Stewardship Code Consultation 2025

Response from Nest Corporation

About us

Nest was established in 2010 as part of the auto enrolment programme to help people save for retirement. Unlike any other pension scheme in the UK, Nest has a legal obligation to accept any employer that wishes to use us to discharge their auto enrolment obligations. Over one million employers have signed up to use Nest.

Over the last decade, Nest has grown to be one of the largest pension schemes in the UK, with nearly £50bn in assets under management. We are operating at scale as a high-quality, low-cost pension scheme helping over 13.7 million members save for their retirement. Many are low to moderate earners who may be saving into a pension for the first time.

Nest is built around the needs and behaviours of our members, from our approach to responsible investment to our focus on customer service. We now occupy a place in the market as a major Master Trust, helping to drive up standards and best practice across the industry. Nest has great potential for delivering pensions to mass market consumers for many years to come, leveraging our scale to deliver value through the combination of low costs, our market leading investment strategy and modernised services all overseen by strong trustee governance.

Response

We welcome the opportunity to respond to the Financial Reporting Council's (FRC) UK Stewardship Code Consultation and have appreciated the many opportunities to engage with the FRC prior to and during this consultation period. In this document, we outline our key views on the proposed changes to the Code. We have also provided feedback via the UK Sustainable Investment and Finance Association's (UKSIF) Policy Committee and Pensions and Lifetime Savings Association's (PLSA) Stewardship Advisory Group and are largely supportive of the recommendations set out in their responses.

Nest was an early adopter of the Code and recognised its importance in strengthening the effectiveness of stewardship in the UK, enabling asset owners like Nest to assess the quality of our managers' stewardship, and helping us to clearly communicate to our end savers and demonstrate our commitment to being a responsible investor.

The Code has generated real change, including increased focus and resourcing for stewardship across the industry. The Code has also set the direction of travel for investor stewardship practices internationally and is regarded as a global leading standard. We welcome FRC's efforts to strengthen this leading standard, through for example, its proposed measures to streamline signatory reporting and reduce the overall reporting burden.

However, we are concerned that the positive impact mentioned previously will be undermined by the shift in the tone and purpose of the Code set out in this proposal. The FRC had previously referred to the Code as setting '*high stewardship standards for asset owners and asset managers, and for service providers that support them*'. However, in the new proposal, the FRC has said that the purpose of the Code is to '*provide transparency around the different approaches and activities that investors and their service providers undertake to steward assets in their care*'.

In addition, in our view, there has been a considerable weakening in standards and signatory expectations across the Code. Namely, the minimal reference to material ESG issues across the entire Code, the diluted stewardship definition, and the removal of the separate Principles on escalation and collaborative engagement.

The totality of these proposed changes means that the Code would shift from being an accountability framework for outcomes with minimum criteria on high quality stewardship, to a reporting framework against a low standard of stewardship.

We do not agree with this direction of travel. We think this is problematic for the following reasons:

› As asset owner clients, we previously valued having an independent benchmark for stewardship practices and disclosures. The ambitious standards and high barrier for signatory status made the Code a clear differentiator when assessing managers. However, by weakening standards and facilitating a more flexible framework for reporting, signatory status could be devalued and no longer serves as an indicator of leading practice, making it harder for us to distinguish between the effectiveness of each managers' approach.
› This shift places greater onus on asset owners, who may not have a lot of resource, to take further steps to ascertain whether their managers' stewardship approaches are good enough or not. Where signatory status to the existing Code was achieved, it provided reassurance that a high standard of stewardship had been reached. As a result, asset owners may increase their requests for further ad hoc stewardship information from our fund managers, leading to less consistent and more resource-intensive reporting. This could undermine efforts by the FRC to streamline reporting and reduce unnecessary burdens on both asset owners and managers.
› These changes risk creating the wrong market signal, downplaying the importance of ambitious stewardship in the UK and having a profound impact on how stewardship is undertaken across the industry globally. The UK Code has served both as an important mechanism to enhance transparency in the UK and served as a 'gold standard' internationally, helping other jurisdictions developing their own frameworks. This change is problematic at a time when assertive stewardship is needed more than ever to address global systemic risks that will inevitably have a direct impact on investment returns in the long run.

Overall, we do not believe the proposed changes are in the best interests of the many millions of pension savers we serve. We urge the FRC to place significant weight on the feedback received from the UK asset owner community, who represent – and are uniquely placed to speak to - the best interests of UK savers and end beneficiaries.

Q1. Do you support the revised definition of stewardship?

We do not support the revised definition of stewardship proposed by the FRC. While we welcome the greater emphasis placed on the ultimate purpose of stewardship being to 'create long-term sustainable value for clients and beneficiaries', we are particularly concerned with the removal of the explicit reference to the environment and society. It is our view (and there is much evidence[1] that argues) that environmental and societal issues will almost always be relevant to long-term investments, and material to delivering sustainable value for clients and beneficiaries. We strongly recommend that this reference remains in the definition, and we do not feel that it is sufficient to reference the environment and society within the supporting language alone.

[1] **Quigley (2020) Universal Ownership in Practice: A Practical Positive Investment Framework for Asset Owners**, **Hawley and Lukomnik (2018) The Long and Short of It: Are We Asking the Right Questions? Modern Portfolio Theory and Time Horizons**

We are strongly supportive of the following alternative definition in place of the FRC's proposal, which has been put forward by UKSIF and supported by the PLSA:

> *"Stewardship is the responsible allocation, management and oversight of capital, having regard to dependencies and impacts on the economy, the environment and society, to create long-term sustainable value for clients and beneficiaries."*

This proposed alternative retains reference to considering the environment and society which is crucial to the end goal of creating long-term value for clients and beneficiaries. We are comfortable with the inclusion of the term 'having regard to', which aligns with Section 172 of the UK Companies Act. We feel that this alternative proposal strikes a balance of being both ambitious and workable, taking into account the diversity of stewardship approaches across market participants.

Supporting language

We think it is important to draw out the link between long-term sustainable value and the environment and society within the main text of the definition itself. However, we recommend enhancements to the supporting language by:

- Explicitly referencing the relationship between climate change and other material sustainability risks, and investors' fiduciary duty. This relationship was clearly set out in the Financial Markets Law Committee (FMLC) opinion[2] published last year, which highlighted the importance of pension funds considering their role 'as participants in much wider financial and economic networks' and that climate change and other sustainability factors should be considered financial factors, rather than non-financial.
- Emphasising the importance of stewardship in mitigating system-level risks. As universal owners, we recognise that system-level risks such as climate change and social inequalities can impact the real-world economy, and in turn, our portfolio and returns to our members. Such risks cannot be diversified away, and require stewardship beyond engagement on idiosyncratic risks.

Q2. Do you support the proposed approach to have disclosures related to policies and contextual information reported less frequently than annually? If yes, do you support the approach set out above?

We are supportive of less frequent reporting on static information. We believe that this could potentially reduce the reporting burden and allow for more outcomes-focused reporting, which should be more decision-useful for asset owner clients and more accessible to end beneficiaries.

However, we are concerned that the proposal's potential positive impact on reporting burdens will be minimised if signatories are still required to submit policy and context disclosures annually. Even if said policies and context disclosures do not change from one year to another, these disclosures will still likely require internal reviews and approvals on an annual basis by many signatories.

Therefore, we recommend that both the submission and assessment of policy and context disclosures take place on a triennial basis, unless there is a change to a Signatory's policy in the interim.

Q3. Do you agree that the Code should offer 'how to report' prompts, supported by further guidance?

We welcome efforts to provide more guidance to signatories on how to report in line with the Code. Greater clarity on how reports are assessed can provide more assurance to signatories that they are

[2] Financial Markets Law Committee Paper: Pension Fund Trustees and Fiduciary Duties – Decision-making in the context of Sustainability and the subject of Climate Change (2024)

reporting in line with FRC expectations and may lead to less 'fear-based reporting' by signatories (where they disclose as much information as possible to ensure they meet all possible requirements to retain their signatory status). This reduction in 'fear-based reporting' could ultimately mean more concise, decision-useful reporting.

The FRC could introduce complementary measures to further prevent 'fear-based reporting' including engagement with signatories who are at risk of not meeting expectations early in the process.

The 'how-to-report' prompts should be vital in ensuring a consistent and structured framework for reporting to ensure comparability. Guidance that is too broad and overly flexible will lead to increased variance in quality and content of reporting, leaving it open to interpretation. This would lead to challenges for asset owner clients who might find it more difficult to assess and compare the stewardship reports of their asset managers and determine how effectively they are delivering stewardship outcomes on their behalf.

We are particularly concerned with our inability to feed into the proposed guidance. Many of our concerns with the proposed changes – including the extent to which practices such as escalation and collaboration will be emphasised – will be addressed through the guidance. We do not feel that we can comprehensively respond to the consultation without an understanding of how these changes will be reflected in this guidance. We strongly urge the FRC to provide signatories with the opportunity to be consulted on the guidance for each Principle. We appreciate that it may not be practical to consult on this live guidance each year, so we urge the FRC to consider alternative ways of seeking continuous practitioner input.

In addition, we recommend that this guidance is consolidated into one single document, rather than multiple resources. This should enable signatories to easily access all the information they need to report effectively.

Q4. Do you agree that the updated Code for Asset Owners and Asset Managers should have some Principles that are applied only by those who manage assets directly, and some which are only applied by those who invest through external managers

We agree that there should be a better distinction between the different roles that market participants have in exercising stewardship. Ensuring signatories only report on aspects relevant to their role can reduce reporting burden and duplication across reports. We also agree that further focus should be placed on how asset owners monitor and set expectations of their appointed fund managers.

We stress caution on the percentage threshold proposed to exempt signatories with 10% or fewer of assets managed in-house from reporting on Principles 3 and 4. We are unclear on how this threshold was established. In addition, at Nest, although all our investments are managed by third-party managers, we also engage directly with issuers. We see much value in hearing directly from issuers and vice-versa and believe that the asset owner voice can often strengthen an engagement. Therefore, we encourage the FRC to clarify that while many asset owners may not be obligated to report against the engagement Principle, it should be encouraged.

Q5. Do the Principles of the updated Code better reflect the different ways that stewardship is exercised between those who invest directly, and those who invest through third parties?

See above response.

Q6. Do you agree that the updated Service Providers' Code should have some Principles that are applied only by proxy advisors, and some that are only applied by investment consultants?

We support the introduction of Principles to be applied specifically by proxy advisors. These differentiated Principles allow us, as clients, to more thoroughly hold proxy advisors accountable for activities more relevant to their specific responsibilities.

We believe that the Principles for proxy advisors can be strengthened. Similar to the Principles for investment consultants, we recommend including references to systemic risks. Proxy advisors play an important role in the investment chain by influencing voting decisions and outcomes related to the environment, society, and economies. Therefore, we would like the Principles to reflect how proxy advisors incorporate long-term sustainability issues and market-wide risks into their voting policies, corporate research, and engagement with companies and clients.

Q7. Do the streamlined Principles capture relevant activities for effective stewardship for all signatories to the Code?

We support attempts to streamline the Principles but encourage the FRC to place greater importance on the role of policy advocacy, escalation, and collaboration throughout the Code. Streamlining the Code should not be done at the expense of quality reporting on these key components of stewardship. Diluted reporting expectations may lead to asset owner clients requesting more ad hoc manager reporting on these elements, which would undermine efforts by the FRC to reduce overall reporting burden.

Policy advocacy

We recommend placing greater emphasis on the importance of advocacy and policy engagement in the Code. Policy engagement is an effective lever that investors can utilise to address sector- and/or market-wide risks, and in some cases, are more appropriate and impactful than traditional corporate engagement. We would refer the FRC to **ICGN’s Global Stewardship Principles**, which now include a principle on public policy advocacy.

Escalation

We recommend that escalation remains a standalone Principle (or ‘sub-principle’). Escalation makes stewardship more meaningful with a view to reaching tangible engagement outcomes. The removal of this specific Principle – in our view - lessens its importance and would remove the need to report on an investor’s general approach to escalation, as well as specific cases of escalation where they might have occurred. This is a concern for us as escalation is a critical part of our assessment of external managers.

We would at the very least recommend that escalation is included as a ‘sub-principle’ within the engagement Principle. This would reflect the interconnection of these activities and would signal that escalation is an important component of and inextricably linked to engagement (rather than a standalone activity).

Collaboration

We are disappointed with the Proposal regarding collaboration and collaborative engagement. Systemic risks can only be effectively addressed through enhanced collaboration among institutional investors and other actors in the market. For example, collaboration:

- can be an efficient means of stewardship among investors and spreads the cost of addressing systemic risks;
- mitigates challenges inherent in addressing collective systemic issues, such as the free-rider problem (i.e. where some avoid the costs of addressing collective problems, while reaping the benefits); and
- can be beneficial to issuers and other stakeholders. It can reduce the need for companies to hold so many bilaterial engagements with investors. It can also allow companies to gain a clearer understanding of the unified expectations and priorities of their investors.

For this reason, we do not believe that collaboration should be an optional disclosure within the Code and would like to see a strong rationale by signatories if collaboration has not been conducted.

We would like to emphasise that collaboration is not limited to conducting collaborative engagements with issuers. Collaboration also includes joining industry working groups and initiatives, engaging collaboratively with policy makers, co-developing resources and frameworks, and setting joint expectations for service providers and others in the investment chain, to name a few.

Noting the above, we would encourage that collaborative engagement is replaced with broader collaboration and retained as a standalone Principle.

As a secondary option, we support the recommendations made by IIGCC to align to the 2023 Swiss Stewardship Code's Engagement Principle, which includes three sub-principles: "Individual Engagement", "Collaborative Engagement" and "Public Policy Engagement", and to encourage collaboration more strongly within the guidance.

Q8. Should signatories be able to reference publicly available external information as part of their Stewardship Code reporting, recognising this means Stewardship Code reports will no longer operate as a standalone source of information?

We value the ability to access stewardship information from our fund managers from one single, comprehensive source. Allowing for references to external links may lead to a less coherent and decision-useful report.

However, we recognise the need to balance the desire for standalone readability with the need to alleviate the reporting burden, and allowing for cross-referencing may reduce duplication of reporting and consolidate existing reporting obligations. It may also lead to a more digestible volume of reporting, which we believe will be more accessible to our members.

We are therefore supportive of this measure if the FRC ensures that references provide additional depth and context to reporting, rather than replacing valuable information. The FRC should consider setting out clear guardrails on what external information will be approved for this purpose.

Q9. Do you agree with the proposed schedule for implementation of the updated Code?

We support the proposed schedule for implementation.

We recommend avoiding further interim changes in advance of the launch of the updated Code to avoid confusion.

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