427	46,141	48,309	45,657	52,528	50,115
30	63,860	60,547	63,634	59,767	70,251	66,721
35	81,964	77,360	81,572	76,170	91,541	86,581
40	100,454	94,275	99,862	92,646	117,096	110,331
45	113,664	105,734	112,951	103,856	147,752	138,734
46	115,456	107,184	114,734	105,270	154,580	145,051

* SMPI is our current prediction of how much your fund will be worth when you retire. We've calculated this without inflation and in current monetary terms. Our assumptions for working this out can be found on page 119.

** The transaction cost data for our current asset allocation includes both explicit and implicit costs where applicable. These transaction costs are provided to us by our fund managers and are the latest figures available in March 2020. These figures will be updated at least annually.

Higher Risk Fund (lifestyled)		Sharia Fund		Lower Growth Fund		Pre Retirement Fund	
Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1,287	1,262	1,291	1,266	1,267	1,242	1,253	1,229
4,015	3,927	4,045	3,959	3,834	3,749	3,719	3,634
6,960	6,789	7,045	6,881	6,446	6,285	6,131	5,971
15,378	14,908	15,768	15,325	13,179	12,761	11,937	11,532
25,540	24,617	26,548	25,685	20,205	19,432	17,441	16,709
37,787	36,229	39,853	38,398	27,536	26,304	22,664	21,530
52,528	50,115	56,256	53,998	35,178	33,385	27,624	26,019
70,251	66,721	76,462	73,139	43,143	40,680	32,341	30,199
91,541	86,581	101,332	96,626	51,439	48,195	36,830	34,092
111,915	105,177	131,927	125,447	60,078	55,938	41,108	37,716
125,917	117,133	169,546	160,811	69,068	63,915	45,189	41,091
127,766	118,551	178,047	168,794	70,909	65,539	45,982	41,737

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

The table below shows the costs and charges that you might pay with Nest. We've provided four different age profiles to demonstrate how much of your pot will be affected by our costs and charges. Your own circumstances may differ. The calculations are based on the following assumptions: a real income of £22,000 (based on an illustrative member), real qualifying earnings of £15,760 that will grow with inflation set at 2.5 per cent.

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

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

	Retirement Date Fund		Ethical Fund		Higher Risk Fund (non-lifestyled)		Higher Risk Fund (lifestyled)	
Years saving	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	1,284	1,259	1,284	1,259	1,287	1,262	1,287	1,262
3	3,985	3,897	3,985	3,892	4,015	3,927	4,015	3,927
5	6,873	6,703	6,872	6,689	6,960	6,789	6,960	6,789
10	14,989	14,524	14,983	14,466	15,378	14,908	15,378	14,908
15	24,172	23,271	24,151	23,137	25,540	24,617	24,808	23,888
20	32,735	31,265	32,701	31,074	37,787	36,229	33,427	31,909
21	34,251	32,661	34,215	32,457	40,521	38,811	34,948	33,294
22	35,678	33,965	35,641	33,751	43,359	41,487	36,379	34,584

	Sharia Fund		Lower Growth Fund		Pre Retirement Fund	
Years saving	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	1,291	1,266	1,267	1,242	1,253	1,229
3	4,045	3,959	3,834	3,749	3,719	3,634
5	7,045	6,881	6,446	6,285	6,131	5,971
10	15,768	15,325	13,179	12,761	11,937	11,532
15	26,548	25,685	20,205	19,432	17,441	16,709
20	39,853	38,398	27,536	26,304	22,664	21,530
21	42,865	41,268	29,039	27,704	23,676	22,454
22	46,006	44,258	30,555	29,111	24,679	23,364

* SMPI is our current prediction of how much your fund will be worth when you retire. We've calculated this without inflation and in current monetary terms. Our assumptions for working this out can be found on page 119.

** The transaction cost data for our current asset allocation includes both explicit and implicit costs where applicable. These transaction costs are provided to us by our fund managers and are the latest figures available in March 2020. These figures will be updated at least annually.

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

The table below shows the costs and charges that you might pay with Nest. We've provided four different age profiles to demonstrate how much of your pot will be affected by our costs and charges. Your own circumstances may differ. The calculations are based on the following assumptions: a real income of £22,000 (based on an illustrative member), real qualifying earnings of £15,760 that will grow with inflation set at 2.5 per cent.

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

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

	Retirement Date Fund		Ethical Fund		Higher Risk Fund (non-lifestyled)		Higher Risk Fund (lifestyled)	
Years saving	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	1,284	1,259	1,284	1,259	1,287	1,262	1,287	1,262
3	3,976	3,887	3,975	3,883	4,015	3,927	3,989	3,901
5	6,782	6,612	6,781	6,601	6,960	6,789	6,796	6,625
10	13,894	13,444	13,892	13,415	15,378	14,908	13,911	13,452
11	15,268	14,752	15,265	14,718	17,261	16,713	15,284	14,754
12	16,606	16,020	16,603	15,982	19,216	18,585	16,622	16,015

	Sharia Fund		Lower Growth Fund		Pre Retirement Fund	
Years saving	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	1,291	1,266	1,267	1,242	1,253	1,229
3	4,045	3,959	3,834	3,749	3,719	3,634
5	7,045	6,881	6,446	6,285	6,131	5,971
10	15,768	15,325	13,179	12,761	11,937	11,532
11	17,745	17,231	14,560	14,079	13,062	12,597
12	19,809	19,216	15,954	15,405	14,174	13,647

* SMPI is our current prediction of how much your fund will be worth when you retire. We've calculated this without inflation and in current monetary terms. Our assumptions for working this out can be found on page 119.

** The transaction cost data for our current asset allocation includes both explicit and implicit costs where applicable. These transaction costs are provided to us by our fund managers and are the latest figures available in March 2020. These figures will be updated at least annually.

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

The Nest Guided Retirement Fund (NGRF) is a retirement product for members aged 60 and over who meet the qualifying pot size. The table below shows the costs and charges that you might pay with Nest. We've provided six different starting pot amounts to demonstrate how much of your pot will be affected by our costs and charges. Your own circumstances may differ. The calculations are based on the following assumptions: a real income of £22,000 (based on an illustrative member), real qualifying earnings of £15,760 that will grow with inflation set at 2.5 per cent.

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

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

	NGRF - £10,000		NGRF - £15,000		NGRF - £20,000	
Years saving	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	11,314	11,259	16,339	16,269	21,364	21,279
3	13,961	13,786	19,036	18,815	24,111	23,845
5	16,633	16,322	21,759	21,372	26,884	26,422
6	17,979	17,594	23,130	22,654	28,280	27,714
7	19,331	18,868	24,507	23,938	29,683	29,008
8	20,689	20,145	25,891	25,225	31,092	30,305

	NGRF - £25,000		NGRF - £30,000		NGRF - £35,000	
Years saving	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	26,389	26,289	31,414	31,299	36,439	36,309
3	29,186	28,875	34,261	33,905	39,336	38,935
5	32,009	31,472	37,135	36,522	42,260	41,572
6	33,431	32,774	38,581	37,834	43,732	42,894
7	34,858	34,078	40,034	39,148	45,210	44,218
8	36,293	35,386	41,494	40,466	46,695	45,546

* SMPI is our current prediction of how much your fund will be worth when you retire. We've calculated this without inflation and in current monetary terms. Our assumptions for working this out can be found on page 119.

** The transaction cost data for our current asset allocation includes both explicit and implicit costs where applicable. These transaction costs are provided to us by our fund managers and are the latest figures available in March 2020. These figures will be updated at least annually.

Statutory money purchase illustration (SMPI) investment growth assumptions

Fund name	Phase	Investment objective	Annual growth assumed for SMPI	What we've based our estimate on
Nest Retirement Date Funds	Foundation	Consumer Price Index (CPI) + 0 per cent a year average over the investment cycle, after all charges	3 per cent	Fund goals outlined in our Statement of investment principles
	Growth	CPI + 3 per cent a year average over the investment cycle, after all charges	6 per cent	
	Consolidation	CPI + 0 per cent a year average over the investment cycle, after all charges	Linear decline over 10 years from 6 per cent to 3 per cent	
Nest Ethical Fund	Foundation	CPI + 0 per cent a year average over the investment cycle, after all charges	3 per cent	Fund goals outlined in our Statement of investment principles
	Growth	CPI + 3 per cent a year average over the investment cycle, after all charges	6 per cent	
	Consolidation	CPI + 0 per cent a year average over the investment cycle, after all charges	Linear decline over 10 years from 6 per cent to 3 per cent	
Nest Higher Risk Fund Note: For the non-lifestyled version of the Nest Higher Risk Fund, the consolidation phase is not applicable.	Growth	To target higher returns (0.5 per cent higher than the growth phase of the Nest Retirement Date Funds) through taking more risk	6.5 per cent	Fund return target
	Consolidation	CPI + 0 per cent a year average over the investment cycle, after all charges	Linear decline over 10 years from 6.5 per cent to 3 per cent	Capital market assumptions Historical data and industry intelligence
Nest Sharia Fund	N/A	To deliver investment growth after inflation and charges are taken into account by investing in shares selected on criteria based on Islamic law	7 per cent	Capital market assumptions Historical data and industry intelligence
Nest Lower Growth Fund	N/A	To maintain the nominal value of your savings after we've taken out charges.	3.4 per cent for investment periods of 10 years or more, 1.8 per cent for investment periods of 5–10 years, 0.86 per cent for investment periods of 0–5 years	Capital market assumptions Historical data and industry intelligence
Nest Pre Retirememt Fund	N/A	Invests in 75 per cent annuity and 25 per cent cash-tracking assets	1.38 per cent	Capital market assumptions Historical data and industry intelligence
Nest Guided Retirement Fund	N/A	CPI + 0 per cent a year average over the investment cycle, after all charges	3 per cent	Capital market assumptions Historical data and industry intelligence

Appendix 5

Nest's Statement of investment principles (SIP)

March 2020 to March 2023

Introduction

1.1 The Trustee of the National Employment Savings Trust (Nest) has produced this Statement of investment principles (SIP), which sets out how the Trustee invests the assets of Nest for the scheme's default investment strategy and the additional investment fund choices scheme members can make.

1.2 This SIP has been prepared in accordance with all relevant legislative and best-practice guidelines. It outlines the principles and policies governing investment decisions made by or on behalf of the Trustee for the management of Nest's assets, in respect of the default arrangement and the additional investment fund choices scheme members can make. It should be read in conjunction with our latest quarterly investment report.[1]

1.3 This SIP will be reviewed by the Trustee, the Members' Panel and Employers' Panel every three years, and without delay after any significant change in the investment approach or the demographics of the scheme.

1.4 Before revising this SIP, the Trustee will obtain and consider the written advice of a person who is reasonably believed by the Trustee to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of trust-based pension schemes. The Trustee will also consult with the Members' Panel and Employers' Panel on proposed revisions to the default investment strategy and additional investment fund choices scheme members can make before any SIP revisions.

1 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/other-fund-choices/fund-factsheets.html

Governance of the Nest Trustee

2.1 **Investment powers and compliance with the Pensions Act 1995**

The Nest Order 2010 gives the Trustee the sole power to invest the assets of Nest.

2.2 Nest's assets, representing the balances on members' pension accounts, will be invested in the best interests of Nest's members and beneficiaries both for the default strategy and for any other investment choices members may make. In the event of a potential conflict of interest the assets will be invested in the sole interest of members and beneficiaries.

2.3 The Trustee's policy for securing that assets are invested in members' best interests is determined following extensive and continuing research into scheme member characteristics, circumstances and attitudes. This research is a mixture of quantitative data on socio-economic characteristics of the scheme's membership, qualitative research into members' attitudes and aspirations for their retirement savings, and, increasingly, management information about our members' savings patterns and behaviour.

2.4 Where significant changes to the scheme membership are detected the Trustee reviews the appropriateness of the default strategy and additional investment fund choices accordingly. Details of our member investment research[2] can be found on our website.

2.5 With the Trustee's understanding of members' best interests, it has decided upon an investment approach that provides:

- a default fund (through a series of Nest Retirement Date funds[3]) designed to provide appropriate outcomes for members retiring in different years
- a choice of other investment funds[4] for scheme members who do not wish to invest in the default fund.

2 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/investment-research.html
3 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/nest-retirement-date-funds.html
4 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/other-fund-choices.html

2.6 Nest Corporation as Trustee is responsible for the governance and investment of Nest's assets but may delegate certain powers to appropriate committees, Board members, employees and investment fund managers. Nest Corporation has established a Financial Conduct Authority (FCA) authorised and regulated investment subsidiary, Nest Invest, to provide investment services and advice, as set out in an Investment Management Agreement between the Trustee and Nest Invest.

2.7 The Trustee is satisfied due to regular reporting, Trustee skills' audits, ongoing training and continuous professional development, that it, the respective committees and Nest Invest, have sufficient expertise, information and resources to carry out their roles effectively.

2.8 In preparing this SIP for both the default arrangement and the additional investment fund choices scheme members can make, the Trustee has considered written advice from the Chief Investment Officer (CIO) of Nest Invest who is qualified to provide this advice by his ability and practical experience of financial and pension scheme matters.

2.9 The Trustee has established an investment committee to consider, make decisions and provide oversight on investment issues. The delegated powers provided by the Trustee to the investment committee comprise of both issues on which the committee can make decisions, and issues on which it makes recommendations to the Trustee. The terms of reference[5] can be found on our website.

2.10 The Trustee has delegated certain powers in relation to investment decisions and oversight to the investment committee. These include the asset allocation strategy, fund manager selection and responsible investment, as well as the monitoring of investment performance and risk.

Nest Invest is also delegated responsibility to ensure and report to the investment committee that its investment powers are exercised in a manner calculated to ensure security, quality, liquidity, and profitability.

2.11 The following sections, except where explicitly referenced, sets out the Trustee's policies in relation to the types of investment, the balance between such investments, the associated risks and the expected return on those investments in the context of both the default arrangement where most of Nest members reside, and the other investment fund choices scheme members may make.

5 nestpensions.org.uk/schemeweb/nest/nestcorporation/who-runs-nest/trustee-members/trustee-committees.html

Day-to-day management of Nest's assets (default and non-default)

3.1 The day-to-day management of Nest's assets is performed by external professional fund managers and from time to time, Nest Invest. The investment committee are satisfied that the appointed fund managers and Nest Invest have sufficient expertise and experience to carry out their role.

3.2 Fund managers are monitored on a regular basis and performance is reported to the investment committee quarterly. The appointment, and dismissal of fund managers is the ultimate responsibility of the investment committee, based on recommendations from Nest Invest. The monitoring of fund managers is the responsibility of Nest Invest with oversight by the investment committee.

3.3 Their activities are defined and constrained by detailed agreements. Fund managers have discretion to buy and sell investments within the terms of their agreements. Fees are negotiated individually when a fund manager is appointed and are reviewed periodically to provide ongoing value for money for members.

3.4 Fund managers are listed in the scheme's annual report and accounts[6], which also contains information about investment performance, asset allocation and major investment decisions taken during the year.

3.5 The fund managers are selected through an open and transparent process. The process aims to achieve best value for money for members. Professional advice from either Nest Invest or the Trustee's external and FCA-authorised and regulated investment advisers is obtained and considered in the selection of these funds and fund managers. As part of this selection, a due diligence process is performed to ensure that the assets are invested with sufficient security and liquidity and that each of the fund managers is of the appropriate quality and calibre to ensure the quality and profitability of the assets. The ongoing monitoring of these funds and fund managers is delegated to Nest Invest, to ensure all investments are undertaken in accordance with the Trustee's powers of investment.

6 nestpensions.org.uk/schemeweb/nest/resources/library.html

Policy in relation to the Trustee's arrangement with existing asset managers (default and non-default)

4.1 Nest's approach to constructing its investment strategy is to use a 'fund-of-funds' model. We work with multiple fund managers with multiple mandates for different asset classes. We are not reliant on any one fund manager to deliver the investment objectives of the default strategy or in most cases the fund choices that members can make.

4.2 Each manager is procured through an open competition, to find the most suitable fund manager for each asset class. A thorough procurement process and regular ongoing monitoring ensures that each fund manager is fully aware of Nest's particular objectives for any given asset class in order to align its investment approach with that of Nest and to ensure each manager is appropriately incentivised.

4.3 Nest shares a summary of its Standards on issues such as responsible investment; engagement and voting; divestment; unit pricing and fair value; and the use of derivatives, with fund managers as part of the procurement process, and provides to managers updates to these standards when relevant.

4.4 As part of our procurement process we set out the detail of our responsible investment Standards, and prospective managers are evaluated on their approach to being long term and responsible stewards of the assets they manage on behalf of Nest members where relevant. We share with our managers our SIP, within which we set out investment beliefs about the importance of making decisions with a long-term mindset.

4.5 Nest Invest conducts regular manager monitoring and meets in person with each of the managers at least once a year, and more frequently for active managers. Manager performance is reported to the investment committee on a quarterly basis. As part of our regular evaluation of our managers to ensure they are delivering in line with the objectives for which they were appointed, we monitor fees and charges in the context of our ongoing market evaluation of the price of fund management services.

Our contractual relations with fund managers are open ended (subject to termination provisions which are negotiated as part of the appointment terms) as we believe in building long term partnerships with fund managers. Where managers are no longer delivering on the objectives for which they were appointed, we will move assets to an alternative manager, or re-procure for that particular asset class – there are no contractual impediments to doing this.

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

4.7

Nest requires its fund managers to vote on all resolutions of shares managed on behalf of Nest members – this includes voting and engaging on a company's capital structure. Where there is a potential for any conflict of interest between a fund manager and the way they vote, we expect these conflicts to be managed in accordance with the FRC's stewardship code. Nest can override the voting position of our main equity fund manager for the securities managed on behalf of Nest.

4.8 As part of Nest's Standards on responsible investing, Nest and Nest's fund managers collaborate with other institutional investors and asset managers. Nest is a signatory to the PRI and other relevant shareholder initiatives. We report engagements undertaken with our fund managers and other stakeholders in our annual responsible investment report.

Types of assets held
(default and non-default)

5.1 The Trustee invests in a mix of real and monetary assets and a mix of pooled and direct investment vehicles, deemed suitable for pension schemes, balancing expected returns against volatility. The investment committee regularly monitors Nest's funds to ensure that:

- they invest primarily in regulated markets
- investment in non-regulated markets is kept to a prudent level
- derivatives are used in a prudent and appropriate way to manage risk or manage the portfolio more efficiently and without excessive risk exposure to a single counterparty or other derivatives.

5.2 The Trustee carries out due diligence and takes advice from Nest Invest and may also take advice from its investment advisers to ensure new areas of investment are appropriate.

5.3 The investment committee has approved a set of asset class ranges within which investments can be made. Any proposal to amend these ranges must be agreed in advance with the investment committee and the relevant schedules of the Investment Management Agreement updated accordingly.

5.4 The detail of the current asset allocation for the scheme's default investment strategy and the additional investment fund choices scheme members can make, is published via the quarterly investment report[7] on the Nest website.

The balance between different types of investments
(default and non-default)

6.1 Long-term strategic asset allocation is driven by the specific characteristics of the scheme, in particular its demography, and members' capacity and appetite for risk. The Trustee also considers long-term projections of the likely performance of different types of investments in different economic conditions.

6.2 The scheme's strategic asset allocation is reviewed on an annual basis. The methodology for changing the strategic asset allocation is periodically revisited to ensure that changes to the strategic asset allocation are appropriate.

6.3 The investment committee is responsible for ensuring both the default strategy and the additional investment fund choices scheme members can make are, as far as practicable, sufficiently diversified so as not to be reliant on any particular asset class, issuer or group of undertakings. The investment committee is responsible for ensuring that investments in assets issued by the same issuer or by issuers belonging to the same group do not expose Nest members to excessive concentration of risk.

Liquidity
(default and non-default)

7.1 The liquidity profile of Nest's investments is regularly reviewed. The majority of the scheme is invested in liquid assets. Some investments, such as property, are less easy to sell. Such illiquidity normally allows the Trustee to capture an improved return and is not expected to constrain its investment decisions.

7 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/other-fund-choices/fund-factsheets.html

Risk
(default and non-default)

8.1 The Trustee recognises that the scheme is exposed to a number of investment and operational risks.
It gives qualitative and quantitative consideration to these risks when deciding investment policy, strategic asset allocation, the fund manager structure, choice of fund managers, the terms of their agreements and other aspects of the ongoing management of the scheme.

8.2 The scheme maintains a risk register of the key risks, including investment risks, to which it is exposed. The register rates the impact and likelihood of the risks, and summarises existing mitigations and additional actions. It is reviewed quarterly by the investment committee. Further details on the types of risks identified are shown in Annex 1.

Expected return on investments
(default and non-default)

9.1 The types of investment chosen by the scheme are selected and combined with the aim to achieve the specific objectives of the default strategy and the additional investment fund choices scheme members can make.

The Trustee seeks to take account of financially material considerations in the selection, retention and realisation of investments. The key inputs in setting the investment strategy are the long-term capital market assumptions of expected return and expected (volatility) risk. These capital market assumptions incorporate long-term forecasts of the key drivers of risk and return including economic growth, inflation and asset values.

Nest Invest reports to the investment committee on a quarterly basis the risk and return characteristics of the Retirement Date Funds and additional investment fund choices, and how each fund manager is delivering against their specific mandates.

9.2 Risks and opportunities are assessed for materiality and impact within a broader risk management framework, which takes account of the Trustee's investment time horizon for a diverse member demographic. While our focus is predominantly long-term, as is appropriate for a pension scheme, the risk management framework allows us to consider a variety of risks including the short to medium term outlook for economic growth and inflation as well as currency, interest rate and political risk.

Realisation of investments
(default and non-default)

10.1 The Trustee will realise assets following member requests on retirement or earlier where required. In selecting assets, the Trustee considers the liquidity of the investments in the context of the likely needs of members.

Investment beliefs
(default and non-default)

11.1 The Trustee has established a set of investment beliefs to provide an objective and transparent framework for consistent decision-making. These beliefs act as a guide to enable effective delivery of all investment functions. The beliefs can be found in Annex 2.

Investment aims and objectives for the default strategy

12.1 The Trustee's overarching investment objective for the default strategy is to target investment returns in excess of the Consumer Price Index (CPI) after all charges over the long term.

The Trustee has selected types of investments and the balance between these investments to meet this return objective.

12.2 To support this overarching objective the Trustee has also agreed the following sub-objectives:

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

The Trustee recognises that there will at times be tensions between these supporting objectives and will seek to find an appropriate balance between them.

Delivering the investment objective for the default strategy

13.1 The Nest scheme and its default investment approach have been designed to ensure that scheme members who do not wish to take an active role in how their contributions are invested can do so in confidence. The availability of a well-constructed default strategy is an essential part of auto enrolment and is central to Nest's investment approach.

13.2 Investment risk should be taken in varying amounts throughout a member's time saving with Nest. The Trustee has therefore adopted a series of target date funds called the Nest Retirement Date Funds[8] to deliver the default investment strategy. Each Nest Retirement Date Fund has an asset allocation that is consistent with the expected amount of risk that is appropriate for the age of a member and/or their expected retirement date and the amount of return required to meet the investment objectives of the Nest Retirement Date Funds.

The default strategy glide path

14.1 The varying allocation between return-seeking and income-seeking assets through time is known as the glide path. The Trustee has split the glide path into four phases:

- the foundation phase
- the growth phase
- the consolidation phase
- the post-retirement phase.

14.2 The foundation phase refers to the early years of younger scheme members' working lives as they develop the savings habit. This phase typically lasts five years. The objective for the foundation phase is to keep pace with CPI after all charges.

14.3 The growth phase is where the maximum growth in assets is being targeted through investing in asset classes that are expected to grow in value relative to inflation more than other investments. The objective for this phase is to outperform CPI plus 3 per cent a year after all charges over the long term.

14.4 The consolidation phase prepares a scheme member's assets for retirement and typically begins ten years before their Nest Retirement Date Fund matures. Investments in this phase are progressively switched out of higher risk assets. The primary objective of the consolidation phase for funds maturing after 2020 is to outperform CPI after all charges while aiming to progressively dampen volatility as a scheme member's fund approaches maturity. For Nest Retirement Date Funds maturing through 2020, the consolidation phase objective is to manage the risks associated with converting a member's accumulated savings into a cash lump sum.

14.5 The post-retirement phase is for those members who have not chosen to withdraw all their savings when their Nest Retirement Date Fund matures. Those members whose pot size is below £10,000 will be automatically moved into the Nest Post Retirement Date Fund. This fund will invest in asset classes with low volatility in order to minimise conversion risk, as we expect members to access their pots and take one, or a number of uncrystallised funds pension lump sums, relatively quickly.

Those members who are aged between 60 and 70 and whose pot sizes are £10,000 or more, will be automatically moved to the Nest Guided Retirement Fund. This is an investment strategy consisting of four sub-funds. Members will have different allocations in each of the sub-funds depending on their age. As they get older and progress through the strategy they will be gradually de-risked from a sub-fund which has an objective of outperforming CPI after all charges, to a sub-fund that is predominantly invested in liquid low volatility assets, or assets that reduce conversion risk for the purchase of a later life annuity at the age of 85.

Nest manages and invests the members' pot with the aim of providing them with sustainable withdrawals until age 85. The remaining pot can then be used to purchase a lifetime income from age 85, if the member wishes.

8 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/nest-retirement-date-funds.html

Responsible investing
(default and non-default)

15.1 The Trustee considers sustainable investment factors, such as (but not limited to) those arising from environmental, social and governance (ESG) considerations, including climate change, in the context of the broader risk management framework. One of the Trustee's investment beliefs is that, as long-term investors, integrating ESG considerations into the investment management process improves risk-adjusted returns.

15.2 The Trustee requires its fund managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process. Fund managers are monitored on a regular basis by Nest Invest in this regard. On an annual basis the investment committee receives a report on the fund managers' voting performance and approach to responsible investing more generally.

15.3 The Trustee expects fund managers, where appropriate, to have integrated climate risk into their risk analysis and investment process and, where appropriate and practical, we will take it into account in the selection of new fund managers. When monitoring the performance of our fund managers, we will also regularly consider how they are performing with reference to climate risk issues.

15.4 The Trustee has an active policy of soliciting members' views on non-financial matters in their investment decision making for one of the non-default investment funds – the Nest Ethical Fund choice strategy. These views are taken into account in the selection, retention and realisation of investments in the Nest Ethical Fund. The Trustee does not currently take into account members' views on non-financial matters in the selection, retention and realisation of investments for the other additional investment fund choices.

15.5 The Trustee does not currently take into account members' views on non-financial matters in the selection, retention and realisation of investments for the default investment strategy, as they have provided additional investment fund choices where members' views on non-financial matters can be sought and expressed.

15.6 The Trustee surveys members about its responsible investment approach in general and provides to members and stakeholders an annual report[9] on its responsible investment activities.

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

Responsible investing - stewardship
(default and non-default)

16.1 The Trustee has a duty to act responsibly with regards to the assets it owns on behalf of Nest members. The Trustee believes that in order to fulfil this duty and to protect and enhance the value of Nest's investments over the long term, it must act as a responsible and vigilant asset owner and market participant.

16.2 As part of this duty the Trustee, or its agents on its behalf, exercises its ownership rights, including voting and engagement with investee companies on matters including performance, strategy, risks, social and environmental impact and corporate governance in order to safeguard sustainable returns in the long term. How the Trustee expects its voting and engagement rights to be exercised is set out in a scheme specific voting and engagement policy[10].

16.3 Nest takes its responsibilities as an asset owner seriously. As clients, we work closely with our fund managers to help us support good corporate behaviour. Part of our procurement process for choosing fund managers involves ensuring their voting policies are well thought out and documented. Having our own policy enables Nest to document our position and expectations to our fund managers on good corporate behaviour. We use it to monitor and hold our fund managers to account on the decisions they make. Having our own established policy in place helps us have healthy discussion and debate with our fund managers. We always seek to vote and engage in the interest of our members and encourage our fund managers to consider our voting policy in their voting decisions.

16.4 Where we have direct voting rights we work closely with our proxy voting agent to ensure Nest's voting intentions are delivered in line with Nest's voting policy.

16.5 Each year we publish a voting summary report setting out how all our fund managers have voted and how this compares to Nest's voting policy. We report the votes our fund managers make every quarter.

16.6 In addition to engaging directly with companies, Nest also undertakes joint engagements with our fund managers, and other pension schemes. Nest works to engage with public, industry and regulatory bodies in the various markets in which the scheme invests to promote better practices.

10 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment/how-we-voted.html

16.7 Given the systemic nature of climate change, we seek to discharge our duties by robust engagement alongside our fund managers with investee companies to encourage alignment with a low carbon economy and with policy-makers and governments to advocate for the same.

16.8 The Trustees have signed up to the UK Stewardship Code and the UN supported Principles for Responsible Investment (PRI).

16.9 The Trustee reports to its members and stakeholders on its stewardship activities through its annual responsible investment report[11].

Policy on divestment

17.1 In general, divestment or exclusion goes against our principles of stewardship and responsible investment. However, in certain rare circumstances we believe it's merited for the reasons set out in our divestment policy. Further detail of our divestment policy[12] and how it is implemented can be found on our website.

17.2 Nest supports internationally recognised norms of corporate practice. As such we actively seek to avoid investing in companies such as those directly involved in the production or sale of cluster weapons, anti-personnel landmines or chemical and biological weapons.

Additional investment fund strategy choices

18.1 Some members may wish to choose an alternative to the default strategy. The Trustee provides a focused choice to meet the identified member needs. The fund choice strategies currently include:

Nest Higher Risk Fund

Invests in return-seeking assets

Nest Lower Growth Fund

Invests in very low volatility assets

Nest Ethical Fund

Invests primarily in ethical securities and ethical property

Nest Sharia Fund

A fund with an investment approach based on Islamic law

Nest Pre-retirement Fund

Invested for those who wish to buy an annuity in the near future.

Nest Guided Retirement Fund

A fund designed for members who:

- are aged between 60 and 70;
- have at least £10,000 in their retirement pot; and
- want to start taking money from their Nest pot in retirement while still being invested in a proportion of growth seeking assets.

Nest members who are in the default strategy (Nest Retirement Date Funds) or the Higher Risk lifestyled strategy and have passed their Intended Retirement Date (IRD) without making a retirement choice, and meet the age and amount criteria, will be automatically moved into this fund.

18.2 The Trustee may add, change or remove any fund choice strategies in accordance with the terms set out in Nest's Order and Rules[13].

18.3 The Trustee endeavours that, for members who choose an alternative fund choice strategy, the risk being taken in the fund also takes into account the expected retirement age of the member, where this is applicable and practicable.

Compliance with this SIP

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

11 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment/responsible-investment-reports.html

12 nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/investment-principles.html

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

SIP Annex 1

Risks

Inflation risk

The Trustee invests in a diversified range of assets which are likely to grow in real terms.

Pension conversion risk

In the consolidation phase, the Trustee increases the proportion of assets that more closely match how we expect scheme members to use their pots in retirement. This is particularly important in light of the changes introduced by 'Freedom and choice'.

Market risk

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

Counterparty risk

The Trustee, with Nest Invest, its advisers and its fund managers, assesses and manages its counterparty risk.

This is done through a rigorous approach to the procurement of a variety of investment services, regular monitoring of Nest's funds, regular reports of the funds' underlying holdings and the fund manager's approach to managing risk.

For relevant asset classes the Trustee and those it delegates to, carefully monitors credit risk where there is a risk of corporate default. In addition, the Trustee has indemnities in place with fund managers for certain activities.

Operational risk

The Trustee, with its suppliers, assesses and manages its operational risks.

Liquidity risk

As far as is practicable and necessary, the Trustee invests primarily in liquid assets which can be quickly realised as required.

Valuation risk

The Trustee invests primarily in liquid quoted assets in order to manage the valuation risk.

Environmental and social risks

These risk factors can have a significant effect on the long-term performance of the assets Nest holds. Where applicable these factors will be considered in the investment process.

Governance risk

This can have a significant effect on the long-term performance of the companies we hold. Where applicable governance risk factors will be considered in the investment process.

Currency Risk

Investments denominated in currencies other than the scheme's base currency carry the risk of adverse exchange-rate movements. Nest looks to manage currency risk by hedging a proportion of its foreign currency exposure back into sterling.

SIP Annex 2

Investment beliefs

Governance

Good governance, including an appropriately resourced investment function, is in the best interests of Nest's members.

It is important to be clear about investment objectives for the funds, risk tolerance, and the time frame over which results are measured. Furthermore, the investment outcomes experienced by our members are determined by the investment relationships we develop with our fund managers, key partners, within our team, and how together we promote long-term wealth creation.

We believe that the culture and governance structure surrounding these are also vital to success.

Responsible investment

As long-term investors, we believe that integrating environmental, social and governance (ESG) considerations into the investment management process improves risk adjusted returns.

We should invest resources in stewardship, consider ESG risks in asset allocation decisions and seek out sustainable investment opportunities. We should also seek to improve the functioning of financial markets. The ESG change we seek in our members' best interests is slowly emerging, and we believe the conditions for successful change require continuous effort from us and many like us.

We believe that long-term returns to investors are likely to be more sustainable if companies consider the interests of wider stakeholders – customers, employees and the wider public as well as shareholders and lenders.

Companies are more sustainable investments and are more likely to sustain their performance when they meet their customers' needs, treat their employees equitably, pay fair taxes and respect their environment and community. There is also read across into infrastructure and property investments.

Asset allocation and risk management

Our members will be saving with us for many years and we believe that should be used as a source of advantage by fostering a long-term investment horizon.

Investors with a long-term horizon can outperform more short-term focused investors over the long run. As long-term (patient) capital is rewarded, setting the risk budget and the associated strategic asset allocation are the key investment decisions, taking account of assets' fundamental values and market prices, economic conditions and long-term market developments.

We believe, however, there are times when we need to manage shorter term risks.

We should be very selective and do so where we believe there is the risk of significant or permanent loss of capital.

Risk and return are strongly related. There are varied investment risks that carry compensations or premiums. Illiquidity risk is one such premium which, as a long-horizon investor, our members can benefit from. Following a diversified investment approach improves the risk-adjusted returns of our member funds.

We will avoid or seek to manage risks that we believe are uncompensated. We look to diversify across a range of asset classes and across the risk factors driving their performance.

Manager selection and manager relationships

We believe that disciplined and rigorous manager selection is a source of value.

We think carefully about how to access each asset class, taking into consideration cost, how best to capture the asset class beta and the extent we can evaluate and access alpha opportunities. Managing fees and other expenses and ensuring efficient implementation can prevent unnecessary cost to our members.

We look to build partnerships with managers as this is a source of value.

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