



# National Employment Savings Trust pension scheme

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Annual report and accounts  
2018/2019



Scheme registration number: 12004537

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# National Employment Savings Trust pension scheme

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Annual report and accounts  
2018/2019

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## Chapter 1

# Board report





1.1

# Chair's introduction

The pensions landscape has continued to evolve in the last year, with the first of two rounds of increases to minimum contributions and a new, rigorous regulatory regime for Master Trusts. Nest Corporation has ensured that it is well prepared to meet the regulations, fulfil the needs of our diverse customer base and manage our growing assets under management.



**Otto Thoresen**  
Chair, Nest

## What we have achieved

It is now a full year since minimum contributions increased for the first time under auto enrolment in April 2018 (see What is phasing? page 13). We are now managing £5.7 billion on behalf of 7.9 million members and 720,000 employers. Nest Corporation has monitored the opt-out rates of members since this increase and we have seen the overall opt-out rates remain at around 7.4 per cent.

Nest Corporation, along with the rest of the pensions industry, has been encouraged by how well this first stage of phasing has progressed. There is clear evidence that auto enrolment has been embraced in the UK. The 'nudge' approach of scheduled, gradual increases in contributions has guided people in a direction that they feel comfortable with and I am optimistic about how the next phased increase in April 2019 will be received.

## Investment

Global markets have been challenging in 2018/19, but thanks in part to our diversified portfolio, the one-year performance of our 2040 fund to the end of March 2019 remained above our investment return objectives at 7.8 per cent net of annual management charges (see Why do we refer to the 2040 fund? page 13). This is a positive achievement, but long-term investment performance is the more important focus as for most people pension saving is played out over 30, 40 and perhaps even 50 years. Our longer term investment performance continues to be strong, with five-year annualised average returns of 9.2 per cent net of annual management charges.

I am confident that Nest Corporation's award-winning investment approach, robust risk management processes and rigorous controls over investment costs will continue to deliver good outcomes for our members over the long term.

We must continue to develop our investment approach. Expanding into new asset classes is a natural progression for Nest as our assets under management increase. It gives us more opportunities to earn the best returns at an acceptable level of risk to support our long-term investment objectives.

We introduced commodities into the portfolios in July 2018. For the first time we used a segregated mandate which allowed us to customise the portfolio to more effectively manage the environmental, social and governance (ESG) risks associated with commodities (see page 55 for more information). We updated our **Statement of Investment Principles** to reflect this move into segregated mandates (see page 104).

Our approach to responsible investment continues to be a major success story. As Nest continues to grow, so does our influence as an investor. That gives us the opportunity to engage more directly with the companies in which we invest. Nest Corporation's third annual responsible investment report<sup>1</sup> further explores how we aim to achieve that.

## Governance

The Department for Work and Pensions (DWP) published a Tailored Review of Nest Corporation in March 2018. In response to a recommendation in the review, Nest Corporation moved to a unitary board structure in June 2018. Nest Corporation's Chief Executive Officer, Helen Dean, and Chief Financial Officer, Richard Lockwood, have joined Nest Corporation's Board as a result.

As Nest matures, we must ensure that our Board continues to have the combination of skills and the diversity that we need for the future. We must also make sure that there are succession plans in place as existing Board Members complete their tenures. Following our annual skills assessment, we have extended our Board's range of experience with the addition of four new Board Members – Clive Elphick, Chris Hitchen, Mutaz Qubbaj and Martin Turner (see pages 24 to 29 for more information).

In addition to the significant financial services experience that they bring, our extended Board also strengthens our expertise in areas such as digital solutions that will be crucial to the future evolution of Nest. It will also ensure strong chairmanship of our main committees, a key part of our governance system. This ensures that we continue to be in a good position to meet the rigorous standards required by the Master Trust Authorisation (MTA) regime.

The new MTA regulations and code of practice were introduced as part of the Pension Schemes Act 2017 and Nest Corporation submitted its application for authorisation in March 2019. The introduction of MTA is a welcome move to improve standards across the Master Trust sector and to increase public confidence in workplace pensions. The application process has been an opportunity for us to evidence our governance, systems and controls.

In addition to applying for authorisation we have also continued to complete our annual Audit and Assurance Framework (AAF) 02/07 control assurance for Nest Corporation assessed against the Master Trust assurance framework. This gives us an independent assessment of the design and operation of our internal controls.

Nest continues to improve the range and quality of services that we offer to members. For example, in 2018 we introduced enhanced support for transfers of pension pots into and out of Nest.

I would like to thank our Board Members, Employers' Panel and Members' Panel for their hard work over the course of the year. In particular, Carolan Dobson who has stepped down from the Board. Carolan had been a Board Member since 2014 and was Chair of Nest Corporation's investment committee between 2014 and 2017. I would like to take this opportunity to thank her for the significant contribution that she has made to Nest Corporation over that time.

We continue to meet our public service obligation, to accept any employer who wants to use us to meet their auto enrolment duties. Nest also has a duty to accept any self-employed person who wishes to use us. We have remained focused on the needs of a wide demographic range of pension savers, many of whom would previously have been excluded from affordable, good quality pensions. As pot sizes increase, we and the wider industry must continue to understand and meet members' evolving needs to ensure a positive next step in retirement savings as the second round of phasing takes effect.

<sup>1</sup> [nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment.html](https://nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment.html)

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## Forward look

We are making progress with the future procurement of scheme administration services. The aim is to make the scheme ready for a digital world, improving our service and also harnessing advances in technology to further increase efficiency.

In 2018 we engaged with a range of service providers to prepare for this procurement exercise. The coming year will see the procurement develop as potential bidders are invited to demonstrate their capabilities and competencies through the competitive dialogue process.

We expect the new service to deliver improved outcomes for our customers whilst maintaining our low-cost ethos and ensuring a service that is robust and secure.

At a scheme level, during 2019/20, we will see the impact of the second and final part of phasing, as well as potential changes in the Master Trust market as a result of the implementation of the new, more rigorous MTA standards. There is encouragement from government for pension schemes to become more active as providers of long-term investment capital, for example through infrastructure investment. We see our role as early adopters and leaders wherever these innovations are relevant to, and add value for, our members.

Just as I have been able to reflect positively on Nest's achievements this year, I am very confident that our current skills, corporate structure and future plans will enable us to continue to deliver for our members in the years ahead.

## Key phrases

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

### What is phasing?

As part of the auto enrolment legislation, mandatory minimum pension contributions for both employers and employees have increased twice in the period between April 2018 and April 2019, as shown in the table below. These increases are known as phasing.

### What is staging?

Staging was the process of requiring all employers to fulfil their auto enrolment duties, in order of company size. Every employer in the UK was allocated a staging date between October 2012 and February 2018, based on the size of the employer's PAYE scheme.

Staging completed in February 2018.

All newly formed businesses with employees in the UK must also comply with their auto enrolment duties.

### What is the structure of Nest?

Nest is a trust-based workplace pension scheme and Nest Corporation is the Trustee of Nest.

Nest Corporation comprises up to 15 members. We refer to these members as Board Members, and to them collectively as the Board of Nest Corporation, or the Trustee Board.

### Why do we refer to the 2040 fund?

Nest's investment approach has three phases: foundation, growth and consolidation. These are explained in more detail on page 51. The 2040 fund is referenced here as representative of the growth phase, which is where most members' money is invested for the longest period of time.

### What is a Retirement Date Fund?

When a member enrolls with Nest, their money will be invested in a Nest Retirement Date Fund. This is based on the year they expect to retire. For example, if a member expects to retire in 2055 Nest Corporation will invest the member's retirement pot in the Nest 2055 Retirement Fund. More information on Nest's investment strategy and Retirement Date Funds is available from page 51.

### About Nest's charges

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

The return figures are net of costs and charges including the annual management charge (AMC) and transaction costs but not the contribution charge. The transaction costs include both explicit and implicit costs, where applicable. Explicit costs are directly observable, such as broker costs. Implicit costs are not as clearly visible. We calculate these using the slippage cost methodology which is described in more detail here: [fca.org.uk/publication/consultation/cp16-30.pdf](https://www.fca.org.uk/publication/consultation/cp16-30.pdf)



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

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

## 1.2

# Scheme development

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### Introduction and constitution

The Nest pension scheme, or ‘the scheme’ as it will be referred to throughout this report, was established by the National Employment Savings Trust Order 2010, known as ‘Nest’s Order’. 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.

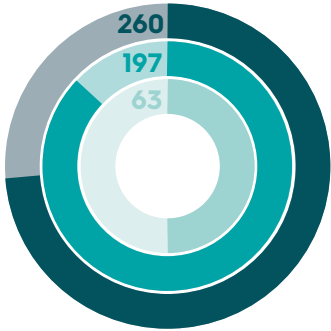
# Awards and recognitions

Nest is proud to have been awarded a 5-star rating by the independent body Defaqto, demonstrating that it provides one of the highest quality pension schemes in the market



ShareAction independent survey of 10 UK auto enrolment providers

**Nest ranked first**



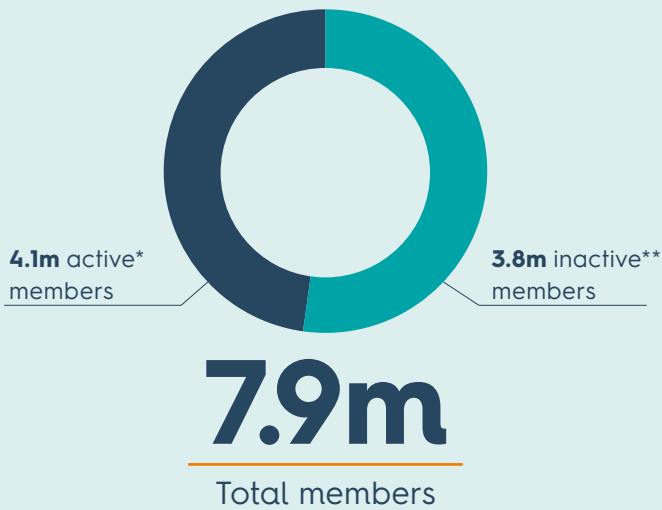
- Total score (out of 352)
- Responsible investment score (out of 227)
- Communications & engagement score (out of 125)

Nest has been recognised for the way we invest members' money



## Key figures as at 31 March 2019

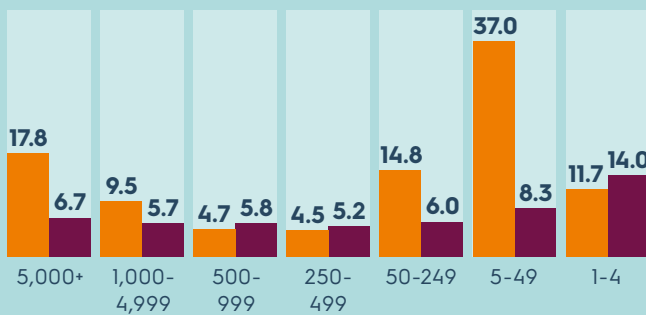
### Membership



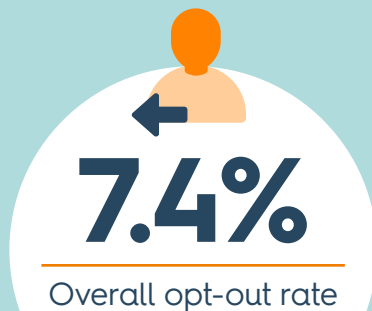
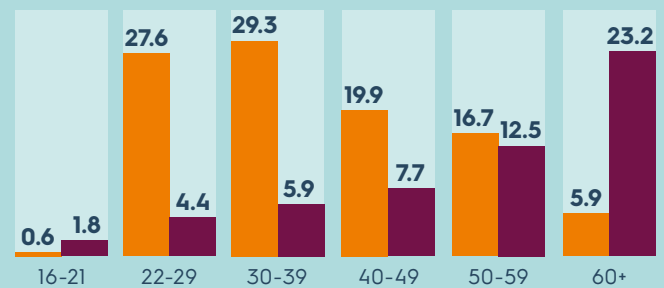
0.005% of our membership have not been assigned a gender by their employer.

### Opt-out rate

#### Members by employer size



#### Members by age



● Membership %  
● Opt-out rate %

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

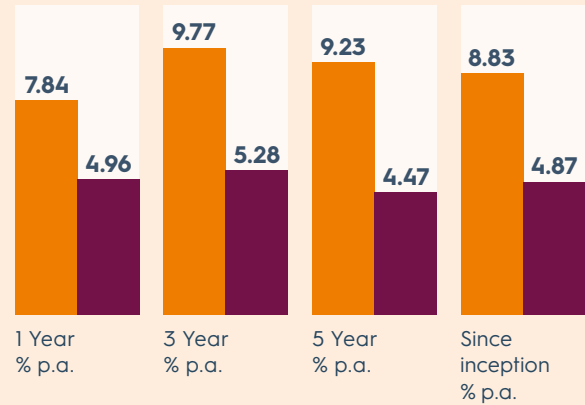
\*\* Inactive members are members of the Nest scheme who have not died, retired or opted out. However, they have either left their employment or they have chosen to stop contributing.





Assets under management as at 31 March 2019

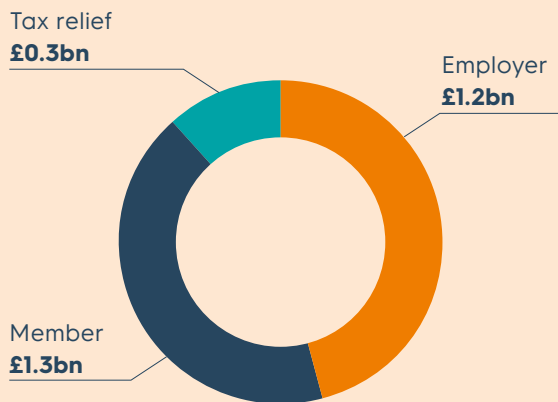
**Annualised fund performance for the Nest 2040 Retirement Fund to 31 March 2019**



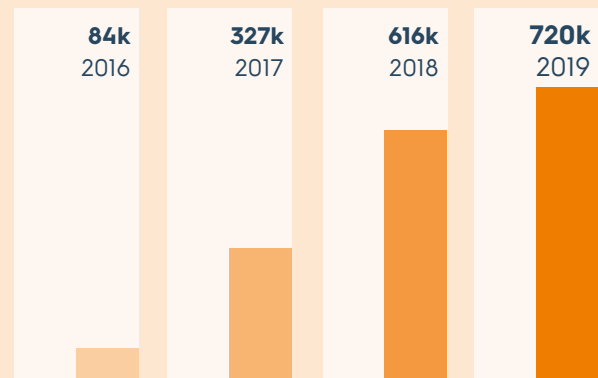
● Your Nest 2040 Retirement Fund ● UK CPI +3%

Inception date: August 2011  
All figures are net of AMC

**Contributions**



**Number of employers using Nest\***



\* These are employers who have completed employer participation, the process an employer goes through in order to first set up their Nest scheme. Most employers will do this through the scheme website, however it can also be completed via web services.

## Trustee and Board Members

Nest Corporation is the Trustee of the Nest pension scheme. As at 31 March 2019, the Trustee had fifteen members, consisting of a Chair and fourteen other Board Members, two of whom have day to day executive responsibilities. We refer to them collectively as the Board of Nest Corporation. Collectively they are responsible for setting the strategic direction and objectives for Nest Corporation, managing the scheme and representing members' interests.

See page 24 for more information on the Board Members and how the Trustee operates.

## Service providers and advisers 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  
 CoreCommodities, LLC (from July 2018)  
 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

### Secretary to the Trustee

Nest Corporation Deputy Corporate Secretary

## Membership

The membership in the year grew as follows:

### Member numbers

	Year ended 31 March 2019	Year ended 31 March 2018
<b>Members at the beginning of the period</b>	<b>6,482,121</b>	<b>4,554,744</b>
New members <sup>1</sup>	1,565,002	2,139,219
Members opting out or de-enrolling	(131,355)	(190,183)
<b>New members joining in the period</b>	<b>1,433,647</b>	<b>1,949,036</b>
<b>Less</b>		
Members retired	(44,061)	(19,545)
Members deceased	(2,546)	(2,114)
<b>Members at the end of the period<sup>2</sup></b>	<b>7,869,161</b>	<b>6,482,121</b>
Contributing members	3,454,003	2,994,069
Non-contributing members	4,415,158	3,488,052
<b>Members at the end of the period</b>	<b>7,869,161</b>	<b>6,482,121</b>

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

<sup>2</sup> This includes 197,533 (2018: 95,135) members who have a zero pot.

## Contributions and charges

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

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, Nest Corporation investigates the status of the payment with the employer.

If member or employer contributions are not paid on time and Nest Corporation has reasonable cause to believe that the late payment is material, the Trustee must report the matter to The Pensions Regulator (TPR) and to the member concerned within a reasonable period after the due date. During the year 2.5 per cent of contribution events (1.8 per cent in 2017/18) were reported to TPR. That equates to 282,152 such reports in 2018/19, compared with 143,758 in 2017/18. This is in line with the growth in the scheme membership. A communication is sent to those members who are affected.

The scheme deducts a 0.3 per cent annual management charge (AMC) on the total value of a member's pot, and deducts a 1.8 per cent charge on the value of each new contribution paid 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 Nest and as such our charges are within the charge cap set by government, which is currently 0.75 per cent.

## Taking money out of the scheme

Nest Corporation supports members at retirement using appropriately tailored information and simple processes. When a member gets close to their selected retirement age, Nest Corporation gives them information on their options for 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 44,061 retirements during the year (2017/18: 19,545). The majority took cash.

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

During 2018/19, there were 10,087 transfers in (2017/18: 1,552), and 16,015 transfers out (2017/18: 3,461).

## 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.

If a member has made a valid death benefit nomination then legally the Trustee must follow it and pay the value of the member's pot to the nominated person or body, provided they haven't pre-deceased the member and can be found.

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 2,546 member deaths during 2018/19 (2017/18: 2,114).

## Looking ahead

The first round of minimum contribution increases introduced through phasing (see page 13) took place in April 2018. At that point, minimum contributions increased to 3 per cent for members and 2 per cent for employers of band earnings for eligible workers.

The Trustee has monitored the impact on opt-outs and cessations, which remained stable without any noticeable impact at 7.4 per cent.

A further phased increase taking contributions to 5 per cent for members and 3 per cent for employers was introduced in April 2019. The Trustee will continue to monitor the effects of this second phased increase, in terms of the effect on opt-outs and cessations and the effect on our assets under management.

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

## Our priorities to help members

Nest Corporation's latest Voice of the Customer assessment from January 2019 shows that 67 per cent were either very satisfied or fairly satisfied with Nest. A further 27 per cent responded 'don't know', suggesting that they may not have engaged with the scheme. Nest's Voice of the Customer figures show that members who have registered to use the scheme are more likely to be very satisfied (57 per cent, compared to 44 per cent of all respondents).

Our member strategy focusses on improving member engagement. This includes delivering improvements to our communications to make them increasingly timely and relevant to our members, developing a mobile experience to ensure information and services are accessible across a range of devices, and enhancing our digital channels to increase personalisation and improve customer experiences.

Nest Corporation will continue to develop its services for members in 2019/20 and will conduct research to better understand their priorities, issues, wants and needs.

## Our priorities to help employers

Nest Corporation's latest Voice of the Customer assessment from March 2019 shows that 71 per cent of employers are strongly satisfied with Nest and 76 per cent feel that using Nest is straightforward and hassle free.

Support for web services is a key part of Nest Corporation's offering to help employers. Nest's web services allow employers of all sizes to send and collect data from Nest electronically via their payroll software. This provides an accurate, low-cost and simple means of managing members' pensions from within payroll, reducing the amount of time needed to administer auto enrolment pensions and minimises data errors. The number of employers using web services to process data increased from 135,500 in April 2018 to 180,751 in April 2019.

Nest Corporation will continue to develop its services for employers in 2019/20 and will conduct research to better understand their priorities, issues, wants and needs.

## 1.3

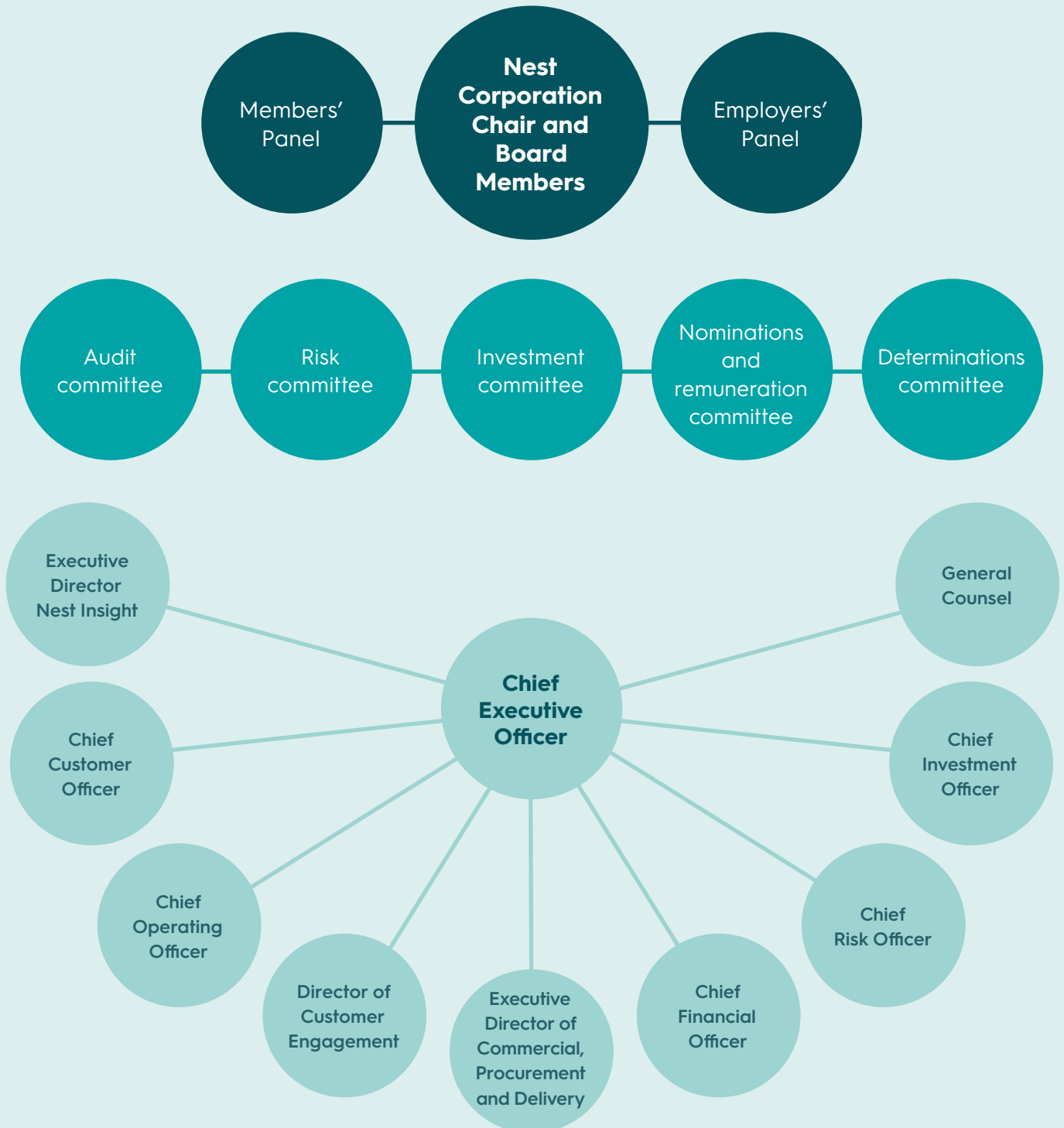
# Report on governance

### Chair's governance statement for the year ending 31 March 2019

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



## Organisational 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](https://nestpensions.org.uk/schemeweb/NestWeb/public/aboutnestcorporation/contents/executive-team.html)

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## Organisational structure

The organisational structure of Nest Corporation is described in this section.

### Board Members



**Otto Thoresen**

**Chair, Nest Corporation**  
from 1 February 2015

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



**Iraj Amiri**

**Board Member**  
from 20 June 2011, appointed  
for a second term in 2015  
**Chair, audit committee**  
from 1 April 2014 to 28 January 2019

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Iraj led the National Internal Audit Group of Deloitte, where he was a partner. He is a member of the regulatory decisions committee of the Financial Conduct Authority and Chair of the audit and risk committee for the Institute and Faculty of Actuaries. Iraj is a non-executive director and Chair of the audit committee at the Development Bank of Wales. In September 2018 Iraj became a non-executive member of the Board at Coventry Building Society.





### **Ian Armfield**

**Board Member**

from 1 April 2014

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



### **Graham Berville**

**Board Member**

from 1 June 2014

**Chair, risk committee**

from 25 September 2017 to  
20 February 2019

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



### **Sally Bridgeland**

**Board Member**

from 1 April 2015

**Chair, investment committee**

from 2 July 2017

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

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



**Tomas Carruthers**

**Board Member**  
from 1 July 2016

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



**Helen Dean**

**Board Member**  
from 1 June 2018

**Chief Executive Officer,  
Nest Corporation**

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

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

Helen is a mentor to female professionals. She has established a senior leadership programme to cultivate the next generation of diverse leaders for Nest.



**Carolan Dobson**

**Board Member**  
from 1 April 2014 to 30 June 2018

Carolan is an experienced trustee and non-executive director with a background in asset management.

Her experience includes Chair of Blackrock Latin American Trust plc, Brunner Investment Trust plc, JP Morgan European Smaller Companies Trust plc and a non-executive director at the ISC at the London Collective Investment Vehicle (LCIV). She also advises the Competition and Markets Authority.



### **Clive Elphick**

**Board Member**  
from 1 June 2018

**Chair, audit committee**  
from 29 January 2019

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



### **Chris Hitchen**

**Board Member**  
from 1 June 2018

Chris re-joined the board of Nest in 2018, having previously served as a Trustee Member from 2010 to 2015. Chris is also Chair of the £40bn Border to Coast Pensions Partnership, Chair of the Pension SuperFund and sits on the investment committee for the Guardian Media Group. Previously Chris was Chief Executive Officer of the UK Railways Pension Scheme.

Chris is a Board Member for the Toronto-based International Centre for Pensions Management and the UK's Investor Forum.



### **Ron Jarman**

**Board Member**  
from 1 July 2016

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

He is currently a senior member of Proxima's Consulting practice, Board Chair at World at Play, and an advisor to the Bridge Institute, which brings senior government, business and civic leaders together to solve societal issues.



**Richard Lockwood**

**Board Member**  
from 1 Sept 2018

**Chief Financial Officer,  
Nest Corporation**

Richard is a Chartered Management Accountant with broad financial experience and extensive knowledge of corporate governance, commercial business partnering, strategic planning, mergers and acquisition activity and system improvements.

His experience over the last 25 years includes leading financial roles in a number of blue-chip UK retail and consumer product companies, such as Home Retail Group, BAA and Kingfisher.



**Mutaz Qubbaj**

**Board Member**  
from 1 June 2018

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



**Caroline Rookes CBE**

**Board Member**  
from 1 April 2015

**Chair, nominations and  
remuneration committee**  
from 28 November 2017

Caroline is a Trustee of the Pension SuperFund and in January 2019 The Pensions Regulator released Caroline's review of the support provided to British Steel Pension Scheme members in 2017-18.

Caroline retired as Chief Executive Officer of the Money Advice Service in June 2017 and previously held Director-level roles with the DWP and HM Revenue and Customs. In 2014, she was awarded an Alumni Award by Lancaster University.



### **Martin Turner**

**Board Member**

from 1 June 2018

**Chair, risk committee**

from 21 February 2019

Martin has 37 years' experience in financial services for Barclays and Lloyds, from front line customer service and relationship management through to strategy and transformation, IT and operational services.

More recently Martin has worked in the second line risk function with group-level accountabilities for operational risk, regulatory compliance, internal risk reporting and external risk disclosures, and significant structural reform programmes.

Martin is currently a non-executive with AQA Education, chairing their combined audit and risk committee.



### **Jill Youds**

**Board Member**

from 1 April 2015

**Senior Independent Director**

from 25 July 2017

**Chair, determinations committee**

from 24 March 2016

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

Jill is a fellow of the Chartered Institute of Personnel and Development.

## Committee membership

### Details of meetings attended by the Board Members

	Trustee Board	Audit committee	Risk committee	Investment committee	Nominations and remuneration committee	Determinations committee
<b>No. of meetings</b>	<b>11</b>	<b>6</b>	<b>5</b>	<b>5</b>	<b>6</b>	<b>12</b>
Otto Thoresen	11				6	11
Iraj Amiri	11	6	4			10 of 11
Ian Armfield	11	6		4	4	
Graham Berville	11	4	5	5		
Sally Bridgeland	10		4	5		
Tomas Carruthers	9					1 of 1
Ron Jarman	11		5		6	
Caroline Rookes	11				5	11
Jill Youds	10				6	10
Carolan Dobson	2 of 3			1 of 1	0 of 1	
Clive Elphick	7 of 9	2 of 3	1 of 4			
Chris Hitchen	8 of 9			3 of 3		
Mutaz Qubbaj	7 of 9					
Martin Turner	8 of 9	2 of 3	4 of 4			
Helen Dean	9 of 9					
Richard Lockwood	6 of 7					

#### Explanatory notes:

##### Trustee Board:

Carolan Dobson's term came to an end on 30 June 2018.

Clive Elphick, Chris Hitchen, Mutaz Qubbaj, Martin Turner and Helen Dean became Board Members on 1 June 2018.

Richard Lockwood became a member on 1 September 2018.

The following Board Member's terms end on the 30 June 2019:

Iraj Amiri  
Graham Berville  
Caroline Rookes  
Sally Bridgeland.

##### Audit committee:

Iraj Amiri was Chair until 28 January 2019.

Martin Turner and Clive Elphick became committee members from 24 July 2018.

Clive Elphick took over as Chair on 29 January 2019.

##### Risk committee:

Graham Berville was Chair until 20 February 2019.

Martin Turner and Clive Elphick became committee members from 24 July 2018.

Martin Turner took over as Chair on 21 February 2019.

##### Investment committee:

Carolan Dobson's term came to an end on 30 June 2018.

Chris Hitchen became a committee member from 24 July 2018.

##### Nominations and remuneration committee:

Carolan Dobson's term came to an end on 30 June 2018.

##### Determinations committee:

Iraj Amiri's term as a committee member came to an end on 14 February 2019.

Tomas Carruthers became a committee member from 14 February 2019.

## Committee membership as at 31 March 2019

### Audit committee

**Clive Elphick** (Chair from 29 January 2019 and member from 24 July 2018)

**Iraj Amiri** (Chair until 28 January 2019)

**Ian Armfield**

**Graham Berville**

**Martin Turner** (member from 24 July 2018)

### Risk committee

**Martin Turner** (Chair from 21 February 2019 and member from 24 July 2018)

**Graham Berville** (Chair until 20 February 2019)

**Iraj Amiri**

**Clive Elphick** (member from 24 July 2018)

**Sally Bridgeland**

**Ron Jarman**

### Investment committee

**Sally Bridgeland** (Chair)

**Ian Armfield**

**Graham Berville**

**Chris Hitchen** (member from 24 July 2018)

### Nominations and remuneration committee

**Caroline Rookes** (Chair)

**Ian Armfield**

**Ron Jarman**

**Otto Thoresen**

**Jill Youds**

### Determinations committee

**Jill Youds** (Chair)

**Tomas Carruthers**

**Caroline Rookes**

**Otto Thoresen**

## About Nest Corporation

The Nest scheme is run by Nest Corporation. Nest Corporation is the Trustee of the scheme, and was established on 5 July 2010. Its role is to develop and operate the Nest scheme. Nest Corporation's function is set out in the Pensions Act 2008. Nest's Order and Rules set out how the scheme will operate (see section 1.2 Scheme development, page 14).

Nest Corporation comprises up to 15 members. We refer to these as Board Members, and to them collectively as the Board of Nest Corporation.

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 which was refreshed in February 2019. 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 2019, the Board had 15 members, consisting of a Chair and 14 other Board Members, two of whom have day to day executive responsibilities. Collectively they are responsible for setting the strategic direction and objectives for Nest Corporation, managing the scheme and representing members' interests.

Nest Board Members are appointed by the Secretary of State for Work and Pensions in line with public appointments guidance that promotes selection on the basis of merit, fairness and openness. A broad range of skills, experience and knowledge are required collectively on the Board. Appointments are made in line with the Commissioner for Public Appointments' Code of Practice and Cabinet Office guidance. Provisions are in place within the terms and conditions of Board Members that provide appropriate controls for the removal from office of Board Members and the conditions in which this can be done.

The Department for Work and Pensions (DWP) published a Tailored Review of Nest Corporation in March 2018. In response to a recommendation in the review, Nest moved to a unitary board structure in June 2018. Nest Corporation's Chief Executive Officer, Helen Dean, and Chief Financial Officer, Richard Lockwood, have joined Nest's Board as a result of this change.

In September 2018, Nest's corporate secretariat team designed and circulated a skills matrix questionnaire to all Board Members. This was developed in line with best practice and takes into account guidance from The Pensions Regulator, as well as Nest's agreed strategy and the skills required to effectively oversee this.

The purpose of the process was to support the Nest Chair and Secretariat with succession planning, to assess the composite skills and experience of current Board Members, and to identify requirements for future Board Members for 2018/19 and beyond.

The recommendation from this analysis was to appoint four Board Members with skills in:

- customer service and technology within a broad customer base
- risk management, particularly in relation to information security and financial crime
- audit
- investment.

As Nest's Board Members are appointed by the Secretary of State for Work and Pensions, Nest worked with the Public Appointment team and a recruitment process was undertaken in line with the Governance Code on Public Appointments 2016. This ensured that an open and transparent process was followed. These appointments were made in June 2018 and full details of Board Members' biographies are on page 24.

All Board Members of Nest, including the Chair are non-affiliated as they have no current or previous material relationship with the organisation as an employee, officer or contractor, and are not connected to a service provider in respect of the scheme and they have not previously been a Board Member in respect of the scheme. This is with the exception of the Chief Executive Officer and Chief Financial Officer (who are employees of Nest Corporation) and Chris Hitchen, who previously served as a Board Member of Nest between 2010 and 2015.

Board members bring a range of experience and skills including investment, pensions, risk, member representation, finance, audit, governance, and business management. Board Members' biographies are on page 24.

Every Board Member has completed The Pensions Regulator's Trustee Toolkit, an online learning programme. All Board Members appointed during 2018/19 undertook and completed this Toolkit. As a matter of practice, all new Nest Board Members must complete this within their first six months in addition to a tailored induction programme depending on their requirements, skills, qualifications and experience.

The induction process for all new Board Members includes familiarisation with a number of key topics including the scheme's governance structure, governing documentation and pensions and trust law. It also provides the opportunity for new Board Members to meet key staff across the organisation.

Each year Nest completes a full skills and experience analysis of Board Members. This is undertaken by Nest's secretariat team and Board Members are requested to complete a questionnaire detailing essential and desirable skills. Any requirements are met through briefing sessions on relevant topics and an individual commitment to ongoing education and training. During the year, Board Members received briefing sessions or training on a number of topics, including General Data Protection Regulation, Cyber Security and Master Trust Authorisation.

The Board has a full working knowledge of the Nest Order and Rules, governing documentation and policies as they apply to the scheme and this is provided through the induction processes and appropriate approval processes surrounding these documents.



On an on-going basis this is monitored as part of the annual skills and experience analysis within the questionnaire provided to Board Members.

Board Members are provided with training on the investment approach within the induction process and this is monitored within the annual skills and experience analysis. The investment objectives for the scheme are set out in its Statement of Investment Principles (SIP) and the Board maintains a working knowledge of this document. The Board 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.

Effectiveness reviews for the Board and its committees take place on an annual basis. In line with best practice, Nest Corporation engages an external facilitator once every three years. The last external review took place in 2017/18. The aim of the review was to evaluate the current effectiveness of the Board and its committees and make recommendations for further enhancements. The scope included board dynamics, culture, management of meetings, papers and support. Throughout 2018/19, the nominations and remuneration committee has provided oversight of the implementation of the recommendations.

During 2018/19, the Nest corporate secretariat team conducted an internal effectiveness review. This review provided assurance that the Nest governance framework is operating effectively. The report also made a number of recommendations, which were discussed and agreed at a Board meeting in March 2019. This included how the Board continues to ensure effective communications with the Nest Members' and Employers' Panels and the delegations to the Board committees.

The combined knowledge and understanding of the Board Members and the diversity of their background and experience is supplemented with additional advice available to them, for example access to legal advice from Nest's General Counsel. Collectively, this enables the Board to properly exercise their functions as the Trustee. This is monitored, along with the overall diversity of the Board, and assurance is provided using the annual skills and experience analysis process as well as the ongoing oversight of Nest's secretariat function.

To support effective and robust decision making, the Board has established five committees. The Board and its committees take decisions that affect the scheme and ensure that Nest Corporation fulfils its obligations as a public corporation. The terms of reference for the Board and its committees are published on the Nest website<sup>1</sup>. Every committee makes recommendations for approval by the Board 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 Board under the Pensions Act 2008. As requested by the Board these panels must give assistance and advice about the operation, development or amendment of the scheme. For further information on the panels, see pages 35 and 36. As well as the feedback received through the Members' Panel, Nest conducts research aimed at helping it understand what its members think and feel, and how Nest is performing against its objectives.

<sup>1</sup> [nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/policy-and-procedures.html](https://nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/policy-and-procedures.html)

In particular, the annual Voice of the Customer Programme surveys approximately 3,000 members and 1,000 people who fall into the eligible auto enrolment population. Through this survey indicators are tracked around support for auto enrolment, satisfaction with Nest, engagement, retirement plans and contact frequency. In addition to formalised research, Nest makes it easy for members to provide feedback.

Nest seeks feedback proactively by:

- Sending VOC of customer surveys twice a year to assess overall satisfaction with the brand.
- Surveying members who have experienced a key process such as a transfer in and out to assess satisfaction, ease of use of the process.
- Surveying a random selection of members who have contacted the contact centre to assess satisfaction with that interaction.

Nest also provides reactive channels which members can provide feedback according to their convenience.

- A survey link in the member help centre in the Nest website.
- Members also use social media platforms like Facebook and Twitter to provide feedback, which the Nest service delivery team deals with actively.

Nest also monitors for any changes in demographic characteristics of its membership. The data is then used to help design better communications and think about how to improve the product. Nest is always looking to grow in the right direction and is committed to helping members achieve their retirement goals hence the importance of this research.

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

### **Audit committee**

The audit committee is responsible for monitoring the integrity of the financial statements for Nest Corporation and the 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, the audit committee:

- reviewed the annual report and accounts for both Nest Corporation and the scheme and recommended their approval to the Board
- reviewed the plans of the external auditors for their audit of the annual accounts of both Nest Corporation and the scheme, and oversaw the delivery and effectiveness of external audit
- approved the annual internal audit plan and provided oversight of its delivery and implementation of its recommendations

- approved the annual compliance plan and received regular updates on delivery and findings
- provided oversight of Nest’s application for Master Trust Authorisation to The Pensions Regulator and recommended its submission to the Board for approval
- reviewed the system of internal controls within Nest Corporation and the scheme, via the AAF 02/07 report.

### **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, the risk committee:

- undertook the three yearly zero-based review of Nest’s principal risks and recommended their approval to the Board
- reviewed Nest Corporation’s risk management and policy frameworks and recommended them for approval to the Board
- provided oversight of the risk appetite levels and tolerances for each principal risk and recommended their approval to the Board
- reviewed and challenged key areas of risk
- reviewed and approved financial crime prevention, information security and business continuity 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, the investment committee:

- reviewed the **Statement of investment principles** (SIP) and recommended its approval to the Board
- provided oversight and made recommendations to the Board on the development of the overall investment strategy, including changes to the funds available to Nest members
- maintained oversight of the investment performance and risk management of all Nest retirement funds, including the approval of changes in asset allocation as required
- gave ongoing consideration to the development of the Nest investment approach
- provided oversight of the developing work on responsible investment and considered the annual responsible investment report.

## Nominations and remuneration committee

The primary role of the committee is to ensure the remuneration strategies and organisation culture enables Nest to attract and retain the required skills and talent of senior executives and provide oversight of the corporate governance processes within Nest.

During the year, the nominations and remuneration committee:

- reviewed the results of the annual skills and experience analysis of Board Members and approved recommendations relating to Board training requirements, induction processes, and any implications on recruitment of Board Members
- reviewed the responses of Board Members' annual fitness and propriety questionnaires, and the questionnaires submitted with the Pensions Regulator's Master Trust Authorisation application
- considered the recommendations arising from the annual internal Board and committee effectiveness review
- approved the induction plans for the six new Board Members appointed during the year
- discussed the annual recruitment plan for new members of both the Employers' and Members' panels
- received regular reports from the Director of People and Development on people and remuneration matters across Nest
- provided oversight of the development of the executive team succession plan.

## Determinations committee

The determinations committee is responsible for adjudicating the disputes received about the scheme at Stage 2 of the Internal Dispute Resolution Procedure (IDRP). This is the final stage of the complaints process for members of the scheme.

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

During the year, the determinations committee considered 29 cases (2017/18: 31 cases):

- 7 were upheld (2017/18: 8 cases)
- 16 were partially upheld (2017/18: 9 cases)
- 6 were not upheld (2017/18: 8 cases).

The committee also received information on six cases which had been withdrawn by the complainant before consideration by the committee (2017/18: 6 cases) and 5 cases, which were escalated to the Pensions Ombudsman after IDRP Stage 2. One case already upheld was taken to the Pension Ombudsman and resulted in a higher level of compensation being paid to the complainant.

## 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 has 10 members. During the year the Employers' Panel:

- Prepared and presented the Employers' Panel annual report to the Board.
- Completed its programme of work which focused on topics that were useful to Nest Corporation and relevant to the panel. A highlight of the work programme was the panel's advice on the development of Nest's employers' strategy.
- Held a joint meeting between Board Members, panel members and the executive team. The meeting explored what employers should do to help their employees understand more about pensions.
- Were consulted on a proposed change to the SIP.

## 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 has 11 members. During the year, the Members' Panel:

- Prepared and published the Members' Panel annual report for submission to the Board and the Secretary of State for Work and Pensions.
- Completed its programme of work which focused on topics that were useful to Nest Corporation and relevant to the panel. A highlight of the work programme was the panel's advice on the development of Nest's members' strategy.
- Held a joint meeting between Board Members, panel members and the executive team. The meeting explored what employers should do to help their employees understand more about pensions.
- Were consulted on a proposed change to the SIP.
- Responded to the DWP consultation paper on the Pensions Dashboard.

## Governance framework

### Board meetings

The Board met 10 times during the year, with one additional meeting focused solely on strategy. The Board oversees the implementation of the agreed strategy holding the Chief Executive Officer to account and providing support and challenge as appropriate.

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

The priority of the Board is to provide a robust, stable scheme which operates in the best interests of its members. It focuses on delivering a good service to members and employers and meeting its public service obligation to enable any employer to choose Nest to meet their auto enrolment duties. The appropriateness of the reporting to the Board is reviewed annually as part of the Board effectiveness review to ensure that this continues to be appropriate and supports the Board in effective decision making.

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

As part of the normal business cycle, Nest Corporation:

- approved the long-term financial projections, three-year business plan, annual budget and all associated funding plans
- approved the annual report and accounts for both the scheme and for Nest Corporation
- approved the AAF 02/07 Master Trust assurance report for the scheme
- approved the revised SIP
- approved the risk appetite and tolerances for each principal risk
- approved changes to Committee membership upon the recommendation of the nominations and remuneration committee
- reviewed and approved the revised Scheme of Reserved Matters and Delegations.

In addition, during the year it:

- approved Nest Corporation's application to the Pensions Regulator for Master Trust Authorisation
- approved the amended and restated loan agreement with the DWP
- approved an updated Framework Agreement between Nest Corporation and the DWP
- approved a revised Memorandum of Understanding with the Members' Panel and Employers' Panel
- received annual reports from the Members' Panel and Employers' Panel
- approved the annual assessment of value for members
- provided oversight of the procurement process for Nest's future scheme administration service.

## Risk management

### Overview

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

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

## Nest Corporation's risk management framework

Nest Corporation's risk management framework is reviewed on an annual basis to ensure it remains fit for purpose and takes developments in industry practice into account. At the core of its framework is the risk management process shown in the diagram below.

Each business area across Nest Corporation maintains a log of its key risks, which is reviewed regularly. A principal risk dashboard is used to report critical, principal and other significant risks to the Executive Board and risk committee. Additionally, the Board receives regular principal risk information.

In addition to the controls and mitigating actions recorded within the risk log, Nest has a Crisis Management Policy and Crisis Management Plan which it would invoke in the event of a crisis, including the appearance of a Principal Risk. There is also a Business Continuity Plan and Major Incidents Management Process which detail the arrangements should a business continuity event or incident occur.



## Nest Corporation's principal risks

A risk is an uncertain event, which if it were to occur, could impact the delivery of Nest Corporation's objectives. Nest Corporation has identified principal risks in relation to the delivery of its strategic priorities.

Its definition of a principal risk is 'A risk that is considered material to the development, performance, position or future prospects of Nest'.

Principal risks are reviewed every year to ensure that they remain appropriate. Every three years this takes the form of a comprehensive zero-based review, and this was carried out during 2018/19. This has led to some change in how principal risks are categorised. The review was led by the executive team and risk committee and approved by the Board in November 2018. The current set of principal risks which resulted from the zero-based review are explored in further detail below.

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

## Risk appetite

For each of its principal risks Nest Corporation has identified key risk indicators. The Trustee has set a risk appetite and tolerance level for each of these. This allows Nest Corporation to monitor whether it is managing risk in line with Trustee objectives.

Principal risk indicators and risk appetite levels for each indicator were most recently approved in March 2019.

The Executive Board and risk committee receive reports on performance against risk appetite and tolerance levels four times a year, and the Board receives a performance report across all principal risks and indicators twice annually. These reports identify key risk indicators that are performing outside the Board-approved risk appetite and tolerance levels, and the resulting actions taken to bring performance back on target.

In addition to the key risk indicators for each principal risk, Nest Corporation also monitors, assesses and reports against:

- its readiness to respond to the risk should it begin to crystallise
- the assurance actions it has taken related to the controls that mitigate the risk
- other risks from the risk log that are linked to the principal risk.

The following sections detail each of Nest's principal risks and the key controls and mitigating actions that are in place to manage them.

## Customer data and assets risk

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

### Key controls and mitigating actions

- The information security management systems operated by Nest Corporation, its scheme administrator and its IT managed services provider are all independently certified to the ISO 27001 standard. This gives assurance that systems and processes are robust and help protect customers' data.
- The scheme administrator has strict operational procedures in place to safeguard customers' data and assets.
- On an annual basis, an independent reporting accountant reviews the design of, and compliance with, key controls of the scheme administrator and provides Nest Corporation with an assurance report. Nest Corporation follows up on any exceptions identified within the report. The scheme administrator also regularly conducts penetration test activities and responds appropriately to any findings.

## Service failure risk

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

### Key controls and mitigating actions

- Nest Corporation works closely with its key suppliers to support them in providing a stable, reliable service to our customers. It undertakes a monthly capacity review with its scheme administrator to make sure that there is sufficient IT and headcount capacity to cope with predicted future transaction volumes. There are contractual service levels in place to underpin the timely and effective delivery of this work.
- Processes and systems are designed to be as straightforward to use as possible, and Nest Corporation consistently looks for ways to make its systems easier to use. For example, in November 2018 Nest Corporation introduced Origo Options, which makes members' experience of Nest's transfer services significantly quicker and easier.
- Key outsourced providers are required to provide Nest Corporation with independent assurance reports on their controls. Nest Corporation reviews these reports and follows up on weaknesses or control failures if any have been identified.

## Investment performance and reputation risk

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

### Key controls and mitigating actions

- Nest Corporation's SIP is reviewed at least every three years by the Board. The last formal review was March 2019.
- Nest's funds are diversified across different asset classes and fund managers. Nest Corporation 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.

## Financial performance risk

Financial performance risk is the risk that Nest Corporation fails to meet its financial objectives as agreed with government, which include repaying its loan and becoming self-funded.

### Key controls and mitigating actions

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

## Corporation culture, capability and capacity risk

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

### Key controls and mitigating actions

- Nest Corporation’s staff handbook sets out the values, behaviours and standards it expects from employees, along with the core policies and procedures that its staff should follow. It is aligned to internal Nest values of transparency, ease, empowerment and respect.
- The staff induction process ensures these expectations are communicated and understood at the outset of employment. Expectations are then reinforced through the performance management and appraisal process. The staff handbook is supplemented by a line manager’s toolkit which gives further guidance to managers in supporting Nest Corporation’s values and behaviours on an ongoing basis.
- All staff are required to attend mandatory training relating to diversity and inclusion and complete e-learning modules relating to financial crime, information security, GDPR and competition law.
- An annual staff engagement survey seeks feedback from across the workforce and an associated action plan is developed based on the findings.

- Nest Corporation holds an annual staff conference, along with quarterly town hall briefings, to ensure core messages are communicated and understood by everyone.
- Nest Corporation established a Leadership Academy in 2018 which will develop 60 leaders over the next two years. In addition, it has a core learning programme in line with its objective of building corporate capability.
- It has introduced a diversity and inclusion strategy, which will further support Nest Corporation in attracting and retaining capable, skilled staff. It is resourced by a Diversity and Inclusion Business Partner.

## Legal and regulatory compliance risk

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

### Key controls and mitigating actions

- Nest Corporation and the scheme are required to comply with pension-specific legislation including the Pensions Act 2008, The Pensions Regulator’s codes of practice and its new supervisory regime. It has a compliance assurance function which undertakes an annual plan of 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.

- To ensure Nest Corporation remains compliant, it must react in a timely fashion to regulatory change. Nest Corporation continually scans the legislative, regulatory and policy landscape which allows it to identify change early and plan ahead as far as possible, to manage and incorporate changes into its systems and processes. Its ability to manage and respond effectively to legislative and regulatory change will prevent such changes from adversely impacting its members and will minimise any associated costs.
- The principal change in this risk over the last year has been the introduction of the Master Trust regulatory regime and of the related application for authorisation. Nest Corporation is confident that the governance and operational policies and processes it has put in place are adequate to meet the requirements set out by the Pensions Regulator and it will receive authorisation. This risk is likely to continue requiring elevated focus and attention even after receiving Master Trust Authorisation, in order to meet the ongoing requirements of the supervisory regime.

## Failure to deliver compliant and effective member and employer proposition risk

Failure to deliver compliant and effective member and employer proposition risk is the risk that Nest Corporation fails to keep its proposition and service aligned to regulatory requirements and/or to the changing needs or expectations of its customers.



**Key controls and mitigating actions**

- Nest Corporation continues to work with policy makers, regulators and the wider industry to help find solutions which will meet the needs of its members and employers both now and in the future. Regular meetings are held to identify and recognise any impacts arising from new legislation or regulation through detailed horizon scanning sessions. These meetings help to ensure that necessary changes required to maintain the compliance of the Nest scheme are captured, understood and delivered effectively.
- Nest Corporation continues to assess and monitor the needs of its members and employers through a detailed programme of research and customer insight tracking to continually evaluate the effectiveness of the proposition. It has implemented two new ‘improvement’ workstreams for both members and employers, to identify, understand and prioritise necessary operational and product improvements to key member and employer processes. Recent changes have included operational and product improvements to retirement and transfer processes to enable better outcomes for Nest members, with further product improvements planned in 2019/20.
- There is ongoing investment in improvements to member engagement, including the development of new tools and communication strategies and updates to the Nest scheme website. These improvements allow members to better engage with Nest across a range of devices and to more effectively manage their pension and plan for their retirement.

- Changes have traditionally been incorporated into the Nest scheme by way of twice yearly service releases. A product roadmap sets out the changes that Nest Corporation is likely to make over the next three years to ensure that change is managed in line with its strategic priorities. This also incorporates legal and regulatory change. Nest works alongside our scheme administrator to plan, design and build these changes into its software systems and processes.
- Nest Corporation is reviewing the way that change is delivered as it nears the end of its current scheme administration contract and as work progresses to procure a new contract. As part of this transition Nest Corporation has sought to limit procurement risk by exploring new approaches to change.

**Ensuring competitiveness risk**

Ensuring competitiveness risk is the risk that Nest Corporation’s competitiveness is compromised either by its inability to compete effectively or the risk of being perceived to abuse its market share. Nest Corporation’s public service obligation requires it to accept all employers that wish to use it to meet their auto enrolment obligations.

**Key controls and mitigating actions**

- Nest Corporation performs regular horizon scanning activities. This is to monitor market trends and potential upcoming competitive challenges to ensure that it remains competitive. It also engages with the market and participates in government consultations, wider market activities, industry groups and working groups. It does this to maintain a positive relationship with government, regulators and industry peers.

- Nest Corporation plans to further improve its employer experience through changes to product and processes. Incremental improvements to web services and web functionality are also planned, as well as refreshed branding. The member proposition is also evolving as Nest Corporation looks to provide a wider suite of retirement options for members.
- To enable effective engagement with employers and intermediaries, Nest Corporation develops thought leadership content and publishes a wide range of media through trade publications and digital channels. Its account management team attends key trade events and it facilitates two employer events per year for large employers.
- Product innovations such as Nest Connect and payroll integration, through web services, has allowed Nest Corporation to create a simple and hassle-free service that matches Nest’s processes to the way people work. Nest Corporation continues to evaluate this service and engages regularly with Nest connectors, employers and payroll organisations to maintain these relationships and ensure it maintains an effective and competitive proposition.

## Future scheme administration service risk

One of Nest Corporation's key outsourced contracts, the scheme administration contract, is currently due to expire in 2023. A programme has been established to prepare and operate a procurement of future scheme administration requirements to ensure that Nest Corporation continues to meet its scheme and statutory duties and remains effective and efficient.

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

### Key controls and mitigating actions

- A programme-specific governance structure ensures that decisions are made appropriately.
- The programme has determined Critical Success Factors for the programme, and there are structures in place to ensure those success factors are achieved.
- The programme regularly re-assesses the impacts (if any) it has on the overall risk exposure for Nest, via an impact assessment across all principal risks.

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

This is the risk of conflict between Nest Corporation (a public corporation) and its sponsoring department (DWP) or the government, which also provides its funding.

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

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

### Key controls and mitigating actions

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

## Processing core scheme financial transactions

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

- 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 Board 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 18.

The Trustee Board has reviewed the process 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 the outsourced service providers operate to agreed service levels and reporting of performance against those service levels. In order to achieve this, the Trustee receives and reviews reports on a monthly basis
- 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. TCS also provides Nest with an independently audited annual AAF 01/06 report which tests the operational effectiveness of their administration control framework.

Automated reconciliation of core scheme financial transactions is carried out for Nest by the two third-party service providers. Reconciliations are performed for all member records on daily, weekly and monthly cycles and reported to Nest accordingly.

The Trustee has in place contractual requirements and service levels which cover the accuracy and timeliness of the processing of core transactions. For example, following the receipt of a valid request for a payment out in respect of a member, TCS have an expected service level of up to five working days for the completion of the payment. The service level would be met if on a monthly basis this was attained in at least 95 per cent of cases. Controls are operated regarding the verification and validity of data to ensure that accuracy is maintained.

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

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

To improve service, in November 2018 Nest successfully introduced a new transfer process using the Origo Options platform making it easier and quicker for transferring members to use.

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

## Charge levels

The Nest pension scheme's charges comprise two elements:

- 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 including the default funds.

See Appendix four for illustrations of the cumulative effect over time of Nest's costs and charges on members' pots using three different age profiles.

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

## Transaction costs

The transaction costs for each fund, detailed in Appendix three, are the explicit costs of buying and selling securities. We don't charge these costs separately but include them within the overall investment returns.

Transaction costs for the default funds are between 0.035 and 0.074 per cent and costs for other fund choices are between 0.000 and 0.053 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.

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 minimise 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 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.

## Default arrangements

Most members do not 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 Retirement Date Fund has the objective of outperforming inflation over the long term. It does this by taking the appropriate risk on members' behalf at different times in their savings career.

## Nest's default funds

In delivering the overall investment objective for the default funds, the Trustee pays attention 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 reduce 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 so that members, the vast majority of whom do not wish to take an active role in the investment process, can be confident in how their contributions are invested. The availability of a well-constructed low-cost default fund is an essential part of auto enrolment and is central to Nest's investment approach.

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 without charge 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<sup>1</sup>. 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 2019, 99 per cent of members were invested in the default funds.

The **Statement of investment principles** (SIP) is attached in Appendix five. It is also available online [nestpensions.org.uk/schemeweb/dam/nestlibrary/SIP-Apr18-Mar21.pdf](https://nestpensions.org.uk/schemeweb/dam/nestlibrary/SIP-Apr18-Mar21.pdf) and by request using the contact information on page 86.

## The default funds' glide path

The varying allocation between higher risk and lower risk 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 charges (see page 108).

<sup>1</sup> [nestpensions.org.uk/schemeweb/dam/nestlibrary/NESTs-strategic-asset-allocation-v1.2.pdf](https://nestpensions.org.uk/schemeweb/dam/nestlibrary/NESTs-strategic-asset-allocation-v1.2.pdf)

- The growth phase is where the maximum growth in assets is being targeted through asset classes that are expected to grow in value relative to inflation. The objective for this phase is to outperform CPI inflation by 3 per cent a year after charges (see page 108) over the long term.
- The consolidation phase prepares a member's assets for retirement and typically begins 10 years before their Nest Retirement Date Fund matures. Investments in this phase are progressively switched out of higher risk assets and into lower risk investments. The primary objective of the consolidation phase for funds maturing after 2020 is to outperform CPI inflation after charges (see page 108) while aiming to progressively reduce 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. It 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.

## Review of the default fund

A review of the default funds and the SIP must take place at least every three years and without delay after any significant change in investment policy. The last full review of the default funds took place in March 2018 and a SIP was produced for the period April 2018 to March 2021. The SIP is attached in Appendix five. It is also available online [nestpensions.org.uk/schemeweb/dam/nestlibrary/SIP-Apr18-Mar21.pdf](https://nestpensions.org.uk/schemeweb/dam/nestlibrary/SIP-Apr18-Mar21.pdf) and by request using the contact information on page 86.

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

- review of performance at quarterly investment committee meetings
- the performance of the default funds against their objectives
- the performance of the underlying building blocks against their benchmarks
- three-year return by volatility
- performance attribution

- active and passive manager performance
- fund management costs
- assets under management growth
- operational oversight
- operational risks
- consideration of the written advice from the Chief Investment Officer who leads Nest's in-house investment team.

The key elements to the review of the suitability of the default funds begin with an understanding of the membership that we have developed, and that we continue to test through research.

We assess the historic performance of the default funds, against the investment objectives, which are aligned with the needs of the membership. We monitor the factors underlying this performance: asset allocation, transaction costs, and the performance of the fund managers that invest in the individual asset class building blocks, from which the default funds are constructed.

We also monitor the volatility and other risks being taken by the managers, and that then feeds into the overall risk management of the default funds. Finally, we incorporate a forward looking element of the review process, to ensure that we are satisfied with the ongoing suitability of the default funds. This forward view then manifests in the annual review of the reference portfolios, which enables us to develop a view of the expected returns and volatility for each phase of the default fund glide path. Any recommendations from this review then form part of the Chief Investment Officers advice and are considered by the Board.

The Chief Investment Officer is qualified to provide this advice by his ability and practical experience of investment matters. The Board has confidence that the Chief Investment Officer has the appropriate knowledge and experience of managing investments for a trust-based scheme. The advice of the Chief Investment Officer considers the suitability of the investments, the need for diversification, the suitability of Nest's external fund managers and the principles contained in this SIP. The Board will also take advice required for any future changes in investment strategy and fund choice.

Following this review the Board confirms that the strategy and returns remain consistent with the aims and objectives of the default funds and other fund choices and therefore all funds remain fit for purpose. No changes to the objectives of the default funds or other fund choices were proposed following this review.

The Board 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 and the performance of all the default strategy funds and fund choices.

After considering the written advice of the Chief Investment Officer, the Board updated the SIP in March 2019 to clarify that Nest can now invest in segregated accounts as well as pooled funds. This is a change to the way in which we access underlying assets in the default funds rather than a change to the default funds' approach. No other changes were necessary.

The next full review of the default funds and the SIP is due to take place no later than March 2021.

## Value for members

The Trustee must calculate the charges and transaction costs that members' funds are subjected to, at least annually. It must also assess the extent to which these charges and transaction costs represent good value for individual members, to the membership as a whole and in comparison with other options available in the market.

The Trustee carried out this assessment during the financial year, using guidance set out in The Pensions Regulator's code of practice 13 and the accompanying Guide to Value for Members.

Nest has undertaken, and continues to carry out, in-depth research into its members' needs. This research has led Nest to define value for members criteria that relate to the suitability of the default investments and fund choices, clear and accessible information and low and transparent charges.

The Value for Members assessment considered the following:

### The benefits of Nest membership:

- scheme features<sup>2</sup>
- scheme management and governance
- scheme investment
- communications
- administration

### The costs of Nest membership:

- the charges and transaction costs that a member pays

### Comparison with other schemes:

- how Nest's charges compare to those of other schemes in light of the scheme's public service obligation and its single pricing structure. It also considered the cap on member charges.

<sup>2</sup> This is an additional measure, outside the scope suggested by TPR. However, Nest considers that this is relevant when considering VFM.

The value for members assessment highlighted the following:

- Nest is delivering against members' needs by providing a high quality service with excellent standards of governance and administration to all members regardless of their level of contribution or size of employer.
- Nest has an easily accessible online account for members to use. Help and support is available via a range of channels, along with access to robust guidance provided by government services.
- Members benefit from high quality, award winning investment strategies and governance. Naming and communication of fund options to members has been designed for those with limited investment knowledge or expertise.
- Communications to members are clear and easy to understand. They provide the information, help and support members might need across their savings journey.
- Nest's price structure works out to be fair given the characteristics of the membership as a whole. Nest undertakes to make sure charges are transparent and that the effect on members' pots is clear.
- The Trustee believes that Nest's charges are reasonable when compared to the costs, charges and benefits its members might experience in other schemes.

Nest is confident that the charges and benefits reflect value for members.

Otto Thoresen  
Chair, Nest Corporation  
25 June 2019

## 1.4

# Statement of Trustee responsibilities for the financial statements

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, are the responsibility of the Trustee.

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

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

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

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

- assessing the scheme’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- using the going concern basis of accounting unless 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 trustees’ 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 them to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities.

Otto Thoresen  
Chair, Nest Corporation  
25 June 2019

Chapter 2

# Investment report





## 2.1

# Statement of investment principles

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

Nest continued to diversify the range of assets in its portfolio, seeking to achieve the best risk-adjusted returns on behalf of members. This included adding a segregated commodities mandate to act as a diversifier to equities and help protect members' pots against inflationary pressures. Managing environmental, social and governance (ESG) risks are central to the commodities fund's design. Nest updated its **Statement of investment principles** to reflect that Nest is now investing in a segregated mandate, whereas previously we only invested in pooled funds.

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.

The Statement of investment principles (SIP) is attached in Appendix five. It is also available online [nestpensions.org.uk/schemeweb/dam/nestlibrary/SIP-Apr18-Mar21.pdf](https://nestpensions.org.uk/schemeweb/dam/nestlibrary/SIP-Apr18-Mar21.pdf) and by request using the contact information on page 86.

### Nest funds

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

- a well-constructed default strategy that has clear return objectives and a carefully managed risk profile, 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.



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



## 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 52).

The default Nest Retirement Date Fund will match either their state pension age or age 65, depending on the member's date of birth.

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

Members can change their Nest 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 (see page 106) over the long term. The chosen measure of inflation is the consumer price index (CPI).

There are 49 separate Nest Retirement Date Funds that make up our default strategy with a further five additional fund options (see page 52).

## 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 table below.

Foundation phase objectives	Growth phase objectives	Consolidation
<p>Preserve capital while seeking sufficient return to match inflation after all charges (see page 108) over the long term</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 (see page 108)</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 (see page 108) over the long term 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. Members have the option to be in a lifestyled or non lifestyled version of the fund.

### Nest Lower Growth Fund

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

### Nest Pre-retirement Fund

This fund is suitable for members close to retirement who intend to take a tax free cash lump sum and purchase an annuity.



**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.**



## 2.4

# Investment managers

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

The 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.

The vast majority of the schemes assets are invested in public markets with good liquidity and valued on a daily basis.

A small proportion of the assets (Circa 7.5%) are invested in illiquid property assets which are valued on a monthly basis.

## Nest's mandates and current managers

Asset Class	Fund manager
Emerging market debt	Amundi Asset Management
Low-risk sterling liquidity	Amundi Asset Management
Dynamic risk management	Amundi Asset Management
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
Commodities	CoreCommodities
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
A range of single year gilts funds	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
Global developed GBP equities hedged	UBS Asset Management
UK equities	UBS Asset Management

## 2.5

# Custodial arrangements

The scheme invests in pooled and segregated funds. When the assets are invested in pooled funds the assets will be held by the custodians appointed by the respective asset manager. For segregated accounts the assets will be held by State Street Bank on behalf of Members. State Street Bank also provides fund administration services.

## Underlying funds and custodians

Underlying fund	Custodian
Amundi Funds Global Emerging Blended - IE	CACEIS Bank Luxembourg
Amundi Money Market Fund	CACEIS 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
BMO F&C Responsible Global Equity Fund	State Street Bank and Trust
BMO F&C Responsible Sterling Bond Fund	State Street Bank and Trust
HSBC GIF Economic Scale Index Emerging Markets 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.
LGIM Managed Property Fund (70/30)	HSBC Securities Services and Citibank N.A. <sup>1</sup>
LGIM Single Year Gilt Funds 2017-2022	HSBC Securities Services and Citibank N.A.
Nest/CoreCommodity Program	State Street Bank and Trust Company
Amundi 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 Climate Aware World Equity Fund	J.P. Morgan
UBS Life World Equity Tracker Fund	J.P. Morgan
UBS Life World Ex-UK Tracker GBP Hedged	J.P. Morgan
UBS Life UK World Equity Tracker	J.P. Morgan

<sup>1</sup> The legal deeds are held by Eversheds Sutherland LLP and Maples Teesdale LLP

## 2.6

# Investment developments

The 2018/19 financial year was characterised by an uncertain investment landscape. High-profile global and local political developments, such as trade wars between the US and China, the presidential elections in Brazil and Mexico and uncertainty over the UK's withdrawal from the EU created volatility for investors.

Both UK and US interest rates were raised around August 2018, leading to a strengthening dollar but limiting the growth of emerging markets. UK currency weakened due to uncertainty around the UK's withdrawal from the EU. To help protect investors, Nest introduced a currency hedge against half of its developed market equity exposure.

Nest continued to diversify the range of assets in its portfolio, seeking to achieve the best risk-adjusted returns on behalf of members. This included adding a segregated commodities mandate to act as a diversifier to equities and help protect members' pots against inflationary pressures. Managing environmental, social and governance (ESG) risks are central to the commodities fund's design. Nest updated its **Statement of investment principles** to reflect that Nest is now investing in a segregated mandate, whereas previously we only invested in pooled funds.

Nest is seeking fund managers to invest in global investment grade corporate bonds and private credit (illiquid assets), which will enable it to open up new return opportunities. The searches are ongoing and announcements on successful fund managers will be announced later in 2019.

Nest's latest responsible investment report was published in October 2018<sup>1</sup> and highlighted members' desire for their money to be invested responsibly. Nearly two thirds of Nest members surveyed thought it important their pension scheme considers the environment, society and corporate behaviour when investing their money.

<sup>1</sup> [nestpensions.org.uk/schemeweb/dam/nestlibrary/nest\\_building\\_new\\_norms\\_2018.pdf](https://nestpensions.org.uk/schemeweb/dam/nestlibrary/nest_building_new_norms_2018.pdf)

The report's highlights included:

- Nest has reallocated investments of £133.3 million from companies that are high contributors to climate change and invested instead in businesses set to benefit from the transition to a low carbon economy.
- Nest's global developed equities fund manager voted against company management 2,825 times over the year and supported 30 per cent more shareholder resolutions than the previous year.

## 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. In acting as a responsible investor, Nest focuses on its fiduciary duty, rather than ethical considerations.

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 on 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 in 2017, 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 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 investment manager, UBS Asset Management. 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 change <sup>1</sup> . 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 CO equivalents which is a widely accepted standard for measuring emissions from all greenhouse gases.
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: <ul style="list-style-type: none"> <li>— Overweighting companies that are on track to meet the requirements of a 2°C scenario. Nest has built a glide path 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.</li> <li>— Tilting towards companies that provide renewable energy or supporting technologies.</li> <li>— Underweighting companies with coal, oil and gas reserves.</li> <li>— Tilting away from those that produce energy from coal.</li> <li>— Tilting away from those with rising carbon emissions on an absolute and relative basis.</li> </ul> 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 fund manager is committed to modelling climate scenarios including a 2°C scenario and is working with Carbon Clear to set appropriate targets with this scenario.

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

<p>Recommended Disclosure c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios including a 2°C lower scenario.</p>	<p>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.</p> <p>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 of that company in the fund.</p> <p>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 leads to annual energy and waste reduction targets for each asset.</p>
<p><b>Risk management</b></p>	
<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 the fund manager is able to assess the scope 1, 2 and 3, carbon intensity of companies, CO<sub>2</sub> 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 investment 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

<p>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.</p>	<p>Nest uses a multi-dimensional set of metrics that guide portfolio construction towards exposures that reflect the transition to a 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.</p> <p>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.</p> <p>In short, Nest first calculates the past five years change in absolute (raw tonnes in the atmosphere) and relative (to revenue) CO<sub>2</sub> 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).</p> <p>This methodology is applied to sectors of the economy deemed most climatically sensitive by the IEA, which equates to around 30 per cent of stocks in the FTSE Developed Index.</p>
<p>Recommended Disclosure b) Disclose Scope 1, 2 and if appropriate 3 greenhouse gas (GHG) emissions and the related risks.</p>	<p>As at the end of March 2019 the CAF had these carbon intensity exposures:</p> <p>Carbon Intensity Scope 1: 55 Tonnes of CO<sub>2</sub> equivalent per million dollar revenue Carbon Intensity Scope 2: 29 Tonnes of CO<sub>2</sub> equivalent per million dollar revenue Carbon Intensity Scope 3: 142 Tonnes of CO<sub>2</sub> equivalent per million dollar revenue</p> <p>Currently the absolute carbon emissions for scope 1, 2 and 3 is -38 per cent, -10 per cent and -8 per cent respectively relative to the FTSE Developed Index. The current total renewable energy production for the fund is 37 per cent more than the index.</p> <p>Other metrics used within the fund include a fossil fuels reserves factor, a coal energy factor and a 2°C degree glide path probability factor.</p>
<p>Recommended Disclosure c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.</p>	<p>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.</p> <p>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 -3.3 per cent. The fund also aims to target 40 per cent more renewable energy generation relative to the index.</p> <p>Nest's UK direct property fund manager has exceeded its 20 per cent reduction targets by 2020 for energy, carbon and water over the course of 2018.</p> <p>It is now establishing Science Based Targets for Nest's properties, as a basis for measuring progress over the next 10 years and beyond.</p>

## 2.7

# Fund performance

Despite the volatile investment conditions, Nest's diversified portfolio enabled the pension scheme to overturn a challenging third quarter in 2018 and achieve positive annual returns for 2018/19.

Short-term periods of negative returns are to be expected in pension saving. The last decade has seen one of the longest growth periods in equity markets, however Nest's investment approach has always anticipated that this growth would eventually subside. That expectation has driven Nest's investment in alternatives. As a result of its diversified portfolio, the one-year performance of the 2040 Retirement Date Fund was 7.8 per cent net of annual management charges. Nest's three-year average returns remain strong and above expectations at 9.8 per cent net of annual management charges. Nest has achieved these returns without taking excessive investment risk.

Nest anticipates that the current uncertainty in markets will continue into 2019/20. The scheme will therefore continue to diversify its portfolio to help members achieve good long-term performance while helping to reduce the level of volatility within their investments.

Fund	Benchmark	Fund performance one year to 31 March 2019	Benchmark performance one year to 31 March 2019	Annualised fund performance three years to 31 March 2019	Annualised benchmark performance three years to 31 March 2019	Annualised fund performance five years to 31 March 2019	Annualised benchmark performance five years to 31 March 2019	Annualised fund performance since inception <sup>1</sup>	Annualised benchmark performance since inception <sup>1</sup>
Nest Retirement Date Fund in the Foundation phase <sup>2</sup>	*	7.0	1.9	7.6	2.2	7.2	1.4	6.8	1.4
Nest Retirement Date Fund in the Growth phase <sup>3</sup>	**CPI + 3%	7.8	5.0	9.8	5.3	9.2	4.5	8.8	4.9
Nest Retirement Date Fund in the Consolidation phase <sup>4</sup>	***	5.2	1.9	7.0	2.2	7.2	1.4	7.3	1.8
Nest Ethical Fund (Growth phase)	****CPI + 3%	9.3	5.0	11.4	5.3	10.9	4.5	10.3	4.9
Nest Sharia Fund	Dow Jones Islamic Market World Index	18.9	18.6	15.5	16.4	13.9	14.6	12.7	13.7
Nest Higher Risk Fund	CPI + 4%	8.9	6.0	11.9	6.3	10.7	5.5	10.3	5.9
Nest Lower Growth Fund	7-day sterling LIBID rate	1.4	0.5	0.7	0.3	0.5	0.3	0.4	0.4
Nest Pre-retirement Fund		2.9	-	3.5	-	3.8	-	4.4	-

All returns are shown net of annual management charges.

<sup>1</sup> Inception for all funds is 1 August 2011 except the 2060 Retirement Date Fund which is 1 January 2014

<sup>2</sup> 2060 Retirement Date Fund

<sup>3</sup> 2040 Retirement Date Fund

<sup>4</sup> 2022 Retirement Date Fund

\* Nest Retirement Date Funds in the foundation phase target investment returns equivalent to CPI inflation and coverage of all scheme charges.

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

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

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

## 2.8

# Employer related investments

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



## Chapter 3

# Financial statements





## 3.1

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

## Opinion

We have audited the financial statements of National Employment pension scheme ("the scheme") for the year ended 31 March 2019 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 2019 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.

## The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Trustee, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the pension scheme's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the pension scheme's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

## Going concern

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

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

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

### Other information

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

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

### Trustee's responsibilities

As explained more fully in their statement set out on page 47, 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](http://frc.org.uk/auditorsresponsibilities).

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

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

Nadia Dabbagh-Hobrow

**for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants

15 Canada Square  
London  
E14 5GL

25 June 2019

## 3.2

## Financial statements

## Fund account for the year ended 31 March 2019

	Note	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
<b>Contributions and benefits</b>			
Contributions - Employers	3	1,229,613	560,581
Contributions - Members	3	1,313,266	439,899
Contributions - HMRC	3	327,791	110,194
Other income	4	69,586	13,298
		<b>2,940,256</b>	<b>1,123,972</b>
Benefits	5	(50,001)	(19,272)
Administrative expenses	6	(61,262)	(25,705)
<b>Net additions from dealings with members</b>		<b>2,828,993</b>	<b>1,078,995</b>
<b>Returns on investment</b>			
Investment income and management fee rebates	7	9,219	4,806
Change in market value of investments	8.1	272,667	23,223
		<b>281,886</b>	<b>28,029</b>
<b>Net increase in the fund during the period</b>		<b>3,110,879</b>	<b>1,107,024</b>
<b>Net assets of the scheme at the start of the period</b>		<b>2,838,436</b>	<b>1,731,412</b>
<b>Net assets of the scheme at the end of the period</b>		<b>5,949,315</b>	<b>2,838,436</b>

## Statement of net assets (available for benefits) as at 31 March 2019

	Note	31 March 2019 £000	31 March 2018 £000
<b>Assets and liabilities allocated to members</b>			
<b>Investment assets</b>			
Equities	8.1	44,788	-
Bonds	8.1	158,960	-
Pooled investment vehicles	8.1	5,464,545	2,716,239
Derivatives	8.1	5,457	-
Foreign currency cash	8.1	18,050	-
Other invested assets	8.3	26,489	9,306
<b>Total assets</b>		<b>5,718,289</b>	<b>2,725,545</b>
<b>Investment liabilities</b>			
Derivatives	8.1	(4,560)	-
Other investment liabilities	8.3	(26,390)	(9,076)
<b>Total investments</b>		<b>5,687,339</b>	<b>2,716,469</b>
<b>Net current assets</b>			
Current assets	9.1	278,416	129,635
Current liabilities	9.1	(16,486)	(7,710)
<b>Total net assets allocated to members</b>		<b>5,949,269</b>	<b>2,838,394</b>
<b>Assets and liabilities not allocated to members</b>			
<b>Net current assets</b>			
Current assets	9.2	225	123
Current liabilities	9.2	(179)	(81)
<b>Total net assets not allocated to members</b>		<b>46</b>	<b>42</b>
<b>Total assets of the scheme at the end of the period</b>		<b>5,949,315</b>	<b>2,838,436</b>

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 page 68 and 69 including the notes to the financial statements on page 70 to 85 were signed on behalf of Nest Corporation by:

Otto Thoresen  
Chair, Nest Corporation  
25 June 2019

Clive Elphick  
Chair, Audit committee  
25 June 2019

## 3.3

# Notes to the financial statements

for the year ended 31 March 2019

## 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 pension 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. Accrued interest is excluded from the market value of bonds.

## 2.7 Derivatives

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

## 2.8 Investment income

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

- i. Dividends from quoted securities are accounted for when the security is declared ex-div.
- ii. Interest is accrued on a daily basis.
- iii. Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.

## 2.9 Change in market value of investments

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

### 3. Contributions

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Contributions from:		
<b>Participating employers</b>	1,230,696	561,361
less employers' share of refund of contributions for members opting out	(1,083)	(780)
	<b>1,229,613</b>	<b>560,581</b>
<b>Members</b>	1,314,367	440,447
less members' share of refund of contributions for members opting out	(1,101)	(548)
	<b>1,313,266</b>	<b>439,899</b>
<b>HM Revenue and Customs</b>	327,811	110,215
less HMRC share of refund of contributions for members opting out	(20)	(21)
	<b>327,791</b>	<b>110,194</b>
<b>Total</b>	<b>2,870,670</b>	<b>1,110,674</b>

### 4. Other income

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Transfers in - registered pension scheme	65,824	11,875
Transfers in - pension sharing order	3,762	1,423
<b>Total</b>	<b>69,586</b>	<b>13,298</b>



## 5. Benefits

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Trivial commutations	24,399	11,659
Uncrystallised Funds Pension Lump Sum	5,881	1,979
Death benefits payable to beneficiaries	2,049	1,291
Serious ill health	173	55
Annuities purchased through Open Market Option	98	41
Transfers out	17,401	4,247
<b>Total</b>	<b>50,001</b>	<b>19,272</b>

## 6. Administrative expenses

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Contribution charge	49,095	19,073
Annual management charge	12,226	6,531
Sundry costs	(59)	101
<b>Total</b>	<b>61,262</b>	<b>25,705</b>

## 7. Investment income and management fee rebates

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Interest income	463	56
Dividend income from pooled investment vehicles	6,838	3,689
Management fee rebates	1,918	1,061
<b>Total</b>	<b>9,219</b>	<b>4,806</b>

## 8 Investments

### 8.1 Investment movements

	Note	B'fwd as at 1 April 2018 £000	Purchases £000	Sales Proceeds £000	Change in market value £000	C'fwd as at 31 March 2019 £000
Equities		-	113,154	(62,801)	(5,565)	44,788
Bonds		-	447,133	(289,315)	1,142	158,960
Pooled investment vehicles	8.2	2,716,239	2,598,758	(134,450)	283,998	5,464,545
Derivatives	8.7	-	12,986	(10,945)	(1,144)	897
Foreign currency cash		-	714,433	(690,619)	(5,764)	18,050
<b>Total pooled and commodity investments</b>		<b>2,716,239</b>	<b>3,886,464</b>	<b>(1,188,130)</b>	<b>272,667</b>	<b>5,687,240</b>
Other investment assets	8.3	9,306				26,489
Other investment liabilities	8.3	(9,076)				(26,390)
<b>Total investments</b>		<b>2,716,469</b>				<b>5,687,339</b>
Represented by						
Allocated to members		2,716,469				5,687,339
Not allocated to members		-				-
<b>Total investments</b>		<b>2,716,469</b>				<b>5,687,339</b>

A summary of pooled investment vehicles by type of arrangement is as follows:	31 March 2019 £000	31 March 2018 £000
Unit linked insurance contracts	4,207,162	2,025,927
Open ended investment companies	1,257,383	690,312
<b>Total</b>	<b>5,464,545</b>	<b>2,716,239</b>

## 8.2 Investments

	31 March 2019 £000	31 March 2018 £000
Amundi Funds Global Emerging Blended - IE	227,945	122,143
Amundi Money Market Fund	145,423	26,581
BlackRock Aquila Connect Cash Fund	140,538	14,884
BlackRock Institutional Sterling Ultra Short Bond Fund	210,995	107,097
F&C Responsible Global Equity Fund	13,078	4,851
F&C Responsible Sterling Bond Fund	5,159	2,045
HSBC Global Investment Funds Economic Scale Index GEM Equity Fund	107,648	67,143
HSBC Islamic Global Equity Index Fund	8,453	2,644
JP Morgan Life High Yield Opportunities Fund	270,737	92,229
LGIM Global Real Estate Equity Index Fund	158,502	87,383
LGIM Hybrid Property Fund	422,418	260,737
LGIM Managed Property Fund	3,108	1,205
Nest Equity Risk Management Fund	76,122	105,496
Northern Trust Emerging Markets Custom ESG Equity Index Fund	167,029	75,385
Royal London UK Corporate Bond Pooled Pension Fund	752,347	368,196
Royal London Investment Grade Short Dated Credit	295,531	176,927
SSgA UK Conventional Gilts All Stocks Index Fund	4,390	2,507
SSgA UK Index Linked Gilts over 5 Years Index Fund	3,863	2,150
UBS Life World Equity Tracker Fund	471,604	839,752
UBS Life Climate Aware World Equity Fund	764,281	356,884
UBS Life UK (World) Equity Tracker Fund	66,024	-
UBS Life World Ex-UK Equity Tracker GBP Hedged Fund	1,149,350	-
<b>Total pooled investment vehicles</b>	<b>5,464,545</b>	<b>2,716,239</b>
Nest/CoreCommodity Program	222,695	-
<b>Total pooled and commodity investments</b>	<b>5,687,240</b>	<b>2,716,239</b>

### 8.3 Other investment balances

	31 March 2019 £000	31 March 2018 £000
Investment cash including cash in transit	25,946	8,791
Reimbursement due from investment managers	421	441
Management fee rebates	122	74
<b>Other investment assets</b>	<b>26,489</b>	<b>9,306</b>
Amounts due to investment managers in respect of outstanding trades	(25,086)	(8,438)
Annual management charge to be transferred to Nest Corporation	(1,304)	(638)
<b>Other investment liabilities</b>	<b>(26,390)</b>	<b>(9,076)</b>

### 8.4 Investment assets allocated to members

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

	31 March 2019 £000	31 March 2018 £000
Nest Retirement Date Funds	5,569,562	2,673,006
Nest Higher Risk Fund	83,053	30,766
Nest Ethical Fund	23,116	8,615
Nest Sharia Fund	8,452	2,646
Nest Pre-retirement Fund	1,682	1,008
Nest Lower Growth Fund	1,474	428
<b>Total assets allocated to members</b>	<b>5,687,339</b>	<b>2,716,469</b>

### 8.5 Fair value hierarchy

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

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

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

**Level 3:** inputs are unobservable (i.e. for which market data is unavailable) for the assets or liabilities.

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

For the purposes of this analysis listed funds have been included in (1) daily and weekly priced funds in (2).

### Investment fair value hierarchy policies

The approach to fair value determination in accordance with the above hierarchy for the main investment types is:

- i. The majority of listed investments are stated at bid price at the date of the Statement of net assets.
- ii. Fixed interest securities are stated at their clean prices. Accrued income is accounted for within investment income.
- iii. Pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or a single price where there are no bid/offer spreads as provided by the investment manager.
- iv. Exchange traded derivatives are valued using market quoted prices.

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

31 March 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equities	44,788	-	-	44,788
Bonds	158,960	-	-	158,960
Pooled investment vehicles	-	5,464,545	-	5,464,545
Derivatives	897	-	-	897
Foreign currency	18,050	-	-	18,050
	<b>222,695</b>	<b>5,464,545</b>	-	<b>5,687,240</b>
Other investment balances	-	99	-	99
<b>Total</b>	<b>222,695</b>	<b>5,464,644</b>	-	<b>5,687,339</b>

31 March 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equities	-	-	-	-
Bonds	-	-	-	-
Pooled investment vehicles	-	2,716,239	-	2,716,239
Derivatives	-	-	-	-
	-	<b>2,716,239</b>	-	<b>2,716,239</b>
Other investment balances	-	230	-	230
<b>Total</b>	-	<b>2,716,469</b>	-	<b>2,716,469</b>

An analysis of the underlying asset classes is:

Pooled investment vehicles	31 March 2019 £000	31 March 2018 £000
Equity	2,905,967	1,434,043
Bonds	1,770,968	873,294
Cash	362,084	146,960
Property	425,526	261,942
<b>Total</b>	<b>5,464,545</b>	<b>2,716,239</b>

## 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 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 53.

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. The Trustee carries out due diligence checks on the appointment of all investment managers and on an ongoing basis monitors 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:

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

### Analysis of direct credit risk

31 March 2019	Investment grade £000	Non-investment grade £000	Unrated £000	Total £000
Cash	18,050	-	-	18,050
Pooled investment vehicles	-	-	5,464,545	5,464,545
	<b>18,050</b>	<b>-</b>	<b>5,464,545</b>	<b>5,482,595</b>
31 March 2018				
Cash	-	-	-	-
Pooled investment vehicles	-	-	2,716,239	2,716,239
<b>Total</b>	<b>-</b>	<b>-</b>	<b>2,716,239</b>	<b>2,716,239</b>

Credit risk arising on bonds held directly or through pooled investments vehicles is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade.

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

Cash is held within financial institutions which are at least investment grade credit rated.

### Currency risk

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

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

	31 March 2019 £000	31 March 2018 £000
US Dollar	18,050	-

### Concentration of investment

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

	31 March 2019 £000	31 March 2018 £000
UBS Life World Ex-UK Equity Tracker GBP Hedged Fund	1,149,350	-
<b>Representing (of total net assets)</b>	<b>19.3%</b>	<b>-</b>
UBS Life Climate Aware World Equity Fund	764,281	356,884
<b>Representing (of total net assets)</b>	<b>12.8%</b>	<b>12.6%</b>
Royal London UK Corporate Bond Pooled Pension Fund	752,347	368,196
<b>Representing (of total net assets)</b>	<b>12.6%</b>	<b>13%</b>
UBS Life World Equity Tracker Fund	471,604	839,752
<b>Representing (of total net assets)</b>	<b>7.9%</b>	<b>29.6%</b>
LGIM Hybrid Property Fund	422,418	260,737
<b>Representing (of total net assets)</b>	<b>7.1%</b>	<b>9.2%</b>
Royal London Investment Grade Short Dated Credit	295,531	176,927
<b>Representing (of total net assets)</b>	<b>5.0%</b>	<b>6.2%</b>

## 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 as at 31 March 2019 £000	Foreign exchange risk	Other price risk	Interest rate risk	Credit risk <sup>1</sup>
Amundi Funds Global Emerging Blended - IE	227,945	●	◐	●	●
Amundi Money Market Fund	145,423	○	○	●	●
BlackRock Aquila Connect Cash Fund	140,538	○	○	●	●
BlackRock Institutional Sterling Ultra Short Bond Fund	210,995	○	◐	●	●
Nest/CoreCommodity Program	222,695	●	●	●	●
F&C Responsible Global Equity Fund	13,078	●	●	○	◐
F&C Responsible Sterling Bond Fund	5,159	◐	◐	●	●
HSBC Global Investment Funds Economic Scale Index GEM Equity Fund	107,648	●	●	○	◐
HSBC Islamic Global Equity Index Fund	8,453	●	●	○	◐
JP Morgan Life High Yield Opportunities Fund	270,737	●	◐	●	●
LGIM Global Real Estate Equity Index Fund	158,502	●	●	○	◐
LGIM Hybrid Property Fund	422,418	◐	●	◐	◐
LGIM Managed Property Fund	3,108	○	●	◐	◐
Nest Equity Risk Management Fund	76,122	○	○	●	●
Northern Trust Emerging Markets Custom ESG Equity Index Fund	167,029	●	●	○	◐
Royal London UK Corporate Bond Pooled Pension Fund	752,347	○	◐	●	●
Royal London Investment Grade Short Dated Credit	295,531	○	◐	●	●
SSgA UK Conventional Gilts All Stocks Index Fund	4,390	○	◐	●	●
SSgA UK Index Linked Gilts over 5 Years Index Fund	3,863	○	◐	●	●
UBS Life World Equity Tracker Fund	471,604	●	●	○	◐
UBS Life Climate Aware World Equity Fund	764,281	●	●	○	◐
UBS Life UK (World) Equity Tracker Fund	66,024	○	●	○	◐
UBS Life World Ex-UK Equity Tracker GBP Hedged Fund	1,149,350	○	●	○	◐
	<b>5,687,240</b>				

● significant exposure    ◐ some exposure    ○ no exposure

<sup>1</sup> This includes balances with security lending and over the counter derivative counterparties.

● 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.



## 8.7 Derivatives

Derivatives held at period end comprise:

	31 March 2019		31 March 2018	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Futures	5,457	4,560	-	-
<b>Total</b>	<b>5,457</b>	<b>4,560</b>	-	-

**Futures**

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

Commodity futures bought	Notional amount £000	Duration	Asset value at year end £000	Liability value at year end £000
Chicago Board of Trade (CBT)	36,483	May 2019	-	(1,508)
Chicago Board of Trade (CBT)	3,767	December 2019	-	(297)
Chicago Mercantile Exchange (CME)	127	June 2019	4	-
Chicago Mercantile Exchange (CME)	2,666	December 2019	65	-
COMEX division of NYMEX (CMX)	12,928	May 2019	396	(152)
COMEX division of NYMEX (CMX)	18,825	December 2019	324	(63)
ICE Futures US Softs (NYB)	11,160	May 2019	130	(425)
ICE Futures US Softs (NYB)	2,358	October 2019	-	(80)
ICE Futures US Softs (NYB)	1,732	December 2019	-	(140)
Intercontinental Exchange (ICE)	5,119	May 2019	244	-
Intercontinental Exchange (ICE)	9,830	July 2019	111	-
Intercontinental Exchange (ICE)	6,931	December 2019	167	-
LME Benchmark Monitor (LME)	-	April 2019	-	(351)
LME Benchmark Monitor (LME)	13,548	May 2019	602	(31)
LME Benchmark Monitor (LME)	3,245	June 2019	852	(721)
LME Benchmark Monitor (LME)	-	September 2019	527	(371)
LME Benchmark Monitor (LME)	6,510	December 2019	111	-
NYMEX Exchange (NYM)	23,704	May 2019	1,398	(43)
NYMEX Exchange (NYM)	1,110	July 2019	13	-
NYMEX Exchange (NYM)	14,445	October 2019	243	(378)
NYMEX Exchange (NYM)	7,602	December 2019	270	-
<b>Total 2019</b>	<b>182,090</b>	<b>-</b>	<b>5,457</b>	<b>(4,560)</b>
Total 2018	-	-	-	-

## 8.8 Transaction costs

Included within the purchases and sales of equities and futures are direct transaction costs of £126,000 (2018: £nil) comprising fees, commissions and stamp duty. These costs are attributable to the key asset classes as follows:

	Fees £000	Commission £000	Stamp Duty £000	Total £000
Equities	-	48	-	48
Futures	-	78	-	78
<b>Total 2019</b>	-	<b>126</b>	-	<b>126</b>
Total 2018	-	-	-	-

## 9. Current assets and liabilities

### 9.1 Current assets and liabilities allocated to members

	31 March 2019 £000	31 March 2018 £000
<b>Contributions due from:</b>		
Participating employers	82,430	48,919
Members	81,785	33,501
HM Revenue and Customs	72,226	27,499
Cash awaiting investment	41,975	19,716
<b>Current assets</b>	<b>278,416</b>	<b>129,635</b>
Benefits payable	(2,276)	(278)
Amounts to be invested	(1,503)	(812)
Contributions yet to be allocated to member accounts or returned to employers	(12,707)	(6,620)
<b>Current liabilities</b>	<b>(16,486)</b>	<b>(7,710)</b>
<b>Total net assets allocated to members</b>	<b>261,930</b>	<b>121,925</b>

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 £164,215k (2018: £82,420k). In respect of these outstanding contributions, £150,222k was received by 31 May 2019 (2018: £60,175k by 31 May 2018).

#### Employer-related investments

The balance at 31 March 2019 includes contributions due from employers totalling £34,152k (2018: £25,664k), which were due after their statutory due dates as required by the payment schedules. These represent employer-related investments at the year end of 0.6 per cent (2018: 0.9 per cent) of the scheme's total net assets, but they did not contravene subsection (1) of section 40 of the 1995 Pensions Act.

## 9.2 Current assets and liabilities not allocated to members

	31 March 2019 £000	31 March 2018 £000
Cash - General Account	65	93
Other receivables	160	30
<b>Current assets</b>	<b>225</b>	<b>123</b>
Other payables	(179)	(81)
<b>Current liabilities</b>	<b>(179)</b>	<b>(81)</b>
<b>Total net assets not allocated to members</b>	<b>46</b>	<b>42</b>

## 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 £61,321k (2018: £25,604k).

Nest Corporation is a participating employer in the scheme. Contributions of £2,035k (2018: £1,731k) were payable by Nest Corporation to the scheme during the year.

Remuneration and pay for Trustee Board Members is set by the Secretary of State for Work and Pensions. Total Trustee Board remuneration for the year was £698k (2018: £327k). The reason for the large increase is due to Helen Dean (Nest Corporation Chief Executive Officer) and Richard Lockwood (Nest Corporation Chief Financial Officer) becoming Trustee Board members during the year. This accounted for £346k of the increase. 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 2019.

## 3.4

# 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](mailto:support@nestpensions.org.uk)

or alternatively at:

Nest

Nene Hall  
Lynch Wood Business Park  
Peterborough  
PE2 6FY

0300 020 0393

## Regulation and disputes

### The Pensions Regulator

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

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

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

You can find helpful information about TPR at **[thepensionsregulator.gov.uk](http://thepensionsregulator.gov.uk)**

You can contact TPR at:

Phone: **0845 600 1011**

Email: [customersupport@tpr.gov.uk](mailto:customersupport@tpr.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: **0800 011 3797**

Email: [enquiries@pensionsadvisoryservice.org.uk](mailto:enquiries@pensionsadvisoryservice.org.uk)

Website: [pensionsadvisoryservice.org.uk](http://pensionsadvisoryservice.org.uk)

### Pensions Ombudsman

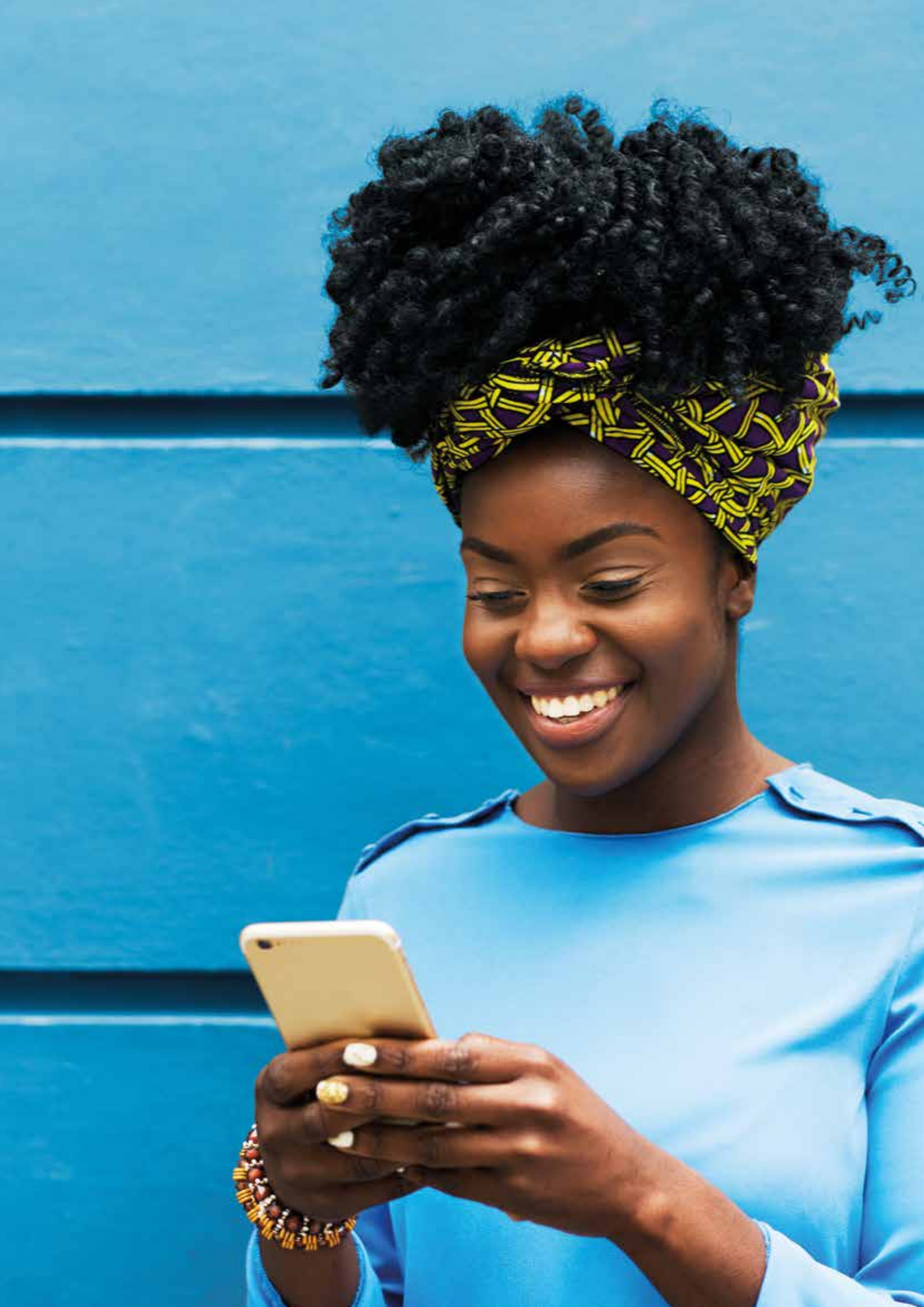
The Pensions Ombudsman investigates and determines any complaint or dispute of fact or law, in relation to an occupational pension scheme, which cannot be settled through TPAS and the Nest Internal Disputes Resolution Procedure.

You can contact the Pensions Ombudsman at:

Phone: **020 7630 2200**

Email: [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)

Website: [pensions-ombudsman.org.uk](http://pensions-ombudsman.org.uk)



# Appendices





# Appendix one

## The top 100 investments

The top 100 investments as at 31 March 2019 have been calculated on a lookthrough basis to the underlying holdings of the pooled funds invested in by the scheme.

The employer-related investments\* are the participating employers in which the scheme invests at arms-length through the investment managers. Any employer-related investments as a result of late contributions are disclosed in the financial statements. See note 9 on page 84.

Number	Investments	% of Investments
1	Treasury Bill maturity 04/19	1.24%
2	Apple Inc	0.98%
3	Microsoft Corp	0.95%
4	Treasury Bill maturity 05/19	0.85%
5	Amazon.com Inc*	0.77%
6	Alphabet Inc	0.75%
7	Treasury Bill maturity 05/19	0.59%
8	Bank deposit Eur Cae	0.53%
9	Facebook Inc	0.42%
10	Johnson & Johnson	0.41%
11	JP Morgan Funds	0.41%
12	JP Morgan Chase & Co	0.36%
13	Exxon Mobil Corp	0.34%
14	Samsung Electronics Co Ltd	0.34%
15	The Industrial Property Investment Fund	0.34%
16	BTOPEN W/Merr maturity 01/04*	0.32%
17	Nestlé SA	0.32%
18	Visa Inc Class A Shares	0.30%
19	Berkshire Hathaway Inc Class B	0.27%
20	Cisco Systems Inc	0.27%
21	Bank of America Corp	0.27%
22	Procter & Gamble Co	0.27%
23	Verizon Communications Inc	0.26%
24	Intel Corp	0.26%
25	Pfizer Inc	0.25%
26	UnitedHealth Group*	0.25%
27	AT&T Inc	0.25%
28	Mastercard Inc	0.24%
29	Simon Property Group Inc	0.24%

Number	Investments	% of Investments
30	Strand Island Site, London	0.24%
31	Central Saint Giles	0.24%
32	United Kingdom (Government of) maturity 15/04/19	0.24%
33	Home Depot Inc	0.24%
34	Novartis AG	0.24%
35	Merck & Co	0.23%
36	Chevron Corp	0.22%
37	Walt Disney Co	0.22%
38	Wells Fargo & Co	0.22%
39	Boeing Co	0.22%
40	West Cross Industrial Park	0.21%
41	Roche Holding AG	0.20%
42	Comcast Corp	0.19%
43	Prologis Inc	0.19%
44	Coca Cola Co	0.18%
45	PepsiCo Inc	0.18%
46	Poland Złoty FX Forward	0.18%
47	Toyota Motor Corp	0.17%
48	Co-operative Bank Bond 4.75% maturity 11/11/2021	0.17%
49	HSBC Holdings plc*	0.16%
50	Woodside Industrial Estate	0.16%
51	Blk lcs Gbp Liq Agency Dis maturity 01/04/19	0.16%
52	Citigroup Inc	0.16%
53	Tencent Holdings	0.16%
54	Caisse CTLE Desjardins Quebec maturity 15/04/19	0.16%
55	ACOSS (AGCE CTL ORGAN SECU SOC) maturity 03/06/19	0.16%
56	United Kingdom Government Bonds maturity 08/04/19	0.16%
57	DNB Bank ASA maturity 12/04/19	0.16%
58	Russian Ruble	0.16%
59	McDonalds Corp*	0.16%
60	WalMart Inc	0.16%
61	DsPur-Ccy	0.16%
62	MUGF Bank Ltd (UK Branch) maturity 01/04/19	0.15%
63	CACEIS Bank maturity 02/04/19	0.15%
64	Total SA	0.15%
65	Oracle Corp*	0.15%

Number	Investments	% of Investments
66	Adobe Inc	0.15%
67	One Piccadilly Gardens & The Pavilion, Manchester	0.15%
68	76-88 Wardour Street	0.15%
69	Apex, Reading	0.15%
70	Kingsland Business Park	0.15%
71	Bechtel House, 245 Hammersmith Road	0.15%
72	Netflix Inc	0.15%
73	Philip Morris International Inc	0.15%
74	Indian Rupee	0.14%
75	Alibaba Group	0.14%
76	Taiwan Semiconductor Manufacturing Company*	0.14%
77	Handelsbanken Plc maturity 05/09/19	0.14%
78	Medtronic Plc	0.14%
79	Income Contingent Student Loans maturity 24/07/2058	0.14%
80	Public Storage Inc	0.14%
81	IBM*	0.14%
82	Barclays Plc 2.375% maturity 06/10/2023	0.14%
83	Amundi 6 M	0.14%
84	Amundi Funds Bond Global Emerging	0.14%
85	Rmpa Services 5.337% maturity 30/09/2038	0.14%
86	Abbott Laboratories	0.14%
87	3M Co	0.13%
88	Amgen Inc	0.13%
89	Welltower Inc	0.13%
90	BGL BNP Paribas maturity 20/05/19	0.13%
91	United Kingdom Government Bonds 07/05/19	0.13%
92	Grenfell Island, Maidenhead	0.13%
93	Interchange Retail Park, Bedford	0.13%
94	KFW Group maturity 09/04/19	0.13%
95	ANZ Banking Group Ltd maturity 07/05/19	0.13%
96	Honeywell International	0.13%
97	AbbVie Inc	0.13%
98	Paypal Holdings Inc	0.13%
99	AIA Group Ltd	0.13%
100	Berkshire Hathaway Inc	0.13%

# Appendix two

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

Nest Retirement Date Fund	Fund performance one year to 31 March 2019 %	Annualised fund performance three years to 31 March 2019 %	Annualised fund performance five years to 31 March 2019 %	Annualised fund performance since Inception to 31 March 2019 %	Inception
CPI <sup>1</sup>	1.91	2.21	1.43	1.82	1 August 2011
Nest Starter fund <sup>2</sup>	7.24	7.25	7.27	7.44	1 August 2011
2065 retirement fund	-	-	-	5.21	1 January 2019
2064 retirement fund	7.04	-	-	3.29	1 January 2018
2063 retirement fund	6.99	-	-	4.67	1 January 2017
2062 retirement fund	7.03	7.53	-	7.70	1 January 2016
2061 retirement fund	7.04	7.60	-	6.46	1 January 2015
2060 retirement fund	7.04	7.62	7.19	6.81	1 January 2014
2059 retirement fund	7.02	7.62	7.28	7.62	1 January 2013
2058 retirement fund	7.18	7.62	7.26	7.53	1 January 2012
2057 retirement fund	7.33	7.82	7.39	7.49	1 August 2011
2056 retirement fund	7.49	8.09	7.58	7.61	1 August 2011
2055 retirement fund	7.63	8.51	7.94	7.82	1 August 2011
2054 retirement fund	7.85	8.96	8.30	8.06	1 August 2011
2053 retirement fund	7.84	9.45	8.73	8.36	1 August 2011
2052 retirement fund	7.84	9.78	9.08	8.67	1 August 2011
2051 retirement fund	7.84	9.78	9.19	8.79	1 August 2011
2050 retirement fund	7.85	9.78	9.23	8.82	1 August 2011
2049 retirement fund	7.84	9.78	9.23	8.88	1 August 2011
2048 retirement fund	7.84	9.78	9.23	8.88	1 August 2011
2047 retirement fund	7.85	9.78	9.23	8.83	1 August 2011
2046 retirement fund	7.85	9.78	9.23	8.84	1 August 2011
2045 retirement fund	7.85	9.78	9.23	8.84	1 August 2011
2044 retirement fund	7.84	9.78	9.23	8.84	1 August 2011
2043 retirement fund	7.84	9.77	9.23	8.82	1 August 2011
2042 retirement fund	7.84	9.77	9.23	8.82	1 August 2011
2041 retirement fund	7.85	9.77	9.22	8.82	1 August 2011

## Appendices

Nest Retirement Date Fund	Fund performance one year to 31 March 2019	Annualised fund performance three years to 31 March 2019	Annualised fund performance five years to 31 March 2019	Annualised fund performance since Inception to 31 March 2019	Inception
	%	%	%	%	
2040 retirement fund	7.84	9.77	9.23	8.83	1 August 2011
2039 retirement fund	7.85	9.78	9.23	8.83	1 August 2011
2038 retirement fund	7.84	9.78	9.23	8.83	1 August 2011
2037 retirement fund	7.84	9.77	9.22	8.82	1 August 2011
2036 retirement fund	7.84	9.77	9.22	8.82	1 August 2011
2035 retirement fund	7.84	9.77	9.22	8.82	1 August 2011
2034 retirement fund	7.83	9.77	9.22	8.82	1 August 2011
2033 retirement fund	7.84	9.78	9.23	8.83	1 August 2011
2032 retirement fund	7.84	9.77	9.23	8.82	1 August 2011
2031 retirement fund	7.85	9.78	9.22	8.80	1 August 2011
2030 retirement fund	7.87	9.79	9.23	8.83	1 August 2011
2029 retirement fund	7.84	9.77	9.22	8.82	1 August 2011
2028 retirement fund	7.72	9.74	9.20	8.77	1 August 2011
2027 retirement fund	7.30	9.65	9.15	8.80	1 August 2011
2026 retirement fund	6.87	9.26	8.91	8.62	1 August 2011
2025 retirement fund	6.45	8.69	8.57	8.39	1 August 2011
2024 retirement fund	6.03	8.14	8.16	8.15	1 August 2011
2023 retirement fund	5.61	7.59	7.71	7.82	1 August 2011
2022 retirement fund	5.21	7.03	7.16	7.29	1 August 2011
2021 retirement fund	4.78	6.47	6.67	6.88	1 August 2011
2020 retirement fund	2.13	3.30	4.81	5.60	1 August 2011
2019 retirement fund	1.47	2.40	4.13	5.07	1 August 2011
2018 retirement fund	0.97	1.40	3.33	4.45	1 August 2011
Nest Post-retirement fund <sup>3</sup>	0.98	0.66	0.50	0.47	1 November 2013

<sup>1</sup> The overall target for the Nest Retirement Date Funds is to outperform inflation.

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

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

# Appendix three

## Transaction costs for the year ended 31 March 2019

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

Fund	Average weighted transaction cost	Fund	Average weighted transaction cost
Nest Ethical Consolidation Fund*	0.008%	Your Nest 2042 Retirement Fund	0.061%
Nest Ethical Foundation Fund*	0.045%	Your Nest 2043 Retirement Fund	0.061%
Nest Ethical Growth Fund*	0.053%	Your Nest 2044 Retirement Fund	0.061%
Nest Pre-Retirement Fund*	0.026%	Your Nest 2045 Retirement Fund	0.061%
Your Nest 2017 Retirement Fund	0.035%	Your Nest 2046 Retirement Fund	0.061%
Your Nest 2018 Retirement Fund	0.035%	Your Nest 2047 Retirement Fund	0.061%
Your Nest 2019 Retirement Fund	0.036%	Your Nest 2048 Retirement Fund	0.061%
Your Nest 2020 Retirement Fund	0.039%	Your Nest 2049 Retirement Fund	0.061%
Your Nest 2021 Retirement Fund	0.058%	Your Nest 2050 Retirement Fund	0.061%
Your Nest 2022 Retirement Fund	0.059%	Your Nest 2051 Retirement Fund	0.061%
Your Nest 2023 Retirement Fund	0.059%	Your Nest 2052 Retirement Fund	0.061%
Your Nest 2024 Retirement Fund	0.060%	Your Nest 2053 Retirement Fund	0.061%
Your Nest 2025 Retirement Fund	0.060%	Your Nest 2054 Retirement Fund	0.061%
Your Nest 2026 Retirement Fund	0.060%	Your Nest 2055 Retirement Fund	0.062%
Your Nest 2027 Retirement Fund	0.061%	Your Nest 2056 Retirement Fund	0.064%
Your Nest 2028 Retirement Fund	0.061%	Your Nest 2057 Retirement Fund	0.067%
Your Nest 2029 Retirement Fund	0.061%	Your Nest 2058 Retirement Fund	0.069%
Your Nest 2030 Retirement Fund	0.061%	Your Nest 2059 Retirement Fund	0.071%
Your Nest 2031 Retirement Fund	0.061%	Your Nest 2060 Retirement Fund	0.073%
Your Nest 2032 Retirement Fund	0.061%	Your Nest 2061 Retirement Fund	0.073%
Your Nest 2033 Retirement Fund	0.061%	Your Nest 2062 Retirement Fund	0.073%
Your Nest 2034 Retirement Fund	0.061%	Your Nest 2063 Retirement Fund	0.073%
Your Nest 2035 Retirement Fund	0.061%	Your Nest 2064 Retirement Fund	0.073%
Your Nest 2036 Retirement Fund	0.061%	Your Nest 2065 Retirement Fund	0.074%
Your Nest 2037 Retirement Fund	0.061%	Your Nest Higher Risk Fund*	0.052%
Your Nest 2038 Retirement Fund	0.061%	Your Nest Lower Growth Fund*	0.035%
Your Nest 2039 Retirement Fund	0.061%	Your Nest Post Retirement Fund	0.035%
Your Nest 2040 Retirement Fund	0.061%	Your Nest Sharia Fund*	0.000%
Your Nest 2041 Retirement Fund	0.061%	Your Nest Starter Fund	0.073%

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

# Appendix four

## Nest costs and charges

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

The table below shows the costs and charges that you might pay with Nest. We've provided three different age profiles to demonstrate how much of your pot will be affected by our costs and charges. Your own circumstances may differ. The calculations are based on the following assumptions: a real income of £22,000 (based on an illustrative member), real qualifying earnings of £15,968 that will grow with inflation set at 2.5 per cent. This gives an initial contribution rate of £106.45 per month, made up of £53.23 from the member, £13.30 of tax relief and £39.92 from the employer.

All calculations are in real terms. We've used Nest's Statutory Money Purchase Illustration (SMPI) assumptions for investment growth, which require us to make reasonable projections of likely investment returns. These return assumptions are the same ones that we use to calculate the illustration of future fund value in our members' annual benefit statement and they are included at the end of this appendix. Further information about our SMPI assumptions, including how they were developed, can be found via this link [nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/smpi-assumptions,PDF.pdf](https://nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/smpi-assumptions,PDF.pdf)

These projections are for illustrative purposes only.

Years saving	Retirement Date Fund		Ethical Fund		Higher Risk Fund	
	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	1,281	1,255	1,281	1,255	1,305	1,280
3	3,861	3,772	3,861	3,769	4,076	3,986
5	6,637	6,467	6,637	6,458	7,075	6,901
10	14,801	14,337	14,796	14,285	15,683	15,206
15	24,424	23,523	24,403	23,384	26,139	25,200
20	35,751	34,241	35,696	33,962	38,816	37,226
25	49,067	46,750	48,947	46,259	54,167	51,699
30	64,702	61,347	64,474	60,556	72,735	69,116
35	83,046	78,381	82,649	77,175	95,176	90,075
40	101,780	95,519	99,727	92,422	122,277	115,297
45	115,164	107,130	107,315	98,172	154,985	145,650
46	116,980	108,598	107,487	97,996	162,296	152,424

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



The two sets of return figures are: gross of costs and charges; and net of costs and charges. We first deduct transaction costs\* from the projected investment returns, and then deduct the annual management charge (AMC) from these adjusted returns to create the figure net of costs and charges. The contribution charge is applied to all contributions before this calculation.

Sharia Fund		Lower Growth Fund		Pre Retirement Fund	
Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1,308	1,283	1,284	1,259	1,270	1,245
4,098	4,011	3,885	3,798	3,768	3,682
7,138	6,972	6,531	6,368	6,212	6,050
15,976	15,527	13,353	12,929	12,095	11,684
26,898	26,024	20,472	19,688	17,672	16,930
40,379	38,905	27,899	26,652	22,963	21,814
56,999	54,710	35,643	33,826	27,989	26,363
77,471	74,104	43,712	41,217	32,768	30,598
102,670	97,902	52,118	48,831	37,316	34,542
133,668	127,102	60,871	56,676	41,650	38,214
171,784	162,933	69,980	64,758	45,785	41,633
180,397	171,022	71,845	66,404	46,589	42,288

## Nest costs and charges

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

The table below shows the costs and charges that you might pay with Nest. We've provided three different age profiles to demonstrate how much of your pot will be affected by our costs and charges. Your own circumstances may differ. The calculations are based on the following assumptions: a real income of £22,000 (based on an illustrative member), real qualifying earnings of £15,968 that will grow with inflation set at 2.5 per cent. This gives an initial contribution rate of £106.45 per month, made up of £53.23 from the member, £13.30 of tax relief and £39.92 from the employer.

All calculations are in real terms. We've used Nest's Statutory Money Purchase Illustration (SMPI) assumptions for investment growth, which require us to make reasonable projections of likely investment returns. These return assumptions are the same ones that we use to calculate the illustration of future fund value in our members' annual benefit statement and they are included at the end of this appendix. Further information about our SMPI assumptions, including how they were developed, can be found via this link [nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/smpi-assumptions,PDF.pdf](https://nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/smpi-assumptions,PDF.pdf)

These projections are for illustrative purposes only.

Years saving	Retirement Date Fund		Ethical Fund		Higher Risk Fund	
	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	1,301	1,276	1,301	1,275	1,305	1,280
3	4,038	3,948	4,038	3,944	4,076	3,986
5	6,964	6,791	6,963	6,778	7,075	6,901
10	15,187	14,716	15,181	14,657	15,683	15,206
15	24,491	23,579	24,262	23,234	26,139	25,200
20	33,167	31,678	31,554	29,919	38,816	37,226
21	34,703	33,092	32,630	30,869	41,656	39,911
22	36,149	34,414	33,554	31,667	44,607	42,696

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

The two sets of return figures are: gross of costs and charges; and net of costs and charges. We first deduct transaction costs\* from the projected investment returns, and then deduct the annual management charge (AMC) from these adjusted returns to create the figure net of costs and charges. The contribution charge is applied to all contributions before this calculation.

Sharia Fund		Lower Growth Fund		Pre Retirement Fund	
Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1,308	1,283	1,284	1,259	1,270	1,245
4,098	4,011	3,885	3,798	3,768	3,682
7,138	6,972	6,531	6,368	6,212	6,050
15,976	15,527	13,353	12,929	12,095	11,684
26,898	26,024	20,472	19,688	17,672	16,930
40,379	38,905	27,899	26,652	22,963	21,814
43,431	41,813	29,422	28,069	23,989	22,750
46,613	44,842	30,958	29,496	25,004	23,673

## Nest costs and charges

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

The table below shows the costs and charges that you might pay with Nest. We've provided three different age profiles to demonstrate how much of your pot will be affected by our costs and charges. Your own circumstances may differ. The calculations are based on the following assumptions: a real income of £22,000 (based on an illustrative member), real qualifying earnings of £15,968 that will grow with inflation set at 2.5 per cent. This gives an initial contribution rate of £106.45 per month, made up of £53.23 from the member, £13.30 of tax relief and £39.92 from the employer.

All calculations are in real terms. We've used Nest's Statutory Money Purchase Illustration (SMPI) assumptions for investment growth, which require us to make reasonable projections of likely investment returns. These return assumptions are the same ones that we use to calculate the illustration of future fund value in our members' annual benefit statement and they are included at the end of this appendix. Further information about our SMPI assumptions, including how they were developed, can be found via this link [nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/smpi-assumptions,PDF.pdf](https://nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/smpi-assumptions,PDF.pdf)

These projections are for illustrative purposes only.

Years saving	Retirement Date Fund		Ethical Fund		Higher Risk Fund	
	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	1,301	1,276	1,301	1,275	1,305	1,280
3	4,028	3,939	4,023	3,929	4,076	3,986
5	6,871	6,700	6,821	6,639	7,075	6,901
10	14,078	13,621	13,508	13,029	15,683	15,206
11	15,469	14,946	14,695	14,147	17,616	17,059
12	16,825	16,232	15,807	15,187	19,624	18,983

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

The two sets of return figures are: gross of costs and charges; and net of costs and charges. We first deduct transaction costs\* from the projected investment returns, and then deduct the annual management charge (AMC) from these adjusted returns to create the figure net of costs and charges. The contribution charge is applied to all contributions before this calculation.

Sharia Fund		Lower Growth Fund		Pre Retirement Fund	
Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1,308	1,283	1,284	1,259	1,270	1,245
4,098	4,011	3,885	3,798	3,768	3,682
7,138	6,972	6,531	6,368	6,212	6,050
15,976	15,527	13,353	12,929	12,095	11,684
17,980	17,458	14,752	14,265	13,234	12,763
20,070	19,470	16,164	15,608	14,361	13,827

## Our SMPI investment growth assumptions

Fund name	Phase	Investment objective	Annual growth assumed for SMPI	What we've based our estimate on
Nest Retirement Date Funds	<b>Foundation</b>	Consumer Price Index (CPI) + 0 per cent a year average over the investment cycle, after all charges	3 per cent	Fund goals outlined in our Statement of investment principles
	<b>Growth</b>	CPI + 3 per cent a year average over the investment cycle, after all charges	5.99 per cent	Capital market assumptions (CMAs)
	<b>Consolidation</b>	CPI + 2 per cent a year approximate average over the whole phase, after all charges	0.86 per cent to 5.99 per cent for members retiring in years through to 2020  3 per cent to 5.99 per cent for members retiring from 2021 onwards.	Historical data and industry intelligence
Nest Ethical Fund	<b>Foundation</b>	CPI + 0 per cent a year average over the investment cycle, after all charges	3 per cent	Fund goals outlined in our Statement of Investment principles
	<b>Growth</b>	CPI + 3 per cent a year average over the investment cycle, after all charges	5.99 per cent	Capital market assumptions (CMAs)
	<b>Consolidation</b>	CPI + 2 per cent a year approximate average over the whole phase, after all charges	1.38 per cent to 5.99 per cent	Historical data and industry intelligence
Nest Higher Risk Fund	<b>Growth</b>	To target returns through taking more risk	6.63 per cent	Based on 80 to 90 per cent company shares and property and 10 to 20 per cent bonds
	<b>Consolidation</b>	CPI + 2 per cent a year approximate average over the whole phase, after all charges	0.86 per cent to 6.63 per cent for members retiring in years through to 2020 and  3 per cent to 6.63 per cent for members retiring from 2021 onwards.	Capital market assumptions (CMAs)  Historical data and industry intelligence
Nest Sharia Fund	<b>N/A</b>	To deliver investment growth after inflation and charges are taken into account by investing in shares selected on criteria based on Islamic law	6.99 per cent	Capital market assumptions (CMAs)  Historical data and industry intelligence

Fund name	Phase	Investment objective	Annual growth assumed for SMPI	What we've based our estimate on
Nest Lower Growth Fund	N/A	To maintain the nominal value of your savings after we've taken out charges	<p>3.4 per cent investment periods of 10 years or more.</p> <p>1.8 per cent for investment periods of 5-10 years.</p> <p>0.24 to 0.86 per cent for investment periods of 0-5 years.</p>	<p>Capital market assumptions (CMAs)</p> <p>Historical data and industry intelligence</p>
Nest Pre-retirement Fund	N/A	Invests in 75 per cent annuity and 25 per cent cash-tracking assets	1.38 per cent	<p>Capital market assumptions (CMAs)</p> <p>Historical data and industry intelligence</p>

# Appendix five

## Nest's statement of investment principles

April 2018 to March 2021

This document was updated in March 2019

### Introduction

**The Trustee<sup>1</sup> of the National Employment Savings Trust (Nest) has produced this Statement of Investment Principles (SIP), which sets out how the Trustee invests the assets of Nest. This SIP has been prepared in accordance with all relevant legislative and best-practice guidelines. It outlines the principles and policies governing investment decisions made by or on behalf of the Trustee for the management of Nest's assets. It should be read in conjunction with the latest Quarterly Investment Report<sup>2</sup> on our website.**

It will be reviewed by the Trustee and the Members' Panel and Employers' Panel every three years, and without delay after any significant change in the investment approach.

Before revising the SIP, the Trustee will obtain and consider the written advice of a person who is reasonably believed by the Trustee to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of such schemes. The Trustee will also consult with the Members' Panel and Employers' Panel on proposed revisions to the SIP.

## Governance of the Nest Trustee

### Investment powers and compliance with the Pensions Act 1995

- 1.1 The Nest Order<sup>3</sup> 2010 gives the Trustee the sole power to invest the assets of Nest.
- 1.2 Nest's assets, representing the balances on members' pension accounts, need to be invested in the best interests of Nest's members and beneficiaries. In the event of a potential conflict of interest the assets need to be invested in the sole interest of members and beneficiaries. The Trustee's policy for securing that the assets are invested in members' best interests is to provide:
  - a default fund (through a series of Nest Retirement Date funds<sup>4</sup>) designed to provide appropriate outcomes for members retiring in different years
  - a choice of other funds<sup>5</sup> for scheme members who do not wish to invest in the default fund.
- 1.3 The Trustee is ultimately responsible for the governance and investment of Nest's assets but may delegate certain decisions to appropriate committees, the Chief Investment Officer (CIO) and external investment fund managers.
- 1.4 The Trustee is satisfied that it, the respective committees and the CIO, have sufficient expertise, information and resources to carry out their roles effectively.
- 1.5 In preparing and revising the SIP, the Trustee has considered advice from the CIO<sup>6</sup> of Nest's in-house investment team. The CIO is qualified to provide this advice by his ability and practical experience of financial matters. The Trustee has confidence that the CIO has the appropriate knowledge and experience of managing investments for a trust based scheme. The written advice considers the suitability of the investments, the need for diversification, the suitability of Nest's external fund managers and the principles contained in this SIP. The Trustee will also take advice required for any future changes in investment strategy and fund choice.

<sup>1</sup> [nestpensions.org.uk/schemeweb/nest/nestcorporation/who-runs-nest/trustee-members.html](https://nestpensions.org.uk/schemeweb/nest/nestcorporation/who-runs-nest/trustee-members.html)

<sup>2</sup> [nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/other-fund-choices/fund-factsheets.html](https://nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/other-fund-choices/fund-factsheets.html)

<sup>3</sup> [nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/order-and-rules.html](https://nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/order-and-rules.html)

<sup>4</sup> [nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/nest-retirement-date-funds.html](https://nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/nest-retirement-date-funds.html)

<sup>5</sup> [nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/other-fund-choices.html](https://nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/other-fund-choices.html)

<sup>6</sup> [nestpensions.org.uk/schemeweb/dam/nestlibrary/NCGB-SIP-Paper-Annex-B.PDF](https://nestpensions.org.uk/schemeweb/dam/nestlibrary/NCGB-SIP-Paper-Annex-B.PDF)



## Investment Committee

1.6 The Trustee has established an Investment Committee to consider, make decisions and provide oversight on investment issues. The delegated powers provided by the Trustee to the Investment Committee comprise both issues on which the committee can make decisions, and issues on which it makes recommendations to the Trustee. The Investment Committee's terms of reference<sup>7</sup> can be found on our website.

## In-house investment team

1.7 Nest has an in-house investment team led by the CIO. The in-house investment team has certain powers delegated to it by the Investment Committee within pre-agreed frameworks. These include asset allocation, risk management, fund manager selection and monitoring, responsible investment and active ownership.

## Day to day management of Nest's assets

1.8 The day to day management of Nest's assets is performed by external professional fund managers, each of which is authorised and regulated by the Financial Conduct Authority (FCA). The Investment Committee and Nest's CIO are satisfied that the appointed fund managers have sufficient expertise and experience to carry out their role. The appointment, monitoring and dismissal of fund managers are the responsibility of the CIO with oversight by the Investment Committee.

1.9 Nest currently invests mainly in pooled funds. The fund managers are selected through a competitive tender process run by the in-house investment team. The competitive tender process aims to achieve best value for money for members. Professional advice from the Trustee's external and FCA authorised investment advisers is obtained and considered in the selection of these funds and fund managers. As part of this selection, a due diligence process is performed to ensure that the assets are invested with sufficient security and liquidity and that each of the fund managers is of the appropriate quality and calibre to ensure the quality and profitability of the assets. The ongoing monitoring of these funds and fund managers is delegated to the CIO and in-house investment team, to ensure all investments are undertaken in accordance with the Trustee's powers of investment.

## Nest's asset classes

1.10 The pooled and segregated investment funds are combined within the Nest funds to provide scheme members with exposure to a highly diversified range of asset classes.

The Investment Committee has agreed with the CIO, a set of asset class ranges within which the in-house investment team can invest. Any proposal to amend these ranges must be agreed in advance with the Investment Committee. Details of the asset class ranges<sup>8</sup> can be found on our website.

At any one time, the asset allocation of Nest's funds can include the following asset classes. The following list is not exhaustive:

- developed market equities
- emerging market equities
- developed market small cap equities
- high yield bonds
- real estate
- emerging market sovereign bonds
- gilts
- index linked gilts
- UK investment grade bonds
- global investment grade bonds
- developed market sovereign bonds (ex UK)
- inflation linked bonds (ex UK)
- money market investments
- commodities
- infrastructure.

<sup>7</sup> [nestpensions.org.uk/schemeweb/nest/nestcorporation/who-runs-nest/trustee-members/trustee-committees.html](https://nestpensions.org.uk/schemeweb/nest/nestcorporation/who-runs-nest/trustee-members/trustee-committees.html)

<sup>8</sup> [nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/other-fund-choices/fund-factsheets.html](https://nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/other-fund-choices/fund-factsheets.html)

1.11 The current asset allocation of Nest's funds are included in Nest's Quarterly Investment Reports<sup>9</sup> and found on our website.

The Investment Committee regularly monitors Nest's funds to ensure that:

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

Each quarter, the Investment Committee reviews a wide range of management information in relation to asset class exposure, a wide range of risk factors and the performance and risk profile of each external investment manager.

The external investment fund managers have full discretion to buy and sell investments on behalf of Nest within the framework set down by the Trustee, and through delegated powers to the Investment Committee and in-house investment team.

## Investment objective

2.1 The Nest investment approach is determined following extensive and continuing research into scheme member characteristics, circumstances and attitudes. This research is a mixture of quantitative data on socio-economic characteristics of the scheme's membership, qualitative research into members' attitudes and aspirations for their retirement savings, and increasingly, management information about our members' savings patterns and behaviour. Details of our member research<sup>10</sup> can be found on our website. The Trustee has set the following as the overarching investment objective of the default funds:

To target investment returns in excess of inflation after all charges over the long term.

The way this objective is quantified in the different phases of saving is set out in Chapter 4 'Delivering the investment objective'.

2.2 The Trustee's chosen measure of inflation is the Consumer Price Index (CPI). The investment objective provides a clear and measurable target that seeks to preserve and grow members' capital by more than CPI over the long term.

2.3 In order to achieve this objective and the objectives of other Nest funds the Trustee has established:

- effective and efficient investment policies and processes
- a rigorous approach to risk management and risk budgeting
- a rigorous approach to the management of investment costs.

<sup>9</sup> [nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/other-fund-choices/fund-factsheets.html](https://nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/other-fund-choices/fund-factsheets.html)

<sup>10</sup> [nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/investment-research.html](https://nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/investment-research.html)

## Investment beliefs

3.1 Investment beliefs are a set of high-level principles established by trustees or investment managers to provide them with focus and assist effective internal decision making in a complex environment.

Investment theory and practice have evolved dramatically over the last five decades, yet no objective framework exists that adequately describes how we view capital markets, or how to apply these insights for investment purposes. Investment beliefs accept this reality.

The Trustee has established a set of investment beliefs to provide an objective and transparent framework for consistent decision making. These beliefs act as a guide to enable effective delivery of all investment functions. The beliefs and the rationale behind them can be found on our investment principles<sup>11</sup> web page.

## Delivering the investment objective

### Default strategy

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

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

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

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

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

4.5 The Retirement Date Fund that a member is placed in will be invested appropriately throughout their time saving with Nest in a way that reflects when they are expected to take their retirement benefits.

4.6 At any time, members can change their Nest Retirement Date Fund to reflect a different expected retirement year.

<sup>11</sup> [nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/investment-principles.html](https://nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/investment-principles.html)

4.7 The asset classes that form the investments of the default strategy are selected to meet the appropriate risk level identified for each Retirement Date Fund.

As set out in the Nest Order, the Trustee may invest in any asset class, subject to the same investment restrictions that generally apply to UK trust-based occupational pension schemes.

### The default strategy glide path

4.8 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
- the consolidation phase.

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

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

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

4.9 The Trustee believes that members' best interests are met by dynamic asset allocation within a managed investment risk framework. The Trustee also believes that within certain risk constraints, the shape of the glide path should be managed dynamically and factor in market conditions that contribute to delivering the investment objectives in different phases.

### Additional fund strategy choices

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

- **Nest Higher Risk Fund**  
Invests in return seeking assets
- **Nest Lower Growth Fund**  
Invests in very low volatility assets
- **Nest Ethical Fund**  
Invests primarily in ethical securities and ethical property as well as government bonds
- **Nest Sharia Fund**  
A fund with an investment approach based on Islamic law
- **Nest Pre-retirement Fund**  
Invested for those who wish to buy an annuity in the near future.

4.11 The Trustee may add, change or remove any fund choice strategies in accordance with the terms set out in the Nest Order and the Nest Rules<sup>12</sup>.

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

4.13 The Investment Committee is responsible for ensuring that both the default strategy and the alternative fund choice strategies are, as far as practicable, sufficiently diversified so as not to be reliant on any particular asset class, issuer or group of undertakings. The Investment Committee is responsible for ensuring that investments in assets issued by the same issuer or by issuers belonging to the same group do not expose Nest members to excessive concentration of risk.

<sup>12</sup> [nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/order-and-rules.html](https://nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/order-and-rules.html)

## Investment risk management framework

5.1 Investment risk management involves identifying the variable factors that may affect the investment performance of Nest members' funds, the sensitivity of the dependencies (how changes to these factors interrelate), and what the Trustee or those it delegates to will do to manage these risks.

5.2 The Trustee recognises that uncertainty in the following factors can be managed, to some extent, by the choice and allocation of investments. The list below is not exhaustive but covers the main risks that the Trustee faces and how they can be managed:

- **Inflation risk**  
The Trustee invests in a diversified range of assets which are likely to grow in real terms
- **Pension conversion risk**  
In the consolidation phase, the Trustee increases the proportion of assets that more closely match how we expect scheme members to use their pots in retirement. This is particularly important in light of the changes introduced by 'Freedom and choice'
- **Market risk**  
The Trustee manages market risk primarily through investing in a diversified range of assets.
- **Counterparty risk**  
The Trustee, with the in-house investment team, its advisers and its investment fund managers, assesses and manages its counterparty risk. This is done through a rigorous approach to the procurement of a variety of investment services, regular monitoring of Nest's funds, regular reports of the funds' underlying holdings and the investment fund manager's approach to managing risk. For relevant asset classes the Trustee and those it delegates to, carefully monitors credit risk where there is a risk of corporate default. In addition, the Trustee has indemnities in place with managers for certain activities.

- **Operational risk**  
The Trustee, with its suppliers, assesses and manages its operational risks.
  - **Liquidity risk**  
As far as is practicable and necessary, the Trustee invests in liquid assets which can be quickly realised as required.
  - **Valuation risk**  
The Trustee invests primarily in liquid quoted assets in order to manage the valuation risk.
  - **Environmental and social risks**  
These risk factors can have a significant effect on the long-term performance of the assets Nest holds. Where applicable these factors will be considered in the investment process.
  - **Governance risk**  
This can have a significant effect on the long term performance of the companies we hold. Where applicable governance risk factors will be considered in the investment process.
  - **Reputational risk**  
The Trustee carefully selects its counterparties, manages its investments responsibly and considers all aspects of its reputation as part of its investment strategy.
- 5.3 The Trustee believes that the investment strategy outlined in this SIP is appropriate for managing the risks outlined above for all Nest Funds. For scheme members who do not wish to take an active role in the investment decisions relating to their pension account, the Trustee offers a default investment strategy to specifically help them manage the first three risks listed above. The Trustee pays close regard to the risks which may arise from the lack of diversification of investments. The Trustee believes that each of the funds in place provides, as far as is practical, an adequately diversified distribution of assets.

## Day to day custody of the assets

6.1 In the early years of Nest, investments were generally made through pooled investment funds. The manager of each of these funds is responsible for appointing a custodian with regard to the safekeeping of the assets. Additionally, the Trustee has appointed State Street Bank and Trust Company (State Street) to facilitate and account for the investment in these funds and to provide custody services and fund accounting for any segregated investment mandates.

## Responsible investment

- 7.1 The Trustee has a duty to act responsibly with regards to the assets it owns on behalf of Nest members.
- 7.2 The Trustee believes that in order to fulfil this duty and to protect and enhance the value of Nest's investments over the long term, it must act as a responsible and vigilant asset owner and market participant.
- 7.3 As part of this duty the Trustee, or its agents on its behalf, exercises its ownership rights, including voting and engagement rights, in order to safeguard sustainable returns in the long term.
- 7.4 The Trustee expects its fund managers, where appropriate, to have integrated Environmental, Social & Governance (ESG) factors as part of their investment analysis and decision making process.
- 7.5 In line with its commitment to transparency, the Trustee reports to its members and stakeholders on its responsible investment activities.
- 7.6 Nest is a signatory to:
  1. UN Principles of Responsible Investment (UNPRI), which is a set of best practice principles on responsible investment
  2. The Financial Reporting Council (FRC) Stewardship Code, which is seen as the UK standard for good stewardship. It is perceived by many institutional investors as a minimum requirement and a stepping stone to improving stewardship in the UKDetails of additional initiatives<sup>13</sup> to which Nest is a signatory can be found on our website.
- 7.7 The Trustee intends to use these principles as a benchmark with which to guide its own approach to responsible investment, and in doing so will seek to apply responsible investment principles across all the assets in which it invests.

<sup>13</sup> [nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment.html](https://nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment.html)

## Divestment

8.1 In general, divestment or exclusion goes against our principles of corporate engagement and responsible investment. However, in certain rare circumstances we believe it's merited for the reasons set out in our divestment policy.

Further detail of our divestment policy<sup>14</sup> and how it is implemented can be found on our website.

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

## Communication, reporting and transparency

9.1 The Trustee aims to achieve compliance with best practice in its approach to investment communication, reporting and transparency. This is in order to:

- promote scheme member confidence in saving and in saving with Nest
- promote employers' confidence in using Nest for their workforce
- provide clear information for stakeholders and the advisory market of the Trustee's investment approach.

## Compliance with this SIP

10.1 The Investment Committee monitors compliance with this SIP regularly, and at least annually.

<sup>14</sup> [nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/investment-principles.html](https://nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/investment-principles.html)



## Email

From	Subject	Date
me (customer) (2)	Re: company info...	10/29/16
email	[no subject]	10/29/16
me (friends) (4)	Re: 2 new confes...	10/28/16
customer (2) (2)	Re: company info...	10/28/16
me (customer) (2)	Re: company info...	10/28/16
me (customer)	Meeting today	Sep 14
John W.	New Sign-in on Computer	Sep 13
me (customer) (1)	Re: On 23 October 09:03...	Sep 12
email	What do you think is best...	Sep 11
customer (John)	company info...	Sep 11
customer	[no subject]	Sep 11
me (customer)	we want some	Sep 11
me (customer) (2)	Re: company info...	Sep 11
email	[no subject]	Sep 11
me (friends) (4)	Re: 2 new confes...	Sep 11
customer (2) (2)	Re: company info...	Aug 27
me (customer) (2)	Re: company info...	Aug 27
me (customer)	Meeting today	Aug 27
John W.	New Sign-in on Computer	Aug 27
me (customer) (1)	Re: On 11 Sep 09:11:02...	Aug 27
email	What do you think is best...	Aug 27
customer (John)	company info...	Aug 27







IMPORTANT POINT

JUST MAKE  
THE BEST  
THING

target

product

analysis



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Nest Corporation  
10 South Colonnade  
Canary Wharf  
London, E14 4PU

CCS - CCS0419019354  
ISBN - 978-1-5286-1381-1

[stakeholder@nestcorporation.org.uk](mailto:stakeholder@nestcorporation.org.uk)  
[nestpensions.org.uk](http://nestpensions.org.uk)