



nest



**National Employment Savings
Trust Pension Scheme**
Annual report and accounts

2017/18

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Chapter one

Trustee's report



1.1 Chair's introduction

Otto Thoresen
Chair, NEST

With employers of all sizes now complying with pensions auto enrolment, it is an appropriate time to reflect on what NEST has achieved so far and on how we will support employers' and members' needs for the future.

What we have achieved

For NEST, 2017/18 has been dominated by the final and most intensive period of auto enrolment staging (the process of requiring all employers to comply with auto enrolment, in order of company size). Small and micro employers reached their staging dates, driving unprecedented levels of new enrolments for us. We welcomed over 1.9 million new members from 289,000 new employers across this financial year.

We are now managing £2.7bn on behalf of over 6.4 million members and 616,000 employers, compared to £1.7bn for 4.5 million members and 327,000 employers at the same time last year.

Our charge revenue from contributions and from member assets under management increased from £15 million to £25 million in this financial year. Minimum contribution levels under auto enrolment increased on 6 April 2018. So, 2017/18 was the final year at the lowest statutory contribution level, where members and employers collectively contributed a minimum of 2 per cent of salary.

NEST's scheme costs have increased in line with our expectations as our member numbers have grown. We remain confident that our long term financial projections are robust and that we continue to deliver value to our members, while also providing value for money to the taxpayer.

As we grow, we must remain a well-run scheme that meets employers' and members' needs and invests their money appropriately. To achieve that, we carried out the following during the year:

Reviews of governance: We review the effectiveness of the Trustee Board and its committees every year. In 2017/18, this review was carried out by an external facilitator, OE Cam. It concluded that the Board is well run and provided recommendations for the future which our Nominations and Remuneration Committee will oversee. This included the recommendation that NEST moves to a unitary board incorporating both executive and non-executive trustee members. This recommendation has been taken forward and will ensure that we retain the right skills on our Board to allow us to deliver for our members.

We also conducted our annual skills and experience assessment of Trustee Members. This ensures we have the right range of experience and knowledge on our Board to continue to govern NEST effectively. We have used the results to update our training plan for existing Trustee Members, our induction plan for new Trustee Members, and refine our skills and experience requirements for the future.

As an Arm's-Length Body of the Department for Work and Pensions (DWP), we were assessed during the year under the Government's Tailored Review programme. This re-confirmed that there is still an ongoing need for NEST Corporation and the scheme, and made recommendations for our future development. This included a clarification of NEST Corporations' public sector classification, so we will no longer be both a non-departmental public body and a public corporation, but will continue in future as a public corporation only.

AAF 02/07 control assurance report: We are finalising our annual Audit and Assurance Faculty (AAF) 02/07 control assurance reports against the master trust assurance framework, which provides an independent assessment of the design and operation of our internal controls. These reports confirm that all the control objectives set out in the AAF guidance were met for the reporting period.

Update to Statement of Investment Principles (SIP): We reviewed and published an updated version of our SIP¹ and published additional materials to support it. These explain our approach to investment risk management and our methodology for applying it. We have also shared our views on the different asset classes we invest in and how NEST is using those within its portfolio. These documents are available on NEST website.

Responsible Investment: In summer 2017, we published our second annual responsible investment report. This stated how we have performed as a responsible investor, as well as defining our future Environmental, Social and Governance (ESG) priorities. We increased the allocation to our Climate Aware Fund in the growth and foundation phases of our default funds in 2017/18, as part of our strategy to benefit from a global move towards greener sources of energy.

We are pleased to be fulfilling our commitment to report against the Task force on Climate-related Financial Disclosures (TCFD) framework in this year's annual report and accounts. It is important to us that NEST's members and stakeholders have transparency into how NEST is managing climate-related risks and opportunities in

¹ nestpensions.org.uk/schemeweb/dam/nestlibrary/SIP-Apr18-Mar21.pdf

its investment approach on behalf of its 6.4 million members. See page 53.

We are also delighted to have been recognised in the industry as a responsible investment leader, gaining the highest score in ShareAction's 2018 annual ranking of auto enrolment pension providers.

Contributions to consultations: NEST continues to contribute to Government and other consultations on wider debates in pensions that affect our members. In 2017/18, we responded to:

- Work and Pensions Select Committee: inquiry into Collective Defined Contribution (CDC) pension schemes
- Work and Pensions Select Committee: inquiry into pension freedoms
- Pensions and Lifetime Savings Association: Hitting the Target consultation
- Department for Work and Pensions: Occupational pensions: improving disclosure of costs, charges and investments.

Our responses to these can be found on the NEST website.

Forward look

The master trust sector will become more tightly regulated, under the new Pension Schemes Act 2017. This is a welcome step by Government and The Pensions Regulator that will build greater trust and confidence in pensions, and master trusts in particular.

Since the introduction of auto-enrolment, investment markets have generally performed well. NEST has delivered average returns of 8.8 per cent per annum (after all charges) over the last five years for funds in the growth phase of our default strategy and we have won many awards for our investment approach.

We will ensure that we comply with the new Occupational Pension Schemes (Master Trusts) Regulations 2018 and I am confident that our ongoing focus on governance will stand us in good stead.

Statutory minimum contributions under auto-enrolment increased on 6 April 2018 to 2 per cent of salary for employers, and 3 per cent for employees. This is a positive step to ensuring adequate saving for retirement.

Since the introduction of auto-enrolment, investment markets have generally performed well. NEST has delivered average returns of 8.8 per cent per annum (after all charges) over the last five years for funds in the growth phase of our default strategy and we have won many awards for our investment approach. However, there is no guarantee that market conditions will remain so favourable. Diversification, as a means of managing investment risk and delivering good risk-adjusted returns, must continue

to be a focus for us. NEST is exploring how rising inflation and uncertainty in markets will impact the types of asset classes that we invest in. As early evidence of this, we are currently in the final stages of adding a commodities fund to our portfolio, which will offer more cost-effective inflation protection and further diversify members' pots.

We established NEST with our current administration partners, Tata Consultancy Service (TCS), and have successfully met the challenge of helping over 616,000 employers meet their auto enrolment duties. The present scheme administration services contract expires in 2023 and we have started procurement for the next contract.

Our vision for future services is a different one. We need to re-imagine the scheme and our corporation in a digital world, harnessing advances in technology to continue to deliver a high-quality service. This will enable us to continue to play a vital role in helping the millions of members enrolled in NEST save for and enjoy their retirement.

Our increasing size will enable NEST to improve the services that we are able to offer to our members. It also makes us a significant force in UK defined contribution pensions and gives us the potential to help identify future retirement savings needs.

Our increasing size will enable NEST to improve the services that we are able to offer to our members. It also makes us a significant force in UK defined contribution pensions and gives us the potential to help identify future retirement savings needs. NEST continues to carry out research and


use evidence-based decision making to drive better outcomes for members and employers. We have invested in NEST Insight, our research initiative, which will help us better understand members' needs, behaviours and attitudes towards retirement savings, in more detail. We will act on the findings to continue to deliver the scheme that our members need, as well as supporting the broader academic and public policy communities by making NEST Insight's findings publicly available for free. We are seeking for NEST Insight to be largely self-funded.

I would like to thank our Trustee Members, and the members of our Employers' and Members' Panels for their continued commitment to helping our members build their retirement savings. In particular, I would like to thank Tom Boardman and Karen Silcock, who stepped down as Trustee Members (and deputy chair in Tom Boardman's case) during 2017/18, for their significant contribution to the development of NEST. I look forward to building on NEST's successes in 2018/19.

1.2 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.



“A good retirement, for me, would be being comfortable in my own home, eating good food and being around the people I love - maybe a holiday every now and again.”

Perry Goodwin

Veterinary Care Assistant, Spring Lodge Veterinary Hospital

Key figures as at 31 March 2018

Our members and customers

Active/inactive members

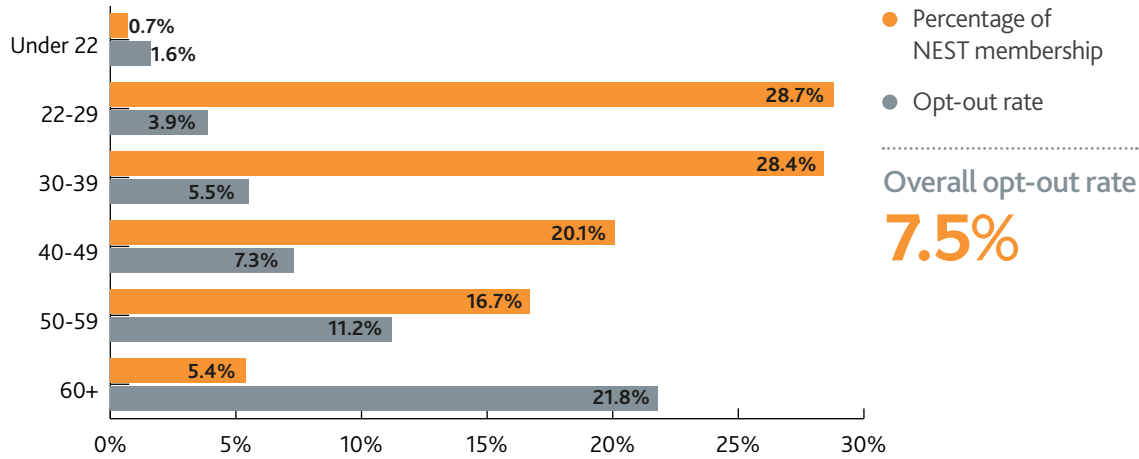
31 March 2018



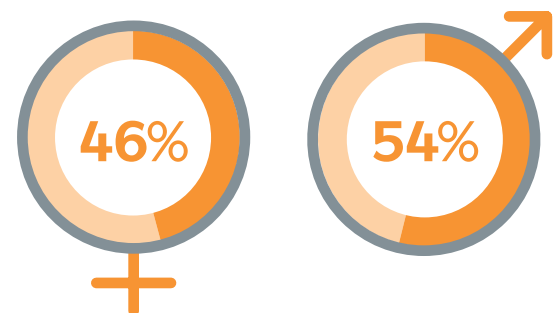
31 March 2017



Member opt-out rates split by age



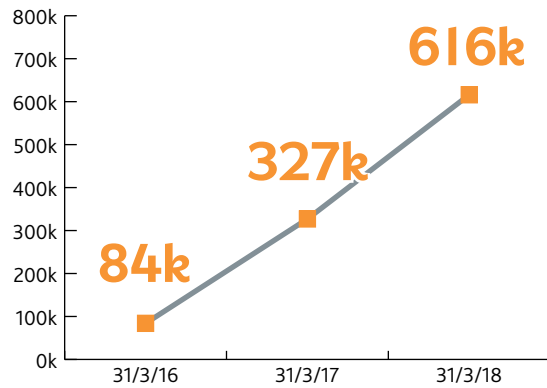
Gender split



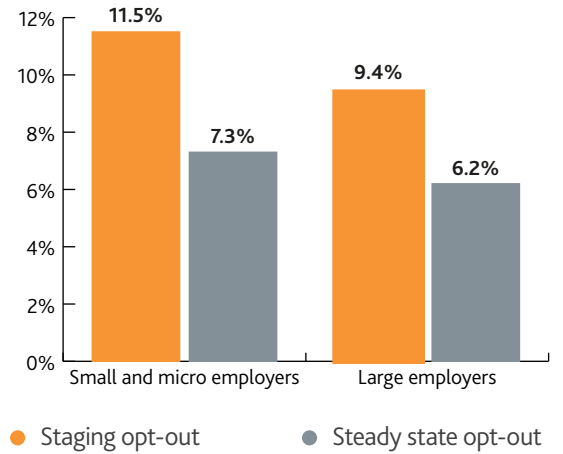
Assets under management



Number of employers using NEST

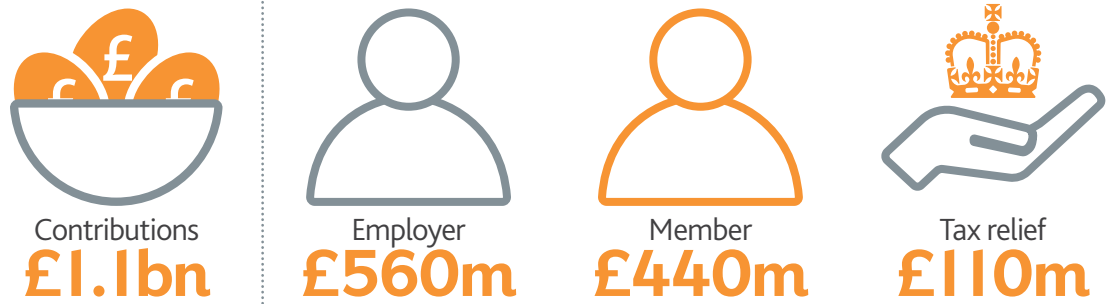


Opt-out during staging period compared to opt-out since*

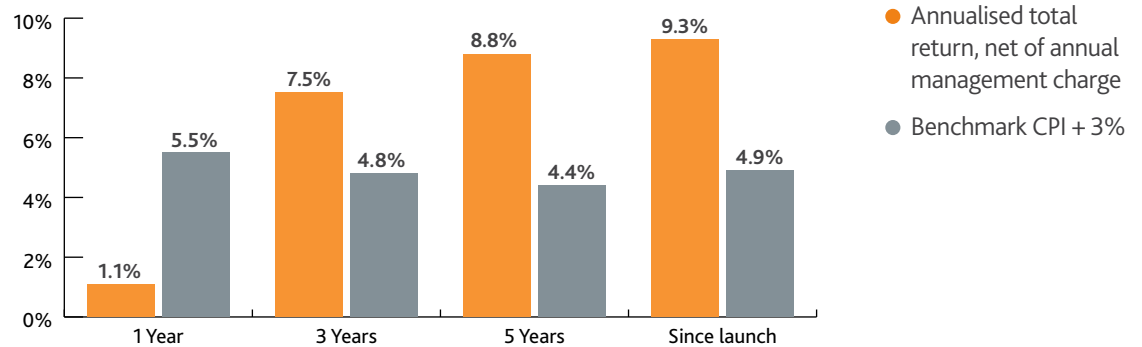


*Members opting out in the first six weeks after being auto enrolled

Contributions



Annualised fund performance for the NEST 2040 Retirement Fund to 31 March 2018



Trustee and Trustee Members

NEST Corporation is the Trustee of the NEST pension scheme. As of 31 March 2018, the Trustee had 10 members, consisting of a Chair and nine other Trustee Members. Collectively they are responsible for setting the strategic direction and objectives for NEST Corporation.

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 BlackRock BMO Global Asset Management HSBC Global Asset Management J.P. Morgan Asset Management Legal & General Investment Management Northern Trust Global Investments Royal London Asset Management State Street Global Advisors UBS Asset Management
Lawyers	Eversheds Sutherland LLP Shakespeare Martineau LLP Travers Smith LLP
External auditors	KPMG LLP
Internal auditors	Ernst & Young LLP
Assurance reporting accountants	KPMG LLP

Membership

The membership in the year grew as follows:

	Year ended 31 March 2018	Year ended 31 March 2017
Members at the beginning of the period	4,554,744	2,991,839
New members ¹	2,139,219	1,778,196
Members opting out or de-enrolling	(190,183)	(203,045)
New members joining in the period	1,949,036	1,575,151
less		
Members retired	(19,545)	(10,784)
Members deceased	(2,114)	(1,462)
Members at the end of the period	6,482,121	4,554,744
Contributing members	2,994,069	2,208,649
Non-contributing members	3,488,052	2,346,095
Members at the end of the period	6,482,121	4,554,744

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.

Contributions and charges

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

Until 5 April 2018 the minimum rates were 1 per cent for employers and 1 per cent for members. From 6 April 2018, contribution rates increased to a minimum of 2 per cent for employers and 3 per cent for members.

Employers set a payment frequency for making contributions and their payment due date for each payment period. Employers then make payments each period by that date. This is known as a contribution event. If the scheme does not receive both a contribution schedule and a payment to match this schedule, we investigate the status of the payment with the employer.

If member 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 2.3 per cent of contribution events (1.0 per cent in 2016/17) were reported to TPR. That equates to 143,758 such reports in 2017/18, compared with 46,250 in 2016/17. This is in line with the growth in the scheme membership. A communication is sent to those members who are affected.

The scheme makes a 0.3 per cent Annual Management Charge (AMC) on the total value of a member's pot, plus a 1.8 per cent charge on the value of each new

contribution into a member's pension pot. For the contribution profiles of most NEST members, these charges are broadly equivalent to a 0.5 per cent AMC over the expected period of saving with us. Our charges are within the charge cap set by the Government, which is currently 0.75 per cent.

Taking money out of the scheme

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

These include:

- taking the whole pot as cash, where permitted by regulation
- transferring to another registered pension scheme
- transferring to a retirement income provider with or without a cash lump sum
- using uncrystallised funds pension lump sums to make multiple cash withdrawals over multiple years.

Retirements and transfers

There were 19,545 retirements during the year. The majority were trivial commutations.

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

There were 1,552 transfers in during 2017/18, and 3,461 transfers out.

Deaths of scheme members

Members of the scheme can nominate who they would like to receive their retirement pot should 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, such as charities.

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

The scheme does not provide members with death in service benefits other than the retirement pot.

There were 2,114 member deaths during 2017/18.

Looking ahead

NEST has successfully managed the capacity risks associated with the staging period, ensuring that our services have remained resilient, robust and available to our customers. During this period we have experienced very rapid growth and we now provide a service to over 616,000 employers and in excess of 6.4 million members.

The first increase in minimum contributions for employers and members (termed 'phasing') took place in April 2018. While there remains some uncertainty as to the impact of this on member behaviour, we believe we have prudent plans in place to cope with increased customer activity during this period.

As we now enter phasing, we will continue to work to ensure that our services are resilient, robust and stable. We are also embarking on a member service improvement programme that will initially focus on ensuring that transfers into and out of NEST are completed efficiently.

Our priorities to help employers

NEST's service for small and micro employers reaching their staging dates in 2017/18 has largely been achieved by supporting intermediaries (the payroll providers and accountancy practices) who engage with their employer clients to manage automatic enrolment on their behalf through NEST Connect.

We have encouraged a broader use of web services to further simplify the processes for payroll providers.

Each of our Strategic Account Managers has managed the relationships with a portfolio of larger employers and offered an enhanced range of services such as attendance at governance meetings, management information reporting and regular updates.

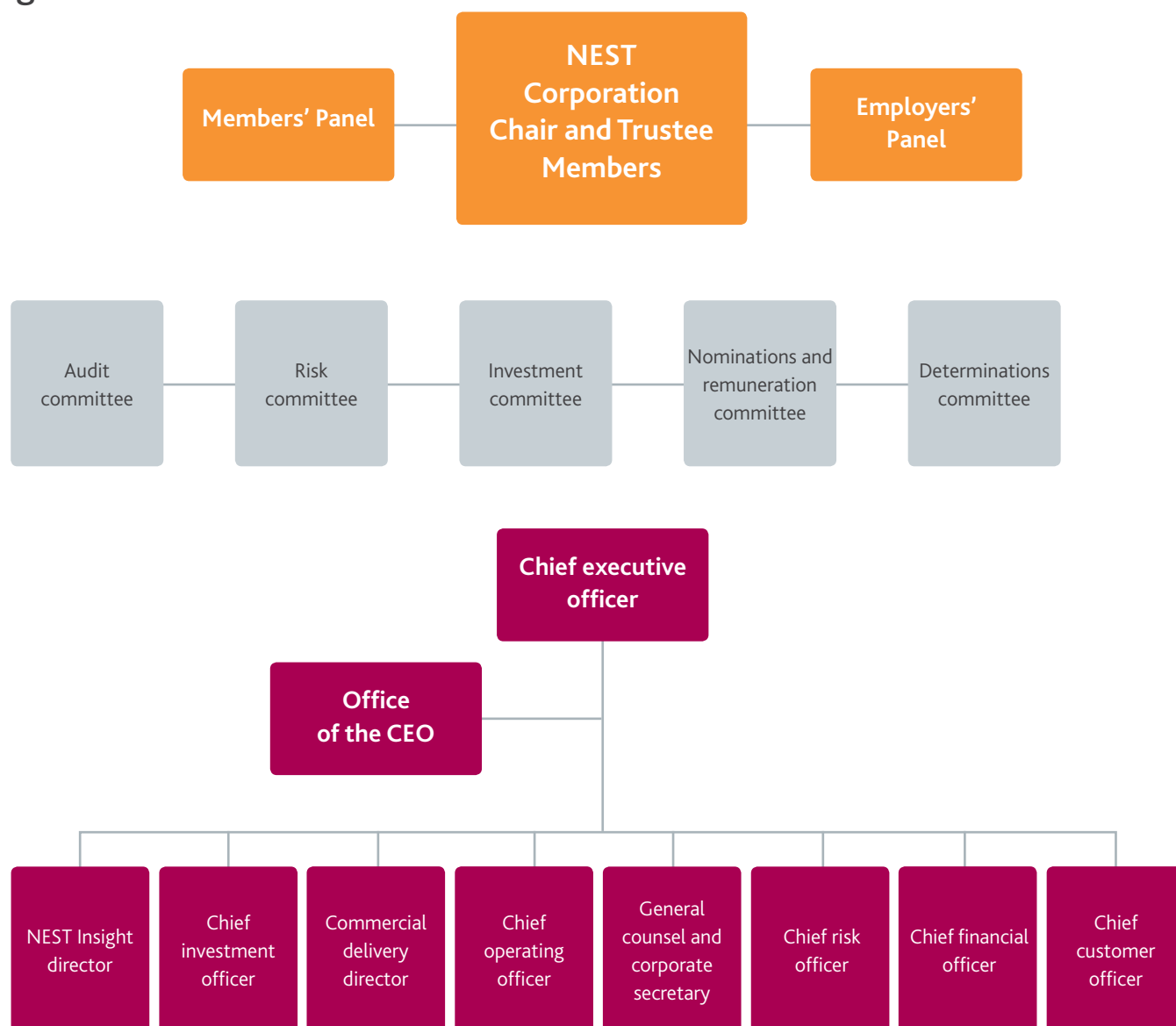
The Business Development team has continued to build relationships with key pension consultants, the top few of which hold advisory appointments with the largest UK employers.

1.3 Report on governance

Chair’s governance statement for the year ending 31 March 2018

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

Organisation structure



Executive board

Biographies of the executive board are available on the NEST website at nestpensions.org.uk/schemeweb/NestWeb/public/aboutnestcorporation/contents/executive-team.html

Trustee Members



Otto Thoresen
Chair, NEST Corporation
(from 1 February 2015)
Chair, nominations and
governance committee
(from 1 February 2015
- 28 November 2017)

Otto has extensive experience gained in pensions, insurance and consumer roles across a range of private and public sector organisations including Royal Insurance, AEGON and charities Young Enterprise and StepChange.



Tom Boardman
Trustee Member
(from 1 April 2010
- 31 May 2017)
Deputy Chair
(from 1 June 2014 -
31 May 2017)

Tom's 40 years' experience in pensions and insurance includes executive roles at Prudential and Nationwide. He was a former senior advisor at the Financial Conduct Authority, a Fellow of the Institute and Faculty of Actuaries, honorary visiting professor at the Cass Business School, and a governor of the Pensions Policy Institute.



Iraj Amiri
Trustee Member
(from 20 June 2011,
appointed for a second
term in 2015)
Chair, audit committee
(from 1 April 2014)

Iraj led the National Internal Audit Group at Deloitte LLP, where he was a partner. He is a non-executive director and chair of the Audit Committee at Development Bank of Wales and a member of the Regulatory Decisions Committee of the Financial Conduct Authority (FCA) as well as chair of the Audit and Risk Committee for the Institute and Faculty of Actuaries.



Ian Armfield
Trustee Member
(from 1 April 2014)

Ian has worked in the investment and pension sectors for more than 25 years, principally as an audit and risk assurance partner with PricewaterhouseCoopers LLP. He is a non-executive director of Keystone Investment Trust plc and Managed Pension Funds Limited and the audit committee chairman for Pearson Pension Plan.



Graham Berville
Trustee Member
(from 1 June 2014)

Chair, propositions committee
(from 20 July 2015 – 25 January 2018)

Chair, risk committee
(from 25 September 2017)

Graham held executive roles with the Automobile Association (AA), Aviva plc and Police Mutual. He also worked with the Association of British Insurers and was chair of the Association of Financial Mutuals. Graham has subsequently held a number of non-executive roles and is currently chair of the LV= With-Profits Committee, chair of Yorkshire Cancer Research and chair of Keycare Insurance.



Sally Bridgeland
Trustee Member
(from 1 April 2015)

Chair, investment committee
(from 2 July 2017)

Sally is a non-executive director of Royal London Group, Impax Asset Management and the Local Pensions Partnership, a senior adviser with Avida International and a pension scheme trustee at Lloyds Banking Group. Sally is also a Trustee of the Nuclear Liabilities Fund. She was formerly the chief executive officer and trustee of the BP Pension Fund. Sally is the founder of Executive Shift, a charity supporting senior-level flexible working.



Tomas Carruthers
Trustee Member
(from 1 July 2016)

Tomas Carruthers is an executive director of Kirkman, a firm providing advice and support in the field of social finance. He was Chief Executive of the Social Stock Exchange, which was launched by the Prime Minister in 2013. Prior to that appointment he was Chief Executive of Interactive Investor PLC, which he founded.



Carolan Dobson
Trustee Member
(from 1 April 2014)

Chair, investment committee (from 26 April 2014 - 2 July 2017)

Carolan is an experienced trustee and non-executive director with a background in asset management. She is chair of Blackrock Latin American Trust plc, Brunner Investment Trust plc, JP Morgan European Smaller Companies Trust plc and is a non-executive director at the ISC at the London Collective Investment Vehicle (CIV). She also works as an adviser to the Competition and Markets Authority.



Ron Jarman
Trustee Member
(from 1 July 2016)

Ron is a senior member of Proxima's Consulting practice, where he specialises in organisational and performance improvements including supplier risk management. Ron is the board chair at World at Play, a charity that enriches the lives of marginalised and refugee children through sport and play, and is a supporter of the Kalinga Fellowship.



Caroline Rookes
Trustee Member
(from 1 April 2015)

Chair, remuneration
committee
(from 19 June 2016 -
28 November 2017)

Chair, nominations and
remuneration committee
(from 28 November 2017)



Karen Silcock
Trustee Member
(from 1 April 2014 - 10
October 2017)

Chair, risk committee
(from 15 April 2016 -
25 September 2017)



Jill Youds
Trustee Member
(from 1 April 2015)

Senior Independent
Director (from 25 July
2017)

Chair, determinations
committee
(from 24 March 2016)

Caroline retired as chief executive officer of the Money Advice Service in June 2017. Her previous positions include director of private pensions at the Department for Work and Pensions where she led a landmark reform of the UK's private pension regime introducing auto enrolment, and director of savings pensions and share schemes at HMRC, where she was responsible for a reform of the pensions tax regime. Caroline is currently the vice chair of the charity V-inspired.

Karen was a partner in Deloitte LLP, advising on insolvency and restructuring, and subsequently on risk management, security and financial crime. She also held the position of joint chief risk officer at Deloitte LLP. Karen's portfolio has included non-executive director roles at the Office for Legal Complaints (OLC), a regional Wildlife Trust and advisory work with The High Street Fund.

Jill is chair of the Judicial Pensions Board for the Ministry of Justice and also of the Northern Ireland Judicial Pensions Board. She is chair of the trustee board for the National Assembly for Wales Assembly Members' pension scheme and also chair of trustees for the Legal Services Commission pension scheme. Jill is the Senior Independent Director at NEST Corporation.

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

Committee membership as at 31 March 2018

Audit committee	Determinations committee	Investment committee
Iraj Amiri – Chair	Jill Youds – Chair	Sally Bridgeland – Chair
Ian Armfield	Iraj Amiri	Ian Armfield
Graham Berville	Caroline Rookes	Graham Berville
	Otto Thoresen	Carolan Dobson

Nominations and remuneration committee	Risk committee
Caroline Rookes – Chair	Graham Berville – Chair
Ian Armfield	Iraj Amiri
Carolan Dobson	Sally Bridgeland
Ron Jarman	Ron Jarman
Otto Thoresen	
Jill Youds	

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

	Trustee Board	Audit Committee	Risk Committee	Investment Committee	Nominations and Remuneration Committee	Determinations Committee	Propositions Committee****	Nominations and Governance Committee*****	Remuneration Committee
No. of meetings	9	6	4	5	1	11	2	2	3
Otto Thoresen	8	n/a	n/a	n/a	1	9	n/a	2	n/a
Iraj Amiri	8	6	3	n/a	n/a	8	n/a	n/a	n/a
Ian Armfield	9	5	n/a	5	1	n/a	n/a	2	n/a
Graham Berville	8	n/a*	4	4	n/a	n/a	2	n/a	n/a
Tom Boardman**	1/1	n/a	n/a	n/a	n/a	n/a	n/a	1/1	n/a
Sally Bridgeland	7	n/a	4	5	n/a	n/a	2	n/a	n/a
Tomas Carruthers	8	n/a	n/a	n/a	n/a	n/a	1	n/a	n/a
Carolyn Dobson	7	n/a	n/a	4	1	n/a	n/a	2	n/a
Ron Jarman	9	n/a	3	n/a	1	n/a	n/a	n/a	3
Caroline Rookes	9	5	n/a	n/a	1	10	n/a	n/a	3
Karen Silcock***	4/5	2/4	2/2	n/a	n/a	n/a	1	n/a	n/a
Jill Youds	7	n/a	n/a	n/a	1	11	2	n/a	3

*No meetings were held while Graham Berville was on the audit committee

**Tom Boardman's post came to an end on 31 May 2017

***Karen Silcock's post came to an end on 10 October 2017

****The propositions committee was disbanded on 25 January 2018

*****The nominations and governance committee and remuneration committee were merged to form the nominations and remuneration committee on 28 November 2017

About NEST Corporation

NEST Corporation is the Trustee of the NEST pension scheme, which was established on 5 July 2010. Its role is to develop and operate the scheme. NEST Corporation's core functions are set out in the Pensions Act 2008. NEST's Order and Rules set out how the scheme will operate (see section 1.2).

NEST Corporation is a Public Corporation sponsored by the Department for Work and Pensions (DWP) and is a key component of the auto 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.

Members and committees

As at 31 March 2018, the Trustee had 10 members. It consists of a Chair and nine other Trustee Members.

NEST Trustee Members are appointed by the Secretary of State for Work and Pensions in line with public appointments guidance that promotes selection on the basis of merit, fairness and openness. A broad range of skills, experience and knowledge are required collectively on the Trustee Board. Appointments are made in line with the Commissioner for Public Appointments' Code of Practice 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.

No trustee recruitment took place in 2017/18.

Every Trustee Member has completed The Pensions Regulator's Trustee Toolkit, an online learning programme. New Trustee Members must complete this within their first six months, in addition to a detailed induction programme. All Trustee Members are provided with a tailored induction programme depending on their requirements, skills, qualifications, and experience. The induction process includes familiarisation with the scheme's governance structure and governing documentation and provides the opportunity for new Trustee Members to meet key staff across the organisation. No induction programmes were run during 2017/18, as there were no new Trustee Members in the year.

A full skills and experience analysis of Trustee Members is completed on an annual basis in order to support and inform their continuing requirement for knowledge and understanding, which is met through briefing sessions on relevant topics and an individual commitment to ongoing education and training. Examples of training delivered to Trustee Members in 2017/18 include courses on: Public Procurement and Contract Law, Master Trust regulations, and General Data Protection Regulation.

The training plan for the Trustee Board and for individual Trustee Members is reviewed at least annually following completion of the skills and experience gap analysis. The secretariat team complete an annual skills and experience analysis which identifies and addresses knowledge gaps based on individual Trustee Members' self-assessment returns and supporting evidence.

The Trustee has a full working knowledge of the NEST Order and Rules.

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

To support effective and robust decision making, the Trustee has established five committees. The Trustee and its committees take decisions that affect the scheme and ensure that the Corporation fulfils its obligations as a public body. The terms of reference for the Trustee and its committees are published on the NEST website¹. Every committee makes recommendations for approval by the Trustee on specific decisions and items.

In addition, the NEST Order 2010, article 8 sets out the remit for an employers' panel and a members' panel, in accordance with the requirements on the Trustee under the Pensions Act 2008. 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 30.

A Scheme of Reserved Matters and Delegations outlines the matters reserved to the Trustee, and delegations to the Committees. Decisions which are not reserved to the Trustee or a Committee are within the authority of the chief executive officer, who is responsible for the day-to-day operations and management of NEST

Corporation and the NEST pension scheme. The chief executive officer delegates authority to each member of the executive team and holds them accountable for delivery in their remit. Regular meetings of the executive board are chaired by the chief executive officer to oversee the operation of the Corporation and the scheme, and the chief executive officer provides a report to each meeting of the Trustee.

Audit committee

The audit committee is responsible for monitoring the integrity of the financial statements for NEST Corporation and the scheme and the validity of the assurance given on them. It approves and monitors 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 scheme and recommended their approval to the Trustee
- reviewed the plans of the external auditors for their audit of the annual accounts of both NEST Corporation and the scheme, and oversaw the delivery and effectiveness of external audit
- approved the internal audit plan, provided oversight of its delivery and implementation of its recommendations
- approved the compliance plan and provided oversight of its delivery
- reviewed the system of internal controls within NEST Corporation and the

¹ nestpensions.org.uk/schemeweb/NestWeb/public/aboutnestcorporation/contents/trustee-committees.html

scheme via the AAF 02/07 control assurance report

- › reviewed the master trust assurance report for the scheme and recommended its approval to the Trustee.

Risk committee

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

- › reviewed NEST Corporation's risk management framework and recommended its approval to the Trustee
- › provided oversight of the risk appetite levels and tolerances for each principal risk and recommended their approval to the Trustee
- › reviewed and challenged key areas of risk
- › reviewed and approved financial crime prevention, information security, business continuity management and crisis management policies.

Investment committee

The investment committee is responsible for overseeing the scheme'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 the Statement of Investment Principles (SIP) and recommended its approval to the Trustee
- › provided oversight of the implementation of all recommendations from the external Investment Governance Review
- › gave ongoing consideration to the development of the NEST investment approach including appointment and termination of investment managers
- › maintained oversight of the investment performance and risk management of all NEST retirement funds, including the approval of changes in asset allocation as required
- › considered the second responsible investment report.

Determinations committee

The determinations committee is responsible for adjudicating the complaints received about the scheme at Stage 2 of the internal dispute resolution procedure (IDRP)². The committee makes recommendations to the executive on learning outcomes from the Stage 2 IDRP disputes to help improve the effectiveness of the scheme and member experience.

During the year it considered 31 cases (2016/17: 16 cases)

- › Eight were upheld (2016/17: four cases)
- › Eight were not upheld (2016/17: 10 cases)

² nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-how-we-handle-complaints,PDF.pdf

- Nine were partially upheld (2016/17: two cases)

The committee also received information on six cases which had been withdrawn by the complainant before consideration by the committee (2016/17: four cases).

Nominations and remuneration committee

(established 28 November 2017)

The nominations and remuneration committee was created in November 2017 as a consequence of merging the nominations and governance committee and the remuneration committee. This was in line with a recommendation following an internal governance review, in order to streamline NEST's committee structure. The committee is responsible for leading the recruitment for the appointment of the chief executive officer of NEST Corporation, supporting and assisting with recruitment of Trustee Members by the Secretary of State, overseeing recruitment of panel members, ensuring sound corporate governance within NEST Corporation, setting the remuneration of the chief executive officer, providing advice on setting the remuneration of other employees of NEST Corporation and overseeing NEST Corporation's organisational culture and values. During the period from its inception it:

- considered the recommendations arising from the triannual external board and committee effectiveness review
- considered the review of Trustee Members' register of interests and conflicts of interest

- reviewed responses to the Trustee Members' annual fitness and proprietary questionnaires
- discussed the annual recruitment plan for new members of both the employers' and members' panels
- reviewed NEST's people strategy, which included resourcing, management, development and retention.

Remuneration committee

(merged with nominations and governance committee on 28 November 2017)

The remuneration committee was responsible for setting the remuneration of the chief executive officer of NEST Corporation and establishing criteria for monitoring the chief executive officer's performance. The committee also provided advice on setting the remuneration of other employees of NEST Corporation and oversaw external appointments for the executive team. During the year it:

- discussed the performance of the chief executive officer in conjunction with the NEST Chair and advised on remuneration and bonus
- considered the results of the 2017 staff survey and received a report on proposed management actions
- reviewed NEST Corporation's policies on diversity and inclusion, gifts and hospitality policies, and external appointments for the executive team.

Nominations and governance committee

(merged with remuneration committee on 28 November 2017)

The nominations and governance committee was responsible for leading recruitment for the appointment of the chief executive officer of NEST Corporation, supporting and assisting with recruitment of Trustee Members by the Secretary of State, overseeing appointments to and functioning of the employers' and members' panels and ensuring sound corporate governance within NEST Corporation. During the year it:

- received the results of the annual skills and experience analysis of Trustee Members and considered the general counsel and corporate secretary's recommendations in relation to implications for induction, training and recruitment
- consulted on and reviewed changes to the Scheme Rules, which took effect from 6 April 2018
- recommended the appointment of two new members' panel members and two new employers' panel members to the Trustee
- approved the scope of the triennial external board and committee effectiveness review.

Propositions committee

(disbanded on 25 January 2018)

The propositions committee was responsible for overseeing the current proposition offered by the scheme and ensuring that it met the needs of NEST's members, employers and target market. The committee also had oversight of the key drivers for changes to the proposition.

During the year it:

- considered changes in the proposition that may arise from market developments
- considered the development of NEST Corporation's approach to raising awareness of the scheme amongst larger employers
- considered the development of proposals to support our members at retirement in a changed environment for pension saving.

This committee was disbanded following agreement that further oversight of the product and customer would be incorporated into the Trustee meeting agendas.

Employers' panel

The employers' panel was set up in accordance with the Pensions Act 2008 and NEST Order 2010 to represent participating employers by providing advice on the operation, development and amendment of the scheme. The panel now has 11 members. During the year it:

- completed its first programme of work which focused on topics that were useful to NEST Corporation and relevant to the panel. This included the panel's advice on how NEST should communicate to participating employers about the phasing of contributions from 6 April 2018
- engaged with NEST on issues including the development of NEST's large employer strategy and provided an employer perspective on NEST's member strategy
- held a joint meeting between NEST Corporation's Trustee Members, panel members and the executive team. The meeting explored what NEST's member strategy means for NEST, and for the panels
- consulted on the proposed changes to the Statement of Investment Principles (SIP) at its meeting in December 2017 where it provided its comments
- responded to the Department for Work and Pensions (DWP) consultation paper on changes to the NEST Order and NEST's consultation on changes to the Rules.

Members' panel

The members' panel was set up in accordance with the Pensions Act 2008 and NEST Order 2010 to represent scheme members by providing advice on the operation, development and amendment of the scheme. The panel now has 12 members. During the year it:

- prepared and published the members' panel Annual Report
- completed their first formal programme of work which focused on topics that were valuable to NEST Corporation and relevant to the panel. A key highlight of the work programme was the panel's workshop with the DWP on its *Automatic Enrolment Review 2017*. The panel provided their comments on each of three sections within the review (coverage, engagement and contribution levels)
- held a joint meeting between Trustee Members, panel members and the executive team. The meeting explored what NEST's member strategy means for NEST and the panels.
- consulted on the proposed changes to the SIP at its meeting in December 2017 where it provided its comments
- responded to the DWP consultation paper on changes to the NEST Order and NEST's consultation on changes to the Rules
- responded to The Work & Pensions Committee inquiry into freedom and choice in pensions.

Governance framework

Trustee meetings

The Trustee met nine times during the year, with two meetings focused on strategy. The audit, risk, investment, nominations and remuneration and determinations committees also met on a regular basis and reported back on their work during meetings. Details of the meetings and attendance can be found on page 24 and committee membership is set out on page 23.

The priority is to provide a strong, stable 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, which is to enable any employer to choose NEST to meet their auto enrolment duties. This drives the agenda.

Information on strategy, scheme administration, member volumes and service, investment performance, risk management, internal controls, operational activities and financial performance is received and scrutinised. The chief executive officer provides an update at each meeting on the key issues on her agenda and decisions made within her authority. Committee chairs report back on material issues discussed at committee meetings, decisions taken and recommendations, and minutes of all meetings are submitted to a subsequent Trustee meeting.

As part of the normal business cycle, NEST Corporation:

- approved the Corporation budget and business plan
- approved the Annual Report and Accounts for both the scheme and for NEST Corporation
- approved the AAF 02/07 master trust assurance report for the scheme
- approved the revised Statement of Investment Principles
- approved the risk appetite and tolerances for each principal risk
- appointed a senior independent director.

In addition, it:

- provided oversight of the impact of the removal of restrictions on NEST in relation to contribution limits and transfers into and out of the scheme
- received annual reports from the members' panel and employers' panel
- consulted on and approved changes to the scheme rules
- approved the appointment of a new general counsel and corporate secretary
- provided consent to the changes proposed by the Department for Work and Pensions to the NEST Order

- approved the Trustee Member training schedule and the skills and experience requirements for new Trustee Members joining in 2018
- reviewed and approved the Scheme of Reserved Matters and Delegations
- received the annual health and safety report for NEST Corporation.

Risk management

Overview

The culture and processes we have established in NEST are designed to manage risk in line with the expectations of our Trustee Members, who have the legal responsibility to act in the interests of members of the NEST pension scheme in accordance with their powers and duties. NEST is a public corporation and as such we are accountable to Parliament.

This statement addresses risks and uncertainties in both NEST Corporation and the scheme as we have a single holistic approach.

We must take risks in order to deliver our strategic priorities. Understanding the risks we face and how best to control or mitigate them is integral to this. We don't do this alone; we also engage with key stakeholders to understand and manage risk.

NEST's risk management framework

NEST's risk management framework is reviewed on an annual basis to ensure it remains fit for purpose and to take into account developments in industry practice. At the core of its framework is the risk

management process:

Each business area across NEST maintains a log of its key risks which is reviewed regularly. Its principal risk dashboard is used to report critical, principal and other significant risks to the executive board, risk committee and the Trustee.

NEST's principal risks

A risk is an uncertain event, which if it were to occur, could impact the delivery of NEST's objectives. NEST has identified principal risks in relation to the delivery of its strategic priorities. NEST defines a principal risk as: "A risk that is considered material to the development, performance, position or future prospects of NEST".

In 2017/18 it rolled out a new methodology for monitoring and reporting risk to the executive board, risk committee and the Trustee which focuses on the principal risks.



For each of our principal risks NEST has identified key risk indicators, which act as key performance indicators. The Trustee has set risk appetite and tolerance levels for each key risk indicator. This allows NEST to monitor whether it is managing risk in line with Trustee expectations.

The executive board and risk committee receive reports on performance against risk appetite and tolerance levels four times a year. These reports highlight key risk indicators that are performing outside the Trustee-approved risk appetite and tolerance levels, and any action taken as a result to bring performance back on track.

The Trustee has approved the risk appetite and tolerance levels and receives a performance report across all principal risks and indicators twice a year.

In addition to the key risk indicators for each principal risk, NEST also monitors, assesses and reports against its readiness to respond to the risk should it begin to crystallise; the assurance activities that have been undertaken in relation to the controls that mitigate the risk; and other risks from the risk log that are linked to the principal risk.

NEST Corporation continually reviews the types of risks that it monitors, to ensure that these are still appropriate and complete. On an annual basis, the risk committee considers whether collectively the principal risks still reflect those that NEST faces. The committee undertakes in-depth reviews of individual principal risks to scrutinise management's approach to risk management.

The following sections explore each of NEST's principal risks, detailing the key controls and mitigating actions that are in place to manage them.

Member data and assets risk

Member data and assets risk is the risk that NEST fails to protect its members' money and data. In an evolving technological world where cyber criminals and fraudsters are developing more advanced means to commit crimes, the challenge for NEST to keep ahead of development has never been greater. It is committed to safeguarding members' data and assets from this very real threat.

The information security management systems operated by NEST Corporation, its scheme administrator and its IT managed services provider are all independently certified to the ISO 27001 standard, giving us assurance that systems and processes are robust and help protect members' data.

The scheme administrator has strict operational procedures in place to safeguard NEST's members' data and assets. On an annual basis, an independent reporting accountant reviews the design of, and compliance with, key controls and provides NEST Corporation with an assurance report. NEST Corporation follows up on any exceptions identified within the report. It also regularly conducts penetration test activities and responds appropriately to any findings.

Operational capacity risk

Operational capacity risk is the risk that NEST or its key outsourced providers don't have sufficient levels of operational capacity to meet the demands of its business-as-usual operations, as well as on-boarding all employers who wish to use NEST to meet their auto enrolment duties in line with its public service obligation.

Insufficient levels of resource and system performance could result in the failure of the continued roll-out of auto enrolment and poor service standards to NEST's employers and members.

NEST's processes and systems are designed to be as straightforward to use as possible. It aims for employers and intermediaries to be able to use NEST without needing to contact it for advice or help. NEST continually looks for ways to make its systems easier to use. Throughout 2017/18 it continued to undertake analysis of likely volumes of employers and members who use NEST and the behaviours they will exhibit; this allowed it to plan and build further capacity into its systems and administrative functions to deal with this demand and manage the risk.

It continues to test its systems to make sure they have sufficient capacity to cope with predicted demand. On a monthly basis it meets with its scheme administrator to review previous capacity trends and monitor delivery against contractual service level standards including those relating to the time taken to handle calls and correspondence from our customers to satisfy itself that suitable capacity is in place.

This year saw the last of the auto enrolment employer staging dates. This will change the nature of NEST's operational capacity risk going forward and should result in less volume uncertainty. Additionally, it will monitor the impact from the increase in contribution rates on operational capacity.

Outsourcing risk

Outsourcing risk is the risk that NEST could be adversely affected by the actions and decisions of its outsourced providers.

Outsourced providers deliver the majority of the resource required to operate the NEST pension scheme. This reliance on providers has the potential to leave NEST in a position where it could be adversely affected by their actions and decisions.

NEST's relationship with its outsourced providers needs to be strong. This is important for mutual success. Contracts set out NEST's requirements and service level standards, and it has contract management procedures to track adherence to these contracts.

Key outsourced providers are required to provide NEST with independent assurance reports on their controls. NEST reviews these reports and follows up on weaknesses or control failures if any have been identified.

One of NEST's key outsourced contracts, the scheme administration contract, will come to an end in 2023 requiring procurement for the next contract. A programme has been established to consider NEST's future scheme administration requirements to ensure that it continues to meet its scheme and statutory duties, and remains effective and efficient.

Investment risk

The principal risk regarding investment is the risk that NEST's members, stakeholders and commentators lose trust in NEST's investment performance. NEST's approach to investment is underpinned by its investment beliefs which provide its trustees with a transparent framework for consistent and good quality decision making.

NEST's investment beliefs and investment strategy are reviewed at least every three years by its investment committee to ensure they continue to be appropriate, and in 2017/18, it carried out its three-yearly review of the Statement of Investment Principles. NEST's funds have been diversified across different asset classes and fund managers. It continually monitors its investment performance and risk, and where appropriate makes changes to its investment portfolios. Oversight of investment risk is primarily the responsibility of the investment committee.

Revenues and funding risk

Revenues and funding risk is the risk that NEST Corporation is unable to achieve sufficient revenue income and control outgoing expenditure to enable it to repay its loan within the terms of the state aid agreement.

NEST generates revenue from its 1.8 per cent contribution charge and 0.3 per cent annual management charge. Its public service obligation requires it to accept all employers that wish to use it to meet their auto enrolment obligations. This means it has to accept business that potentially generates a loss.

However, overall NEST aims to be profitable through having a diverse membership base

which will offset unprofitable employers.

Now that staging has completed, the main uncertainty is the changes to revenue from the two phasing increases to contribution rates in April 2018 and April 2019. Each will take three to four months to assess after the contribution increase takes place.

NEST continually strives to deliver value for money for members by investing in improvements to our service and keeping our costs as low as possible. It has a strategic plan, three-year plan and annual budget setting process where every department outlines their resource requirements for the forthcoming year, consistent with the NEST's strategic priorities. These are challenged by the chief finance officer and the chief executive officer and approved by the Trustee. A funding requirement is then submitted to the Department for Work and Pensions (DWP) which provides additional scrutiny and challenge. Senior NEST managers meet with DWP colleagues on a regular basis to provide them with oversight of NEST's finances and assurance of value for money for the taxpayer.

Organisational capability risk

Organisational capability risk is the risk that NEST fails to recruit, develop and retain appropriately skilled, motivated and engaged staff needed to deliver its strategy. NEST Corporation has been able to attract talented individuals who want to work with it to help millions enjoy a better retirement. If it fails to continue to do so it could face higher operating costs, increases in mistakes, errors and losses and the associated reputational consequences.

NEST Corporation's staff handbook, including its code of conduct, sets out the

behaviours and standards it expects from all of its employees, along with the core policies and procedures that its staff should follow.

NEST Corporation has an induction process to ensure these expectations are understood at the outset of employment and they are reinforced through the performance management and appraisal process. The handbook is supported by a line manager's toolkit. Managers and staff are required to attend mandatory training relating to equality and diversity and complete e-learning modules relating to financial crime, information security and competition law. An annual staff engagement survey is conducted to gauge feeling across our workforce. We hold an annual staff conference to ensure core messages are communicated and understood by everyone at NEST Corporation along with quarterly town hall briefings.

Legislative and regulatory compliance risk

Legislative and regulatory compliance risk is the risk that NEST does not comply with its regulatory and legal obligations.

NEST Corporation and the scheme are required to comply with pension-specific legislation including the Pensions Act 2008 and The Pensions Regulator's codes of practice. NEST Corporation has a compliance and assurance function which undertakes an annual plan of assurance activity to monitor compliance with pensions legislation. The function also undertakes assurance activities over compliance with the Data Protection Act 2018, the General Data Protection Regulation (GDPR) and financial crime legislation.

Legislative and regulatory change risk

Legislative and regulatory change risk is the risk that legislative and regulatory changes, such as the Occupational Pension Schemes (Master Trust) Regulations 2018 and GDPR, impact on NEST's business model and require NEST to make changes to its processes and systems in an unplanned and ineffective way. Such changes may have to be prioritised over others that would benefit members.

NEST's ability to manage and respond effectively to legislative and regulatory change will prevent this from impacting on its members and will minimise associated costs. NEST continually scans the legislative, regulatory or policy landscape for potential change. This allows it to identify change early and plan ahead as far as possible, to manage and incorporate it into its systems and processes.

Changes to the external environment are primarily incorporated into the NEST product via a service release. These are carried out twice a year. There is a product roadmap which sets out the changes that NEST is likely to make over the next three years. This incorporates legal and regulatory change. NEST works alongside its scheme administrator to plan, design and build these changes into its software systems and processes.

Decumulation proposition risk

Decumulation proposition risk is the risk that NEST fails to deliver an appropriate range of solutions that meet the needs of members wishing to take money out of NEST at the point they retire.

NEST continues to work with policy makers, regulators and the wider industry to help find solutions which will meet the needs of its members both now and in the future. NEST continues to assess and monitor the needs of its members and make improvements to its retirement processes.

Default arrangements

Most members don't make an active investment choice when they join NEST. This means that by default they are entered into a 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 members get. It does this by taking the appropriate risk on members' behalf at different times in their savings career.

The Trustee carried out an investment governance review of the default strategy and default fund during the year. The recommendations made in the review were implemented. The Trustee was satisfied with the provisions of the 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 NEST pension scheme
- payments to and in respect of members
- transfers of member assets in and out of the NEST pension 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 49. This is monitored daily. 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 outsourced service providers operate to agreed service levels and reporting of performance against those service levels. In order to achieve this, the Trustee receives monthly reports

- 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 Corporation commissions an independent assurance report, prepared in accordance with the AAF 02/07 framework, which provides assurance on the scheme's overall control framework including the processing of core scheme transactions.

On the basis of these multiple sources of assurance, 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. There were no issues during 2017/18.

Charge levels

The NEST pension 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 the value of each new contribution into a member's pension pot.

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

Transaction costs

The transaction costs for each fund, detailed in Appendix three, are the explicit costs of buying and selling securities.

Transaction costs for the default funds are between 0.003 and 0.063 per cent and costs for other fund choices are between 0 and 0.125 per cent.

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 money market investments, 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 but differing transaction costs should not be used in isolation as a measure of value for money.

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

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

NEST has asked its fund managers to provide its implicit trading costs calculated using the slippage cost methodology. When this is available it will be published on the NEST website.

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 structures its funds to minimise trading costs. This, in effect, creates an internal market between NEST Retirement Date Funds. Funds which are reducing exposure to certain asset classes in accordance with their investment strategy and asset mix can transfer those investments to funds seeking to increase their exposure. This means the scheme is able to reduce the reduction in 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 without having to sell less liquid assets. NEST constantly analyses costs and spreads.

NEST's default funds

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

- to maximise the size of members' savings pots and any cash lump sum at retirement by taking appropriate risk
- to deliver similar outcomes for cohorts of members who have similar contribution histories
- 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 and will seek to find an appropriate balance between them when this arises.

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

The Trustee has 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 which 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 set out in our reference portfolios. 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.

At 31 March 2018, 99 per cent of members were invested in the default funds.

The Statement of Investment Principles (SIP) was reviewed in 2018 and will be reviewed at least every three years. Further information on the SIP is available online: [nestpensions.org.uk/schemeweb/dam/nestlibrary/SIP-Apr18-Mar21.pdf](https://www.nestpensions.org.uk/schemeweb/dam/nestlibrary/SIP-Apr18-Mar21.pdf)

Following a recent review of NEST's investment approach by Hymans Robertson, the roles of the investment committee and the in-house investment team have developed. These are reflected in a revised SIP, alongside a terms of reference and delegations. The SIP also includes other amendments, including:

- a revised process for appointing managers and funds. This has been agreed with the investment committee

- the investment risk management framework being updated in line with recent developments to the investment approach and recommendations made by Hymans Robertson – most notably the introduction of reference portfolios. NEST will also ensure that the risks in the SIP are connected to the risks in the risk map
- NEST agreeing to put in place processes to exclude investing in companies involved in the manufacture of certain controversial weapons. This is referenced in the SIP and in a longer policy document on the website.

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. The objective for this phase is to outperform CPI inflation by 3 per cent a year after all charges

- > 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 and into lower risk investments. 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 to 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 reference portfolio. The Trustee has set a reference portfolio for all funds. The Trustee believes that within the ranges set out by these reference portfolios, 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.

Value for members

The Trustee is required to calculate at least annually the charges to which members' funds are subject; and to assess the extent to which they represent good value for individual members and to the membership as a whole and when compared to other options available in the market. The Trustee undertook a formal value for members assessment during the year. The assessment followed a process developed using guidance set out in The Pensions Regulator's (TPR) code of practice 13 and the accompanying guide on value for members. In particular the Trustee considered the following key areas identified by TPR:

- > scheme management and governance
- > administration
- > investment governance
- > communications.

As a result of experience and detailed research among NEST's membership, NEST defines whether members are receiving good value by focusing on the following objectives:

- > NEST delivers what members want, a high quality service with excellent standards of governance and administration, regardless of the level of contribution or size of employer
- > information on their pension pot is available to members in an easily accessible manner and at a time of their choosing, and it should be simple to make decisions based on this information

- default investment funds meet the needs identified by research for both managing risk and meeting the stated investment objectives
 - other fund options made available suit the needs of members, without requiring individual members to have any level of investment expertise to select a fund which is appropriate to their needs
 - the NEST price structure delivers a reasonable balance of impacts given the characteristics of the membership as a whole.
- NEST produces a Value for Members report each year. This can be found on the NEST website³.

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

The NEST Trustee's assessment of members receiving good value focused on the following principal outcomes:

- that NEST delivers what our members want, a high quality service with excellent standards of governance and administration, regardless of the level of contributions or size of employer
- that the NEST charging structure delivers a reasonable balance of impacts given the characteristics of the membership as a whole
- that NEST provides high quality, award winning investment
- that NEST's prices are reasonable in comparison to those of other schemes that are available to our members.

³ nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/value-for-money,PDF.pdf

1.4 Statement of Trustee responsibilities for the financial statements

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

(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 Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes.

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. It is also responsible for:

- assessing the NEST pension scheme's ability to continue as a going concern disclosing, as applicable, matters related to going concern
- using the going concern basis of accounting unless they either intend to wind up the scheme, or have no realistic alternative but to do so
- 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 is responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities.

Otto Thoresen
Chair
NEST Corporation
26 June 2018





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 February 2018 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. The Trustee reviews on an annual basis whether the investment approach is aligned with the SIP and the Investment Committee meets quarterly to review the investment approach.

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.

2.2 NEST Retirement Date Funds

When members join the NEST pension scheme, their contributions are invested by default into a NEST Retirement Date Fund unless they actively choose a different fund (see 'Other NEST fund choices', page 48). 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. The chosen measure of inflation is the consumer price index (CPI). Currently 99 per cent of our members' funds are invested in our NEST Retirement Date Funds.

There are 49 separate Retirement Date Funds that make up our default strategy with a further five additional fund options.

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 in the scheme.

NEST uses a reference portfolio approach to risk management. This is documented, together with NEST's views on asset classes

and a description of how we access them, on the NEST website. NEST Retirement Date Funds' three phases (foundation phase, growth phase and consolidation phase) each have different objectives that focus 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>NEST expects to achieve this with average investment volatility of around 7 per cent over the long term</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>NEST expects 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 retirement incomes by taking sufficient investment risk at appropriate times while reducing the likelihood of extreme investment shocks.</p>	<p>For funds maturing through to 2020: manage the risks associated with converting members' accumulated savings into a cash lump sum.</p> <p>For funds maturing after 2020: outperform 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, the NEST Ethical Fund 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 NEST 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 of NEST's funds are built from a range of pooled funds supplied by leading investment managers, each of which are 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 scheme's default and other fund choices invest in a diversified range of asset classes. The 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 due diligence 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's 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. The mandates and their current managers as at 31 March 2018 are:

Asset class	Fund manager
Emerging market debt	Amundi Asset Management
Low-risk sterling liquidity	Amundi Asset Management
Equity risk hedging	Amundi Asset Management
Ultra short duration investment grade bonds	BlackRock
Low-risk sterling liquidity	BlackRock
Ethical global equities	BMO Global Asset Management
Ethical sterling corporate bonds	BMO Global Asset Management
Global emerging market equities (economic weighting)	HSBC Global Asset Management
Sharia compliant equities	HSBC Global Asset Management
Global high yield bonds	J.P. Morgan Asset Management
Global listed property	Legal & General Investment Management
Hybrid property	Legal & General Investment Management
UK direct property	Legal & General Investment Management
Short-dated gilts	Legal & General Investment Management
Global emerging market equities (ESG screened)	Northern Trust Global Investments
Sterling corporate bonds	Royal London Asset Management
Short duration investment grade bonds	Royal London Asset Management
Index-linked gilts	State Street Global Advisors
Gilts	State Street Global Advisors
Global developed equities	UBS Asset Management
Climate aware global developed equities	UBS Asset Management

2.5 Custodial arrangements

The scheme currently 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 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 members' money is managed in line with our investment strategy. It administers the NEST Retirement Date Funds and other fund choices.

Underlying funds and custodians

Underlying fund	Custodian
Amundi Funds Global Emerging Blended - IE	CACEIS Bank Luxembourg
Amundi Money Market Fund	CAECIS Bank Luxembourg
BlackRock Aquila Connect Cash Fund	J.P. Morgan Bank (Ireland) Plc
Blackrock Institutional Sterling Ultra Short Bond Fund	J.P. Morgan Bank (Ireland) Plc
F&C Responsible Global Equity Fund*	State Street Bank and Trust
F&C Responsible Sterling Bond Fund*	State Street Bank and Trust
HSBC Global Investment Funds Economic Scale Index GEM Equity Fund	HSBC Securities Services (Luxembourg) S.A.
HSBC Islamic Global Equity Index Fund	HSBC Securities Services (Luxembourg) S.A.
JPMorgan Life High Yield Opportunities Fund	J.P. Morgan Chase
LGIM Global Real Estate Equity Index Fund	HSBC Securities Services and Citibank N.A.
LGIM Hybrid Property Fund	HSBC Securities Services and Citibank N.A.

Underlying fund	Custodian
LGIM Managed Property Fund	HSBC Securities Services and Citibank N.A.**
LGIM Single Year Gilt Funds 2017 - 2022	HSBC Securities Services and Citibank N.A.
NEST Equity Risk Management Fund	CAECIS Bank Paris
Northern Trust Emerging Markets Custom ESG Equity Index Fund	Northern Trust Fiduciary Services (Ireland) Limited
Royal London UK Corporate Bond Pooled Pension Fund	HSBC Securities Services
Royal London Investment Grade Short Dated Credit	HSBC Bank Plc
SSgA UK Conventional Gilts All Stocks Index Fund	State Street Bank and Trust Company
SSgA UK Index Linked Gilts over 5 Years Index Fund	State Street Bank and Trust Company
UBS Life World Equity Tracker Fund	J.P. Morgan
UBS Life Climate Aware World Equity Fund	J.P. Morgan

* Managed by BMO Global Asset Management

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

2.6 Investment developments

NEST invests in a diversified range of assets, helping to reduce investment risk and deliver good risk adjusted returns. In 2017/18, the scheme extended its range of asset classes and increased the sophistication of its risk management approach.

Anticipating the potential for significant volatility around a number of national elections in the Eurozone, NEST moved at the start of 2017/18 to hedge some downside risk in our portfolio via derivatives contracts on continental European equities. This reduced uncertainty during a turbulent period in European equities markets, while allowing members to fully benefit from strong US growth. In light of normalising political risk towards the end of 2017 NEST removed the European equities hedge, but kept the dynamic risk management facility in place. This will allow NEST to respond more effectively where there is anticipated medium term volatility, helping provide a smoother savings journey to members.

Another challenge for investors has been the extended period of historically low interest rates. While mindful that interest rates are starting to rise, NEST added a high yield bond mandate to its underlying building block funds in May 2017. This was a long term strategic move to allow NEST to diversify members' funds as appropriate, while offering the potential for stronger returns as the low-yielding fixed income environment prevails.

Indeed, central banks have begun to raise rates against a backdrop of synchronised global growth and tightening labour markets. The Federal Reserve raised its target range to 1.25 per cent to 1.5 per cent and then again from 1.5 per cent to 1.75 per cent, while the Bank of England raised interest rates for the first time in a decade, to 0.5 per cent. NEST's funds, which have negligible gilts exposure and have a short duration bias in investment grade credit, were relatively well positioned for these trends.

NEST is also seeking a commodities mandate to provide more cost effective inflation protection than index-linked gilts and further diversify members' pots. Commodities are expected to benefit from strong global growth and rising inflation and look attractive relative to their long term historic prices.

In summer 2017, NEST published its second annual responsible investment report. This reported to members on its performance as a responsible investor as well as offering all stakeholders a forward look on responsible investment and Environmental, Social and Governance (ESG) priorities for the future. NEST also increased the climate aware allocation in our default strategy to 30 per cent of developed market equities in the growth phase and 40 per cent in the foundation phase as part of a long term strategy to capture the benefits and manage the risk of a global transition to a low carbon economy.

Task force for Climate-related Financial Disclosures (TCFD)

The economic implications of climate change remain at the forefront of NEST's approach to ESG and wider investment strategy.

The warming of the planet caused by greenhouse gas emissions poses serious risks to the global economy and will have an impact across many economic sectors in which NEST invests. The long-term timeframes over which these risks and opportunities will play out are likely to have an impact members' pensions pots, the majority of which will be invested in NEST for over 30 years.

The Climate Aware Fund which NEST helped to develop and launch last year enables NEST to understand which companies in the portfolios are most at risk from climate change, which are best prepared, and which are taking action. Part of this understanding comes from encouraging investee companies to disclose a range of information on how they are managing climate-related risks and opportunities in line with the Financial Stability Board's Task force on Climate-related Financial Disclosures (TCFD).

The Task force recommends that all organisations, including those in the financial sector, provide climate-related financial disclosures in their mainstream annual report and accounts. NEST has committed to disclose its approach to managing climate-related risks and opportunities in its annual scheme report using the TCFD reporting framework. It is important to NEST that stakeholders and members have transparency into how it is considering climate risks and opportunities. Furthermore, it is hoped that adoption of the framework will encourage investee companies, asset

managers and other asset owners to follow suit. In this way, standards of reporting can be raised across the industry and in time the TCFD can be seen as the global standard for climate disclosure.

In line with the recommendations NEST will make disclosures against the four thematic areas of the framework – governance, strategy, risk management, and metrics and targets - using the supplementary asset owner guidance.

Governance

Recommended Disclosure a) Describe the board's oversight of climate-related risks and opportunities

NEST's investment committee manages and monitors climate-related investment risks as part of its remit of having responsibility for NEST's investment policy and strategy. Information on climate-related risk and opportunities is regularly provided with quarterly updates to the investment committee. NEST carries out a comprehensive performance review once a year as part of the responsible investment annual update.

Recommended Disclosure b) Describe management's role in assessing and managing climate-related risks and opportunities

Day-to-day management of NEST's investment strategy is delegated to the chief investment officer. This includes management of the Climate Aware Fund (CAF), how its fund managers embed climate related decisions into the investment process and the consideration of climate risk and opportunities in NEST's active ownership approach.

The CAF is managed and monitored through joint coordination between members of the investment team and its global equity fund manager, UBS. The team receive quarterly investment updates showing how the fund and individual companies are positioned on a range of climate measures versus the benchmark. This is the requirement as set out in the Paris Agreement on climate change¹.

NEST is also a member of the fund's climate aware advisory group which convenes quarterly.

Strategy

Recommended Disclosure a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term

The CAF allows NEST to fully understand the sectors of the economy that are most impacted by climate change, as specified by the International Energy Agency (IEA). The climate methodology enables NEST to assess the transition risk companies face over short, medium and longer-term time frames. It assesses how companies are currently positioned, for example whether carbon emissions are rising and if they are currently generating power from coal. It also factors in their future position, i.e. the rate at which carbon emissions are declining and a company's future commitment to renewable energy and eliminating coal from its energy mix.

When NEST refers to carbon it means CO₂ equivalents which is a widely accepted standard for measuring emissions from all greenhouse gases.

¹ This is the globally agreed target to limit global average temperature rise to no more than 2°C

Recommended Disclosure b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning

NEST has enhanced its investment strategy to ensure that climate-related risks and opportunities are directly addressed in NEST's equity allocation via its CAF. The fund systematically increases or decreases investment in companies based on their contribution to climate change. The fund assesses companies against a range of criteria such as:

- Overweighting companies that are on track to meet the requirements of a 2°C¹ scenario. NEST has built a glidepath model with our global equity fund manager UBS that plots a company's carbon footprint trend with their required carbon emission reduction target set by the IEA for that sector.
- Tilting towards companies that provide renewable energy or supporting technologies
- Underweighting companies with coal, oil and gas reserves
- Tilting away from those that produce energy from coal
- Tilting away from those with rising carbon emissions on an absolute and relative basis.

NEST applies a varied range of quantitative criteria and aims to improve these quantitative estimates by incorporating qualitative information about a company. For example, this might include whether a company has made a policy commitment to reduce its impact on climate change and whether it discloses information on climate change risk to the Carbon Disclosure Project.

Weightings will vary and be adjusted over time, based on how companies are adjusting to a low carbon economy.

Climate-related risks and opportunities are also factored into the NEST UK property portfolio. The fund manager manages risks and opportunities through its 'Climate Pledge' and the Carbon Disclosure Project. This ranges from weather pattern impacts in insurance businesses, to the opportunities to create new products that assist transition to a low carbon economy.

To support the strategy the manager is committed to modelling climate scenarios including a 2°C scenario and are working with Carbon Clear to set targets.

Recommended Disclosure c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios including a 2°C lower scenario.

NEST's climate aware equity strategy positively tilts towards companies that are performing in line with globally agreed target of the 2°C scenario. Through its CAF NEST is able to identify and address climate-related risks across our global equity allocation. It has access to a range of climate risk indicators from its global equity fund manager and is working to incorporate them within its broader risk management framework.

The forward-looking assessment of whether a company is on track to meet the 2° C scenario is captured by the glide path probability. The glide path model tracks the company's carbon footprint trend over five years with the required emission reduction implied by the 2°C scenario for that sector. This is estimated by the IEA. If a company's carbon emission trend is decreasing at a rate that is in line with 2°C then the company will be rewarded, contributing towards an overweight in the fund.

NEST's UK direct property fund manager has incorporated sustainability requirements in its property selection and acquisition process. Assessment of environmental risks and efficiency of assets extend beyond the transactional due diligence process. Asset sustainability plans are put in place on acquisition to align the long-term interests of occupiers, agents and asset owners. Progress is continually monitored which helps lead to annual energy and waste reduction targets for each asset.

Risk management	
<p>Recommended Disclosure a) Describe the organisation's process for identifying and assessing climate-related risks.</p>	<p>The CAF allows NEST to identify the biggest climate-related risks across our equity portfolio. Where data permits it is able to assess the scope 1, 2 and 3, carbon intensity of companies, CO₂ growth rates, oil, coal and gas reserves and whether a company generates energy from coal.</p>
<p>Recommended Disclosure b) Describe the organisation's process for managing climate-related risks.</p>	<p>NEST manages these risks by adjusting its portfolio weights and tilting away from them. NEST will then engage with the companies that pose the biggest risk, explain why they've been underweighted and set out its expectations for change. As part of the engagement programme companies will be asked to provide a range of information to demonstrate progress in addressing their risks for a 2°C scenario.</p> <p>NEST's global equity fund manager supports all climate-related shareholder resolutions where reasonable.</p> <p>Its UK direct property fund has been working to keep ahead of future legislation and is de-risking the portfolio by increasing the energy efficiency of assets in the portfolio.</p>
<p>Recommended Disclosure c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.</p>	<p>The investment approach of the CAF allows us to identify climate-related risks. The model in the fund assesses and weights them according to their contribution to climate change and future positioning for a low carbon economy.</p> <p>The resilience of NEST's climate aware strategy is shaped largely by the multi-dimensional and forward-looking investment approach. It takes into consideration how companies are progressing towards a low carbon economy and how they will be positioned in the future. NEST complements this strategy with a robust voting and engagement strategy with the companies we invest in and an embedded sustainability approach within its UK direct property fund.</p>

Metrics and Targets

Recommended Disclosure a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

NEST uses a multi-dimensional set of metrics that guide portfolio construction towards exposures that reflect the transition to low carbon economy and a 2°C scenario. These include carbon intensity levels for scope 1, 2 and 3 which relate to current information about a company's carbon footprint, renewable energy and coal factor and fossil fuel reserves.

The fund also uses a quantitative 'glide path' model that compares a company's carbon footprint trend with the required emission reduction target implied by the 2°C degree scenario for the sector. The estimates of the model can be improved with qualitative data that incorporates information about a company's commitment to carbon reduction.

In short, NEST first calculates the past five years change in absolute (raw tonnes in the atmosphere) and relative (to revenue) CO₂ equivalent emissions, as well as their variability. NEST projects that rate of change forward and based on the variability of the change, give a z-score to each company within its industry. The estimates of the model can then be improved with qualitative data that incorporates information about a company's commitment to carbon reduction. The model involves both Black Litterman (to provide the raw quantitative growth rate likelihood score) and Bayesian estimation (to add certainty or reduce uncertainty due to qualitative factors).

This methodology is applied to sectors of the economy deemed most climatically sensitive by the IEA, which equates to around 30% of stocks in the FTSE Developed Index.

Recommended Disclosure b) Disclose Scope 1, 2 and if appropriate 3 greenhouse gas (GHG) emissions and the related risks.

As at the end of March 2018 the CAF had these carbon intensity exposures:

Carbon Intensity Scope 1: 64 Tonnes of CO₂ per million dollar revenue

Carbon Intensity Scope 2: 31 Tonnes of CO₂ per million dollar revenue

Carbon Intensity Scope 3: 137 Tonnes of CO₂ per million dollar revenue

Currently the absolute carbon emissions for scope 1, 2 and 3 is -41 per cent, -13 per cent and -6.7 per cent respectively relative to the FTSE Developed Index. The current total renewable energy production for the fund is 38 per cent more than the index.

Other metrics used within the fund include a fossil fuels reserves factor, a coal energy factor and 2°C degree glide path probability factor.

Recommended Disclosure c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

NEST's CAF is aiming to reduce exposure to carbon intensity scope 1, 2 and 3 by 65 per cent, 25 per cent and 12 per cent respectively by 2050 relative to the FTSE Developed Index.

The strategy aims to have higher exposure to companies scoring well on the glide path relative to its peers. That increase of exposure relative to the index results in -2.4 per cent average growth rate (in the last five years). The implied reduction target for the fund which is set by the IEA is -3.4 per cent. The fund also aims to target 40 per cent more renewable energy generation relative to the index.

NEST's UK direct property fund manager has set reduction targets for natural resources used in commercial property portfolios. In 2017 the fund exceeded the current published target of energy, carbon and water reduction of 20 per cent by 2020 and will be setting more stretching science-based targets next.

2.7 Fund performance

NEST Retirement Date Funds have posted double digit returns on average over the last five years with low levels of volatility. While long-term performance is on track, the investment environment is becoming more challenging.

Inflation, which has been historically low since auto enrolment began, is beginning to rise leading to tightening monetary policy and rising interest rates. This not only creates headwinds for NEST's inflation-plus objectives, it is bringing uncertainty back into markets that have enjoyed ten years of high returns and low volatility.

The first quarter of 2018 saw global equity markets posting their first quarterly loss since 2015, for example, bringing down our one-year returns in the period under review. The S&P 500 fell by 4.7 per cent and the FTSE 100 by 8.2 per cent in the quarter to the end of March. A strengthening pound against the dollar also affected the relative value in NEST's portfolio in the short term because our equity exposure is globally diversified.

Overall, NEST is continuing to diversify risk for members and NEST is taking steps to manage the rising uncertainty over the medium term as conditions get more challenging.

Fund	Benchmark	Fund performance one year to 31 March 2018	Benchmark one year to 31 March 2018	Annualised fund performance three years to 31 March 2018	Annualised benchmark performance three years to 31 March 2018	Annualised fund performance five years to 31 March 2018	Annualised benchmark performance five years to 31 March 2018	Annualised fund performance since inception ¹	Annualised benchmark performance since inception ¹
		%	%	%	%	%	%	%	%
NEST Retirement Date Fund in the Foundation phase ²	*	1.0	2.4	5.9	1.8	*	*	7.1	1.3
NEST Retirement Date Fund in the Growth phase ³	**CPI + 3%	1.1	5.5	7.5	4.8	8.8	4.4	9.3	4.9
NEST Retirement Date Fund in the consolidation phase ⁴	***	1.2	2.4	5.6	1.8	7.2	1.4	7.9	1.8

Fund	Benchmark	Fund performance one year to 31 March 2018	Benchmark one year to 31 March 2018	Annualised fund performance three years to 31 March 2018	Annualised benchmark performance three years to 31 March 2018	Annualised fund performance five years to 31 March 2018	Annualised benchmark performance five years to 31 March 2018	Annualised fund performance since inception ¹	Annualised benchmark performance since inception
		%	%	%	%	%	%	%	%
NEST Ethical Fund (Growth phase)	****CPI + 3%	5.4	5.5	8.8	4.8	10.2	4.4	10.8	4.9
NEST Sharia Fund	Dow Jones Islamic Market World Index	0.2	2.4	9.8	11.1	11.8	12.5	12.2	13.0
NEST Higher Risk Fund	Target higher volatility than the NEST Retirement Date Fund growth phase	0.8	-	8.9	-	10.4	-	10.8	-
NEST Lower Growth Fund	7-day sterling LIBID rate	0.7	0.2	0.5	0.3	0.5	0.3	0.5	0.3
NEST Pre-retirement Fund		1.2	-	2.4	-	3.8	-	5.0	-

1. Inception for all funds is 1 August 2011 except the 2060 Retirement Date Fund which is 1 January 2014

2. 2060 Retirement Date Fund

3. 2040 Retirement Date Fund

4. 2022 Retirement Date Fund

*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 over the long term.

***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.



“Saving is something I
didn’t do before.
Being automatically
enrolled into NEST
made it easy.”

Terry Rodgers
Area Manager, Little Acorns and
Stepping Stones Ltd





Chapter three

Financial statements

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

Opinion

We have audited the financial statements of National Employment Savings Trust ("NEST") for the year ended 31 March 2018 which comprise the Fund Account and the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in note 2.

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 2018 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

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

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

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

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

Trustee's responsibilities

As explained more fully in their statement set out on page 43, the scheme trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the scheme, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it

exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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

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

Nadia Dabbagh-Hobrow
for and on behalf of KPMG LLP,
Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

26 June 2018

3.2 Financial statements

Fund account

for the year ended 31 March 2018

		Year ended 31 March 2018	Year ended 31 March 2017
		£000	£000
	Notes		
Contributions and benefits			
Contributions - Employers	3	560,581	343,290
Contributions - Members	3	439,899	255,208
Contributions - HMRC	3	110,194	63,650
Other income	4	13,298	2,313
		<u>1,123,972</u>	<u>664,461</u>
Benefits	5	(19,272)	(7,770)
Administrative expenses	6	(25,705)	(15,234)
		<u>1,078,995</u>	<u>641,457</u>
Net additions from dealings with members			
Returns on investment			
Investment income and management fee rebates	7	4,806	1,441
Change in market value of investments	8.1	23,223	205,707
		<u>28,029</u>	<u>207,148</u>
Net increase in the fund during the period		1,107,024	848,605
Net assets of the scheme at the start of the period		1,731,412	882,807
Net assets of the scheme at the end of the period		2,838,436	1,731,412

Statement of net assets (available for benefits)

as at 31 March 2018

		31 March 2018	31 March 2017
		£000	£000
	Notes		
Assets and liabilities allocated to members			
Investments			
- Pooled investment vehicles	8.1	2,716,239	1,654,653
- Other investment assets	8.3	9,306	6,102
- Other investment liabilities	8.3	(9,076)	(6,374)
Total investments		2,716,469	1,654,381
Net current assets			
	9.1		
- Current assets		129,635	82,597
- Current liabilities		(7,710)	(5,635)
Total net assets allocated to members		2,838,394	1,731,343
Assets and liabilities not allocated to members			
Net current assets			
	9.2		
- Current assets		123	186
- Current liabilities		(81)	(117)
Total net assets not allocated to members		42	69
Total assets of the scheme at the end of the period		2,838,436	1,731,412

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 66 and 67 including the notes to the financial statements on pages 68 to 80 were signed on behalf of NEST Corporation by:

Otto Thoresen
Chair
NEST Corporation
26 June 2018

Iraj Amiri
Chair
Audit committee
26 June 2018

Notes to the financial statements

for the year ended 31 March 2018

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).

The financial statements have been prepared and audited in accordance with Section 41(1) and (6) of the Pensions Act 1995.

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 relief on member contributions are accounted for in the same period as the related member contribution.

Refunds of contributions in relation to members who opt out 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 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 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 of the fund the member is invested in.

2.6 Investments

Investments are included at market value. Pooled investment vehicles are stated at the closing 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 2018	Year ended 31 March 2017
	£000	£000
Contributions from:		
Participating employers	561,361	343,912
less employers' share of refund of contributions for members opting out	(780)	(622)
	560,581	343,290
Members	440,447	255,673
less members' share of refund of contributions for members opting out	(548)	(465)
	439,899	255,208
HM Revenue and Customs	110,215	63,668
less HMRC share of refund of contributions for members opting out	(21)	(18)
	110,194	63,650
	1,110,674	662,148

4. Other income

	Year ended 31 March 2018	Year ended 31 March 2017
	£000	£000
Transfers in - registered pension schemes	11,875	986
Transfers in - pension sharing orders	1,423	1,327
	13,298	2,313

5. Benefits

	Year ended 31 March 2018	Year ended 31 March 2017
	£000	£000
Trivial commutations	11,659	6,338
Uncrystallised Funds Pension Lump Sums	1,979	423
Death benefits payable to beneficiaries	1,291	630
Serious ill health	55	30
Annuities purchased through Open Market Option	41	30
Transfers out	4,247	319
	19,272	7,770

6. Administrative expenses

	Year ended 31 March 2018	Year ended 31 March 2017
	£000	£000
Contribution charge	19,073	11,620
Annual management charge	6,531	3,613
Sundry costs	101	1
	25,705	15,234

7. Investment income and management fee rebates

	Year ended 31 March 2018	Year ended 31 March 2017
	£000	£000
Interest income	56	34
Dividend income from pooled investment vehicles	3,689	777
Management fee rebates	1,061	630
	4,806	1,441

8. Investments

8.1 Investment movements

	B'fwd as at 1 April 2017 £000	Purchases £000	Sales proceeds £000	Change in market value £000	C'fwd as at 31 March 2018 £000
Pooled investment vehicles (see note 8.2)	1,654,653	1,227,387	(189,024)	23,223	2,716,239
Other investment assets (see note 8.3)	6,102				9,306
Other investment liabilities (see note 8.3)	(6,374)				(9,076)
Total investments	1,654,381				2,716,469
Represented by					
Allocated to members (see note 8.4)	1,654,381				2,716,469
Not allocated to members	-				-
Total investments	1,654,381				2,716,469

8.2 Investments

	31 March 2018	31 March 2017
	£000	£000
Amundi Funds Global Emerging Blended - IE	122,143	88,073
Amundi Money Market Fund	26,581	-
BlackRock Aquila Connect Cash Fund	14,884	112,147
BlackRock Institutional Sterling Ultra Short Bond Fund	107,097	43,301
F&C Responsible Global Equity Fund	4,851	2,067
F&C Responsible Sterling Bond Fund	2,045	810
HSBC Global Investment Funds Economic Scale Index GEM Equity Fund	67,143	22,968
HSBC Islamic Global Equity Index Fund	2,644	1,337
JPMorgan Life High Yield Opportunities Fund	92,229	-
LGIM Global Real Estate Equity Index Fund	87,383	45,952
LGIM Hybrid Property Fund	260,737	194,728
LGIM Managed Property Fund	1,205	5,327
LGIM Single Year Gilt Funds 2017 - 2022	-	183
NEST Equity Risk Management Fund	105,496	-
Northern Trust Emerging Markets Custom ESG Equity Index Fund	75,385	24,912
Royal London UK Corporate Bond Pooled Pension Fund	368,196	241,171
Royal London Investment Grade Short Dated Credit	176,927	108,581
SSgA UK Conventional Gilts All Stocks Index Fund	2,507	15,696
SSgA UK Index Linked Gilts over 5 Years Index Fund	2,150	2,808
UBS Life World Equity Tracker Fund	839,752	588,097
UBS Life Climate Aware World Equity Fund	356,884	156,495
Total pooled investment vehicles	2,716,239	1,654,653

8.3 Other investment balances

	31 March 2018 £000	31 March 2017 £000
Investment cash including cash in transit	8,791	6,015
Reimbursement due from investment managers	441	72
Management fee rebates	74	15
Other investment assets	9,306	6,102
Amounts due to investment managers in respect of outstanding trades	(8,438)	(5,962)
Annual management charge due to NEST Corporation	(638)	(412)
Other investment liabilities	(9,076)	(6,374)

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 2018 £000	31 March 2017 £000
NEST Retirement Dates Funds	2,673,006	1,634,398
NEST Higher Risk Fund	30,766	14,165
NEST Ethical Fund	8,615	3,727
NEST Sharia Fund	2,646	1,337
NEST Pre-retirement Fund	1,008	549
NEST Lower Growth Fund	428	205
Total assets allocated to members	2,716,469	1,654,381

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 (i.e. developed using market data) for the asset or liability, either directly or indirectly
- Level 3: inputs are unobservable (i.e. for which 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 (1), daily and weekly priced funds in (2), monthly net asset values for Absolute Return funds in (2) and monthly net asset values for Private Equity funds in (3).

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

As at 31 March 2018				
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Pooled investment vehicles	-	2,716,239	-	2,716,239
Other investment balances (see note 8.3)	-	230	-	230
	-	2,716,469	-	2,716,469
As at 31 March 2017				
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Pooled investment vehicles	-	1,654,653	-	1,654,653
Other investment balances (see note 8.3)	-	(272)	-	(272)
	-	1,654,381	-	1,654,381
An analysis of the underlying asset classes is:				
			As at 31 March 2018 £000	As at 31 March 2017 £000
Equities			1,434,042	841,828
Bonds			873,294	500,623
Cash			146,961	112,147
Property			261,942	200,055
			2,716,239	1,654,653

8.6 Investment risk disclosures

FRS 102 requires the disclosure of information in relation to certain investment risks.

These risks are set out by FRS 102 as follows:

- Credit risk: this is the risk that one party to a financial transaction will cause a financial loss for the other party by failing to discharge an obligation
- Market risk: this comprises currency risk, interest rate risk and other price risk
- Currency risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes to foreign exchange rates
- Interest rate risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes to market interest rates
- Other price risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes to market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines the scheme's investment strategy after taking advice from professional investment 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 currently invests exclusively in pooled investment vehicles. NEST invests in a diversified range of asset classes. The day to day management of the underlying investment of the pooled investment vehicles is the responsibility of the pooled fund managers including the direct management of credit and market risk. A full list of the mandates and managers is set on page 49.

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

8.6.1 Credit risk

The scheme is subject to direct credit risk in relation to its investment in pooled funds. The pooled investment vehicles used by the Trustee comprise unit linked insurance funds and regulated UCITS funds. Trustees carry out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the regulatory and operating environment of the pooled manager. The Trustee has 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 Limited
- J.P. Morgan Life Limited

The insurance companies are regulated by the Financial Conduct 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 Trustee 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 currency, interest rate and other price risk arising from the underlying investments held in the pooled investment vehicles. The table below breaks down the risk exposure by pooled investment vehicle.

	Holding at 31 March 2018 £000	Foreign exchange risk	Other price risk	Interest rate risk	Credit risk ¹
Amundi Funds Global Emerging Blended - IE	122,143	●	◌	●	●
Amundi Money Market Fund	26,581	◌	◌	●	●
BlackRock Aquila Connect Cash Fund	14,884	◌	◌	●	●
BlackRock Institutional Sterling Ultra Short Bond Fund	107,097	◌	◌	●	●
F&C Responsible Global Equity Fund	4,851	●	●	◌	◌
F&C Responsible Sterling Bond Fund	2,045	◌	◌	●	●
HSBC Global Investment Funds Economic Scale Index GEM Equity Fund	67,143	●	●	◌	◌
HSBC Islamic Global Equity Index Fund	2,644	●	●	◌	◌
JPMorgan Life High Yield Opportunities Fund	92,229	●	◌	●	●
LGIM Global Real Estate Equity Index Fund	87,383	●	●	◌	◌
LGIM Hybrid Property Fund	260,737	◌	●	◌	◌
LGIM Managed Property Fund	1,205	◌	●	◌	◌
NEST Equity Risk Management Fund	105,496	◌	◌	●	●
Northern Trust Emerging Markets Custom ESG Equity Index Fund	75,385	●	●	◌	◌
Royal London UK Corporate Bond Pooled Pension Fund	368,196	◌	◌	●	●
Royal London Investment Grade Short Dated Credit	176,927	◌	◌	●	●
SSgA UK Conventional Gilts All Stocks Index Fund	2,507	◌	◌	●	●
SSgA UK Index Linked Gilts over 5 Years Index Fund	2,150	◌	◌	●	●
UBS Life World Equity Tracker Fund	839,752	●	●	◌	◌
UBS Life Climate Aware World Equity Fund	356,884	●	●	◌	◌
	<u>2,716,239</u>				

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

In the above table, the relevant risks affect the asset classes with:

significant exposure ● some exposure ◌ no exposure ○

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

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

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

9. Current assets and liabilities

9.1 Current assets and liabilities allocated to members

	31 March 2018	31 March 2017
	£000	£000
Contributions due from:		
-participating employers	48,919	30,839
-members	33,501	19,992
-HM Revenue and Customs	27,499	17,375
Cash awaiting investment	19,716	14,391
Current assets	129,635	82,597
Benefits payable	(278)	(118)
Amounts to be invested	(812)	(303)
Contribution corrections and limit breach repayable	-	(1,912)
Contributions yet to be allocated to member accounts or returned to employers	(6,620)	(3,302)
Current liabilities	(7,710)	(5,635)
Total net current assets allocated to members	121,925	76,962

The contributions yet to be allocated to member accounts relate to cash being held for investment in the next few days after the year end. Outstanding member and employer contributions at the year-end totalled £82,420k (2017: £50,831k). In respect of these outstanding contributions, £60,175k was received by 31 May 2018 (2017: £45,855k by 31 May 2017).

Employer-related investments

The balance at 31 March 2018 includes contributions due from employers totalling £25,664k (2017: £14,258k), which were due after their statutory due dates as required by the payment schedules. These represent employer-related investments at the year end of 0.9 per cent (2017: 0.8 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 £10,948k all of the outstanding contributions from these employers were received by 31 May 2018 (2017: £4,193k outstanding at 31 May 2017).

9.2 Current assets and liabilities not allocated to members

	31 March 2018	31 March 2017
	£000	£000
Cash - General Account	93	107
Cash - Other	-	46
Other receivables	30	33
Current assets	123	186
Amounts payable to NEST Corporation	-	(46)
Other payables	(81)	(71)
Current liabilities	(81)	(117)
Total net assets not allocated to members	42	69

10. Related-parties transactions

The scheme's Trustee is NEST Corporation, a public corporation accountable to the Secretary of State for Work and Pensions. The scheme pays the Trustee the contribution charge and AMC shown in note 6. The total amount for the year was £25,604k (2017: £15,233k).

NEST Corporation is a participating employer in the scheme. Contributions of £1,731k (2017: £926k) 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 £327k (2017: £336k). 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 Tata Consultancy Services (TCS) and the auditors. The details of these fees can be seen in the annual report and accounts for NEST Corporation for the year ended 31 March 2018.

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

The top 100 investments as at 31 March 2018 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 9.1 on page 79.

Number	Investments	% of Investments
1	Apple Inc	0.96%
2	Microsoft Corp	0.74%
3	Alphabet Inc	0.67%
4	Amazon.com Inc	0.61%
5	Samsung Electronics Co Ltd	0.43%
6	JPMorgan Chase & Co	0.42%
7	Facebook Inc	0.41%
8	Berkshire Hathaway Inc	0.41%
9	Johnson & Johnson	0.38%
10	The Industrial Property Investment Fund	0.38%
11	Exxon Mobil Corp	0.33%
12	Bank of America Corp	0.32%
13	Strand Island Site, London	0.31%
14	Central Saint Giles	0.31%
15	Bred Banque Populaire maturity 3 April 2018	0.30%
16	Caceis Bank Luxembourg maturity 3 April 2018	0.30%
17	Societe Generale maturity 3 April 2018	0.30%
18	Nestle SA	0.28%
19	West Cross Industrial Park, Brentford	0.27%
20	Bred Banque Populaire maturity 4 April 2018	0.27%
21	Societe Generale maturity 4 April 2018	0.27%
22	Royal Dutch Shell PLC	0.27%
23	BlackRock Institutional cash series GBP liquidity	0.26%
24	Wells Fargo & Co	0.26%
25	Simon Property Group Inc	0.26%

Number	Investments	% of Investments
26	Intel Corp	0.26%
27	AT&T Inc	0.25%
28	Visa Inc	0.25%
29	Co-operative Bank 4.75% maturity 11 November 2021	0.24%
30	UnitedHealth Group Inc	0.23%
31	Cisco Systems Inc	0.23%
32	Pfizer Inc	0.23%
33	Home Depot Inc	0.23%
34	HSBC Holdings PLC	0.23%
35	Verizon Communications Inc	0.22%
36	Indian Rupee	0.21%
37	Chevron Corp	0.21%
38	Procter & Gamble Co	0.21%
39	Novartis AG	0.21%
40	China Renminbi	0.20%
41	Citigroup Inc	0.20%
42	Boeing Co	0.20%
43	Toyota Motor Corp	0.20%
44	Russian Ruble	0.19%
45	One Piccadilly Gardens & The Pavilion, Manchester	0.19%
46	76-88 Wardour Street, London	0.19%
47	Apex, Reading	0.19%
48	Interchange Retail Park, Bedford	0.19%
49	Woodside Industrial Estate, Dunstable	0.19%
50	Roche Holding AG	0.19%
51	Mastercard Inc	0.19%
52	Amundi 6 M	0.18%
53	Prologis Inc	0.18%
54	Comcast Corp	0.18%
55	Coca-Cola Co	0.18%
56	Dexia Credit Local - (ST) GTD	0.17%
57	Grenfell Island, Maidenhead	0.17%

Number	Investments	% of Investments
58	House of Fraser, Rackhams, Birmingham	0.17%
59	Westpac Banking Corp	0.17%
60	Walt Disney Co	0.17%
61	Philip Morris International Inc	0.17%
62	Legal & General PLC	0.16%
63	Nykredit Bank A/S	0.16%
64	ABN AMRO Bank NV	0.16%
65	Cooperative Rabobank UA	0.16%
66	Santander UK PLC	0.16%
67	Tencent	0.16%
68	Toyota Motor Finance (Netherlands)	0.16%
69	PepsiCo Inc	0.16%
70	Merck & Co Inc	0.16%
71	AbbVie Inc	0.16%
72	HSBC Bank PLC	0.16%
73	Fresh 1997 8.368% maturity 1 October 2058	0.16%
74	Public Storage	0.16%
75	DowDuPont Inc	0.16%
76	Oracle Corp	0.16%
77	Longstone Fin 4.791% maturity 19 April 2036	0.15%
78	Kingsland Business Park, Basingstoke	0.15%
79	Acess (Agce Ctl Organ Secu Soc) maturity 12 April 2018	0.15%
80	Places For People Homes 5.09% maturity 31 July 2043	0.15%
81	Walmart Inc	0.15%
82	3M Co	0.15%
83	Total SA	0.15%
84	International Business Machine	0.15%
85	BNZ International Funding Limited	0.15%
86	Malaysian Ringgit	0.14%
87	Indonesian Rupiah	0.14%
88	NVIDIA Corp	0.14%
89	McDonald's Corp	0.14%

Number	Investments	% of Investments
90	British American Tobacco PLC	0.14%
91	Siemens AG	0.14%
92	Amgen Inc	0.14%
93	Electricite De France 6% maturity 23 January 2114	0.13%
94	National Capital Trust 5.62% Vrn Perp	0.13%
95	TSMC	0.13%
96	Procession House, 55 Ludgate Hill, London	0.13%
97	Jackson Square Shopping Centre, Bishops Stortford	0.13%
98	Stevenage Leisure Park, Stevenage	0.13%
99	Bechtel House, 245 Hammersmith Road, Hammersmith	0.13%
100	Credit Suisse AG (UK Branch) maturity 6 Apr 2018	0.13%

* Employer-related investments: Societe Generale, AbbVie Inc, Places for People Homes

Appendix two

NEST Retirement Date Funds performance

NEST Retirement Date Fund	Fund performance one year to 31 March 2018	Annualised fund performance three years to 31 March 2018	Annualised fund performance five years to 31 March 2018	Annualised fund performance since inception to 31 March 2018	Inception
	%	%	%	%	
CPI ¹	2.44	1.78	1.38	1.80	01 August 2011
NEST Starter fund ²	0.45	5.62	6.78	7.79	01 August 2011
2064 retirement fund	-	-	-	-2.68	01 January 2018
2063 retirement fund	0.96	-	-	3.14	01 January 2017
2062 retirement fund	0.98	-	-	8.33	01 January 2016
2061 retirement fund	1.00	5.85	-	6.60	01 January 2015
2060 retirement fund	1.00	5.89	-	7.06	01 January 2014
2059 retirement fund	1.00	5.92	6.87	8.04	01 January 2013
2058 retirement fund	0.86	5.82	6.80	7.91	01 January 2012
2057 retirement fund	0.72	5.98	6.90	7.83	01 August 2011
2056 retirement fund	0.75	6.19	7.06	7.95	01 August 2011
2055 retirement fund	0.77	6.59	7.39	8.17	01 August 2011
2054 retirement fund	0.80	6.93	7.72	8.42	01 August 2011
2053 retirement fund	1.11	7.36	8.16	8.76	01 August 2011
2052 retirement fund	1.11	7.66	8.53	9.11	01 August 2011
2051 retirement fund	1.12	7.50	8.68	9.25	01 August 2011
2050 retirement fund	1.11	7.49	8.76	9.29	01 August 2011
2049 retirement fund	1.11	7.49	8.78	9.36	01 August 2011
2048 retirement fund	1.11	7.50	8.78	9.36	01 August 2011
2047 retirement fund	1.11	7.50	8.77	9.30	01 August 2011
2046 retirement fund	1.11	7.50	8.78	9.31	01 August 2011
2045 retirement fund	1.11	7.5	8.77	9.31	01 August 2011
2044 retirement fund	1.11	7.49	8.79	9.31	01 August 2011
2043 retirement fund	1.11	7.49	8.78	9.29	01 August 2011
2042 retirement fund	1.11	7.49	8.77	9.29	01 August 2011
2041 retirement fund	1.10	7.49	8.77	9.29	01 August 2011
2040 retirement fund	1.11	7.49	8.78	9.31	01 August 2011

NEST Retirement Date Fund	Fund performance one year to 31 March 2018	Annualised fund performance three years to 31 March 2018	Annualised fund performance five years to 31 March 2018	Annualised fund performance since inception to 31 March 2018	Inception
	%	%	%	%	
2039 retirement fund	1.11	7.49	8.77	9.30	01 August 2011
2038 retirement fund	1.11	7.49	8.78	9.30	01 August 2011
2037 retirement fund	1.11	7.49	8.77	9.30	01 August 2011
2036 retirement fund	1.11	7.49	8.77	9.29	01 August 2011
2035 retirement fund	1.12	7.49	8.76	9.29	01 August 2011
2034 retirement fund	1.11	7.49	8.76	9.30	01 August 2011
2033 retirement fund	1.11	7.50	8.77	9.30	01 August 2011
2032 retirement fund	1.11	7.50	8.77	9.29	01 August 2011
2031 retirement fund	1.11	7.49	8.74	9.27	01 August 2011
2030 retirement fund	1.11	7.50	8.77	9.30	01 August 2011
2029 retirement fund	1.10	7.49	8.77	9.29	01 August 2011
2028 retirement fund	1.11	7.50	8.72	9.26	01 August 2011
2027 retirement fund	1.27	7.55	8.81	9.35	01 August 2011
2026 retirement fund	1.27	7.31	8.66	9.21	01 August 2011
2025 retirement fund	1.26	6.88	8.40	9.01	01 August 2011
2024 retirement fund	1.26	6.50	8.08	8.79	01 August 2011
2023 retirement fund	1.25	6.12	7.68	8.47	01 August 2011
2022 retirement fund	1.23	5.57	7.16	7.93	01 August 2011
2021 retirement fund	1.22	5.12	6.69	7.52	01 August 2011
2020 retirement fund	0.84	3.19	5.31	6.45	01 August 2011
2019 retirement fund	0.76	2.52	4.71	5.94	01 August 2011
2018 retirement fund	0.67	1.59	3.94	5.30	01 August 2011
2017 retirement fund	0.40	0.76	1.63	2.41	01 August 2011
NEST Post-retirement fund ³	0.72	0.73	-	0.65	01 November 2013

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

² 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.

³ 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 2018

These transaction costs have been disclosed in accordance with the Chair's governance statement on pages 38 and 39.

Default fund	Average weighted transaction cost
NEST Starter Fund	0.053%
NEST 2017 Retirement Fund	0.010%
NEST 2018 Retirement Fund	0.011%
NEST 2019 Retirement Fund	0.017%
NEST 2020 Retirement Fund	0.022%
NEST 2021 Retirement Fund	0.039%
NEST 2022 Retirement Fund	0.043%
NEST 2023 Retirement Fund	0.046%
NEST 2024 Retirement Fund	0.050%
NEST 2025 Retirement Fund	0.053%
NEST 2026 Retirement Fund	0.057%
NEST 2027 Retirement Fund	0.060%
NEST 2028 Retirement Fund	0.063%
NEST 2029 Retirement Fund	0.063%
NEST 2030 Retirement Fund	0.063%
NEST 2031 Retirement Fund	0.063%
NEST 2032 Retirement Fund	0.063%
NEST 2033 Retirement Fund	0.063%
NEST 2034 Retirement Fund	0.063%
NEST 2035 Retirement Fund	0.063%
NEST 2036 Retirement Fund	0.063%
NEST 2037 Retirement Fund	0.063%
NEST 2038 Retirement Fund	0.063%
NEST 2039 Retirement Fund	0.063%
NEST 2040 Retirement Fund	0.063%
NEST 2041 Retirement Fund	0.063%
NEST 2042 Retirement Fund	0.063%
NEST 2043 Retirement Fund	0.063%
NEST 2044 Retirement Fund	0.063%

Default fund	Average weighted transaction cost
NEST 2045 Retirement Fund	0.063%
NEST 2046 Retirement Fund	0.063%
NEST 2047 Retirement Fund	0.063%
NEST 2048 Retirement Fund	0.063%
NEST 2049 Retirement Fund	0.063%
NEST 2050 Retirement Fund	0.063%
NEST 2051 Retirement Fund	0.063%
NEST 2052 Retirement Fund	0.063%
NEST 2053 Retirement Fund	0.063%
NEST 2054 Retirement Fund	0.061%
NEST 2055 Retirement Fund	0.060%
NEST 2056 Retirement Fund	0.058%
NEST 2057 Retirement Fund	0.056%
NEST 2058 Retirement Fund	0.055%
NEST 2059 Retirement Fund	0.053%
NEST 2060 Retirement Fund	0.053%
NEST 2061 Retirement Fund	0.053%
NEST 2062 Retirement Fund	0.053%
NEST 2063 Retirement Fund	0.053%
NEST 2064 Retirement Fund	0.054%
NEST Post-retirement Fund	0.003 %
Other fund choices	Transaction costs
NEST Higher Risk Fund	0.069%
NEST Lower Growth Fund	0.005%
NEST Sharia Fund	0.000%
NEST Ethical Consolidation Fund	0.020%
NEST Ethical Foundation Fund	0.096%
NEST Ethical Growth Fund	0.125%
NEST Pre-Retirement Fund	0.004%

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