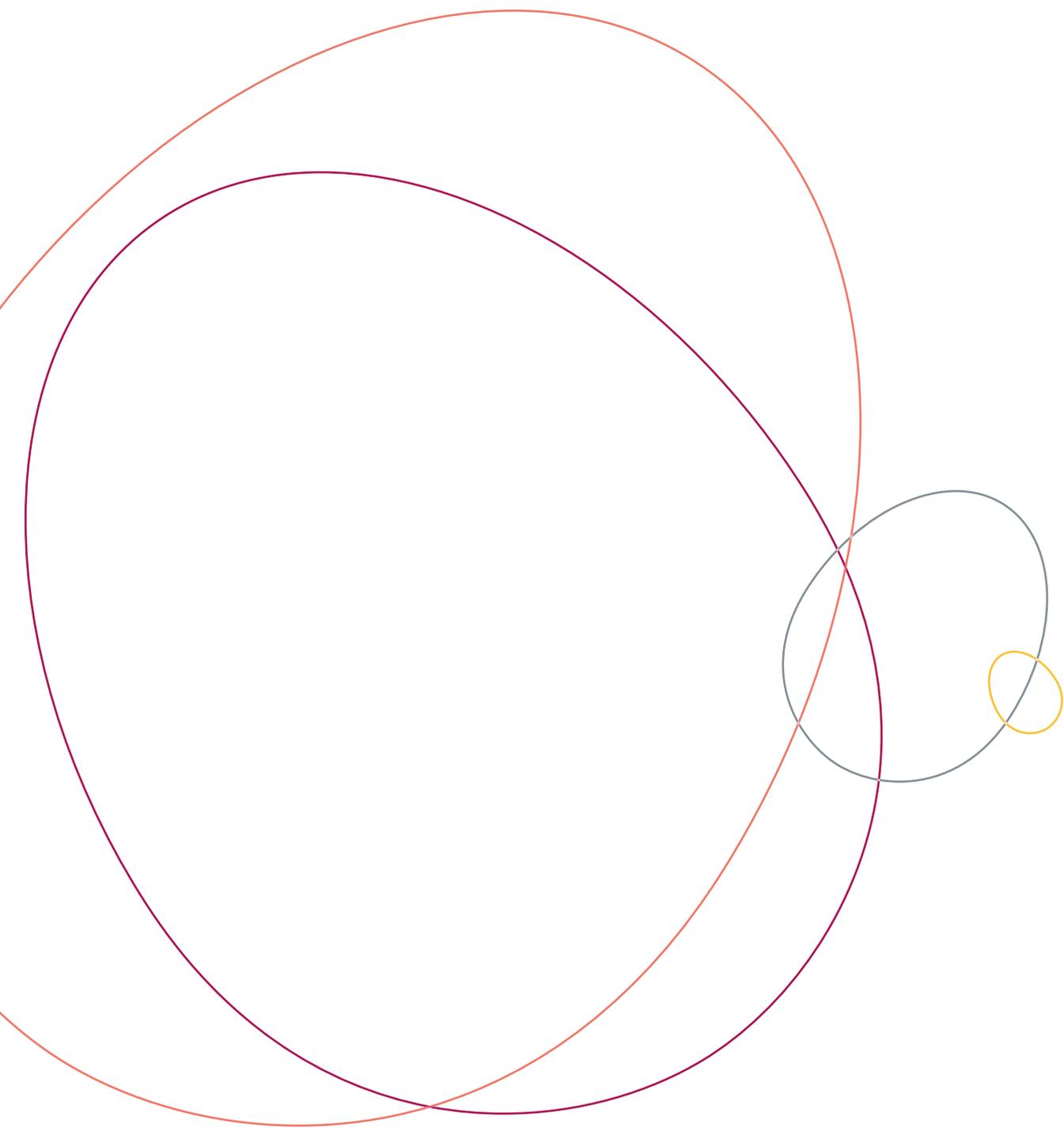




NEST pension scheme annual report and accounts

for the year ended
31 March 2016



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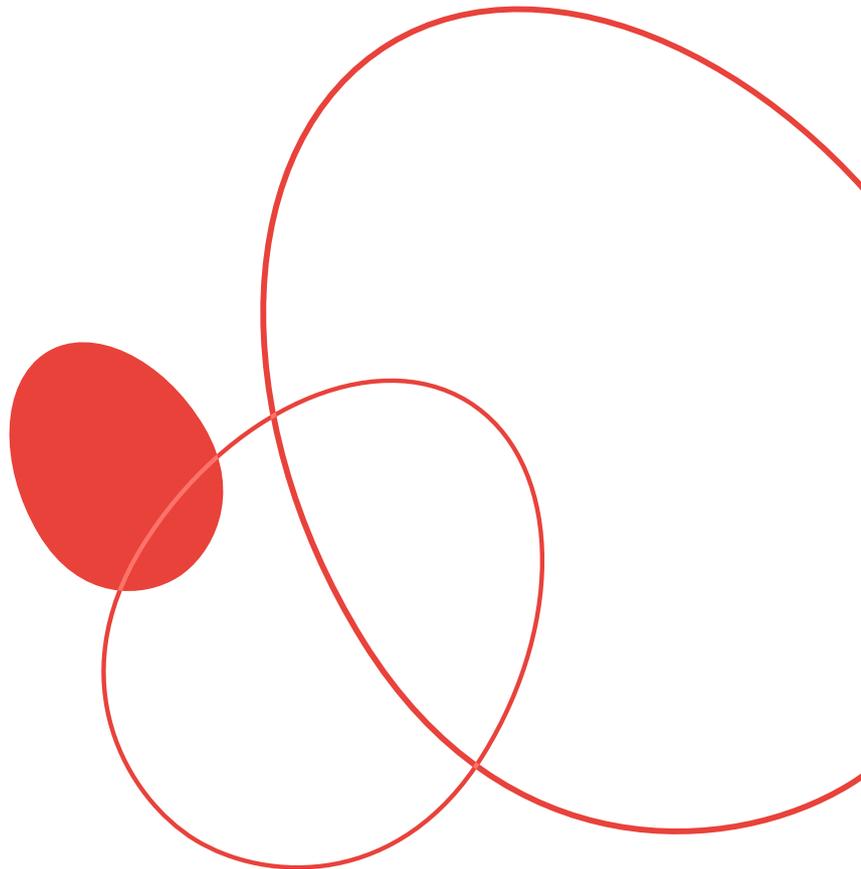
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Chapter one

Trustee's report



1.1 Chair's statement

It is an exciting time to be a pension trustee, particularly if you are involved with auto enrolment. We are helping to ensure that our longer living population can put money aside to help meet their aspirations for later life. There is a fundamental shift in how the UK tackles this challenge, and I feel privileged to be part of it.

NEST has a key role to play, both in supporting the successful roll out of auto enrolment to all employers and in looking after the interests of a new generation of pension savers. The shared sense of vision and commitment held by the NEST Corporation executive board and the Trustee Members is a key element of our progress to date.

We are committed to helping employers comply with auto enrolment efficiently and keeping member interests at the heart of everything we do.

As the Trustee, one of our top priorities is to ensure NEST is well governed and effectively run. Our internal assessments assure us that we have the appropriate controls and governance mechanisms in place, that are working as they should, and this year NEST obtained independent confirmation of this. The master trust assurance framework is intended to help employers identify a high quality pension scheme. The Institute of Chartered Accountants in England and Wales (ICAEW) has developed this framework in partnership with The Pensions Regulator (TPR). Employers that sign up with NEST, and the members who are saving with us, can have confidence that NEST is doing everything it should to provide a high quality scheme. You can find our master trust assurance report on our website*.

Of course, another key focus is how we look after our members' pension pots. Our default funds have all performed as we would expect given the market environment.

We are committed to investing responsibly. This year NEST consolidated this commitment by signing up to the Institutional Investors Group on Climate Change. NEST also became part of the Carbon Disclosure Project which collates carbon data on thousands of companies globally. We also signed the Paris Pledge which supports the Paris Agreement on Climate Change.

The introduction of new pension freedoms led us to reconsider what we are here to do for our members and how we manage their pension savings throughout their time with us. The Trustee believes that we have a responsibility to deliver a process which supports our members in achieving good outcomes when they come to access their pension savings.

As a first step, this year we adjusted our investment approach to reflect how members may wish to take their money in later years. Our aim is to match more closely what members are likely to want to do at retirement.

* <https://www.nestpensions.org.uk/schemeweb/NestWeb/public/whatisnest/contents/Independent-quality-assurance.html>

For funds maturing up to 2020 the objective for the consolidation phase is to manage the risks associated with converting members' pension pots into cash lump sums. Members' pots will still be small at this stage and our research indicates that most members will take them as cash.

For funds maturing after 2020 the aim of the consolidation phase will be to outperform inflation, as measured by the consumer price index (CPI), after all charges. We will aim to do this while gradually reducing investment volatility as the fund gets closer to maturity.

In June 2015 we published *The future of retirement, a retirement income blueprint for NEST's members* setting out our vision for helping members make the most of their savings when they come to start taking their money out of NEST as the size of pension pots increase. The blueprint has been well received. Commentators welcomed NEST's blue-sky thinking and our proactive approach to finding solutions to the issue of increasing longevity and adequacy of pensions in later life.

We also consulted on changes to the NEST rules to allow members to make partial withdrawals. In addition we made some technical changes to get ready for the restrictions on transfers and the limit on contributions being lifted from 1 April 2017.

NEST Corporation has also contributed to government reports and consultations including:

- the government consultation on occupational and personal pension schemes
- the Treasury and Financial Conduct Authority (FCA)'s Financial Advice Market Review
- the government's consultation on tax relief
- the FCA and Department for Work and Pensions (DWP)'s consultation on transaction costs disclosure.

NEST Corporation was called to give evidence at the Public Accounts Committee's hearing and review of the progress of the automatic enrolment programme to date following a report by the National Audit Office (NAO). It was good to see that both the Committee and the NAO felt that auto enrolment is on track so far, although they had questions about the challenges to come.

More employers than ever are set to choose a provider this year and as the only scheme with a legal duty to be open to any employer for auto enrolment we have to be ready to accept significant volumes.

Consequently, we have worked hard to ensure we continue to deliver high quality services while managing significant increases in the numbers of employers using the scheme. As an example of an innovation designed to support this NEST has introduced technologies that enable seamless integration of our online systems with payroll software making auto enrolment compliance much simpler for small and micro employers. I am pleased to be able to report our systems have proved resilient.

I would like to put on record my thanks to the executive board and NEST's staff for their hard work, good humour and fortitude in the face of a challenging period in the organisations growth and development.

In particular I would like to acknowledge the great contributions of NEST Corporation's first chief executive, Tim Jones, who stepped down this year after leading our operations for eight years, and the Chair of our Members' Panel, Museji Takolia, who moved on to become Chair of the Pensions Advisory Service this year.

I would also like to recognise the continued support and efforts of our delivery partners, in particular Tata Consultancy Services (TCS) who have helped us continue to enhance our systems and processes to administer the scheme even more efficiently this year.

Finally, I would like to thank my fellow Trustee Members for the wisdom and camaraderie they have shown in my first year with NEST. We said a fond farewell to Enid Rowlands, Sue Slipman and Chris Hitchen this year and gave a warm welcome to Sally Bridgeland, Caroline Rookes and Jill Youds. I am extremely grateful for all of the contributions of our Trustee Members and I look forward to continuing to work with them.

We are only about half way through the staging period, so there is a lot more to do, but I remain confident that NEST, working with our partners and others around the industry, will deliver what is needed to make auto enrolment a success, and to deliver good outcomes for our employer customers and our members.



Otto Thoresen
Chair
NEST Corporation

29 June 2016

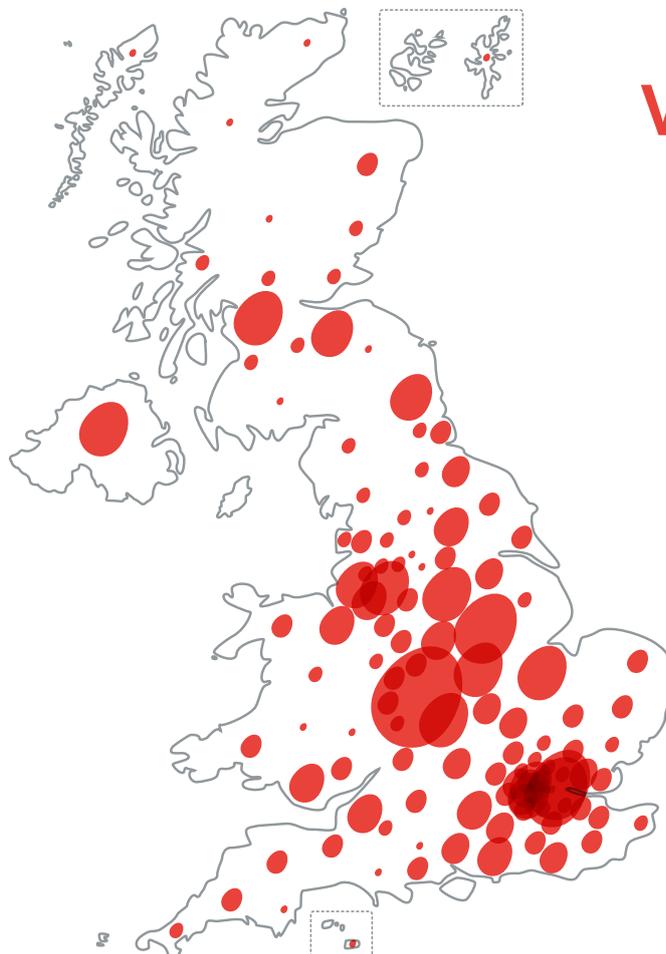
I.2 Scheme development

Introduction and constitution

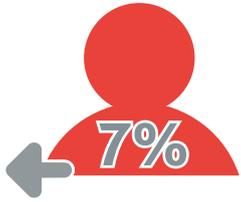
The NEST pension scheme, or 'the scheme' as we will call it throughout this report, was established by the National Employment Savings Trust Order 2010, known as 'NEST's Order'. This came into force on 5 July 2010. The *NEST Rules* document sets out how the scheme is designed and operates. Together these two documents make up NEST's Order and rules and comprise 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.

Key facts

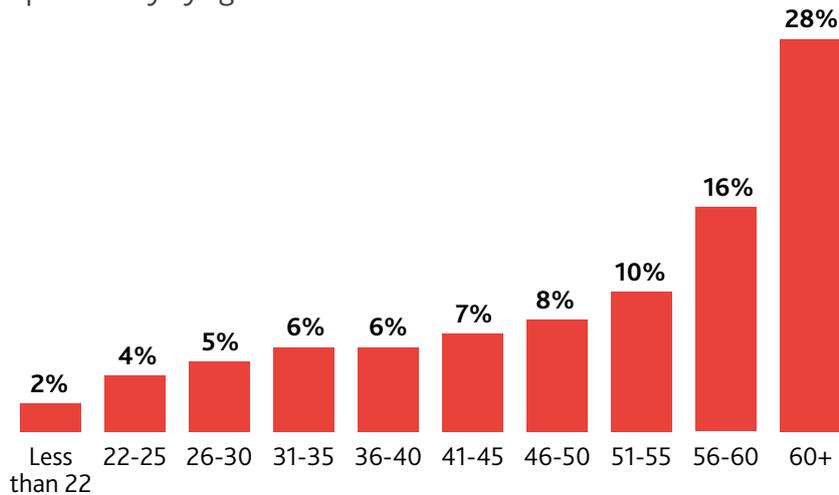
As at 31 March 2016



We had almost
3
million
members



Our average opt-out rate was 7 per cent, and even lower for younger members. The graph below shows in more detail how levels of opt-out vary by age.



8,900 intermediaries had signed up to NEST Connect, our online hub for professionals who offer auto enrolment services to employers.

Trustee and Trustee Members

NEST Corporation is the Trustee of the NEST scheme. The Trustee has a Chair, a Deputy Chair and 10 other Trustee Members whose profiles are on page 21.

Advisers, banks, custodians and others retained by the Trustee

Scheme administrator	Tata Consultancy Services
Investment funds administrator	State Street Bank and Trust Company
Bank	NatWest (joint tri-party contract between NatWest, NEST Corporation and Tata Consultancy Services)
Investment managers	Amundi Asset Management (appointed 16 February 2016)
	BlackRock
	BMO Investments
	HSBC Global Asset Management
	State Street Global Advisors
	UBS Global Asset Management
	Legal & General Investment Management
	Royal London Asset Management
	Northern Trust
Investment advisers	Allianz Global Investors
	bfinance
Lawyers	Eversheds LLP
	Shakespeare Martineau LLP
	Travers Smith LLP
External auditors	KPMG LLP
Internal auditors	Ernst & Young LLP (from 16 June 2015)
	Deloitte LLP (until 15 June 2015)
Assurance reporting accountants	KPMG LLP

Membership

The membership in the year grew as follows:

	Members
Members as at 1 April 2015	2,007,754
New members enrolled ¹	1,267,764
<u>Less</u>	
Members opting out	(83,503)
Dual enrolments ²	(177,372)
Cancelled enrolments ³	(15,564)
New members joining in the period	991,325
<u>Less</u>	
Members retired	(6,259)
Members deceased	(981)
Members as at 31 March 2016	2,991,839

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

² These are members who have been enrolled in the NEST scheme by more than one employer.

³ These are members who have been enrolled in error by an employer and subsequently de-enrolled by that employer.

The total number of members at year end includes 1,923 who are self employed.

Contributions and charges

Employers can choose the rate of contributions. They can also choose how contributions are divided between the employer and workers who are members of the scheme. The chosen contribution rates must meet the minimum amounts set by the Secretary of State for Work and Pensions. Currently the minimum rates are 1 per cent for employers and 1 per cent for members. In 2015/16 the maximum total annual contribution limit was £4,700 per member. In 2016/17 it will increase to £4,900. The contribution limit will be removed in April 2017.

Employers also set their payment frequency for making contributions within these statutory limits and their payment due date for each payment period. Once the due date is set, employers must make payments each

period by this date. If the scheme doesn't receive both a contribution schedule and a payment which matches this schedule, we investigate the status of the payment with the employer.

If member contributions or employer contributions are not paid on time and we have 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 5,900 such reports were made to TPR, which is 1.1 per cent of contribution events.

A communication is sent to all affected members.

The scheme levies a 0.3 per cent annual management charge (AMC) on the total value of a members' pot, plus a 1.8 per cent charge on contributions as they are made. For the contribution profiles of most NEST members, these charges are broadly equivalent to a 0.5 per cent AMC over the period of saving with us. Our charges also conform to the rules on charge caps announced by the government which came into effect in April 2015.

Taking money out of NEST

NEST Corporation supports members at retirement with tailored information and simple processes. When a member gets close to their NEST retirement age, we give them information on their full range of options for taking money out of NEST. This includes:

- taking their whole pot as cash, where regulations permit
- transferring to another registered pension scheme
- transferring to a retirement income provider with or without a cash lump sum.

Retirements and transfers

There were 6,259 retirements during the year. Of these, 5,822 members exercised the cash option, 112 members transferred out, and the remainder either retired on the grounds of serious ill health or opted to take a retirement income.

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

NEST's order and rules currently provide limited scope for the scheme to accept transfers in or pay transfers out. These restrictions will be removed in April 2017.

There were 339 transfers in during 2015/16 substantially all of which were short service refunds. At present, transfers out can only occur on retirement.

Deaths of scheme members

Members of the scheme can nominate who they would like to receive their retirement pot if they die before taking their money out of NEST. Typically the nominee is a family member, but it could be a combination of people and organisations, usually charities.

Nominations are legally binding and the scheme will pay the pot to whoever the member has nominated in case of the member's death. Where no nomination has been received funds are paid in line with the NEST rules. *NEST's Order and Rules* are published on our website.

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

There were 981 deaths during the reporting year 2015/16.

Looking ahead

The scheme is expected to go on growing significantly during the 2016/17 financial year. So far, most members who have joined the scheme have come from large and medium sized employers. In the coming year many small employers are likely to choose to use NEST. These employers will have varied experience of providing a pension for their employees. Some will be doing so for the first time, and helping them is important for us.

Our priorities to help new employers

- Continued development of systems and processes to make it as straightforward as possible for employers to join the scheme.

This will include supporting employers wishing to use our website directly, integrate via their payroll or use an intermediary to manage their auto enrolment pension provision through NEST.

- Continued development of scheme operations to support the current volume and expected increase in numbers of employers and members joining the scheme.
- Clear and concise communications for members and employers, including highlighting the benefits of adequate saving for retirement.
- Continued focus on maintaining and strengthening internal controls and an organisational culture that supports their delivery.
- Ensuring NEST is well placed to respond to future changes, for example legislation and employment practice.

Consultation on the future of retirement

In June 2015 we published a further response to our consultation *The future of retirement*. This details NEST's blueprint for a core retirement income strategy that would best meet the needs of a significant proportion of our members.

Commentators welcomed NEST's blue-sky thinking and our proactive approach to finding solutions to the issue of increasing longevity and adequacy of pensions in later life. You can find more details, and all documents related to the consultation, on the NEST website.*

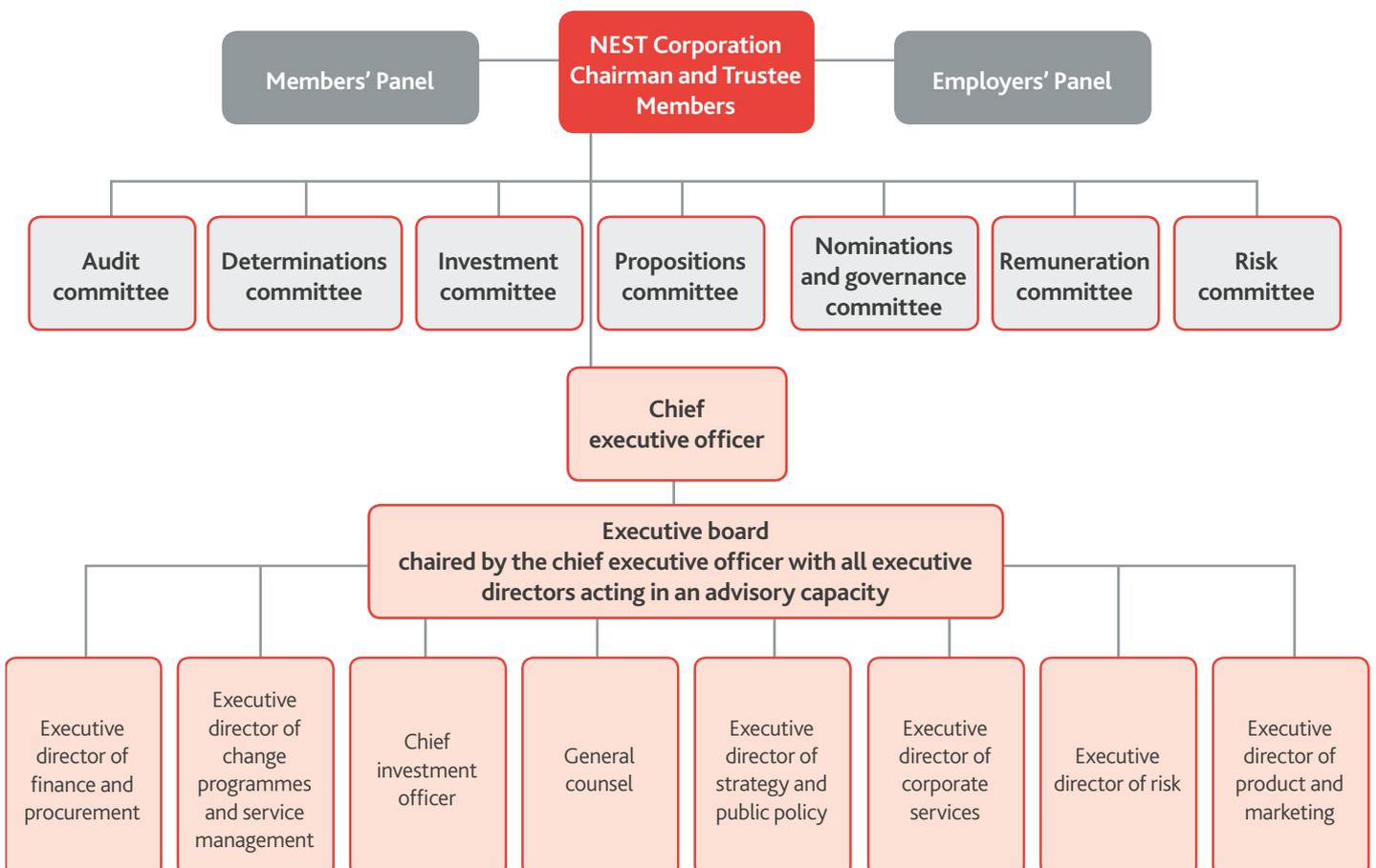
* <http://www.nestpensions.org.uk/schemeweb/NestWeb/public/aboutnestcorporation/contents/consultations.html>

I.3 Report on governance

Chair's governance statement for the year ending 31 March 2016

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

Organisational structure



About NEST Corporation

NEST Corporation is the Trustee of the NEST scheme that was established on 5 July 2010. Its role is to develop and operate the NEST scheme. NEST Corporation's core functions are set out in the Pensions Act 2008. The NEST scheme *Order and rules* sets out how the scheme will operate.

NEST Corporation is a non-departmental public body sponsored by the Department for Work and Pensions (DWP) and is a key component of the automatic enrolment programme. Its working relationship with the DWP is set out in a framework document. The function of the Trustee is to ensure that the scheme is run in the interest of its members. The *NEST Corporation annual report and accounts* are produced separately from this document and may be found on the NEST website*.

NEST Trustee Members and committees

As at 31 March 2016, NEST Corporation had 12 members, consisting of a Chair, a Deputy Chair and 10 other Trustee Members. They are responsible for setting the strategic direction and objectives for NEST Corporation and the scheme.

The appointments of all the Trustee Members are currently made by the Secretary of State for Work and Pensions who seeks the views of the Chair of NEST Corporation on the skills and experience needed. A broad range of skills, experience and knowledge are required collectively on the Trustee board. Appointments are made in line with *The Commissioner for Public Appointments' Code of Practice for Ministerial Appointments to Public Bodies* and Cabinet Office guidance.

All Trustee Members were independent at appointment having no current or previous material relationship with the organisation as an employee, officer or contractor.

All Trustee Members have completed The Pensions Regulator's Trustee toolkit, an online learning programme, and their continuing requirement for knowledge and understanding are met through briefing sessions on relevant topics and an individual commitment to ongoing education and training.

The combined knowledge and understanding of the Trustee Members, together with the advice which is available to them, enables them collectively to exercise their responsibilities as Trustee by providing experience of investment, pension fund management, member representation, finance, audit, governance and business management.

The Trustee and its committees take decisions that affect the NEST scheme and ensure that the Corporation fulfils its obligations as a non-departmental public body. The terms of reference for the Trustee and its committees are published on the NEST website†.

In addition, the *NEST Order 2010*, article 8 created an Employers' Panel and a Members' Panel. As requested by the Trustee these panels must give assistance and advice about the operation, development or amendment of the scheme. For further information on the panels, see page 20.

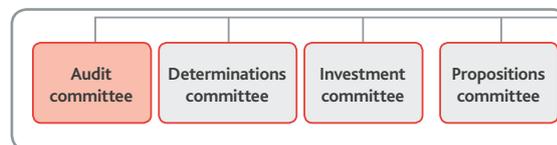
A schedule of delegations gives authority and responsibility to the chief executive for the day-to-day operations and management of NEST Corporation and the NEST scheme as well as setting out the delegations to its committees. The chief executive in turn

* <https://www.nestpensions.org.uk/schemeweb/NestWeb/public/support/contents/library.html>

† <https://www.nestpensions.org.uk/schemeweb/NestWeb/public/aboutnestcorporation/contents/trustee-committees.html>

delegates authority to each member of the executive team and holds them accountable for delivery in their areas of responsibility. Weekly meetings of the executive board are chaired by the chief executive to oversee the operation of the scheme.

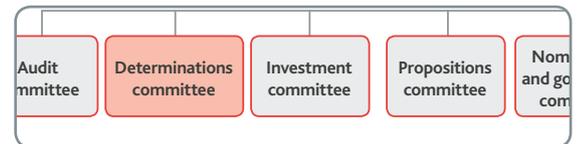
Audit committee



The audit committee oversees the integrity of the financial statements for NEST Corporation and the scheme, approving and monitoring the internal control framework and the effectiveness of audit and compliance functions. During the year it:

- reviewed the annual report and accounts for both NEST Corporation and the NEST scheme and recommended their approval to the Trustee
- reviewed the plans of the external auditors for their audit of the annual accounts and oversaw the delivery and effectiveness of external audits
- appointed Ernst & Young LLP as NEST Corporation's internal auditors following an open tender process
- approved the internal audit plan and oversaw its delivery
- approved the compliance plan and oversaw its delivery
- reviewed the system of internal controls within NEST Corporation and implemented changes as required
- reviewed the master trust assurance report and resolved to recommend its approval to the Trustee.

Determinations committee



The determinations committee is responsible for decision-making on the second stage of complaints made through the scheme's internal dispute resolution procedure (IDRP)[‡]. The committee ensures that the processes for dealing with disputes are fit for purpose and determines stage two IDR cases. During the year 2015/16 it considered 22 of these cases.

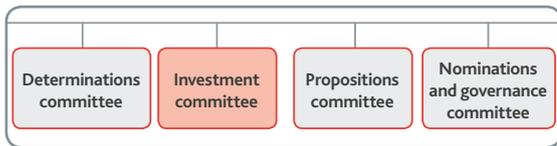
- 3 cases were held in favour of the complainant
- 3 cases were partially upheld
- 16 cases were not upheld.

In 2015/16 the determinations committee reviewed the NEST Corporation complaints procedure by comparing it to the policies of other organisations. The committee recommended changes which strengthened and clarified NEST's processes.

The committee also reviewed the delegations around IDR and employer dispute resolution procedure (EDRP) determinations and approved a clear framework for making any ex-gratia payments at stage two of the IDR process. This included defining the characteristics of low, medium and high severity cases.

[‡] <https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-how-we-handle-complaints.PDF.pdf>

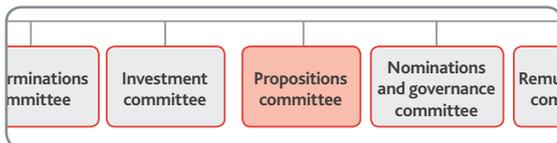
Investment committee



The investment committee is responsible for recommending the Trustee's overall 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. During the year it:

- reviewed NEST's investment approach and confirmed that it is correctly represented in the *Statement of investment principles* (SIP).
- maintained oversight of the investment and risk management of all NEST retirement funds, including the approval of changes in asset allocation as required
- continued the development and delivery of the responsible investment policies
- gave ongoing consideration to the development of the NEST investment approach including appointment and termination of investment managers as appropriate.

Propositions committee

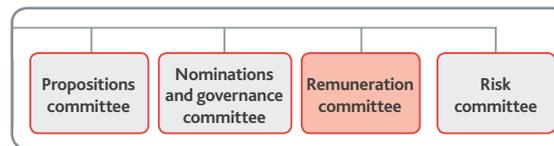


The propositions committee is responsible for overseeing the strategic development of the scheme, ensuring that the product offered by NEST meets the needs of our members, employers and target market.

During the year it:

- held a briefing session followed by the first formal meetings of the committee in September and November 2015
- considered the development of NEST Corporation's approach to raising awareness of the NEST scheme amongst larger employers
- considered the development of proposals to meet our members' retirement needs in a changed environment for pension saving.

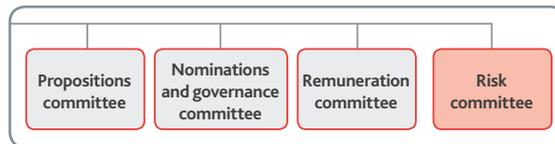
Remuneration Committee



The remuneration committee is responsible for setting the remuneration of the chief executive. It also provides advice on setting the remuneration of other employees of NEST Corporation and oversees its organisational culture and values. The Secretary of State determines the fee levels for Trustee Members. During the year the remuneration committee:

- agreed the pay and reward proposals for 2015/16, including the performance review for the chief executive
- considered senior salary remuneration and succession planning issues at executive level
- considered the results of the 2015 staff survey and advised on the development of the NEST people strategy
- reviewed NEST Corporation's policies on diversity and inclusion, gifts and hospitality policies, and external appointments.

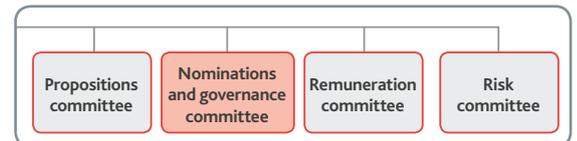
Risk committee



The risk committee is responsible for advising on overall risk strategy and considering all aspects of risk, and the management of those risks, that could affect NEST Corporation and the scheme. During the year it:

- provided a review of all aspects of risk management, including those associated with Tata Consultancy Services (TCS)
- provided challenge to the executive team through a series of detailed investigations into specific areas of operational and strategic risk including the risks of fraud and financial crime and operational incidents
- oversaw and drove continuous improvement of the risk management framework to improve the risk culture of NEST Corporation
- developed the *Principal risks and uncertainties* statement
- considered the executive board's recommendations on the policy framework.

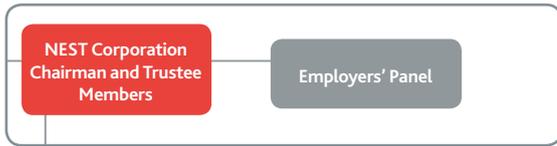
Nominations and governance committee



The nominations and governance committee is responsible for leading recruitment for the appointment of the chief executive of NEST Corporation, supporting and assisting with recruitment of Trustee Members by the Secretary of State and ensuring sound corporate governance within NEST Corporation. During the year it:

- long-listed, short-listed and interviewed candidates for the role of chief executive of NEST Corporation
- recommended the appointment of Helen Dean as chief executive of NEST Corporation to the Trustee, which took effect on 21 September 2015
- considered the general counsel's review of the fit and proper questionnaires completed by Trustee Members before their appointment
- considered the general counsel's review of the Trustee Members' register of interests and log of conflicts of interest
- recommended the appointment of eight Panel Members.

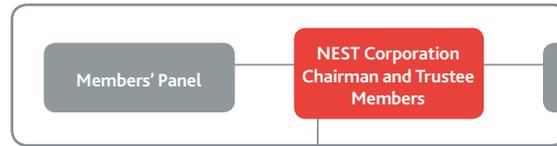
Employers' Panel



The Employers' Panel was set up in accordance with the Pensions Act 2008 to represent participating employers by providing advice on the operation, development and amendment of the scheme. The panel now has 12 members. During the year, it:

- held a breakfast event to engage with small and medium-sized employers
- engaged with NEST on a number of issues, including the employer benchmarking survey
- responded to NEST Corporation on NEST's proposed rule changes to align it with the NEST order, following changes made by Parliament to the NEST order to lift the restrictions on NEST from 1 April 2017
- participated in the recruitment of four additional members to enhance the size and diversity of the panel
- was consulted on the review of the *Statement of investment principles* (SIP).

Members' Panel



The Members' Panel was set up in accordance with the Pensions Act 2008 to represent scheme members by providing advice on the operation, development and amendment of the scheme. The panel now has 11 members. During the year, it:

- prepared and published the *Members' Panel annual report* for the period 2014/15
- engaged with NEST on a number of issues including assets under management, risks to members and member complaints
- responded to NEST Corporation on NEST's proposed rule changes to align it with the NEST order, following changes made by Parliament to the NEST order to lift the restrictions on NEST from 1 April 2017
- participated in the recruitment of four additional members to enhance the size and diversity of the panel
- was consulted on the review of the *Statement of investment principles* (SIP).

Trustee Members



Otto Thoresen,
Chair, NEST Corporation
(from 1 February 2015)
 Chair, nominations and
 governance committee
(from 1 February 2015),
 Chair, determinations committee
(from 1 February 2015 to
24 March 2016)



Sharon Darcy,
Trustee Member
(from 20 June 2011 to 19 June 2016)
 Chair, risk committee
(from 25 April 2013 to 15 April 2016)



Tom Boardman,
Trustee Member
(from 1 April 2010)
 Deputy Chair
(from 1 June 2014)



Carolan Dobson,
Trustee Member
(from 1 April 2014)
 Chair, investment committee
(from 26 April 2014)



Iraj Amiri,
Trustee Member
(from 20 June 2011)
 Chair, audit committee
(from 1 April 2014)



Caroline Rookes,
Trustee Member
(from 1 April 2015)
 Chair, remuneration committee
(from 19 June 2016)



Ian Armfield,
Trustee Member
(from 1 April 2014)



Karen Silcock,
Trustee Member
(from 1 April 2014)
 Chair, risk committee
(from 15 April 2016)



Graham Berville,
Trustee Member
(from 1 June 2014)
 Chair, propositions committee
(from 2 July 2015)



Nigel Stanley,
Trustee Member
(from 20 June 2011 to 19 June 2016)
 Chair, remuneration committee
(from 1 April 2015 to 19 June 2016)



Sally Bridgeland,
Trustee Member
(from 1 April 2015)



Jill Youds,
Trustee Member
(from 1 April 2015)
 Chair, determinations committee
(from 24 March 2016)

For more information about our Trustee Members, visit the NEST website*.

Committee membership as at 31 March 2016

Audit committee	Investment committee	Nominations and governance committee
Iraj Amiri <i>chair</i>	Carolan Dobson <i>chair</i>	Otto Thoresen <i>chair</i>
Ian Armfield	Ian Armfield	Ian Armfield
Graham Berville	Graham Berville	Tom Boardman
Sharon Darcy	Sally Bridgeland	Carolan Dobson
Karen Silcock	Nigel Stanley	

Determinations committee	Risk committee	Remuneration committee	Propositions committee
Jill Youds <i>chair</i>	Sharon Darcy <i>chair</i>	Nigel Stanley <i>chair</i>	Graham Berville <i>chair</i>
Iraj Amiri	Iraj Amiri	Caroline Rookes	Sally Bridgeland
Caroline Rookes	Graham Berville	Karen Silcock	Karen Silcock
Nigel Stanley	Karen Silcock	Jill Youds	Jill Youds
Otto Thoresen			

* <http://www.nestpensions.org.uk/schemeweb/NestWeb/public/aboutnestcorporation/contents/trustee-members.html>

Details of meetings attended by the Trustee Members appointed to each committee during the year

	Trustee meetings	Audit committee	Determinations committee	Investment committee	Nominations and governance committee	Propositions committee	Remuneration committee	Risk committee
Number of meetings	10	6	11	4	5	2	4	5
Otto Thoresen	10		9		5			
Tom Boardman	10				4			
Iraj Amiri	8	6	10					5
Ian Armfield	10	5		4				
Graham Berville	8	5				2		4
Sally Bridgeland	8			4		1		
Sharon Darcy	9	5						5
Carolan Dobson	9			4	5			
Caroline Rookes	10						2/2*	
Karen Silcock	9					1	2	4
Nigel Stanley	9		10	4			4	
Jill Youds	10		8/10**			1		

* Caroline Rookes did not join the remuneration committee until the third meeting of the year.

** Jill Youds did not join the determinations committee until the second meeting of the year.

Governance framework

Trustee meetings

The Trustee met 10 times during the year, with two meetings focused exclusively on strategy. The committees met as required and reported back on their work to Trustee meetings. Details of attendance and committee membership are set out on pages 22 and 23.

The Trustee's priority is to provide a strong and stable pension scheme which operates in the best interests of its members. It focuses on delivering a good service to members and employers and meeting its public service obligation to enable any employer to choose NEST to meet their auto enrolment duties. This drives the Trustee's agenda.

The Trustee receives and scrutinises information on scheme administration, member and transaction volumes, investment performance, risk management, internal controls, operational activities and financial performance. The Chair and chief executive provide an update at each meeting on the key issues on their agenda. Committee chairs report on decisions taken and issues discussed at committee meetings.

As part of the normal business cycle, the Trustee approved:

- the budget and *Corporate plan 2015-2018*
- the *Annual report and accounts 2014/15* for the scheme and for NEST Corporation
- the annual health and safety report for NEST Corporation.

Funding arrangements for 2016/17 were reviewed. Four new members were appointed to the Members' Panel and four to the Employers' Panel.

In addition, the Trustee:

- approved the extension of the scheme administration contract with TCS
- approved NEST Corporation's master trust assurance report and its publication
- approved NEST Corporation's *Value for money* statement and its publication
- approved NEST Corporation's consultation on changes to its rules
- reviewed and approved the updated *Statement of investment principles* (SIP).

Risk management

Overview

Our attitude towards risk can be seen in how we conduct ourselves. The culture and processes we have established in NEST are designed to enable us to manage risk in line with the expectations of our Trustee Members, who have the legal responsibility to act in accordance with their powers and duties and in the interests of our members.

This statement addresses NEST Corporation both as a public corporation and as the Trustee of the scheme. It is appropriate to address the risks and uncertainties in this combined manner since the sole function of NEST Corporation is to be the Trustee.

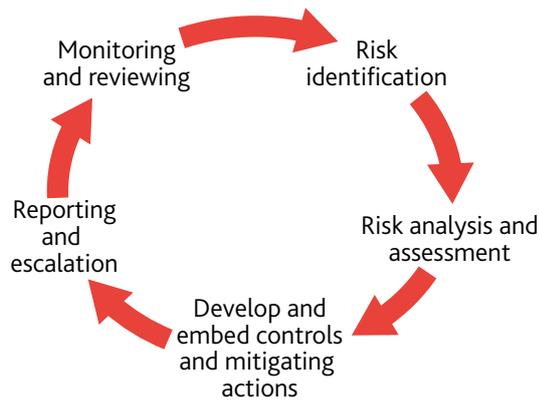
We must take risks in order to deliver our strategic priorities. Integral to this is understanding the risks we face and how best to control or mitigate them. We do not do this alone. We engage with key outsourced providers, government departments and The Pensions Regulator (TPR) to understand and manage risk.

Our close working relationships with our scheme and fund administrators help us manage operational risk, not just at a day-to-day level but looking forward to the risks and opportunities presented by the continued rollout of auto enrolment duties to more employers.

We operate in a maturing policy and legislative environment. Through our strong relationships with the Department for Work and Pensions (DWP) and TPR we collectively manage risks to the successful implementation of the automatic enrolment programme.

Risk management framework

NEST’s risk management framework is reviewed each year to ensure it remains fit for purpose and to take into account developments in industry practice. At the core of our framework is the risk management process:



Each business area across NEST maintains a log of their key risks which they review regularly. Our risk dashboard is used to report key risks to the executive board, risk committee and the Trustee.

Principal risks

We define a principal risk as a risk that is considered material to the development, performance, position or future prospects of NEST.

We have identified six principal risks in relation to the delivery of NEST’s strategic priorities.

Scheme administration operational capacity risk

Scheme administration operational capacity risk is the risk that NEST doesn’t have sufficient levels of operational capacity. This would mean that we could not meet the demands of our current operations, or enrol all employers who wish to use us to meet their auto enrolment duties in line with our public service obligation. If we do not have sufficient levels of resource and system performance the continued roll-out of the auto enrolment policy could fail. We would be delivering a poor service to our employers and members.

We have designed our processes and systems to be as straightforward to use as possible. Our aim is for employers and intermediaries to be able to use NEST without needing to contact us for advice or help. We continually look for ways to make our systems easier to use and consequently reduce the need for administrative support. We also estimate the likely number of employers who may wish to use NEST and the ways in which they will do so. This allows us to plan and build capacity into our systems and administrative functions to deal with this potential demand and manage the risk.

Scheme administrator relationship risk

Scheme administrator relationship risk is the risk that NEST could be adversely affected by the actions and decisions of our pension scheme administrator. The administrator of the NEST pension scheme provides most of the resource required to operate the scheme. This reliance on the administrator could potentially leave NEST in a position where it could be adversely affected by their actions and decisions.

Having a strong control framework and a good relationship with the scheme administrator is important for our mutual success. We have a contract which sets out NEST's requirements and service level standards. Procedures are in place to gather intelligence and obtain assurance about the performance of scheme administration. We also work hard to maintain our relationship through regular interaction between key senior staff in both organisations.

Investment beliefs and performance risk

There is a risk that key stakeholders and commentators lose trust in NEST's investment performance. This could be because investment performance has not met expectations, whether due to poor market performance, because our investment beliefs were incorrect or because our investment approach was not successfully implemented. This risk could also be realised if we fail to communicate our investment approach clearly and therefore set unrealistic expectations.

NEST's approach to investment is underpinned by our investment beliefs which provide our Trustee Members with a transparent framework for consistent decision making. Our investment beliefs and *Statement of investment principles* (SIP) are reviewed every three years by our investment committee to make sure they are still appropriate. Our funds have been diversified across a number of different asset classes and

fund managers. We continually monitor our investment performance and risk and make appropriate changes to our investment portfolio. NEST also publishes on a regular basis updates to the funds' asset allocations, investment performance and risk profile and any changes to the investment approach.

Corporate capability to deliver the strategy: people risk

People risk is the risk that NEST fails to recruit and retain appropriately skilled, motivated and engaged staff needed to deliver its strategy. NEST operates within the financial constraint of being a non-departmental public body. Nevertheless it must attract talented individuals who want to work for and with NEST to help our members enjoy a better retirement. If we do not recruit the right people, nurture the right organisational culture, and design and implement effective processes and systems we could face higher operating costs, increases in errors and losses and the reputational consequences of these events.

Our *Code of conduct* sets out the behaviours and standards we expect from all of our employees. We have an induction process to ensure these expectations are understood when employees join NEST, and they are reinforced through the performance management and appraisal process. We undertake an annual staff survey to gauge feeling across our workforce and take steps to address low scores.

Safeguarding member assets and information risk

Safeguarding member assets and information risk is the risk that NEST fails to protect members' money and data. We are responsible for ensuring our members' money and personal data remain safe. Cybercriminals and fraudsters are now developing ever more advanced means to commit their crimes. The challenge to NEST to keep ahead of them

has never been greater. We are committed to safeguarding our members' assets and information from this very real threat.

The NEST scheme and NEST Corporation information security management systems are both independently certified to the ISO 27001 standard. This gives us assurance that our systems and processes are robust enough to protect members assets. Our scheme administrator has strict operational procedures in place to safeguard our members' money and data.

Significant legislative, regulatory or policy change risk

Significant legislative, regulatory or policy change risk is the risk that NEST is unable to effectively respond to change. Legislative, regulatory or policy changes have the potential to impact on NEST's business model. They may require us to make changes to our processes and systems. The impact may be greater because NEST is a non-departmental public body with a public service obligation. We need to be able to manage and respond effectively to it. This will prevent change from adversely affecting our members and minimise the associated costs.

NEST continually scans the legislative, regulatory and policy landscape for potential change. This allows us to identify change early and plan ahead as far as we possibly can to manage and incorporate these changes into our systems and processes.

Risk oversight and scrutiny

NEST's Trustee Members provide oversight and scrutiny of each of NEST's principal risks. This oversight and scrutiny takes place at Trustee meetings, risk committee and the various other Trustee committees.

The principal risks help drive the forward agendas of the risk committee. Committee members request detailed investigations into the principal risks which are presented by the executive owner of the risk. These investigations provide an opportunity for Trustee Members to oversee the controls and mitigating actions both in place and pending implementation, and to challenge the assessment and management response to the risk.

Where oversight and scrutiny of a risk is best provided by a committee other than the risk committee, the committee chairs agree for it to be included on that agenda and for feedback to take place.

Default arrangements

Most members don't make an active investment choice when they join NEST. This means that by default they are entered into the NEST Retirement Date Fund. Depending on when they were born, the member's retirement date is based either on the year they reach 65 or on their projected State Pension age.

Each fund aims to maximise the pension income and any cash lump sum our members get. We do this by taking the appropriate risk on our members' behalf at different times in their savings career.

In 2015 the scheme made changes to the way funds in the consolidation phase of NEST Retirement Date Funds are invested. We did this in response to the introduction of the new pension freedoms from April 2015.

NEST Retirement Date Funds that mature up to and including 2020 will target 100 per cent cash at maturity. In these years members' pension pots will tend to be small. We believe almost all members accessing their pots at this point will take them as cash lump sums.

We expect pot sizes at retirement to be bigger by 2021. This plus the Freedom and Choice pensions reform means members are less likely to want an annuity to pay their pension. So the at-retirement portfolio for NEST Retirement Date Funds from 2021 is now targeting an inflation-plus return.

We will keep our approach under review and work to make sure we are meeting the needs of our members. More detail can be found in our *Statement of investment principles* (SIP).

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:

- investment of contributions
- transfers between different investments within the scheme
- payments to and in respect of members
- transfer of member assets into and out of the 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), investment funds administrator State Street Bank and Trust Company (SSB) and investment managers, as detailed on page 39. The Trustee has reviewed the processes for monitoring the services provided by these key outsourced service providers including consideration of:

- ongoing assurance from the scheme management and assurance teams that the relationships continue to work effectively
- assurance that there are agreed service levels and reporting of performance against those service levels
- assurance that the scheme management reviews and approves the detailed assurance reports prepared by TCS, SSB and the investment managers
- assurance that the outsourced internal audit function performs additional testing to assist the Trustee in making their assessment of whether the controls are operating effectively.

In addition NEST has its own independent assurance report, the *AAF 02/07*, which provides assurance on its overall control framework including the processing of core scheme transactions.

The Trustee considers that the requirements for processing core financial transactions specified in the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (regulation 24) have been met.

Charge levels

The scheme's charges are made up of two parts:

- an annual management charge (AMC) of 0.3 per cent on the total value of a member's pension pot
- a contribution charge of 1.8 per cent on each new contribution into a member's pension pot.

This charge structure applies to all funds including each of the 50 NEST Retirement Date Funds and each of NEST's other fund choices.

As a result of detailed research among NEST's membership, we now define our criteria for assessing whether our members are receiving good value by focusing on the following objectives:

- default investment funds should meet the needs identified by research in terms of managing risk and meeting the stated investment objectives
- other fund options made available should suit the needs of specific groups of members, without requiring individual members to have any level of investment expertise to select a fund that is suitable for them
- members should have easy access to information on their pension pot whenever they choose. It should be simple for them to make decisions based on this information
- charges should be low, transparent and published. The effects of these charges should be made clear.

The Pensions Regulator (TPR) suggests that the Trustee should consider what members value most. In the light of this, the Trustee should evaluate NEST's costs and benefits compared to other similar schemes.

The NEST Trustee's assessment of members receiving good value therefore also focused on three principal outcomes:

- that we deliver what our members want, a high quality service with excellent standards of governance, regardless of the level of contributions or size of employer
- that the NEST price structure delivers a reasonable balance of impacts given the characteristics of the membership as a whole
- that our prices are reasonable in comparison to those of other schemes that are available to our members.

On this basis, the Trustee is confident in its assessment that the costs and benefits of the NEST scheme provide good value for members.

For more detail please see NEST's *Value for money statement**.

Transaction costs

The Occupational Pension Schemes (Charges and Governance) Regulations 2015 introduced a requirement for the report on governance to report on transactions costs. We see this as the start of the journey and expect reporting on transaction costs to evolve over time. In March 2015 the Department for Work and Pensions and the Financial Conduct Authority published a call for evidence for *Transaction Costs Disclosure: Improving Transparency in Workplace Pensions* and the outcome of the call for evidence may drive some

* <https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/value-for-money.pdf>

standardisation and changes in the reporting of transaction costs over time.

In the meantime, at NEST we are keen to move forward on this important subject. The transaction costs reported below and in *Appendix three* are the explicit costs of buying and selling securities and include commission, transaction tax (stamp duty) and in relation to property transactions include professional fees and other costs associated with the purchase and sale of property holdings including stamp duty.

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. Bonds and fixed interest securities do not incur any explicit trading costs as all costs of buying and selling are reflected within the spread.

In addition 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. While we have not attempted to measure the cost of market impact, we speak to our fund managers about this subject. Currently, given the relatively small size of our assets and the way we implement trades, we believe that our market impact cost is negligible.

NEST's annual management charge (AMC) covers all custodian, accounting and legal costs. There are no other charges for members so the 0.3 per cent AMC also meets the definition of the total expense ratio.

Transaction costs for the default funds are between 0 and 0.083 per cent and costs for other fund choices are between 0 and 0.098 per cent. The costs for each fund are detailed in *Appendix three*. NEST constantly monitors and analyses costs and spreads.

In line with our beliefs on diversification and risk-based allocation NEST invests in a diverse range of asset classes including property. The explicit transaction costs and dealing spreads of the NEST Retirement Date Funds vary depending on the types of investment that they hold. Some asset classes, such as cash, have no explicit transaction costs. Others such as property incur higher costs due to the associated legal, survey and valuation fees and stamp duty. This does not alter the rationale for including property as a means of growing our members' pots, but it means that differing transaction costs should not on their own be used as a measure of value for money.

The Trustee believes that indexed management, where available, is often more efficient than active management. For example, indexed fund management allows NEST members to have exposure to global equities with lower transaction costs than an actively managed fund.

NEST also structures its funds in a way that allows the scheme to minimise trading costs. This approach in effect creates an internal market between NEST Retirement Date Funds. This means that funds which are reducing exposure to certain asset classes in accordance with their particular investment strategy and asset mix can transfer those investments to funds which are seeking to increase their exposure. This means the scheme is able to reduce the drag on performance caused by transaction costs, such as trading spreads and brokerage fees.

The internal market also keeps costs down for members leaving the scheme and those just 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 the target asset allocations.

Default statement of investment principles

In delivering the overall investment objective for the default funds, the Trustee pays heed to the following supporting objectives:

- to maximise pension income and any cash lump sum at retirement by taking appropriate risk
- to seek to deliver similar outcomes for cohorts of members who have similar contribution histories
- to aim to dampen volatility in members' pension accounts over the savings phase.

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

The NEST scheme and its default investment approach have been designed to ensure that 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 fund is an essential part of auto enrolment and is central to NEST's investment approach.

Investment risk should be taken in varying amounts throughout a member's savings career.

The Trustee has therefore adopted a series of target date funds called NEST Retirement Date Funds 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 that stage in a member's savings career.

The NEST Retirement Date Fund that a member is placed in will be invested appropriately throughout their savings career in a way that reflects when they are expected to take their retirement benefits.

Members can change their NEST Retirement Date Fund at any time to reflect a different expected retirement year.

The asset classes that form the investments of the default fund are selected to meet the appropriate risk level identified for each NEST Retirement Date Fund. As set out in the NEST Order, the Trustee may invest in any asset class, subject to the same investment restrictions that generally apply to UK trust-based occupational pension schemes.

The default funds' glide path

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 three phases – the foundation phase, the growth phase and the consolidation 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 measured by the consumer price index (CPI) after all charges.
- **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 more than other investments. The objective for this phase is to outperform CPI inflation plus 3 per cent a year after all charges over the long term.

- **The consolidation phase** prepares a 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 inflation after all charges while aiming to progressively dampen 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 Trustee believes that members' best interests are met by dynamic asset allocation within a risk budget. The Trustee also believes that within certain risk constraints, the shape of the glide path should be managed dynamically and factor in market conditions that contribute to delivering the investment objectives in different phases.

I.4 Statement of Trustee responsibilities for the financial statements

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), 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:

- (i) 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; and
- (ii) contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Financial Reports of Pension Schemes: Statement of Recommended Practice (SORP).

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. They are also responsible for making available each year, commonly in the form of a Trustee annual report, information about the scheme prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee responsibilities accompanying the Trustee summary of contributions.

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

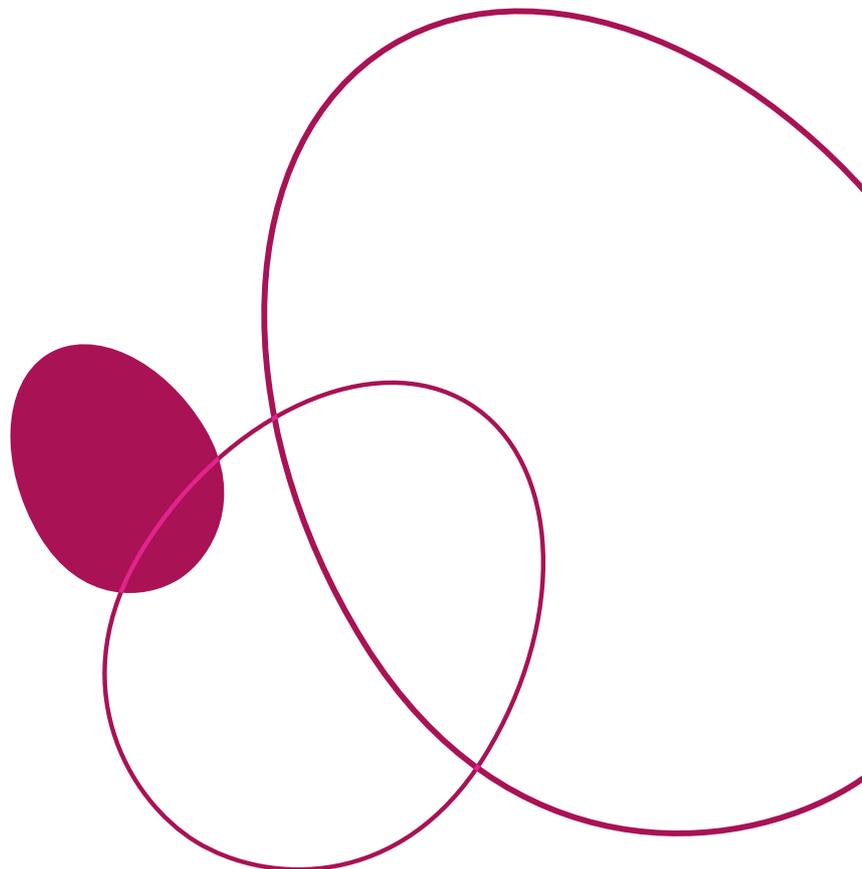
The Trustee report in respect of the scheme was signed on behalf of NEST Corporation by

Otto Thoresen
Chair, NEST Corporation

29 June 2016

Chapter two

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 SIP was reviewed in April 2015 and will be reviewed at least every three years. NEST's SIP is available to download from the NEST website*. During the year and at year end all investments were in accordance with the SIP.

NEST funds

Based on our understanding of the diverse needs of our membership, we have developed an approach to investment that offers:

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

* www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/statement-of-investment-principles,PDF.pdf

2.2 NEST Retirement Date Funds

When members join NEST, their contributions are invested by default into a NEST Retirement Date Fund unless they make an active investment choice of a different fund (See Other NEST fund choices, page 38). The default Retirement Date Fund will match either their State Pension age or age 65, depending on their date of birth.

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

Members can change their NEST retirement age at any time and their retirement pot will be switched automatically into the matching NEST Retirement Date Fund.

The overarching investment objective for the NEST Retirement Date Fund is to target investment returns in excess of inflation after

all charges over the long term. Currently 99 per cent of our members' funds are invested in our NEST Retirement Date Funds.

Default investment strategy and phased risk management

The 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 Retirement Date Funds have three phases: foundation phase, growth phase and consolidation phase. Each phase has a different objective that focuses on the needs of the member at different times in their savings career. The objectives of the three phases of risk management are set out in the following table.

Foundation phase objectives	Growth phase objectives	Consolidation phase objectives
<p>Preserve capital while seeking sufficient return to match inflation after all charges.</p> <p>Target a long-term investment volatility average of 7 per cent.</p> <p>Significantly reduce the likelihood of extreme investment shocks.</p>	<p>Target investment returns at least equivalent to inflation plus 3 per cent over the long term after all charges.</p> <p>We expect to achieve this with average investment volatility of between 10 and 12 per cent over the long term.</p> <p>Aim for steady growth in real terms over the life of the fund.</p> <p>Maximise diversification.</p> <p>Maximise retirement incomes by taking sufficient investment risk at appropriate times while reducing the likelihood of extreme investment shocks.</p>	<p>For funds maturing through 2020: manage the risks associated with converting a member's accumulated savings into a cash lump sum.</p> <p>For funds maturing after 2020: outperform consumer price index (CPI) inflation after all charges while aiming to progressively dampen investment volatility as a member's fund approaches maturity.</p>

2.3 Other NEST 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 available, our NEST Ethical Fund choice consists of multiple asset classes and uses a three-phase investment approach similar to the NEST Retirement Date Funds.

NEST Sharia Fund

This fund is designed for members who want an investment approach based on Islamic law. 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 and make their retirement pot grow more quickly than it might in a NEST Retirement Date Fund. As members approach their retirement date we will move their pot into the appropriate NEST Retirement Date Fund. This will help protect any gains they have made and get their retirement pot ready for them to take out of the scheme.

NEST Lower Growth Fund

This fund is designed for members who are very cautious about investing. Their retirement pot will be exposed to far less investment risk than a NEST Retirement Date Fund. 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.

2.4 Investment managers

All our funds are built from a range of pooled funds supplied by leading investment managers, each of which is authorised and regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) or the regulatory body in the country where the fund is domiciled.

The funds and investment managers are selected through a competitive tender process. In selecting these funds and investment managers the Trustee obtains and

considers professional advice from NEST's in-house team and independent external investment advisers. As part of this selection, NEST carries out a due diligence process to ensure that the assets are invested with sufficient security and liquidity and that each of the investment managers is of the appropriate quality and calibre. NEST invests in a diversified range of asset classes.

Our mandates and current managers

Within the framework set down by the Trustee, the investment managers have full discretion within their mandates to buy and sell investments on behalf of the scheme. Our mandates and their current managers are:

Global developed equities	UBS Global Asset Management
Global real estate equities	Legal & General Investment Management
Sterling liquidity (money market investments)	BlackRock
Sterling corporate bonds	Royal London Asset Management
Gilts	State Street Global Advisors
Index-linked gilts	State Street Global Advisors
Global emerging market equities	Northern Trust Global Investment
Global emerging market equities	HSBC Global Asset Management
Sharia-compliant global developed equities	HSBC Global Asset Management
Global ethical developed equities	BMO Investments
Ethical sterling corporate bonds	BMO Investments
Direct UK commercial property	Legal & General Investment Management
Single year gilts	Legal & General Investment Management
Emerging market debt	Amundi Asset Management

2.5 Investment committee

The investment committee, together with the chief investment officer (CIO), is responsible for considering and implementing investment decisions for the NEST retirement funds.

The role, responsibilities and delegations of the investment committee and the CIO appear within the governance structure detailed in the Appendix of the SIP.

The investment committee has overall responsibility for approving investment manager selection, ongoing monitoring and removal. The Trustee appointed the investment managers listed above.

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

During the year the investment committee:

- maintained oversight of the investment and risk management of all NEST retirement funds, including the approval of changes in asset allocation as new asset classes were introduced
- considered and approved additional asset classes and approved the appointment of Amundi Asset Management to supply access to emerging market debt
- continued the development and delivery of our responsible investment policies
- gave ongoing consideration to the development of NEST's investment proposition.

2.6 Custodial arrangements

The scheme invests only in pooled funds. This means that the custody, or safekeeping, of the underlying assets in the pooled funds is carried out by the underlying investment manager's custodian.

The funds and their custodians are detailed in the table below. State Street Bank and Trust Company (SSB) provides fund administration services to ensure that our members' money

is managed in line with our investment strategy. It administers the NEST Retirement Date Funds and our other fund choices.

The Trustee reviews the internal control reports produced by the investment managers and SSB on a regular basis. SSB reconciles investments and cash to the investment managers' records every day.

Underlying funds and custodians

Underlying fund	Custodian
UBS Life World Equity Tracker Fund	J P Morgan
SSgA UK Conventional Gilts All Stocks Index Fund	State Street Bank and Trust
SSgA UK Index Linked Gilts over 5 Years Index Fund	State Street Bank and Trust
BlackRock Aquila Connect Cash Fund	J P Morgan
Royal London UK Corporate Bond Pooled Pension Fund	HSBC Securities Services
LGIM Managed Property Fund (UK)	HSBC Securities Services and Citibank N.A.**
LGIM Global Real Estate Equity Index Tracker Fund	HSBC Securities Services and Citibank N.A.
LGIM Single Gilt Funds	HSBC Securities Services and Citibank N.A.
F&C Responsible Sterling Bond Fund*	State Street Bank and Trust
F&C Responsible Global Equity Fund*	State Street Bank and Trust
HSBC Amanah Global Equity Index Fund	HSBC Securities Services (Luxembourg) S.A.
Northern Trust Emerging Markets Custom ESG Equity Index Fund	Northern Trust Fiduciary Services (Ireland) Limited
HSBC Global Investment Funds Economic Scale Index GEM Equity	HSBC Securities Services (Luxembourg) S.A.
Amundi – Bond Global Emerging Blended (appointed 16 February 2016)	CACEIS Bank Luxembourg

* Managed by BMO Investments

** The legal deeds are held by Eversheds LLP and Maples Teesdale LLP

2.7 Investment developments

The asset allocation capability of the NEST retirement funds continues to develop.

In line with our belief that diversification is a key tool for managing risk, we have appointed Amundi Asset Management, who are specialists in emerging market debt.

We have deliberately chosen an active manager for this asset class. We believe it is right to actively manage the risks associated with emerging market debt. We also sought a manager that can take advantage of opportunities whether they are in hard currency or local currency, sovereign debt or emerging market credit.

This year we have also incorporated single-year gilts within the NEST Retirement Date fund portfolios. This move is aimed at helping us manage duration risk and boosting returns relative to cash.

Towards the end of the financial year, we used these short dated gilt funds to significantly shorten the duration of our gilts portfolio given the strong performance and very low yields on long dated gilts and index linked gilts.

NEST's capability and approach to active and responsible ownership has also developed over the year. Details of our progress can be found in our first annual *Responsible investment report* published in summer 2016. The aim of this publication is to report back to our stakeholders and members on our activities as a responsible investor so far, as well as to provide greater transparency on our priorities looking ahead.

We have published a value for money statement this year which includes an assessment of investment transaction costs. This can be found on the NEST website*.

We continued to work on understanding what our members will need in light of the Freedom and Choice reforms in the long term.

Fund performance

There are currently nearly 50 separate Retirement Date funds that make up our default strategy with a further five additional fund options.

The year under review was a challenging time for markets with considerable investment volatility, particularly in the summer of 2015 and at the start of 2016. Many of the world's stock markets posted negative returns over the year, particularly those with heavy commodity exposure such as the FTSE100 and some emerging markets. Credit markets were also challenging. Against that backdrop NEST Retirement Date fund returns were understandably lower than in previous years.

However NEST is focused on the long term rather than short periods, and the long term performance of the funds continues to be broadly positive.

For this reporting year NEST Retirement Date funds in the growth phase have delivered returns below the long term target of CPI plus 3 per cent. The annualised performance of these funds since inception remains comfortably ahead of target.

All of the NEST Retirement Date funds delivered positive returns, after deducting the annual management charge, and the vast majority also beat inflation. The Higher Risk fund and the Pre-retirement Fund posted small negative returns over the year.

* <https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/value-for-money.pdf>

The following table shows typical performance for NEST Retirement Date Funds and our five other fund choices. *Appendix two* shows the performance of all of the NEST Retirement Date funds.

Performance of NEST funds

Fund	Target	Fund performance one year to 31 March 2016 %	Target one year to 31 March 2016 %	Annualised fund performance three years to 31 March 2016 %	Annualised target performance three years to 31 March 2016 %	Annualised fund performance since inception (1 August 2011) %	Annualised target performance since inception (1 August 2011) %
NEST Retirement Date Fund in the foundation phase ¹	*CPI	1.40	0.60	5.96	0.73	7.91	1.56
NEST Retirement Date Fund in the growth phase ²	*CPI + 3%	0.66	3.62	7.27	3.75	8.55	4.61
NEST Retirement Date Fund in its final year of the consolidation phase ³	7-day sterling LIBID rate	0.59	0.36	0.82	0.36	1.51	0.39
NEST Ethical Fund (growth phase)	*CPI + 3%	1.21	3.62	8.41	3.75	9.91	4.61
NEST Sharia Fund	Dow Jones Islamic Market World Index	1.32	3.19	10.16	10.72	11.29	12.07
NEST Higher Risk Fund	Target higher volatility than the NEST Retirement Date Fund growth phase	-0.09	N/A	8.24	N/A	9.58	N/A
NEST Lower Growth Fund	7-day sterling LIBID rate	0.47	0.36	0.43	0.36	0.46	0.39
NEST Pre-retirement Fund	75% – Annuity-tracking 25% – 7-day sterling LIBID rate	-0.80	1.5	3.55	3.64	5.35	5.04

¹ based on the 2059 retirement fund

² based on the 2040 retirement fund

³ based on the 2015 retirement fund

* The chosen measure of inflation is the consumer price index (CPI).

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

- NEST Retirement Date Funds in the foundation phase target investment returns equivalent to CPI 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.

- NEST Retirement Date Funds in the consolidation phase have two objectives. For funds maturing after 2020 the objective is to outperform inflation as measured by the Consumer Price Index (CPI) after all charges while aiming to progressively dampen investment volatility as a member's fund approaches maturity. The objective for funds maturing through 2020 is to manage the risks associated with converting a member's pension pot into a cash lump sum.

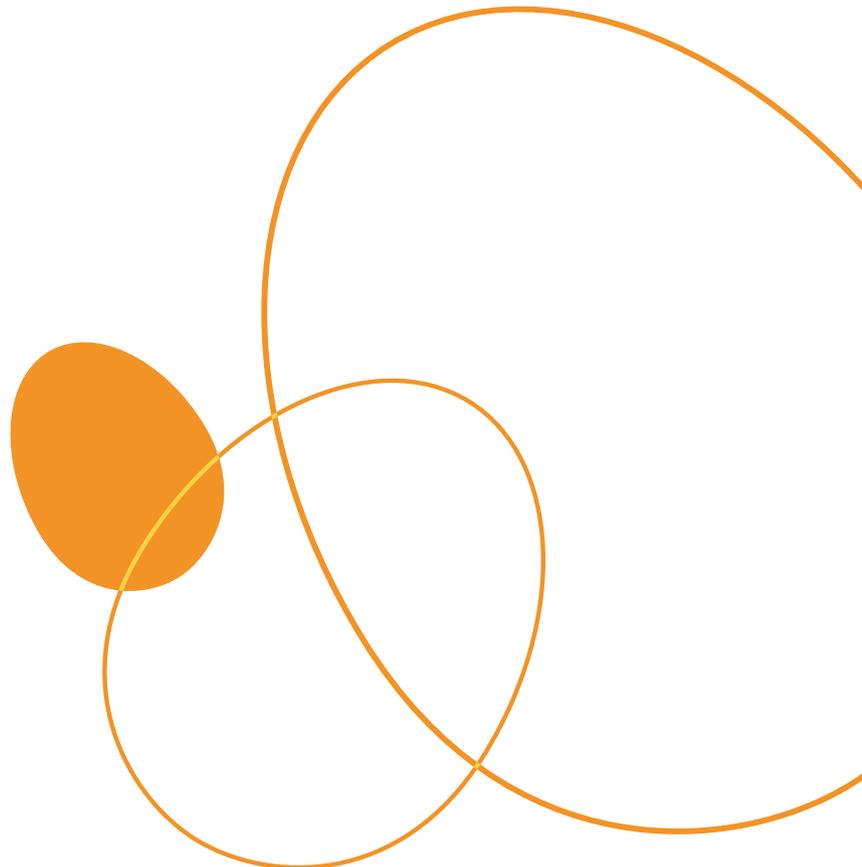
The NEST Ethical Fund has three accumulation phases. The fund performance we have shown is in the growth phase. It has a return objective of outperforming inflation by more than 3 per cent after all charges.

2.8 Employer-related investments

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

Chapter three

Financial statements



3.1 Independent auditor's report to the Trustee of the NEST pension scheme

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

We have audited the financial statements of the National Employment Savings Trust (NEST) for the year ended 31 March 2016. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of Trustee and auditor

As explained more fully in the Statement of Trustee's responsibilities set out on page 33, the scheme Trustee is responsible for the preparation of financial statements which show a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the scheme during the scheme year ended 31 March 2016 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice
- 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.

Kevin Clark
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London E14 5GL

29 June 2016

3.2 Financial statements

Fund account

for the year ended 31 March 2016

		Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
	Note		
Contributions and benefits			
Contributions – employer	3	221,862	162,266
Contributions – member	3	157,151	112,170
Contributions – HM Revenue and Customs (HMRC)	3	39,199	27,941
Other income	4	1,003	585
		<u>419,215</u>	<u>302,962</u>
Benefits	5	(3,608)	(651)
Administrative expenses	6	<u>(9,023)</u>	<u>(5,868)</u>
Net additions from dealings with members		406,584	296,443
Returns on investment			
Investment income and management fee rebates	7	421	98
Change in market values of investments	8.1	16,930	38,438
		<u>17,351</u>	<u>38,536</u>
Net increase in the fund during the period		423,935	334,979
Net assets of the scheme at the start of the period		<u>458,872</u>	<u>123,893</u>
Net assets of the scheme at the end of the period		882,807	458,872

Statement of net assets (available to meet benefits)

as at 31 March 2016

		Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
	Notes		
Assets and liabilities allocated to members			
Investments			
Pooled investment vehicles	8.1/8.2	826,751	420,044
Other investment assets	8.3	9,786	4,080
Other investment liabilities	8.3	(9,913)	(4,175)
Total investments		826,624	419,949
Net current assets			
Current assets	9.1	59,423	40,662
Current liabilities	9.1	(3,274)	(1,778)
Total net assets allocated to members		882,773	458,833
Assets and liabilities not allocated to members			
Net current assets			
Current assets	9.2	119	85
Current liabilities	9.2	(85)	(46)
Total net assets not allocated to members		34	39
Total assets of the scheme at the end of the period		882,807	458,872

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 47 and 48, including the notes to the financial statements on pages 49 to 58, were signed on behalf of NEST Corporation by:

Otto Thoresen
Chair
NEST Corporation
29 June 2016

Iraj Amiri
Chair
Audit Committee
29 June 2016

Notes to the financial statements

for the year ended 31 March 2016

1. Basis of preparation

The Financial Statements have been prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard (FRS) applicable in the UK and Republic of Ireland issued by the Financial Reporting Council, and with the guidance set out in the Financial Reports of Pension Schemes: Statement of Recommended Practice (SORP) (revised November 2014). This is the first year FRS 102 and the Revised SORP have applied to the scheme's financial statements.

In March 2016, an amendment was made to FRS 102 revising the fair value disclosure requirements for retirement benefit plans. This amendment applies for accounting periods beginning on or after 1 January 2017, however, early adoption is permitted for periods ending 31 December 2015 onwards. The Trustees have decided to adopt the amended disclosure early as set out in Note 8.5 of the financial statements.

2. Accounting policies

The principal accounting policies of the scheme are as follows:

2.1 Contributions

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

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

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

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

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

2.2 Transfers

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

2.3 Benefits

NEST Corporation may pay benefits to members including:

- paying the whole pot as cash
- transferring to a retirement income provider with or without a cash lump sum

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

2.4 Other income and expenses

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

2.5 Charges

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

2.6 Investments

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

2.7 Change in market value of investments

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

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

3. Contributions

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Contributions from:		
Participating employers	222,128	162,570
less employers' share of refund of contributions for members opting out	<u>(266)</u>	<u>(304)</u>
	221,862	162,266
Members	157,343	112,401
less members' share of refund of contributions for members opting out	<u>(192)</u>	<u>(231)</u>
	157,151	112,170
HM Revenue and Customs (HMRC)	39,208	27,956
less HMRC share of refund of contributions for members opting out	<u>(9)</u>	<u>(15)</u>
	39,199	27,941
	<u>418,212</u>	<u>302,377</u>

4. Other income

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Transfer in – registered pension scheme	567	308
Transfer in – pension sharing order	436	277
	<u>1,003</u>	<u>585</u>

5. Benefits

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Trivial commutations	3,195	550
Death benefits payable to beneficiaries	288	96
Serious ill health	12	1
Annuities purchased through open market option	1	–
Transfers out	112	4
	<u>3,608</u>	<u>651</u>

6. Administrative expenses

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Contribution charge	7,235	5,144
Annual management charge (AMC)	1,775	717
Sundry costs	13	7
	<u>9,023</u>	<u>5,868</u>

7. Investment income and management fee rebates

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Interest income on bank balances	14	21
Dividend income from pooled investment vehicles	38	3
Management fee rebates	369	74
	<u>421</u>	<u>98</u>

8. Investments

8.1 Investment movements

	B'fwd as at 1 April 2015 £000	Purchases £000	Sales proceeds £000	Change in market value £000	C'fwd as at 31 March 2016 £000
Pooled investment vehicles (see note 8.2)	420,044	511,829	(122,052)	16,930	826,751
Other investment assets (see note 8.3)	4,080				9,786
Other investment liabilities (see note 8.3)	(4,175)				(9,913)
Total investments	419,949				826,624
Represented by					
Allocated to members (see note 8.4)	419,949				826,624
Not allocated to members	–				–
Total investments	419,949				826,624

8.2 Pooled investment vehicles

	31 March 2016 £000	31 March 2015 £000
Amundi – Bond Global Emerging Blended	23,635	–
Blackrock Aquila Connect Cash Fund	99,659	52,932
Blackrock Aquila Connect Market Advantage Fund	–	14,483
F&C Responsible Global Equity Fund	772	325
F&C Responsible Sterling Bond Fund	270	54
HSBC GIF Economic Scale Index GEM Equity Fund	12,510	2,107
HSBC Amanah Global Equity Index Fund	590	344
LGIM Hybrid Property Fund	147,151	75,455
LGIM Managed Property Fund	2,612	120
LGIM Single Gilt Funds 2017 - 2020	53,779	–
LGIM Global REIT	12	–
NT Emerging Markets Custom ESG Equity Index Fund	12,252	5,149
Royal London UK Corporate Bond Pooled Pension Fund	112,538	49,314
SSgA UK Index Linked Gilts over 5 Years Index Fund	7,598	19,298
SSgA UK Conventional Gilts All Stocks Index Fund	7,869	28,432
UBS Life World Equity Tracker Fund	345,504	172,031
Total pooled investment vehicles	826,751	420,044

8.3 Other investment balances

	31 March 2016 £000	31 March 2015 £000
Investment cash including cash in transit	9,657	4,069
Reimbursement due from investment managers	86	11
Management fee rebates	43	–
Other investment assets	9,786	4,080
Amounts due to investment managers in respect of outstanding trades	(9,709)	(4,070)
Annual management charge to be transferred to NEST Corporation	(204)	(105)
Other investment liabilities	(9,913)	(4,175)

8.4 Investment assets allocated to members

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

	31 March 2016 £000	31 March 2015 £000
NEST Retirement Date Funds	818,519	416,306
NEST Higher Risk Fund	5,570	2,512
NEST Ethical Fund	1,575	616
NEST Sharia Fund	590	343
NEST Pre-retirement Fund	303	165
NEST Lower Growth Fund	67	7
Total assets allocated to members	826,624	419,949

8.5 Fair value determination

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 to say, developed using market data, for the asset or liability, either directly or indirectly.

- Level 3: inputs that are unobservable because market data is unavailable for the asset or liability.

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.

The scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

As at 31 March 2016				
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Pooled investment vehicles	–	826,751	–	826,751
Other investment balances (note 8.3)	–	(127)	–	(127)
	–	826,624	–	826,624

As at 31 March 2015				
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Pooled investment vehicles	–	420,044	–	420,044
Other investment balances (note 8.3)	–	(95)	–	(95)
	–	419,949	–	419,949

	31 March 2016 £000	31 March 2015 £000
Equity	371,628	179,956
Bonds	205,701	97,098
Cash	99,659	52,932
Diversified growth	–	14,483
Property	149,763	75,575
	826,751	420,044

8.6 Investment risk disclosures

Our investments in pooled investments are subject to certain investment risks, 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 advisors and the in-house investment team. The scheme has exposure to these risks because of the investments it makes to implement its investment strategy described in the Trustees' Report. The Trustees manage 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, exclusively through pooled investment vehicles. The day to day management of the underlying investment of the pooled investment vehicles is the responsibility of the investment managers including the direct management of credit and market risk. A full list of the mandates and managers is set out on pages 38 and 39.

The in-house investment team monitor on a monthly basis the underlying risks based on holding data received from the pooled investment managers.

8.6.1 Credit risk

The Scheme is subject to direct credit risk in relation to its investment in pooled funds. The pooled investment vehicles used by the Trustee are unit linked insurance funds and regulated UCITS funds. Trustees carry out due diligence checks on the appointment of new investment managers and on an ongoing basis monitor any changes to the regulatory and operating environment of the investment managers. The scheme is subject to direct credit risk in relation to the following insurance companies through its holding in unit linked insurance funds:

- Legal & General Assurance (Pensions Management) Limited
- The Royal London Mutual Insurance Society Limited
- BlackRock Life Limited
- Managed Pension Funds Limited
- UBS Global Asset Management Life Ltd.

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

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.

8.6.2 Indirect credit and market risk

The scheme is subject to indirect credit risk and market risk arising from the underlying investments held in the pooled investment vehicles. The table below breaks down the risk exposure by pooled investment vehicle.

	Holding at 31 March 2016 £000	Foreign exchange risk	Other price risk	Interest rate risk	Credit risk*
UBS Life World Equity Tracker Fund	345,504	Yes	Yes	No	Yes
LGIM Managed Property Fund (UK)	2,612	No	Yes	Yes	Yes
LGIM Hybrid Property Fund	147,151	Yes	Yes	Yes	Yes
LGIM Single Gilt Funds	53,779	No	No	Yes	Yes
LGIM Global Real Estate Equity Index Tracker Fund	12	Yes	Yes	No	Yes
BlackRock Aquila Connect Cash Fund	99,659	No	No	Yes	Yes
SSgA UK Conventional Gilts All Stocks Index Fund	7,869	No	No	Yes	Yes
SSgA UK Index Linked Gilts over 5 Years Index Fund	7,598	No	No	Yes	Yes
F&C Responsible Global Equity Fund	772	Yes	Yes	No	Yes
F&C Responsible Sterling Bond Fund	270	No	Yes	Yes	Yes
HSBC Amanah Global Equity Index Fund	590	Yes	Yes	No	Yes
Royal London UK Corporate Bond Pooled Pension Fund	112,538	No	Yes	Yes	Yes
Northern Trust Emerging Markets Custom ESG Equity Index Fund	12,252	Yes	Yes	No	Yes
HSBC Global Investment Fund Economic Scale Index GEM Equity	12,510	Yes	Yes	No	Yes
Amundi - Bond Global Emerging Blended	23,635	Yes	Yes	Yes	Yes

* This includes balances with security lending and over-the-counter derivative counterparties.

The analysis of these risks set out above is at scheme level. Member-level risk exposures will depend on the funds invested in by members.

9. Current assets and liabilities

9.1 Current assets and liabilities allocated to members

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Contributions due from:		
– participating employers	24,561	16,817
– members	16,076	11,074
– HM Revenue and Customs (HMRC)	11,075	7,653
Cash awaiting investment	7,711	5,118
Current assets	59,423	40,662
Benefits payable	(47)	(15)
Amounts to be invested	(127)	(53)
Contribution corrections and limit breach repayable	(604)	(211)
Contributions yet to be allocated to member accounts or returned to employers	(2,496)	(1,499)
Current liabilities	(3,274)	(1,778)

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

Outstanding member and employer contributions at the year-end totalled £40,637k (2015: £27,891k). In respect of these outstanding contributions, £34,661k was received by 31 May 2016 (2015: £25,501k by 31 May 2015).

Employer-related investments

The balance at 31 March 2016 includes contributions due from employers totalling £16,035k (2015: £8,495k), which were due after their statutory due dates as required by the payment schedules. These represent employer-related investments at the year end of 1.8 per cent (2015: 1.9 per cent) of the scheme's total net assets, but they did not contravene subsection (1) of section 40 of the 1995 Pensions Act. With the exception of £5,303k all of the outstanding contributions from these employers were received by 31 May 2016 (2015: £1,427k outstanding at 31 May 2015).

9.2 Current assets and liabilities not allocated to members

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Cash – General Account	44	31
Cash – Other	25	37
Other receivables	50	17
Current assets	119	85
Amounts payable to NEST Corporation	(25)	(37)
Other payables	(60)	(9)
Current liabilities	(85)	(46)
Total net assets not allocated to members	34	39

10. Related-parties transactions

The scheme's Trustee is NEST Corporation, a non-departmental public body accountable to the Secretary of State for Work and Pensions. The scheme pays the Trustee the contribution charge and AMC shown in note 6 above. The total amount for the year was £9,010k (2015: £5,861k).

NEST Corporation is a participating employer in the scheme. Contributions of £904k (2015: £846k) were payable by NEST Corporation to the scheme during the year.

Remuneration and pay for Trustee members is set by the Secretary of State for Work and Pensions. Total Trustee remuneration for the year was £316k (2015: £315k).

Where Trustee 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 managers, investment fund administrators, the scheme administrators TCS and the auditors. The details of these fees can be seen in the annual report and accounts for NEST Corporation for the year ended 31 March 2016.

3.3 Other useful information

NEST's contact details

NEST's public website is
nestpensions.org.uk

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

or alternatively at:

NEST
Nene Hall
Lynch Wood Business Park
Peterborough
PE2 6FY

Regulation and disputes

The Pensions Regulator

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

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

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

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

You can contact TPR at:

Phone: 0845 600 1011

Email: customer.support@thepensionsregulator.gov.uk

The Pensions Advisory Service

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

You can contact TPAS at:

Phone: 0300 123 1047

Email:

enquiries@pensionsadvisoryservice.org.uk

Website: pensionsadvisoryservice.org.uk

Pensions Ombudsman

The Pensions Ombudsman investigates and determines any complaint or dispute of fact or law, in relation to an occupational pension scheme, which cannot be settled through the Pensions Advisory Service (TPAS) and the NEST Internal Disputes Resolution Procedure.

You can contact the Pensions Ombudsman at:

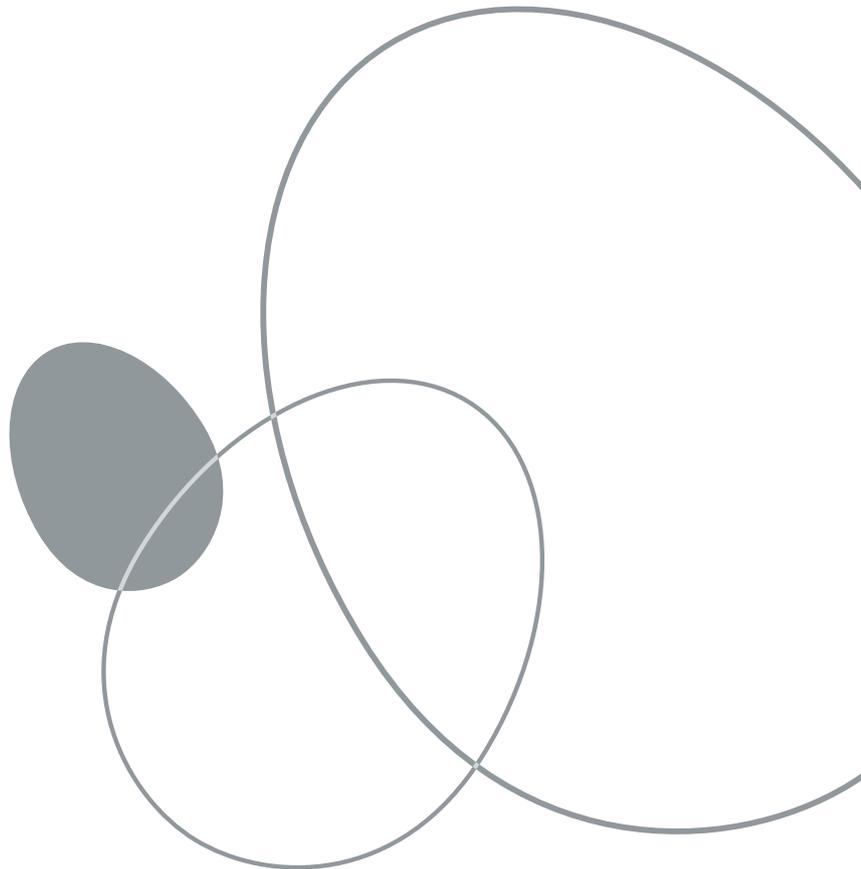
Phone: 020 7630 2200

Email:

enquiries@pensions-ombudsman.org.uk

Website: pensions-ombudsman.org.uk

Appendices



Appendix one

Schedule of the top 100 investments

The top 100 investments as at 31 March 2016 have been calculated on a look-through basis to the underlying holdings of the pooled funds invested in by the scheme. The employer-related investments* are the participating employers in which the scheme invests at arms-length through the investment managers. Any employer-related investments as a result of late contributions are disclosed in the financial statements. See note 9 on page 57.

Number	Investments	% of investments
1	United Kingdom Of Great Britain And Northern Ireland (Government) 1.75% maturity 22 January 2017	4.05%
2	United Kingdom Of Great Britain And Northern Ireland (Government) 5% maturity 7 March 2018	1.15%
3	United Kingdom Of Great Britain And Northern Ireland (Government) 4.5% maturity 7 March 2019	1.04%
4	Apple	0.78%
5	Strand Island Site London	0.68%
6	Central Saint Giles	0.63%
7	Alphabet	0.56%
8	J P Morgan Call Account GBP	0.56%
9	Microsoft	0.54%
10	West Cross Industrial Park Brentford	0.46%
11	Exxon Mobil	0.45%
12	Apex Plaza Reading	0.42%
13	Rackhams Birmingham	0.42%
14	Grenfell Park Maidenhead	0.42%
15	The Industrial Property Fund	0.42%
16	General Electric Co	0.38%
17	Johnson & Johnson	0.38%
18	Wardourst 76/88 Wardour Street	0.37%
19	Piccadilly Gardens Manchester	0.37%
20	Simon Property Group	0.35%
21	Bechtel House Hammersmith	0.33%
22	Procession House London	0.33%

Number	Investments	% of investments
23	United Kingdom Of Great Britain And Northern Ireland (Government) maturity 3.75% 7 September 2019	0.33%
24	Facebook	0.32%
25	ING Bank NV Certificate Of Deposit Fixed 0.58% maturity 04 April 2016	0.32%
26	Wells Fargo & Co	0.32%
27	AT&T	0.31%
28	Nestle	0.30%
29	Amazon	0.29%
30	Procter & Gamble	0.29%
31	Dolphin Centre Poole	0.28%
32	Jackson Square Shopping Centre	0.28%
33	Sainsbury's Cheltenham	0.28%
34	Verizon Communications	0.28%
35	JP Morgan Chase & Co	0.28%
36	Samsung Electronics	0.26%
37	Coca Cola Co	0.25%
38	194/198 Cambridge Science Park	0.24%
39	Fountains Retail Park	0.24%
40	Kingswood Retail, Hull	0.24%
41	Into Newcastle University	0.24%
42	Sainsbury's Preston	0.24%
43	Stevenage Leisure Park	0.24%
44	Tesco Distribution Site	0.24%
45	The Light Leeds	0.24%
46	Union Plaza Aberdeen	0.24%
47	Pfizer	0.23%
48	Roche Holdings	0.23%
49	Chevron Corporation	0.23%
50	Public Storage	0.22%
51	Home Depot	0.22%
52	Berkshire Hathaway	0.21%

Number	Investments	% of investments
53	Walt Disney	0.21%
54	Novartis	0.20%
55	Lloyds Savings Bank Deposit	0.20%
56	Philip Morris	0.20%
57	Bridge & Riverview Uxbridge	0.20%
58	Lotus Park Staines	0.20%
59	Plaza House Camden	0.20%
60	HSBC Bank 0.58281% maturity 23 July 2016	0.20%
61	Intel Corporation	0.20%
62	PepsiCo	0.19%
63	Comcast Corporation	0.19%
64	Toyota Motor	0.19%
65	Merck & Co	0.19%
66	International Business Machines	0.19%
67	Visa	0.19%
68	Cisco Systems	0.18%
69	Sumitomo Mitsui Banking Corporation 0% maturity 9 May 2016	0.18%
70	Bank Of America Corporation	0.18%
71	Oracle Corporation	0.17%
72	Gilead Sciences	0.16%
73	The Toronto-Dominion Bank Certificate Of Deposit Fixed 0.75% maturity 22 July 2016	0.16%
74	TD Bred Banque Populaire 0.46%	0.16%
75	Citigroup	0.16%
76	Altria Group	0.16%
77	HSBC Holdings	0.16%
78	Unitedhealth Group	0.16%
79	The Toronto-Dominion Bank 0.75% maturity 1 August 2016	0.16%
80	United Kingdom Of Great Britain And Northern Ireland (Government) 4.5% maturity 7 September 2034	0.16%
81	DNB Bank ASA 0% maturity 07 July 2016	0.15%
82	HSBC Bank 0.78875% maturity 20 March 2017	0.15%

Number	Investments	% of investments
83	101 Victoria St & Mitchell Lane Bristol	0.15%
84	Meadowhall Retail Park, Sheffield	0.15%
85	The Leisure Fund	0.15%
86	Unit 2 G Park	0.15%
87	Valley Cross 334 Rugby	0.15%
88	National Australia Bank 0.56875% maturity 10 June 2016	0.15%
89	CVS Health Corporation	0.15%
90	Co-Operative Bank Plc 4.75% maturity 11 November 2021	0.15%
91	Unibail	0.15%
92	McDonalds Corporation	0.15%
93	EQ Resident Property	0.15%
94	Bank Of Tokyo-Mitsubishi 0% maturity 20 April 2016	0.15%
95	Amgen	0.15%
96	Lloyds TSB Bank 5.125% maturity 7 March 2025	0.14%
97	Wal Mart Stores	0.14%
98	British American Tobacco	0.14%
99	Avalonbay Communities	0.14%
100	Bristol Myers Squibb Co	0.14%

* Employer-related investments as defined above were held in Amazon; Newcastle University; Tesco and McDonalds Corporation.

Appendix two

NEST Retirement Date Funds performance

NEST Retirement Date Fund	Fund performance one year to 31 March 2016 ¹	Annualised fund performance three years to 31 March 2016	Annualised fund performance since inception ²	Inception
	%	%	%	
NEST Starter fund ³	1.82	6.26	7.89	01 August 2011
2062 retirement fund	–	–	2.40	01 January 2016
2061 retirement fund	1.30	–	4.08	01 January 2015
2060 retirement fund	1.37	–	6.07	01 January 2014
2059 retirement fund	1.40	5.96	7.91	01 January 2013
2058 retirement fund	1.27	5.91	7.79	01 January 2012
2057 retirement fund	1.34	5.93	7.60	01 August 2011
2056 retirement fund	1.31	5.97	7.62	01 August 2011
2055 retirement fund	1.41	6.14	7.70	01 August 2011
2054 retirement fund	1.31	6.32	7.81	01 August 2011
2053 retirement fund	1.19	6.57	7.99	01 August 2011
2052 retirement fund	1.11	6.86	8.28	01 August 2011
2051 retirement fund	0.65	7.09	8.48	01 August 2011
2050 retirement fund	0.65	7.23	8.53	01 August 2011
2049 retirement fund	0.65	7.27	8.63	01 August 2011
2048 retirement fund	0.66	7.26	8.63	01 August 2011
2047 retirement fund	0.65	7.26	8.54	01 August 2011
2046 retirement fund	0.66	7.27	8.56	01 August 2011
2045 retirement fund	0.66	7.25	8.56	01 August 2011
2044 retirement fund	0.65	7.28	8.56	01 August 2011
2043 retirement fund	0.65	7.26	8.53	01 August 2011
2042 retirement fund	0.65	7.25	8.53	01 August 2011
2041 retirement fund	0.65	7.26	8.54	01 August 2011

NEST Retirement Date Fund	Fund performance one year to 31 March 2016 ¹	Annualised fund performance three years to 31 March 2016	Annualised fund performance since inception ²	Inception
	%	%	%	
2040 retirement fund	0.66	7.27	8.55	01 August 2011
2039 retirement fund	0.66	7.26	8.54	01 August 2011
2038 retirement fund	0.66	7.28	8.55	01 August 2011
2037 retirement fund	0.65	7.25	8.54	01 August 2011
2036 retirement fund	0.66	7.25	8.54	01 August 2011
2035 retirement fund	0.65	7.24	8.53	01 August 2011
2034 retirement fund	0.65	7.24	8.54	01 August 2011
2033 retirement fund	0.66	7.25	8.55	01 August 2011
2032 retirement fund	0.66	7.25	8.53	01 August 2011
2031 retirement fund	0.65	7.20	8.51	01 August 2011
2030 retirement fund	0.66	7.26	8.54	01 August 2011
2029 retirement fund	0.65	7.26	8.54	01 August 2011
2028 retirement fund	0.66	7.16	8.48	01 August 2011
2027 retirement fund	0.65	7.25	8.58	01 August 2011
2026 retirement fund	0.65	7.24	8.54	01 August 2011
2025 retirement fund	0.61	7.24	8.53	01 August 2011
2024 retirement fund	0.66	7.13	8.48	01 August 2011
2023 retirement fund	0.74	6.87	8.28	01 August 2011
2022 retirement fund	0.36	6.42	7.78	01 August 2011
2021 retirement fund	0.24	6.05	7.47	01 August 2011
2020 retirement fund	1.21	6.06	7.44	01 August 2011
2019 retirement fund	1.23	5.74	7.14	01 August 2011
2018 retirement fund	0.94	5.31	6.78	01 August 2011
2017 retirement fund	0.55	2.14	3.08	01 August 2011
2016 retirement fund	0.32	1.40	2.24	01 August 2011
2015 retirement fund	0.59	0.82	1.51	01 August 2011
Post-retirement fund ⁴	0.59	–	0.52	01 November 2013

1 Our overall target for the NEST Retirement Date Funds is to outperform inflation. Inflation in this financial year has been 0.60%.

2 Our overall target for the NEST Retirement Date Funds is to outperform inflation. Annualised inflation since 1 August 2011 has been 1.56%.

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

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

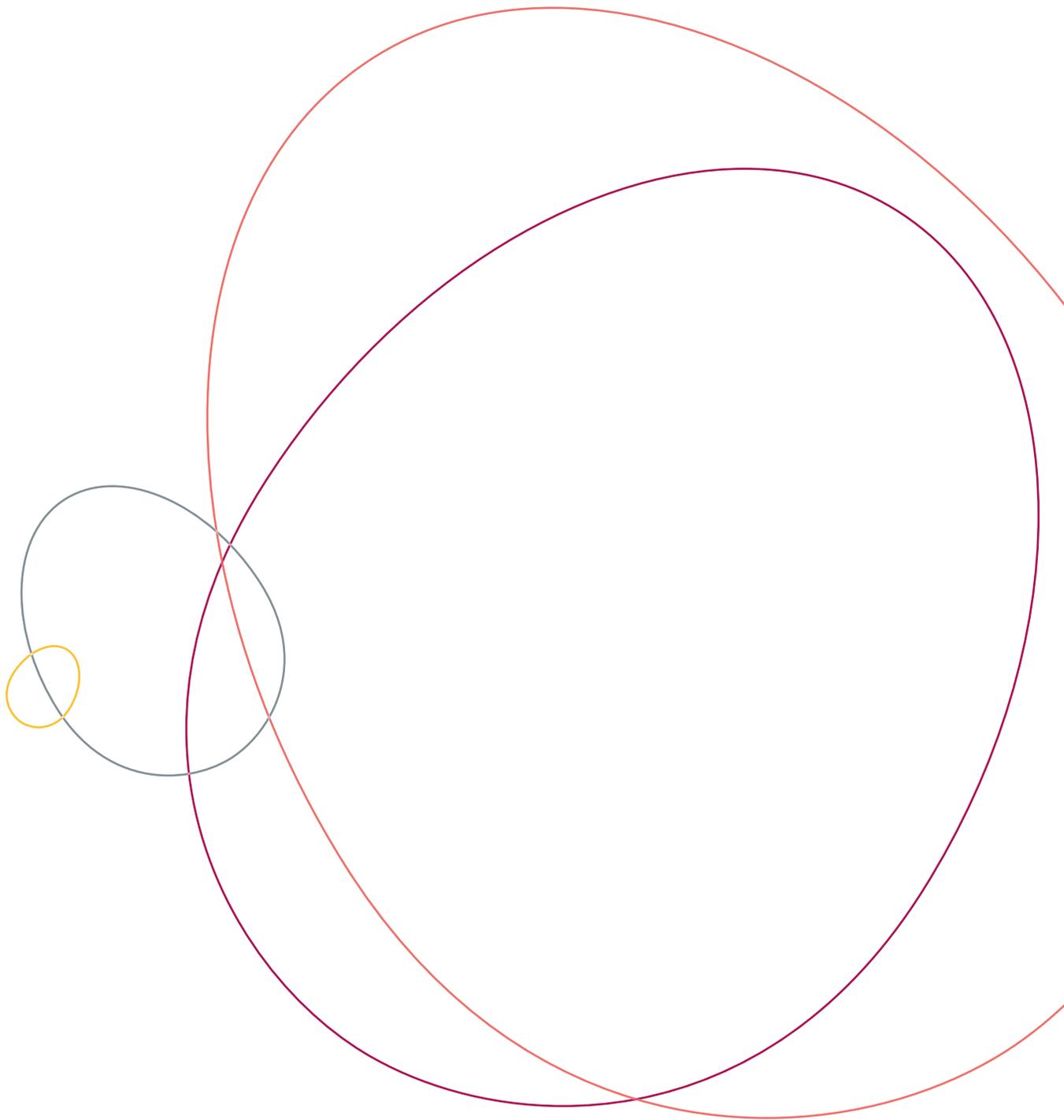
Appendix three

Transaction costs for the year ended 31 March 2016

These transaction costs have been disclosed in accordance with the Chair's governance statement on pages 29 and 30.

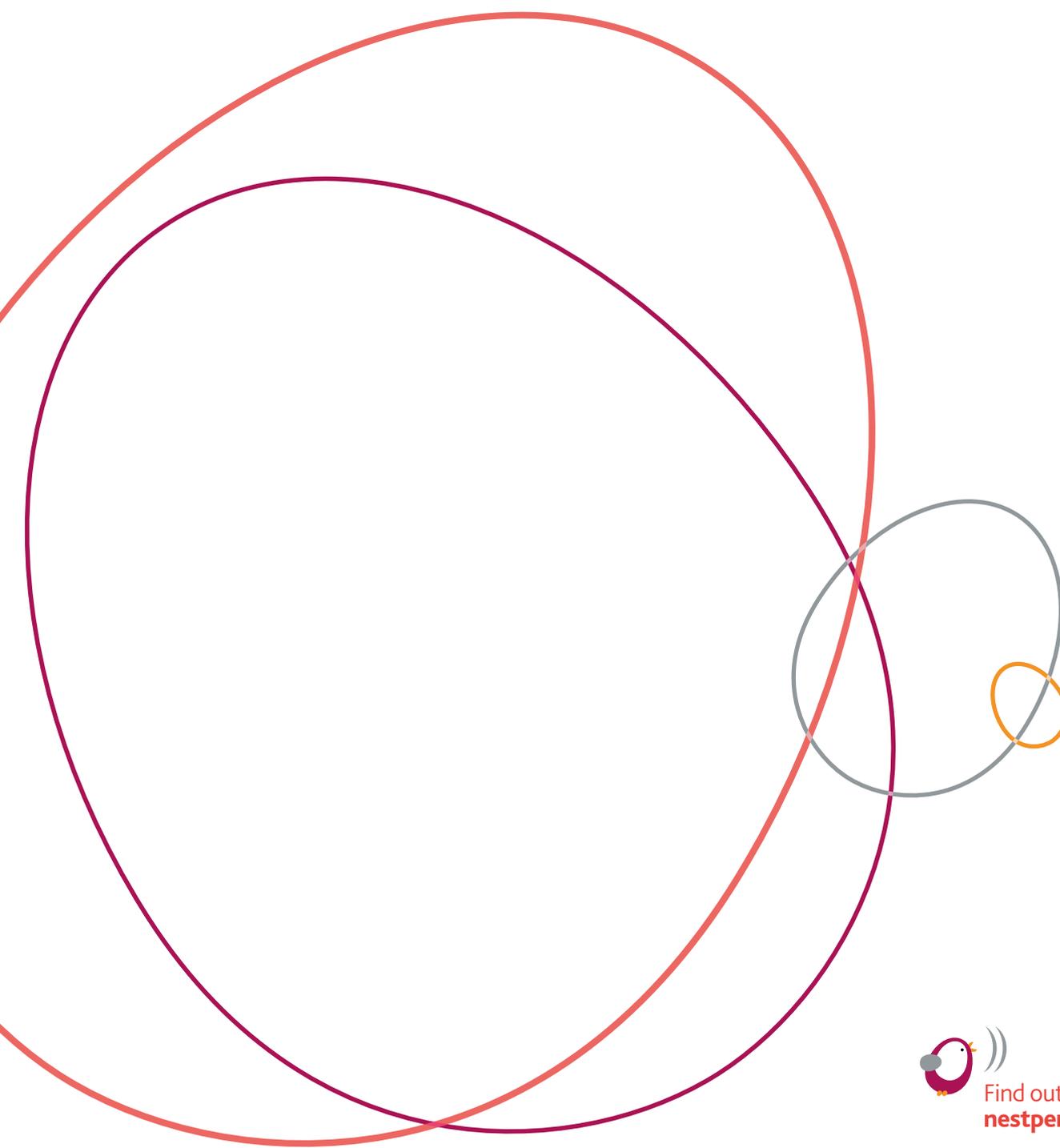
Default fund – NEST Retirement Date Fund	Transaction costs	Default fund – NEST Retirement Date Fund	Transaction costs
NEST starter fund	0.061	2036 retirement fund	0.083
2015 retirement fund	0.000	2037 retirement fund	0.083
2016 retirement fund	0.003	2038 retirement fund	0.083
2017 retirement fund	0.011	2039 retirement fund	0.083
2018 retirement fund	0.019	2040 retirement fund	0.083
2019 retirement fund	0.027	2041 retirement fund	0.083
2020 retirement fund	0.035	2042 retirement fund	0.083
2021 retirement fund	0.062	2043 retirement fund	0.083
2022 retirement fund	0.067	2044 retirement fund	0.083
2023 retirement fund	0.071	2045 retirement fund	0.083
2024 retirement fund	0.075	2046 retirement fund	0.083
2025 retirement fund	0.080	2047 retirement fund	0.083
2026 retirement fund	0.082	2048 retirement fund	0.083
2027 retirement fund	0.083	2049 retirement fund	0.083
2028 retirement fund	0.083	2050 retirement fund	0.083
2029 retirement fund	0.083	2051 retirement fund	0.083
2030 retirement fund	0.083	2052 retirement fund	0.081
2031 retirement fund	0.083	2053 retirement fund	0.076
2032 retirement fund	0.083	2054 retirement fund	0.072
2033 retirement fund	0.083	2055 retirement fund	0.068
2034 retirement fund	0.083	2056 retirement fund	0.064
2035 retirement fund	0.083	2057 retirement fund	0.062

Default fund – NEST Retirement Date Fund	Transaction costs
2058 retirement fund	0.061
2059 retirement fund	0.061
2060 retirement fund	0.061
2061 retirement fund	0.061
2062 retirement fund	0.058
Post-retirement fund	0.000
NEST fund choices	
NEST ethical growth fund	0.095
NEST sharia fund	0.035
NEST higher risk fund	0.098
NEST lower growth fund	0.000
NEST pre-retirement fund	0.000



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