



Nest, the National Employment Savings Trust

—
Scheme annual
report and
accounts 2020/21



Scheme registration
number: 12004537

Nest, the National Employment Savings Trust

Scheme annual report
and accounts 2020/21





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Chapter 1

Board report



Chair's introduction

The events of the past year have been challenging for many people, including members of the Nest Scheme and the employers who have chosen us as their pension provider. Our priority has been to safeguard our high standards of service and governance for them.



Otto Thoresen

Chair, Nest Corporation

We began our financial year in the midst of the first nationwide lockdown caused by the global coronavirus pandemic. We ended it as another nationwide lockdown was in the first phases of easing.

The pandemic, lockdowns and social distancing and other restrictions have had a profound effect on the work and life of all our customers. Some have experienced deep, personal losses. We remain fully mindful of this, and of the continuing impact of the pandemic, as we publish this report on 2020/21.

Delivering our services

We have maintained reliable access to services for our customers throughout the pandemic. In this, our scheme administrator, Tata Consultancy Services (TCS), and our fund administrator, State Street Bank and Trust Company (SSB), have been vital and dependable partners.

In particular, TCS continued to serve our members, employers and intermediaries such as advisers and payroll providers while working from home (WFH) in India and the UK throughout the year. They have often exceeded our agreed service standards, for example answering customer calls on average within 27 seconds. This is the standard of service our members and employers have come to expect and rely upon.

We have accomplished this at scale. As at 31 March 2021 we were serving 9.9 million members and 881,000 employers. Each month in 2020/21 we received around £400 million in contributions and at year-end we were managing over £17.5 billion on behalf of our

members. This scale allows us to give workers in the UK access to a quality of investment that, in the past, has typically been available only to wealthy private investors.

The pandemic significantly disrupted economies during 2020/21 and, as a result, markets have been volatile. The Scheme's investment strategy is designed to help reduce the impact of such volatility on our members' pension pots through diversification.

The Scheme's default investment strategy for members, the Nest Retirement Date Funds, has continued to perform well. The 2040 fund, for members expecting to retire in 2040, delivered five-year annualised returns of 9.8% to 31 March 2021. Around 99% of our members are invested in our default funds.

Developing our investment approach

As the Scheme's assets under management have grown, we have extended our investment approach to include a wider variety of asset types, including illiquid investments in property and private credit. We believe adding new investment classes into our portfolio mix will afford better risk-adjusted returns for Scheme members over the long term.

To this end, in 2020/21 we selected three new investment managers, that are focused on infrastructure projects such as utility companies, digital services installations and transportation networks. One of the managers specifically has a mandate to build and invest in renewable energy projects on behalf of Scheme members.

As a responsible steward of our Scheme members' money, we take into account climate-related investment risks and opportunities. After extensive research, in July 2020 we announced our commitment to decarbonising the Scheme's portfolio by 2050 at the latest while allocating more money to companies that will be central to a low-carbon economy in the future.¹

In line with this climate change policy, in 2020/21 we completed moving all of the Scheme's developed market equities into a climate-aware fund and at year-end we were finalising the process of moving our emerging market equities into a climate aware fund too. As at 31 March 2021, 52.3% of the 2040 fund was invested in climate-aware equities.

¹ nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/How-climate-change-could-impact-your-pension.html

Improving our offer

We are always looking for ways to improve the Scheme's services for members and employers and use many service performance measures to inform this.

In 2020/21 our customer satisfaction levels remained relatively steady from the previous year, with 71% of members and 74% of employers rating us 7 to 10 on a 10-point scale. This reflects the reliability of our service during the pandemic.

We introduced a redesigned range of pensions communications for employers to share with their workers and launched a new member dashboard which highlights information people need for retirement planning.

Planning for the future

Our current contract for the Scheme's administration comes to an end in 2023.

Following a competitive procurement process run in line with public contracts regulations, we awarded the next contract for administration services to digital transformation firm Atos BPS Ltd.

The process gave us an opportunity to consider how pension saving might be transformed through the use of new digital tools and technologies. We are confident that the next contract will allow us to offer new high-quality services to our members and employers while keeping our customers' data secure, our services robust and our costs low.

We are now focused on continuing to deliver our current high standard of service while preparing for the transition in 2023.

||

We have maintained reliable access to services for our customers throughout the pandemic.



Assuring good governance

This year we carried out an independent external effectiveness review of our governance. We do this external review every three years.

The review found that we continue to operate effectively and in line with best practice in the UK. In addition, it made recommendations for how we might develop our governance going forward. These are being implemented.

In January 2021 the Board delegated responsibility for adjudicating disputes that reach stage 2 of The Pensions Ombudsman's internal dispute resolution procedure, the final stage of the complaints process for Scheme members, to a Nest Corporation executive committee. This executive committee reports outcomes of disputes regularly to the Board.

Our Board members, as well as the advisory members of our investment committee, have once again made a great contribution over the last year, adapting well to the WFH environment. The members of our Employers' Panel and our Members' Panel have been invaluable in informing how we respond to the impact of the pandemic on our customers during extended periods of WFH and regional and nationwide lockdowns. I am grateful to all colleagues for the skills, expertise, insights and personal commitment they have given during a difficult period.

I am also very grateful to the people of Nest Corporation and each of our key business partners, including TCS, our fund administrator SSB, our investment managers and IT service providers, for their resilience and dedication to our customers throughout the pandemic.

As I write this, we can look ahead to when populations around the world are vaccinated, economies are recovering and countries are opening up. It will, however, take time. Throughout, we will remain focused on serving the interests of our members and supporting the employers who have chosen Nest as their pension provider.

Otto Thoresen
Chair, Nest Corporation







Scheme facts and figures

Introduction and constitution

The Nest Scheme, or simply the Scheme as it will be referred to in this report, was established by the National Employment Savings Trust Order 2010, known as the Nest Order. The Nest Rules document sets out how the Scheme is designed and operates. The Trustee of the Scheme is Nest Corporation (see 'About Nest Corporation' on page 22).

Together these two documents make up the Nest Order and Rules² and are the legal framework that governs the Nest Scheme and Nest Corporation as the Trustee of the Scheme.

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.

² nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/order-and-rules.html

In 2019 Nest Corporation as Trustee of the Nest Scheme received master trust authorisation from The Pensions Regulator (TPR). A master trust is a pension scheme used by two or more employers to provide money purchase benefits on retirement.

Master trust authorisation and master trust supervisions were introduced as part of the Pension Schemes Act 2017. Authorisation requires all master trust pension schemes operating in the UK to meet TPR's standards in the areas of governance, operations, planning, funding and future sustainability.



Key figures as at 31 March 2021

About the Nest Scheme

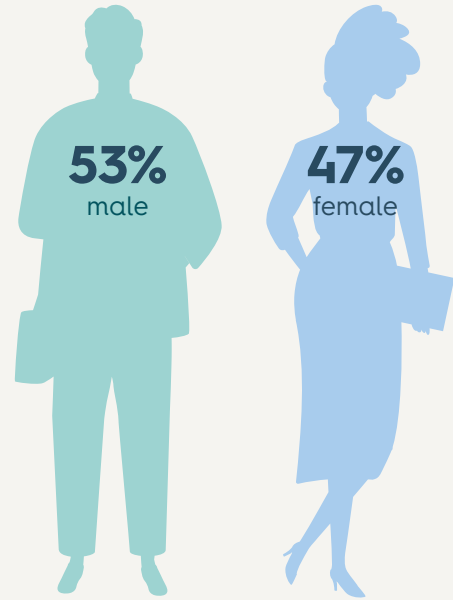
Scheme members



9.9m
members

4.3m
are active^{*}

5.6m
are inactive[†]



53%
male

47%
female

0.008% of Scheme membership did not have a gender listed on their Scheme enrolment.

Scheme employers

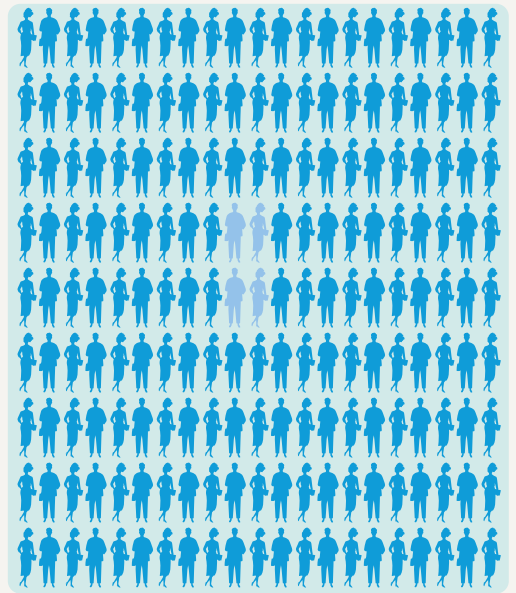


881k
employers

15.8k
self-employed
members

27k
Nest
Connectors[^]

98%
of employers
using Nest
have less than
50 employees



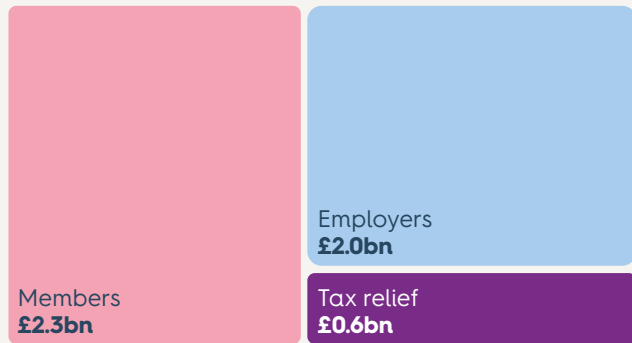
* Active members are either employed workers enrolled in the Scheme by their employer or self-employed workers who have enrolled themselves into the Scheme. This excludes members that may have either left the employer that enrolled them, chosen to stop contributing or been transferred to a different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

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

^ These are intermediaries, such as accountants and payroll providers, using the Nest Connect service and delegated by an employer to perform some or all of the employer's Scheme account management for them.

Managing members' money

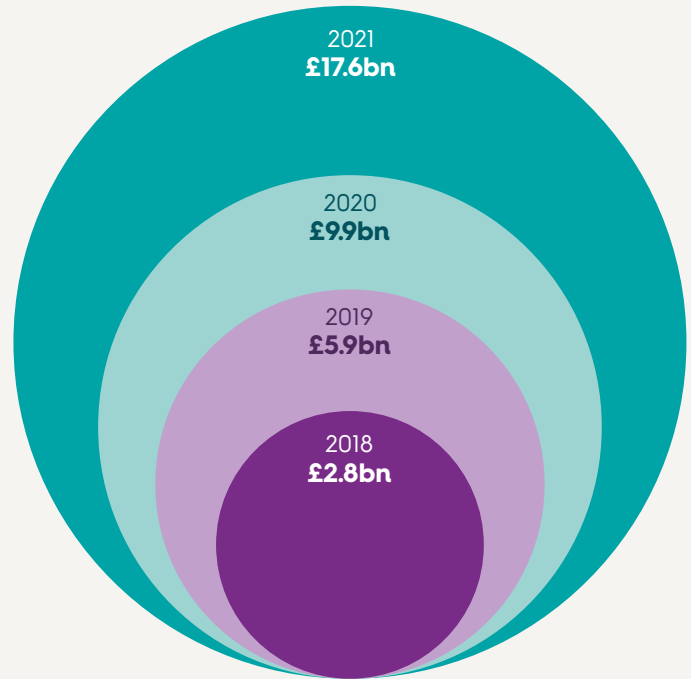
Total annual contributions of £4.9bn



9.8%

Five-year rolling annualised returns in the 2040 Nest Retirement Date Fund* after annual management charges to 31 March 2021

Total net assets



Delivering customer services



99%

Service channels were available more than 99% of the time in 2020/21



71%

Member satisfaction[†]
(from the 'Voice of the customer' survey December 2020)



74%

Employer satisfaction[^]
(from the 'Voice of the customer' survey March 2021)

* The Nest Scheme's default fund series, the Nest Retirement Date Funds, is 'lifestyled', where members' assets are managed according to their age as well as how markets are performing. There are four main phases in the lifestyled investment strategy: foundation, growth, consolidation and post retirement. The 2040 fund, for members expected to retire in 2040, is currently representative of the growth phase, which is where most members' money is invested for the longest period of time.

[†] Satisfaction scores are based on those giving a 7-10 score on a 10-point scale and excludes those responding 'don't know'. They are drawn from the most recent annual survey of employers or members. Quarterly surveys, with a smaller respondent base, are also conducted.

[^] Due to a majority of UK employers working from home (WFH) during the pandemic, the annual employer survey in March 2021 was conducted using an online survey method. In previous years this survey was conducted by telephone. The change in method means that differences in scores year on year may reflect population sample differences rather than a change in employer sentiment.

Trustee and Board members

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

As at 31 March 2021, the Board had 11 members, consisting of the Chair of Nest Corporation and 10 other Board members, two of whom have day-to-day executive responsibilities (see 'The Board' on pages 24 to 27). Together they are responsible for setting the strategic direction and objectives for Nest Corporation, managing the Nest Scheme and representing members' interests.

Service providers and advisers retained by the Board

Scheme administrator

Tata Consultancy Services Ltd

Investment funds administrator

State Street Bank and Trust Company

Custodian

State Street Bank and Trust Company

Bank

National Westminster Bank plc (joint tri-party contract between NatWest, Nest Corporation and Tata Consultancy Services)

Investment managers

Amundi Asset Management
 BlackRock Inc
 BMO Global Asset Management Ltd
 BNP Paribas Asset Management Nederland NV
 CBRE Caledon Capital Management Inc (from 19 March 2021)
 CoreCommodity Management LLC
 HSBC Global Asset Management (UK) Ltd
 J.P. Morgan Asset Management (UK) Ltd
 Legal & General Investment Management Ltd
 Local Pensions Partnership Investments Ltd (from 29 March 2021)
 Northern Trust Global Investments Ltd
 Octopus Investments Ltd (from 2 March 2021)
 Royal London Asset Management Ltd
 State Street Global Advisors Ltd
 UBS Asset Management (UK) Ltd
 Wells Fargo Asset Management (International) Ltd

Investment advisers

Nest Invest Ltd

Proxy voting service

Minerva Analytics Ltd

Lawyers

Eversheds Sutherland (International) LLP
 Pinsent Masons LLP
 Shakespeare Martineau LLP
 Travers Smith LLP

External auditors

KPMG LLP

Internal auditors

Ernst & Young LLP

Membership

The Nest Scheme's membership in 2020/21 grew as follows:

Member numbers

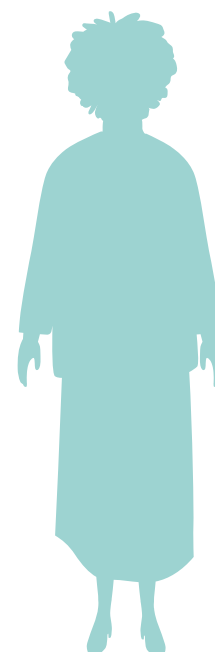
	Year ended 31 March 2021	Year ended 31 March 2020
Members at the beginning of the year	9,062,244	7,869,161
New members ¹	1,110,246	1,471,229
Members opted out or de-enrolled	(157,759)	(187,513)
New members joining in the year	952,487	1,283,716
Less		
Members retired	(56,823)	(46,274)
Members transferred out	(50,587)	(40,152)
Members deceased	(5,569)	(4,207)
Members at the end of the year²	9,901,752	9,062,244
Contributing members ³	3,459,641	3,331,854
Non-contributing members	6,442,111	5,730,390
Members at the end of the year	9,901,752	9,062,244

Notes

- 1 New members enrolled by employers and self-employed registrations for the reporting period. This includes members who subsequently de-enrolled or opted out in the same period.
- 2 This includes 328,302 members who have a zero pot (compared with 372,879 in 2019/20).
- 3 Contributing members are those who made a contribution in March of the year under review.

During the pandemic, I feel Nest has been responsive in keeping in touch and giving a decent level of confidence in their pension products.

Katrina Greenhalf,
Nest member, 40s







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. If the Nest Scheme does not receive both a contribution schedule and a payment to match this schedule, the Trustee has appropriate procedures for reminding the employer that a payment is due.

If member or employer contributions are not paid on time and the Trustee 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 financial year running from 1 April 2020 to 31 March 2021, 324,528 of contribution events were reported to TPR (compared to 310,003 in 2019/20). This equates to 3.5% of contribution events (compared to 2.6% in 2019/20) and is in line with the growth in the Scheme's membership.

The Scheme deducts a 0.3% annual management charge (AMC) on the total value of a member's pension pot and deducts a 1.8% charge on the value of each new contribution paid into a member's pension pot.

The majority of Scheme members are aged 16 to 39 and will be saving into their pension pot for an extended period.

As such the Scheme's charges are within the charge cap set by the government, which is currently 0.75% of fund value.

Services at retirement

While not authorised to provide advice, the Trustee does support Nest Scheme members at retirement using appropriately tailored information and simple processes. When a member gets close to their selected retirement age, the Trustee gives them information on their options for changing how their money is invested, or for taking their money out of the Scheme.

Members' options include:

- Deferring their retirement date.
- Taking their whole pension pot as cash, either as a single withdrawal in full or as a series of partial withdrawals.
- Transferring their pot into one of the Scheme's other fund choices.
- Allowing their pot to be rolled over automatically into one of the Scheme's post-retirement funds, either the Nest Guided Retirement Fund (when eligibility requirements are met) or the Post Retirement Date Fund.
- Transferring to another registered pension scheme.
- Transferring to a retirement income (annuity) provider.

Report on governance

Chair's governance statement for the year ended 31 March 2021

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

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

About Nest Corporation

The Nest Scheme is run by Nest Corporation.

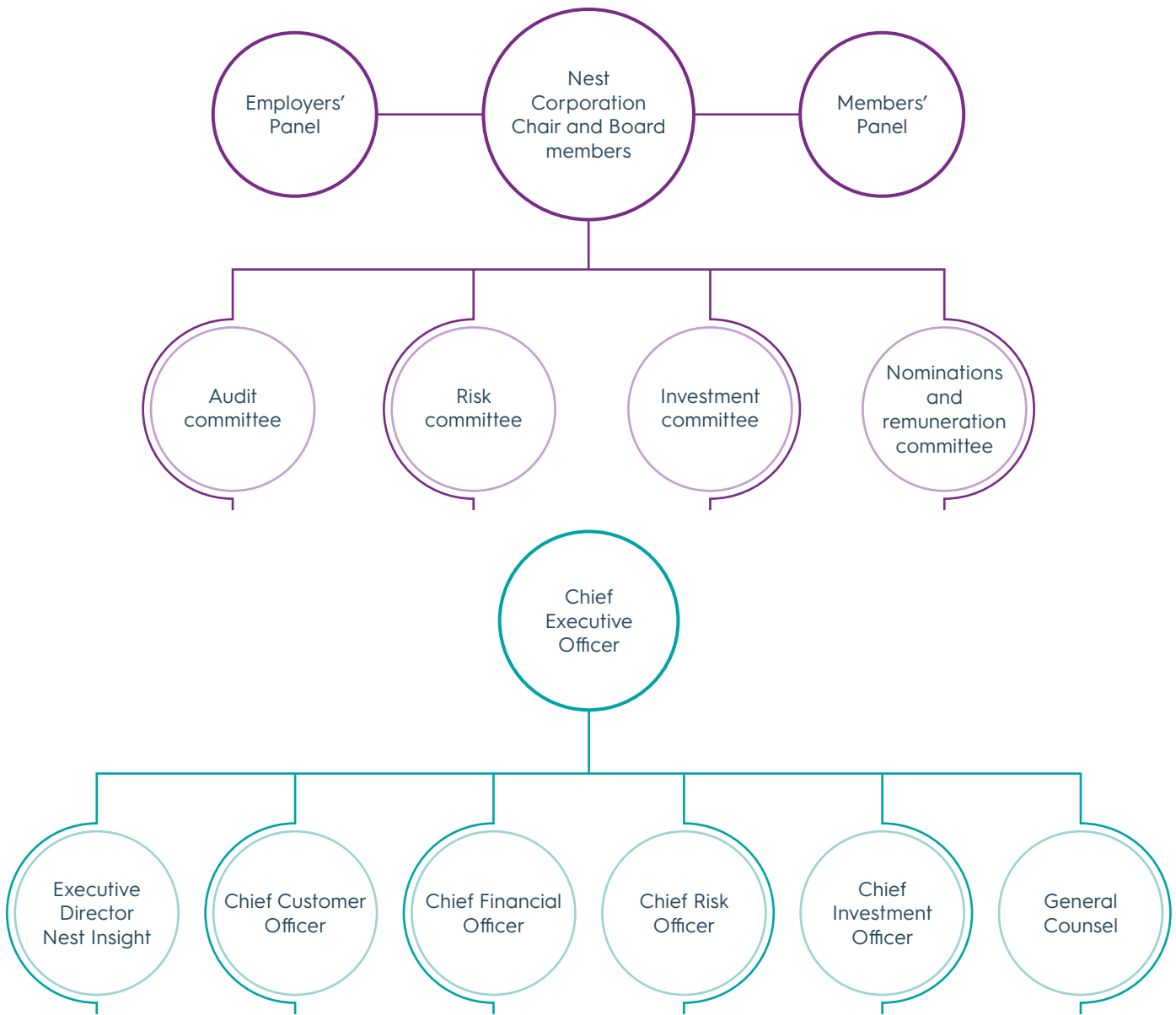
Nest Corporation was established on 5 July 2010 to be the Trustee of the Scheme. Nest Corporation's function is set out in the Pensions Act 2008. The Nest Order and Rules³ set out how the Scheme will operate (see 'Scheme facts and figures' on pages 15 to 21). The Trustee's role is to develop and operate the Nest Scheme.

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

Nest Corporation is a public corporation sponsored by the Department for Work and Pensions (DWP) as a key component of the government's workplace pensions auto enrolment policy. The Trustee's working relationship with the DWP is set out in a framework document. The 'Corporation annual report and accounts' is produced separately from this document and can be found on the website.⁴

⁴ [nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-CARA-2020-21.pdf](https://www.nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-CARA-2020-21.pdf)

Organisational chart



Executive team

Biographies of the Trustee's executive team are available online at nestpensions.org.uk/schemeweb/nest/nestcorporation/who-runs-nest/executive-team.html

The Board

Nest Corporation comprises up to 15 Board members and the employees of Nest Corporation.

The Board members are collectively referred to as the Board of Nest Corporation, or simply the Board.



Otto Thoresen

Chair, Nest Corporation

from 1 February 2015

Otto will step down as Chair of the Board of Nest Corporation on 31 January 2022, having served for seven years.

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



Ian Armfield

Board Member

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

Ian will leave the Nest Board on 30 June 2021 after serving for seven years.

A former partner of PwC LLP, providing audit services to investment managers and risk assurance services to the wider investment industry, he is a non-executive director of Keystone Positive Change Investment Trust plc and Managed Pension Funds Ltd, an insurance company providing pooled investment management services to pension schemes. He is also Chair of the audit and risk committee for the Pearson Pension Plan.

He brings to the Board his expertise in Financial Conduct Authority (FCA)-regulated asset management, financial accounting and audit, responsible investment, independent assurance reporting and internal audit and controls.



Karen Cham

Board Member
from 1 July 2019

Karen is Professor of Digital Transformation Design at the University of Brighton and a director of Rhizometric Design Ltd, a specialist human factors engineering consultancy. She is a critical design practitioner working in digital technology. With a background in experimental electronic arts, she is an expert in design methods for complex digital products, services, business models and strategies.

Her experience and skills in developing customer-focused technology solutions, organisational management reward and incentivisation and digital transformation oversight are central to helping shape Nest Corporation's future strategy as a digital pensions provider.



Helen Dean, CBE

Board Member
from 1 June 2018

**Chief Executive Officer,
Nest Corporation**

Helen has been a leading player in delivering pension reform, 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 has worked in pensions for 20 years, firstly from inside government as a regulator and then as a policy maker.

She led the product marketing and operations arms of Nest Corporation before becoming Chief Executive Officer in September 2016. She is a mentor to women in the pensions industry and has established a senior leadership programme to cultivate the next generation of diverse leaders for Nest Corporation's future.

Helen is also a non-executive director of the debt charity StepChange, Vice Chair of the Stewardship Stakeholder Group of HM Treasury's Asset Management Taskforce and a governor of the Pensions Policy Institute.



Clive Elphick

Board Member
from 1 June 2018

Chair, Audit Committee
from 29 January 2019

Clive is an independent director of National Grid Gas plc and of National Grid Electricity Transmission plc. A former management consultant with Deloitte & Touche and former Managing Director of a FTSE 100 utility company, he has a PhD in operational research. He has held a number of non-executive roles in the private and charitable sectors and in government agencies.

He brings his skills and experience in audit and internal control oversight, stakeholder engagement and corporate social responsibility to his roles on the Board, as well as valuable knowledge of the workings of central government and the interaction between regulators, government and business.



Chris Hitchen

Board Member
from 1 June 2018

Chair, Investment Committee
from 28 May 2019

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

An actuary by profession, he is Chair of the Border to Coast Pensions Partnership, Chair of the Pension SuperFund and a member of the investment committee for the Guardian Media Group. He was previously the Chief Executive Officer of the UK Railways Pension Scheme.

He has extensive knowledge of pension policy and legislation, corporate governance, investment governance, the FCA regulatory environment and the process of converting pension savings into retirement income (decumulation).



Ron Jarman

Board Member
from 1 July 2016

Chair, Nominations and Remuneration Committee
from 28 May 2019

Ron will leave the Nest Board on 30 June 2021 after serving for 5 years.

As a former President and Chair of the Chartered Institute of Procurement and Supply, Ron has extensive supply chain and procurement experience from working with many private and public sector organisations. He is currently Board Chair at World at Play, an international development charity and a trustee of Tempo Time Credits, a charity dedicated to recognising the value of contributions to communities of volunteering.

Ron's knowledge of oversight, public procurement, change management, stakeholder engagement and managing conflicts of interest are invaluable to the Board.



Richard Lockwood

Board Member
from 1 September 2018

Chief Financial Officer, Nest Corporation

A chartered management accountant by background, Richard previously held leading financial roles in a number of blue-chip UK retail and consumer product companies, including Home Retail Group plc, BAA plc and Kingfisher plc.

He has broad financial experience and knowledge of corporate governance, commercial finance, strategic planning and mergers and acquisitions.



Mutaz Qubbaj

Board Member
from 1 June 2018

Mutaz is a technology entrepreneur, most recently as Chief Executive Officer of Squirrel, a money management fintech start-up of which he was a founder. He has extensive financial services experience as both an investment banker in the US and UK.

He brings to the Board his knowledge of strategy formulation, customer technology solutions development and customer services insight.



Martin Turner

Board Member
from 1 June 2018

Chair, Risk Committee
from 21 February 2019

Martin spent most of his career in financial services with Barclays plc and Lloyds Banking Group plc, both in the UK and overseas, with a focus on corporate banking and operational risk. He is a non-executive director of AQA Education, for which he chairs the combined audit, risk and compliance committee and serves as a member of the nominations committee and remuneration committee.

He has a broad range of financial services experience and skills, including in enterprise risk management, stakeholder engagement, corporate governance and compliance and assurance.



Jill Youds

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

Senior Independent Director
from 25 July 2017

Jill is Chair of the Judicial Pensions Board for the Ministry of Justice, Chair of the Trustee Board for the National Assembly for Wales Assembly Members' Pension Scheme, Chair of Trustees for the Legal Services Commission pension scheme and a non-executive director at the Local Pensions Partnership. Previously, her career included a range of senior leadership positions in both large and small businesses in the commercial sector, focusing on large-scale transformation projects, people and development, finance, shared services and operations.

She has a keen interest in service delivery and customer experience. She brings her expertise in organisational management, change management, diversity, succession planning and corporate social responsibility to her roles as both a Board member and the Senior Independent Director of Nest Corporation.

Committee membership

Membership of the Trustee's committees as at 31 March 2021

Audit committee	
Clive Elphick	Chair
Ian Armfield	Member
Martin Turner	Member
Risk committee	
Martin Turner	Chair
Clive Elphick	Member
Chris Hitchen	Member (from 28 May 2020)
Ron Jarman	Member
Investment committee	
Chris Hitchen	Chair
Clive Elphick	Member
Jill Youds	Member (from 1 February 2021)
Jennie Austin	Member
Jaap Van Dam	Member
Nominations and remuneration committee	
Ron Jarman	Chair
Ian Armfield	Member
Otto Thoresen	Member
Jill Youds	Member

The determinations committee's responsibilities were delegated to the executive on 1 January 2021 and the committee was disbanded effective from that date. From 1 April through to 31 December 2020, the committee comprised Jill Youds (Chair), Karen Cham and Otto Thoresen.

Board members and committees

As at 31 March 2021 the Board had 11 members, consisting of the Chair of Nest Corporation and 10 other Board members, two of whom have day-to-day executive responsibilities. Collectively the Board is responsible for setting the strategic direction and objectives for Nest Corporation, the Trustee of the Nest Scheme, and representing members' interests.

Appointments

Since Board members are appointed by the Secretary of State for Work and Pensions, Nest Corporation works with the Public Appointments' team to undertake recruitment processes in line with public appointments guidance which 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 also made in line with the Commissioner for Public Appointments' 'Principles of public appointments'⁵ and Cabinet Office guidance.

Provisions are in place within Board members' terms and conditions which give appropriate controls for the removal from office of Board members. The provisions also specify the conditions in which this can be done.

⁵ publicappointmentscommissioner.independent.gov.uk/regulating-appointments/governance-code

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

No new Board members were appointed, and no Board members left the Board, during 2020/21.

Experience and skills

Board members bring a range of experience and skills. Collectively these include investment, pensions, risk, member representation, finance, audit, procurement, supply, digital transformation, governance and business management. Biographies for Board members during all or part of 2020/21 are on pages 24 to 27.

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

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

The Board has a full working knowledge of the Nest Order and Rules, governing documentation and policies as they apply to the Scheme. This is provided as part of the induction process and through appropriate approval processes surrounding these documents. Board members also receive regular refresher training on legal authorities and responsibilities, including those set out within the Order and Rules and governing documentation of Nest Corporation. This knowledge is monitored through analysis of the annual skills and experience questionnaire.

During the induction process Board members are also provided with training on the Trustee's investment approach. This knowledge is also monitored through the skills and experience analysis.

Each year the Trustee's secretariat team carries out a full skills and experience analysis of Board members. Board members are requested to complete a questionnaire detailing their essential and desired skills. Any requirements are met through briefing sessions and individual commitment to ongoing education and training. During 2020/21, Board members received briefings or training on topics, including investments, cyber security, end-to-end flow of Scheme contributions, legal procurement processes and Nest Corporation's legal authorities.

The Trustee has two investment specialists serving on the investment committee but not the Board. This helps to ensure continued appropriate oversight and challenge of the Scheme's investment strategy.

The investment objectives for the Scheme are set out in the Trustee's 'Statement of investment principles' (SIP)⁶ (see pages 104 to 113). On an annual basis, the Board reviews whether the Trustee's investment approach remains aligned with the SIP. On a quarterly basis, the investment committee meets to review the Trustee's investment approach.

Effectiveness reviews

Effectiveness reviews for the Board and its committees take place annually. In line with best practice in the master trust sector, the Trustee engages an external facilitator for this review once every three years. These reviews contribute to the assessment of how the combined knowledge and understanding of Board members enables them to properly exercise the Board's collective functions and responsibilities for the Trustee.

An external effectiveness review was completed in 2020/21. This review provided assurance that the Trustee's governance framework continues to operate effectively.

The nominations and remuneration committee (see page 31) is overseeing the implementation of the review's recommendations.

⁶ nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/statement-of-investment-principles.html

Resources available to the Board

The combined knowledge and understanding of Board members, and the diversity of their background and experience, is supplemented by a range of advice available to them. This includes, for example, access to legal advice from Nest Corporation's general counsel and investment advice from Nest Invest.

Nest Invest is the Trustee's investment subsidiary which is authorised by the FCA as an occupational pension scheme (OPS) firm. The Chief Investment Officer of Nest Corporation, who is also Chief Investment Officer of Nest Invest, is authorised under the FCA's Senior Managers and Certification Regime. As an OPS firm, Nest Invest can act on behalf of the Trustee to provide regulated advice, arrange deals and provide instructions to investment managers with regards to the investments in the Nest Scheme's portfolio.

Collectively, such resources enable the Board to properly exercise its functions for the Trustee.

Nest Corporation's secretariat function provides ongoing oversight of the resources available to the Board, along with the Board's overall diversity. These are also monitored and assured annually through the skills and experience analysis of Board members.

To support effective and robust decision-making, the Board had four committees as at 31 March 2021 (see page 31). 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 website.⁷

⁷ nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/policy-and-procedures.html

Article 8 of the Nest Order 2010 sets out the remit for the Employers' Panel and the Members' Panel in accordance with the requirements of 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. Further details of the work carried out by the committees and panels during the year can be found in the 'Corporation annual report and accounts'.⁸

In addition to the feedback received from the Members' Panel and the Employers' Panel, the Board reviews research about customers of the Scheme. The Trustee conducts research aimed at helping it understand what Scheme members think and feel, and how the Scheme and Nest Corporation's services are performing against the Trustee's objectives.

The 'Voice of the customer' programme annually surveys approximately 3,000 members and 1,000 other people who are eligible for auto enrolment. Surveys are sent four times a year to track indicators such as support for auto enrolment, overall satisfaction with the Nest Scheme, engagement with the Scheme, retirement plans and contact frequency.

The Trustee also proactively seeks member views by:

- Surveying members who have experienced a key process, such as a transfer in or out of the Scheme, to assess satisfaction and ease of use of the process.
- Surveying a random selection of members who have used the contact centre to assess their level of satisfaction with the interaction.

⁸ nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-CARA-2020-21.pdf

- Maintaining an online member research community called 'Your way', through which the Trustee's product and investment teams are able to carry out research directly with the Scheme's membership and hear member feedback.

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

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

The Trustee analyses any changes in the demographic characteristics of the Scheme's membership. This data is used to help design better communications and identify ways to improve the Scheme. The Trustee is always looking to grow the Scheme in the right direction for its customers and is committed to helping Scheme members achieve their retirement goals.

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

The Chief Executive Officer delegates authority to each member of the executive committee and holds them accountable for delivery in their remit. To provide oversight of the operations of Nest Corporation and the Nest Scheme, and to provide advice to the Chief Executive Officer on key issues within the Chief Executive Officer's delegated authority, the executive committee meets at least monthly and the Chief Executive Officer provides formal reports at Board meetings.

Audit committee

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

Risk committee

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

Investment committee

The investment committee is responsible for overseeing the Nest Scheme's investment strategy and any changes to the investment approach or the funds made available to members. The committee also monitors investment performance and operational investment risks.

Nominations and remuneration committee

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

Determinations committee

The determinations committee was responsible for adjudicating disputes related to the Nest Scheme that had reached stage 2 of the internal dispute resolution (IDR) procedure. Stage 2 is the final stage of the complaints process for Scheme members. The committee made recommendations to the executive on learning outcomes from any stage 2 IDR procedure disputes to help improve the effectiveness of the Scheme and members' experience.

During 2020/21, the Board approved disbanding this committee and delegating the determination of these cases to the Chief Executive Officer, to be overseen and decided by the executive. The committee was disbanded with effect from 1 January 2021.

During 2020/21 the determinations committee considered 13 cases and the executive considered 7 cases, for a total of 20 cases considered. (Across 2019/20, the determinations committee considered 24 cases.)

- No (0) cases were upheld (2019/20: 1 case).
- 6 cases were partially upheld (2019/20: 14 cases).
- 14 cases were not upheld (2019/20: 9 cases).

Across 2020/21, the committee and the executive received information on 2 cases which had been withdrawn by the complainant before consideration (compared to no cases in 2019/20). They received no information on any cases escalated to The Pensions Ombudsman after stage 2 (compared to 3 cases in 2019/20).

Employers' Panel

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

Members' Panel

The Members' Panel was set up in accordance with the Pensions Act 2008 and Nest Order 2010 to represent Nest Scheme members and allow them to provide advice on the operation, development and amendment of the Scheme. The panel currently has 12 members.

The Board and its committees take decisions that affect the Scheme and ensure that Nest Corporation fulfils its obligations as a public corporation.

Board and committee meetings

Details of meetings attended by Board members

	The Board	Audit committee	Risk committee	Investment committee	Nominations and remuneration committee	Determinations committee
No. of meetings	9	7	4	5	8	8
Otto Thoresen, Chair	9	-	-	-	8	7
Ian Armfield	9	7	-	2 of 3	8	-
Karen Cham	8	-	-	-	-	6
Helen Dean	8	-	-	-	-	-
Clive Elphick	7	7	4	5	-	-
Chris Hitchen	9	-	3 of 3	5	-	-
Ron Jarman	9	-	4	-	8	-
Richard Lockwood	8	-	-	-	-	-
Mutaz Qubbaj	8	-	-	-	-	-
Martin Turner	9	5	4	-	-	-
Jill Youds	8	-	-	2 of 2	7	8
Jennie Austin	-	-	-	5	-	-
Jaap Van Dam	-	-	-	5	-	-

Explanatory notes

Risk committee

Chris Hitchen joined the risk committee on 28 May 2020.

Investment committee

Ian Armfield stepped down from the investment committee with effect from 1 February 2021.

Jill Youds joined the investment committee as a member with effect from 1 February 2021.

Jennie Austin and Jaap Van Dam are members of the investment committee but not Board members.

Determinations committee

The responsibilities of the determinations committee were delegated to the executive on 1 January 2021 and the committee was disbanded.

Risk management

Nest Corporation as Trustee of the Nest Scheme must consider a number of risks and uncertainties to ensure continuous delivery of high-quality services to customers. The Trustee has established robust processes to understand, mitigate and manage risks and, in light of economic and other uncertainties, the Trustee plans for a range of scenarios.

On an annual basis, the Trustee reviews a risk management framework to ensure this framework remains fit for purpose, taking developments in practices across the industry into account. The risk committee is responsible for oversight and challenge of the approach to risk management. Collectively, the members make recommendations to the Board on the risk management framework, risk appetite and principal risks for the Nest Scheme and Nest Corporation.

The Trustee engages key stakeholders, such as the Department for Work and Pensions (DWP), The Pensions Regulator (TPR), the Scheme's administrator and investment managers, in understanding, mitigating and managing risks.

The Trustee also has detailed business continuity and disaster recovery (BCDR) plans in place. These have been central to maintaining the ability to provide continuous delivery of services to the Scheme's customers during the global coronavirus pandemic.

Principal risks

The Trustee takes an holistic approach to risk. It defines a principal risk as a risk that is considered material to the development, performance, position or future prospects of Nest Corporation or the Nest Scheme. For a full review of these principal risks, key controls and mitigating actions, please see the 'Corporation annual report and accounts'.⁹

Some of the principal risks specifically involve delivery of the Scheme's services to members, for example:

- **Service failure risk:** Particularly as a digital-first pension provider, the Trustee is mindful of the risk that a major service failure, or persistent low-level service failures, could prevent it from delivering services to customers in time or at a quality standard to meet their needs. It has multiple controls in place to monitor and manage this risk.
- **Customer data and assets risk:** Cyber criminals and fraudsters are developing ever more advanced means to commit crimes. The Trustee must protect against and try to anticipate these developments to prevent customers from suffering a significant loss of data or assets. Further, ensuring Scheme members' data security is key to keeping them safe in retirement.

- **Investment performance risk:** Market volatility is to be expected in investing. What the Trustee does to reduce the impact of volatility on Scheme members' pots and how it communicates this strategy to members plays a significant role in customers' confidence in the Scheme. The Trustee is required to publish a SIP, which outlines its approach to investment. The SIP provides the Board with a transparent framework for consistent and robust decision-making around investment allocations.

The investment committee specifically has oversight of investment risks. See 'Investment developments' on pages 56 to 57 for a summary of its consideration of these risks in 2020/21.

⁹ nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-CARA-2020-21.pdf

Processing core Scheme financial transactions

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

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

As Trustee of the Scheme, Nest Corporation operates a primarily outsourced business model. The processing of core transactions is undertaken on behalf of the Trustee by the scheme administrator, Tata Consultancy Services (TCS), the investment funds administrator, State Street Bank and Trust Company (SSB), and investment managers as detailed on page 18.

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

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

In addition, the Trustee commissions an independent assurance report, prepared in accordance with the ICAEW Audit and Assurance Faculty's 'TECH 05/20 AAF: Assurance reporting on master trusts', which provides assurance of the Scheme's overall controls framework, including the Trustee's governance and administration. TCS provides the Trustee with an independently audited annual AAF 01/20 report which tests the operational effectiveness of its administration controls framework. SSB provides the Trustee with an independently audited International Standard on Assurance Engagements (ISAE) 3402 report which is designed to give assurance that SSB has adequate internal controls.

Automated reconciliation of core transactions is carried out by TCS as scheme administrator and SSB as investment funds administrator. Reconciliations are performed for all member records on daily, weekly and monthly cycles and reported to the Trustee accordingly.

The Trustee has in place contractual requirements and service levels which cover the accuracy and timeliness of the processing of core transactions including those relating to investments and payments out to members. These service levels were consistently met during 2020/21.

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

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

These monitoring and reporting activities, together with the multiple sources of assurance put in place, enable the Trustee to be confident that core Scheme financial transactions were processed promptly and accurately during 2020/21. They also provide confidence that the requirements for processing these core transactions specified in the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (regulation 24) have been met.

Charge levels

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

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

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

This charge structure applies to all member funds offered by the Scheme, including both the default funds and other fund choices.

The Scheme's investment return figures are net of costs and charges including the annual management charge and transaction costs (see Transaction costs below). The phrase 'after charges' has been used throughout this report when referring to investment returns net of costs and charges as outlined here.

See Appendix 4 on pages 98 to 103 for illustrations of the cumulative effect of the Scheme's costs and charges on members' pots over time using three different age profiles. These figures are based on qualifying earnings figures for 2020/21.

The illustrations were prepared in line with guidance issued by the Department for Work and Pensions (DWP) in 'Reporting costs, charges and other information: guidance for trustees and managers of relevant occupational schemes' (September 2018).¹⁰

¹⁰ [gov.uk/government/publications/reporting-costs-charges-and-other-information-guidance-for-trustees-and-managers-of-occupational-pension-schemes](https://www.gov.uk/government/publications/reporting-costs-charges-and-other-information-guidance-for-trustees-and-managers-of-occupational-pension-schemes)

Transaction costs

The transaction costs for the Nest Scheme's default fund for members, the Nest Retirement Date Fund series, are detailed in Appendix 3 on pages 96 to 97. The Scheme does not charge these costs separately but accounts for them within the overall investment returns.

Transaction costs for the Scheme's default funds, the Nest Retirement Date Fund series (refer pages 50 to 51), are between 0.000% and 0.055% (refer pages 96 to 97). Transaction costs for the Scheme's other fund choices (refer page 52) are between -0.052% and 0.058% (refer page 97).

Default arrangements

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

Each Nest Retirement Date Fund has the objective of outperforming inflation, as measured by the consumer price index (CPI), after charges over the long term. It does this by taking the appropriate risk on members' behalf at different periods in their time saving with the Scheme.

Details of the objectives and policies regarding the default arrangement can be found in the 'Statement of investment principles' (SIP). The SIP as at 31 March 2021 is included in Appendix 5 on pages 104 to 113. The latest version of the SIP is available online at nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/statement-of-investment-principles.html and by request using the contact information on page 88.

Members can change their Nest Retirement Date Fund without charge to reflect a different expected retirement year. They can also change to one of the Scheme's other fund choices without charge, if they wish.

Objectives for default funds

In delivering the overall investment objective for the Nest Scheme's default arrangement, the Nest Retirement Date Fund series, the Trustee pays attention to the following supporting objectives:

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

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

As at 31 March 2021, 99% of Scheme members were invested in the Nest Retirement Date Fund series.



Each Nest Retirement Date Fund has the objective of outperforming inflation, as measured by the consumer price index (CPI), after charges over the long term.



The default funds' glide path

The varying allocation between higher risk and lower risk assets through time is known as an investment glide path.

The Trustee has adopted a lifestyled approach to the glide path for the Nest Retirement Date Funds. This means it changes the objectives for risk and return of each fund based on how far away members in the fund are from their expected retirement date.

The glide path for the Nest Retirement Date Funds is split into four phases: foundation, growth, consolidation and post retirement.

For information on the design and objectives for each phase in the glide path, see 'Nest Retirement Date Funds' on pages 50 to 51 and the 'Statement of investment principles' (SIP). The SIP as at 31 March 2021 is included in Appendix 5 on pages 104 to 113.





Review of the default fund

A review of the Nest Scheme's default funds and the 'Statement of investment principles' (SIP) (see pages 104 to 113) must take place at least every three years. It must also take place without delay after any significant change in the Trustee's investment approach. The next three-year review of the SIP is due to take place no later than March 2023.

There have been no changes to the SIP since March 2020. The SIP as at 31 March 2021 is included in Appendix 5 on pages 104 to 113.

On a quarterly basis, the investment committee meets to review the investment approach and the performance of the Scheme's default strategy, the Nest Retirement Date Funds, and other fund choices. On an annual basis, the Board reviews whether the Trustee's investment approach is in line with the SIP. As part of these reviews, the Chief Investment Officer of Nest Corporation provides written advice to the investment committee and the Board.

The Board has confidence that the Chief Investment Officer of Nest Corporation, who is also the Chief Investment Officer of Nest Invest, has the appropriate knowledge and experience of managing investments for a trust-based scheme. The Chief Investment Officer, is qualified to provide advice to the Board by his ability and practical experience of investment matters. He is authorised by the Financial Conduct Authority (FCA) under the Senior Managers and Certification Regime. (For more information on Nest Invest see 'Resources available to the Board' on page 30).

Based on the Chief Investment Officer's advice and a range of other management information, the investment committee agreed during its meetings in 2020/21 that the investment approach continued to be in line with the SIP.

In June 2020 and again in June 2021 the Board assessed the Scheme's default strategy, the performance of the Nest Retirement Date Funds and other fund choices and the alignment of the Scheme's investment approach with the SIP. This included analysis and consideration of the following key issues:

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

The Board's review process was informed by an understanding of the membership that the Scheme has developed and that the Trustee continues to test through research.

The Board and employees of Nest Corporation as Trustee of the Nest Scheme assess the historic performance of the Nest Retirement Date Funds against investment objectives which are aligned with an understanding of the needs and priorities of the Scheme's members. The Trustee also reviews the factors underlying investment performance, including asset allocation, transaction costs and the performance of the investment managers that invest in the individual asset-class building blocks from which the default funds are constructed. The Trustee also considers the volatility and other risks being taken by investment managers, and this feeds into the overall risk management of the Nest Retirement Date Funds.

The Trustee undertakes an annual review of the Scheme's reference portfolios. These portfolios set out the strategic asset allocations expected to ensure each of the Scheme's funds achieve their stated risk and return objectives over the long term. This review uses forward-looking capital market assumptions published by J.P. Morgan Asset Management¹¹, and helps ensure that the asset allocations of the funds are not overly concentrated in a particular asset class and match the investment principles approved by the Trustee.

Based on these reviews and the advice of the Chief Investment Officer, the Board was satisfied that the strategy and returns remain consistent with the aims and objectives of the Scheme's default arrangements and other fund choices and therefore all funds remain fit for purpose. No changes were made to the existing funds.

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

¹¹ am.jpmorgan.com/gb/en/asset-management/adv/insights/portfolio-insights/lcma

Value for members

The Board is required to carry out an annual assessment as to whether the Scheme provides value for members.

The Board carried out this assessment based on a review year ending 30 September 2020 using the guidance set out in The Pensions Regulator's (TPR) 'Code of practice 13' and the accompanying 'Guide to value for members'.¹² This process included defining the criteria for the assessment, agreeing the evidence framework and collecting evidence for review. The completed assessment was approved by the Board on 25 March 2021.

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

The assessment of whether the Nest Scheme provides value for members considered the following:

The benefits of Nest Scheme membership

- Scheme features¹³
- Scheme management and governance
- Scheme investment and governance
- Communications
- Administration

¹² [thepensionsregulator.gov.uk/en/trustees/managing-dc-benefits/5-value-for-members](https://www.thepensionsregulator.gov.uk/en/trustees/managing-dc-benefits/5-value-for-members)

¹³ This is an additional measure, outside the scope suggested by TPR. However, the Trustee considers this is relevant when considering value for members.

The costs of Nest Scheme membership

The charges and transaction costs that a member pays.

Comparison with other schemes

- How the Scheme's charges compare to those of similar schemes, in light of Nest Corporation's public service obligation and pricing structure, which applies to all members, as well as the cap on member charges. To do this, a charges comparison exercise was carried out in October 2020.

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

- The Nest Scheme is delivering against members' needs and wants. The Scheme continues to provide a quality service with high standards of governance and administration. This offering is provided to all members regardless of the level of contribution or size of employer.
- The Nest Scheme has an accessible online account for members to use, and help and support is available for members via a range of channels. The Scheme has delivered improvements to members, notably in connection with retirement planning communications and options.

- Nest Scheme members benefit from good-quality investment strategies and governance. Other fund options have been made available to members should they choose not to stay in the default Nest Retirement Date Funds. The other fund options include the Nest Guided Retirement Fund, which has been designed so that members aged 60 or older can start taking their money out of the Scheme while still benefiting from potential investment returns. The Trustee's communications to members are clear, easy to understand and provide the information, help and support members might need across their pension savings journey.
- The Nest Scheme's price structure works out to be fair given the characteristics of the Scheme membership as a whole. The Trustee undertakes to ensure that charges are transparent and that the effects on members' pots are made clear. Charge levels (see page 35) and transaction costs (see page 35) are described in the relevant sections above. The Nest Scheme's price is comparable with the costs, charges and benefits members might experience with other similar schemes.

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

Otto Thoresen
Chair, Nest Corporation
30 June 2021

Statement of Trustee's responsibilities for the financial statements

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

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

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

- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless it either intends to wind up the Scheme, or has no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which it should ensure is fair and impartial.

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

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

Otto Thoresen
Chair, Nest Corporation
30 June 2021



Chapter 2

Investment report



Statement of investment principles

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

The Scheme’s SIP was last updated in March 2020. There have been no changes since then.

The SIP as at 31 March 2021 is included in Appendix 5 on pages 104 to 113. The latest version of the SIP is available online at nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/statement-of-investment-principles.html and by request using the contact information on page 88.

Scheme funds

Based on an understanding of the diverse needs of the Scheme’s membership, the Trustee has developed an approach to investment that offers:

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



SIP implementation report

This report demonstrates how the Trustee followed and acted on the principles contained in the 'Statement of investment principles' (SIP).

The SIP implementation report is required to be published in this 'Scheme annual report and accounts' and on the website, under the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

The investment committee reviews whether the investment approach is in line with the SIP on a quarterly basis. Since January 2020 this committee also reviews the operation of Nest Invest, the occupational pension scheme (OPS) firm that is a wholly owned subsidiary of Nest Corporation. The purpose of this review is to confirm that Nest Invest is operating in accordance with the investment management agreement between Nest Corporation and Nest Invest.

The Scheme's SIP was last updated in March 2020. There have been no changes since then. On an annual basis, the Board reviews whether the investment approach taken with respect to the Nest Scheme's assets under management is in line with the SIP. This review last took place in June 2020 and then again in June 2021 covering the year under review.

The Trustee is satisfied that all investments during the year were made in accordance with the SIP. This includes the following specific activities.

Day-to-day management of assets

This part of the SIP aims to ensure that the Trustee has robust processes in place for selecting and monitoring external investment managers and overseeing any direct investment activities undertaken by Nest Invest. The objective of these arrangements is to drive value for Nest Scheme members and secure the right outcomes for them.

The Trustee is confident that the management of assets and arrangements with investment managers remain robust and in members' best interests.

- In 2020/21, the Trustee selected three new investment managers covering private infrastructure equity. The procurements followed a rigorous and transparent process, including virtual meetings with shortlisted managers to test the knowledge and implementation of the managers' stated investment strategy.
- Also this year, the investment committee approved a new securities lending policy.
- The investment committee reviewed and approved the updated investment manager selection and manager monitoring policies, providing oversight of it.
- The Trustee, conducted quarterly monitoring of all external investment managers to review performance and renegotiate fees in favour of member value where appropriate. The investment committee reviewed performance against targets.

- The Trustee’s climate change policy was shared with all external investment managers and its implementation was discussed in meetings with each manager. Individual targets and objectives for aligning investments managed on behalf of the Scheme with the 1.5C limit on global warming were developed and agreed with each manager.
- Scheme assets held in a pooled climate-aware developed market equities fund managed by UBS Asset Management were moved into a segregated account for the Nest Scheme. This move also allowed the Trustee to achieve its ambition for the entire Scheme portfolio to be tobacco-free a year ahead of schedule.
- The Trustee is in the process of establishing a climate-aware emerging market equities fund managed by the investment manager for this asset class, Northern Trust Global Investments. This fund was set up as a segregated account for the Scheme.
- The Trustee also established a segregated account for short-duration global credit with the investment manager for this asset class, Wells Fargo Asset Management. Assets were moved into this fund during 2020/21.

For more information about the Trustee's arrangements in relation to existing investment managers, see Investment Managers on pages 54 to 55.

As at 31 March 2021, 56% of the Scheme’s total portfolio were held in segregated accounts. This has been done to facilitate implementation of the climate change policy, as it will give the Trustee greater control over voting rights and exclusion of individual stocks.

Types of assets held

This part of the SIP aims to ensure that the Trustee is investing in appropriate asset classes and financial instruments for Nest Scheme members.

The Trustee is confident that the Scheme’s assets are primarily invested in regulated markets and that investments in non-regulated markets and derivatives have been prudent.

- As at 31 March 2021, 93% of the Scheme’s assets were invested in regulated markets.
- Since January 2020 the Trustee has received advice about a range of new asset classes. Section 36 letters, which are required to ensure trustees have taken appropriate advice on the suitability of funds before investing, have been provided by Nest Invest, where required. Nest Invest is authorised and regulated by the Financial Conduct Authority (FCA).
- The use of derivatives is set out in the investment management agreement between Nest Corporation and Nest Invest. Some of the Scheme’s external investment managers used derivatives in the 12 months to 31 March 2021. Nest Invest monitors the use of derivatives within the Scheme’s portfolios.

The balance between different types of investments

This part of the SIP aims to ensure that the Trustee considers the appropriateness of the strategic asset allocation of the Nest Scheme’s default funds and other fund choices. This includes ensuring that the funds are not overly concentrated in any particular classes or with any particular issuers.

The Trustee is confident that the Scheme’s portfolios remain appropriately diversified.

- Every year the Trustee conducts a review of the reference portfolios. This review was last completed in February 2021.
- In 2020/21, the Trustee began a year-long review of its approach to strategic asset allocation with a view to updating it in light of the Scheme and the Scheme’s membership evolving.
- During the year, some property funds were temporarily closed to withdrawal of investment, a practice called ‘gating’. This was typically done because accurate valuations were not possible in light of the severe economic disruption and market uncertainties caused by the pandemic. While one of the Scheme’s external investment managers gated assets in two funds starting in March 2020, due to strong positive cashflow the Scheme was able to rebalance the portfolio and managed these constraints. The gate on these funds was opened in October 2020.

Liquidity

This part of the SIP aims to ensure that there is sufficient oversight of the liquidity of Nest Scheme assets in order to meet member redemptions and other requirements.

The Trustee is confident that the Scheme's assets are primarily invested in liquid markets and there is sufficient liquidity to manage outflows.

- Nest Invest set up an internal liquidity committee which meets at least quarterly. This committee aims to ensure that short- and long-term investment decisions remain in line with the liquidity tolerance levels and private market illiquidity constraints set by the Trustee.
- The Trustee has increased the Scheme's allocation to private markets within the reference portfolios to allow Scheme members to benefit from the additional returns available to investors in illiquid assets. In order to facilitate this shift in allocation and manage any associated risks appropriately, the investment committee discussed the Scheme's total capacity and appetite for liquidity risk at a dedicated workshop meeting in October 2020. Following the workshop, the committee agreed a new liquidity risk appetite statement and approved liquidity constraints specific to each private market allocation in 2020/21.

- The Trustee closely monitored and managed liquidity in view of pandemic-related market volatility and the gating of some property funds. Because of the Scheme's strong positive cashflow, these liquidity considerations were manageable.
- In order to better manage liquidity throughout the period of pandemic-related market volatility, the Trustee delayed funding the segregated short-duration global credit mandate with Wells Fargo Asset Management (see 'Day-to-day management of assets' on pages 45 to 46). This fund was up and running by the end of 2020/21.

Risk

This part of the SIP identifies the investment risks that the Nest Scheme faces. The Trustee reviews these risks annually. This annual review sets out the Trustee's appetite for the different types of investment risks.

The Trustee is confident that investment risks are being monitored and managed appropriately in accordance with the Scheme's stated risk appetites.

The Trustee sees climate risk as a key systemic risk facing the Scheme's portfolio. To manage this risk, in June 2020 the investment committee approved a new climate change policy which aims to align the Scheme's entire investment portfolio with the goals of the Paris Agreement. The policy's implementation will be reviewed annually by the Trustee.

Expected return on investments

This part of the SIP provides an overview of how the Trustee sets the investment strategy and objectives for the default Nest Retirement Date Funds and the Nest Scheme's other fund choices for members. It describes how the investment strategy is monitored and assessed against long- and short-time horizons.

The Trustee is satisfied that the Scheme's funds have been invested in a way that has a reasonable expectation of meeting the funds' objectives over the long term.

- During 2020/21, the Trustee considered the difficult economic outlook facing traditional asset classes and the challenges of meeting the SIP's stated investment objectives in the medium term.
- The Trustee assessed the early stages of an investment project, called the investment 'roadmap', to clarify the expected future evolution of its investment strategy.

Realisation of investments

This part of the SIP aims to ensure that the Trustee gives sufficient consideration to Nest Scheme members' need to realise their assets at retirement, and that the investment approach accounts for this need.

The Trustee is comfortable that Scheme funds are positioned appropriately for the level of demand for realisation of investments.

- Given the age profile of the Scheme's membership, the number of members taking their money at retirement remains very low. There was little transfer activity over 2020/21.

The Trustee launched and began to implement a new climate change policy in 2020/21 in line with the responsible investing and stewardship principles set out in the Statement of investment principles.

Responsible investing and stewardship

These parts of the SIP set out the Trustee's beliefs and policies with regards to managing environmental, social and governance (ESG) risks. They also discuss the extent to which and how the Trustee seeks and incorporates Nest Scheme members' views, and how the Trustee acts as a responsible and vigilant asset owner and market participant on behalf of Scheme members. For more information on these policies see 'investing responsibly' on pages 59 to 61.

Alongside this SIP implementation report the Trustee produces an annual responsible investment report which contains full details of the Trustee's voting activities throughout the year, outlines key votes¹⁴ and sets out in detail the work it has undertaken as an active steward of members' money. The 2020/21 responsible investment report¹⁵ is available on the website.

The Trustee is confident that ESG issues were taken into account in 2020/21 and that the Scheme's voting policy was followed closely throughout the year.

- The Trustee launched and began to implement a new climate change policy in 2020/21 in line with the responsible investing and stewardship principles set out in the SIP. For more information see 'Investing responsibly' on pages 59 to 61.

¹⁴ nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment/how-we-voted

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

- The Trustee continued to engage proxy voting service Minerva Analytics to support greater exercise of voting rights on behalf of Scheme members. Minerva Analytics provides vote management tools which allow large institutional investors to efficiently identify key votes and shareholder resolutions of concern and interest and vote electronically on them. The exercise of these votes is published quarterly on the website¹⁶ and annually in the responsible investment report.¹⁷
- The investment committee reviewed and approved the Trustee's updated investment conflicts of interest policy and its updated global and UK voting standards.

Additional investment fund strategy choices

This part of the SIP makes provision for the establishment and oversight of other fund choices within the Nest Scheme for members (see page 52).

- In 2020/21, the Trustee reviewed two of the fund choices available to Scheme members: the Nest Pre-Retirement Fund and the Nest Lower Growth Fund. This included evidence regarding member activity and need and recommendations for amending the funds. The investment committee approved these recommendations.
- The Trustee updated the Nest Ethical Fund brochure to align it with the new climate change policy.

¹⁶ nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment/how-we-voted

¹⁷ nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment.html



Nest Retirement Date Funds

When members join the Nest Scheme, their contributions are invested by default into a Nest Retirement Date Fund unless they actively choose a different fund (see 'Other fund choices' on page 52).

A member's default Nest Retirement Date Fund will match their State Pension age.

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

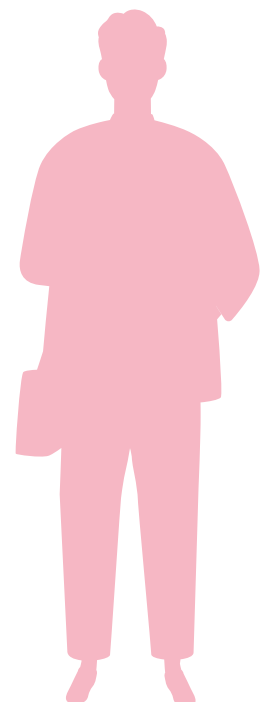
Members can change their Scheme retirement age at any time and their retirement pot will be switched automatically into the matching Nest Retirement Date Fund.

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

There are 49 separate Nest Retirement Date Funds. These, plus the post-retirement fund paths, the Nest Guided Retirement Fund and the Nest Post Retirement Fund (see page 51), make up the Scheme's default strategy.

Overall I like your investment policy as long as it gives decent returns.

Mark Gamble,
Nest member, 40s



Default investment strategy and phased risk management

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

The Trustee has adopted a lifestyled approach to a glide path for the Nest Retirement Date Funds. This means it changes the objectives for risk and return of each fund based on how far away members in the fund are from their expected retirement date. The glide path for the Nest Retirement Date Funds is split into four phases: foundation, growth, consolidation and post retirement.

Foundation phase objectives	For younger members as they develop the savings habit in the early years of their working lives. This phase typically lasts five years. The objective for the foundation phase is to keep pace with inflation after charges.
Growth phase objectives	For most members, the majority of their time saving will be spent in this phase. The growth phase is where the maximum growth in assets is being targeted through asset classes that are expected to grow in value relative to inflation. The objective for this phase is to outperform inflation by 3% a year after charges over the long term.
Consolidation phase objectives	For members 10 years or less from their expected retirement date. Investments in this phase are progressively switched out of higher risk assets and into lower risk investments to prepare members' assets for retirement. The primary objective of the consolidation phase for funds maturing after 2021 is to outperform inflation after charges while aiming to progressively reduce investment volatility as a member's fund approaches maturity. For funds maturing in 2021, the consolidation phase objective is to manage the risks associated with converting a member's accumulated savings into a cash lump sum.
Post retirement phase objectives	<p>For members who have not chosen to withdraw all their savings when their Nest Retirement Date Fund matures.</p> <p>Those members whose pot size is below £10,000 are automatically moved to the Nest Post Retirement Date Fund. This fund will invest in asset classes with low volatility in order to minimise conversion risk, as these members are expected to take one, or a series of, uncrystallised funds pension lump sums (UFPLS) relatively quickly.</p> <p>Those members who are aged 60 to 70 and whose pot size is £10,000 or more, are automatically moved to the Nest Guided Retirement Fund. This is an investment strategy consisting of four sub-funds managed with the aim of providing members with sustainable withdrawals until age 85. Members have different allocations in each of the sub-funds depending on their age. As members get older and progress through the strategy, their pot will be gradually de-risked from a sub-fund which has an objective of outperforming inflation after all charges to a sub-fund. The sub-funds are predominantly invested in liquid, low-volatility assets, that is, assets that reduce conversion risk, should the member wish to purchase a later-life annuity at age 85.</p>

Details of the Trustee's approach to lifestyling and return objectives can be found in the Trustee's 'Statement of investment principles' (SIP). The SIP as at 31 March 2021 is included in Appendix 5 on pages 104 to 113.

Other fund choices

For members who wish to make active investment choices, the Nest Scheme 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 lifestyled, three-phase glide path investment approach similar to the Nest Retirement Date Funds.

Nest Sharia Fund

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

Nest Higher Risk Fund

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

Nest Lower Growth Fund

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

Nest Pre-Retirement Fund

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

Nest Guided Retirement Fund

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



Investment managers

All of the Nest Scheme's funds are built from a range of pooled and segregated funds supplied by external investment managers.

Each of these external managers is authorised and regulated by the regulatory body in the country where the investment fund is domiciled. The managers are selected through a competitive tender process.

The Scheme's default arrangement, the Nest Retirement Date Funds, and other fund choices invest in a diversified range of asset classes. The majority of the Scheme's assets are invested in public markets with good liquidity and are valued daily.

A proportion of the assets – about 9% – are invested in illiquid assets. These are valued by the relevant investment manager on a monthly or quarterly basis.

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

* This fund was closed during 2020/21

The Trustee's arrangements with existing investment managers

The Trustee's approach to constructing the Nest Scheme's investment strategy is to use a 'fund-of-funds' model. The Trustee works with multiple external investment managers with distinct mandates for different asset classes, and is thus not reliant on any one manager to deliver the investment objectives of the default Nest Retirement Date Funds or, in most cases, the other fund choices that Scheme members can make.

Each investment manager is procured through an open competition to find the most suitable manager for each asset class. A thorough procurement process and regular ongoing monitoring ensures that each investment manager is fully aware of the particular objectives for the relevant asset classes. This helps to ensure that each manager is appropriately incentivised to align objectives for funds in line with the Trustee's objectives and approach.

As part of the procurement process, the Trustee shares with prospective managers a summary of its standards and policies on issues such as climate change, responsible investment, engagement and voting, divestment, securities lending, unit pricing and fair value, and the use of derivatives. The Trustee provides updates on these standards when relevant to managers who have a current mandate to invest in assets for Scheme members.

As part of the external investment manager procurement process, the Trustee sets out in detail its responsible investment standards. Prospective managers are evaluated where relevant on their approach to being long-term and responsible stewards of the assets they would manage on behalf of Scheme members. Those that cannot demonstrate alignment with the Scheme's approach do not progress to the final shortlist. These managers also receive the 'Statement of investment principles' (SIP), which sets out the Trustee's investment beliefs about the importance of making decisions with a long-term mindset.

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

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

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

Custodial arrangements

The Nest Scheme invests in pooled and segregated funds.

When the assets are invested in pooled funds, the assets will be held by the custodians appointed by the respective investment manager.

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

Investment developments

Coming out of a period of great volatility, many investment markets recovered over the course of 2020/21. This is reflected in the performance of Nest Scheme funds. The Trustee remains focused on managing such volatility across the time horizon over which many Scheme members will be saving.

The 2020/21 financial year was marked by the unprecedented disruptions to the global economy caused by the coronavirus pandemic and national and regional lockdowns. In the face of these disruptions, markets were volatile. However, weakness in risk assets such as equities and high-yield debt was primarily experienced in March 2020, before the start of this financial year. For this reason, global stock markets and most other risk assets enjoyed a positive year overall.

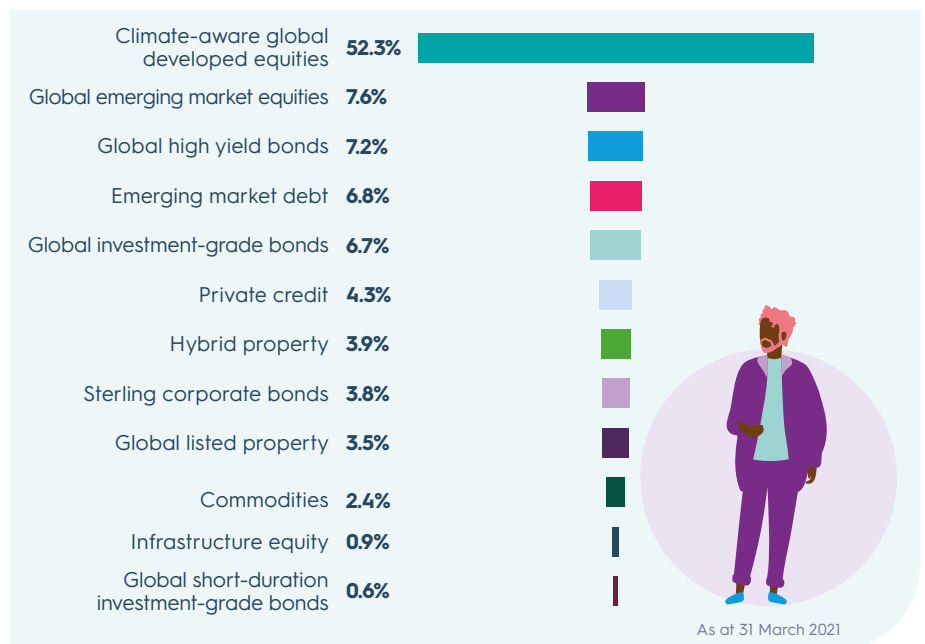
This positive performance was due in large part to massive quantitative easing, where central banks around the world took actions such as buying large volumes of government bonds, as well as the fiscal stimulus packages, such as the Coronavirus Job Retention Scheme (CJRS) in the UK, launched by governments to support their economies. The approval of vaccines against Covid-19, combined with the election of a new US president, further boosted markets towards the end of 2020.

Against this backdrop, the funds in which Scheme members are invested all achieved positive returns over the year. The 2040 Nest Retirement Date Fund, which is currently representative of the growth phase of the flagship default strategy, saw returns, net of annual management charges, of 28% over one year and 9.8% annualised over five years.

Full details of the performance of all Nest Retirement Date Funds can be found in Appendix 2, starting on pages 94 to 95.

The default strategy is well diversified across a range of asset classes, including global equities, global corporate bonds and global property. The 2040 fund's asset allocation is shown below.

Asset allocation of the 2040 fund



To help achieve good risk-adjusted returns for Scheme members, the Trustee is increasingly looking to take advantage of opportunities in illiquid private markets such as direct property, private credit and infrastructure projects. For example, the Trustee procured three new infrastructure equity investment managers during 2020/21. When the Scheme invests in illiquid assets, the Trustee ensures that all Nest Retirement Date Funds, as well as the other, non-default fund choices for members, retain sufficient liquidity to meet member divestments and keep the portfolio in line with asset allocation targets. The allocation to private market assets is currently capped at 20% in any individual Nest Retirement Date Fund or the other fund choices. Generally, these allocations are significantly lower than this at the current time.

For a period during 2020/21, the direct UK property funds were closed to both new investors buying in and existing investors selling out – what is called being ‘gated’. This was due to uncertainty around the valuation of commercial property in the UK at a time when limited transactions were taking place because of Covid-19 lockdowns and social distancing restrictions. Nest Invest has an internal illiquidity committee which meets regularly to address any concerns about how the less frequent pricing and valuation of illiquid assets like this might affect Scheme members. In the case of these property funds, the Trustee was able to manage the impact of the gating on both the portfolio’s asset allocations and the members’ fund pricing.

While managing the impact of short-term volatility in certain markets, the Trustee also continued to consider the longer-term investment strategy on behalf of Scheme members. Most significantly, this year the Trustee launched the climate change policy and committed to aligning the entire portfolio with net-zero carbon emissions by 2050.

To support the Trustee's climate change ambitions, one of three new infrastructure equity investment managers procured in 2020/21 is dedicated to investing in renewable energy and related infrastructure. The Trustee also began working with all of the managers to plot a transition path to net zero by 2050 for all of the Scheme's investment funds. In line with this climate change policy the Trustee has stepped up its active stewardship, including enhancing its approach to voting and engaging with companies Scheme members are invested in. And is collaborating more with other market participants, including regulators and standard setters, to work towards a net-zero future.

When the Nest Scheme was first set up, and while the Scheme was smaller, it was invested solely in pooled funds, where an investment manager for an asset class invests on behalf of the Scheme as well as other investors. Now that the Scheme is larger, the Trustee increasingly utilise segregated mandates, which means the manager runs the fund exclusively for the Scheme. For the segregated mandates, securities are held in custody on members’ behalf by the custodian, State Street Bank and Trust Company (SSB).

This move away from pooled funds to segregated mandates can be seen in the financial statements on pages 70 to 87 as reflected by the year on year changes in investment income and assets and liabilities allocated to members.

During 2020/21, the Trustee transitioned the developed market equities portfolio into a segregated mandate. As a result, a large proportion of the Scheme's assets are now managed in this way. This gives greater flexibility around benchmark design and active ownership, both of which will provide benefits to Scheme members over the long term. For example, the shift to segregated mandates allowed the removal of any remaining tobacco stocks from the portfolio. This meant that in August 2020, a year ahead of the target date, the portfolio became tobacco-free. Segregated mandates are also one of the tools being deployed to help achieve the climate change ambitions. The Scheme's developed market equities portfolio is now wholly invested to be climate-aware.

The Trustee of the Nest Scheme will continue to develop the investment strategy in these and other ways. The goal, as ever, is to support members in achieving a bigger pension in a better world.



John Frazer, Nest member, 53, said:

“It’s great news to see Nest investing our money in things that matter to us all. The current global Covid pandemic has made lots of people think carefully about what matters, what they really want for the future and realise how hugely reliant we all are on our infrastructure; whether that’s renewable power supplies, broadband, roads, schools or hospitals.

Nest is showing it understands what matters to its members and is clearly focused on giving us access to the best financial opportunities for their pensions, to give people like me a better retirement, instead of the best investments just being available to the wealthy few.”

Investing responsibly

Financially material considerations

Financially material considerations include but are not limited to environmental, social and governance (ESG) considerations such as climate change, labour force management and cyber security. The Trustee considers that these matters could have a material impact on the Nest Scheme's investments, particularly over the longer term over which many Scheme members will be saving.

One of the Trustee's investment beliefs is that, as long-term investors, integrating ESG considerations into the investment management process improves risk-adjusted returns. This investment belief is part of the 'Statement of investment principles' (SIP).

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

The Trustee also requires external investment managers where appropriate to integrate ESG factors into their investment analysis and decision-making process. Nest Corporation's investment team regularly monitors investment managers in this regard. The investment committee annually receives a report from the team on external managers' voting performance and their approach to responsible investing more generally.

The Trustee expects external investment managers where appropriate to have integrated climate risk into their risk analysis and investment process. Where appropriate and practical, the Trustee takes investment managers' approach to climate risk analysis into account in the selection of new external managers.

When monitoring the performance of external managers, the Trustee also regularly considers how investment managers are performing with reference to climate risk issues.

For further information on external investment managers, see pages 54 to 55.

More details about the Trustee's approach to financially material considerations are set out in the SIP. The SIP as at 31 March 2021 is included in Appendix 5 on pages 104 to 113.

Non-financial matters and investing

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

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

The Trustee has an active policy of soliciting member views on non-financial matters in investment decision-making for the Nest Ethical Fund, one of the Scheme’s non-default investment fund choices for members. For this fund, members’ views are taken into account in the selection, retention and realisation of investments. During 2020/21 the Trustee conducted research with members who had chosen the Nest Ethical Fund to understand whether the fund’s policy continued to meet member expectations. The Trustee is confident that the Nest Ethical Fund remained appropriate during the Scheme year.

The Trustee does not currently take into account members’ views on non-financial matters in the selection, retention and realisation of investments for the Scheme’s other non-default fund choices.

More details about the Trustee’s approach to non-financial considerations are set out in the SIP. Information on the responsible investment activities can be found in the annual responsible investment report, which is made available to Scheme members and other stakeholders on the website.¹⁸

Stewardship policy

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

The Trustee takes these responsibilities as an asset owner seriously and works closely with the Scheme’s external investment managers to support good corporate behaviour. Part of the procurement process for choosing external managers involves ensuring their voting policies are well thought out and documented.

The Trustee or agents on the Trustee’s behalf exercise the ownership rights in assets managed on behalf of Scheme members. These include voting and engagement with companies in which the Scheme invests on matters including performance, strategy, risks, social and environmental impact, and corporate governance. The Trustee does this with the aim of safeguarding sustainable returns for Scheme members over the long term.

The Scheme-specific voting and engagement policy¹⁹ sets out how the Trustee expects voting and engagement rights to be exercised. This policy documents the Trustee’s position and expectations to external investment managers on good corporate behaviour. It is used to monitor and hold these managers to account on the decisions they make, as well as enabling the Trustee to have healthy discussion and debate with them.

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

Each year the Trustee publishes a voting summary report²⁰ setting out how all external investment managers have voted and how this compares to the voting policy. The votes that the Scheme’s investment managers make are published on the website every quarter.

The Trustee also undertakes joint engagements with the Scheme’s investment managers and other pension schemes, and engages directly with companies. It works to engage with public, industry and regulatory bodies in the various markets in which the Scheme invests, to promote better practices.

¹⁸ nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment.html

¹⁹ nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment/how-we-voted
²⁰ nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment/how-we-voted

Climate-related financial disclosures

Climate change is one of the world's biggest challenges, posing a significant threat not just to the environment but to social and economic stability. Many Nest Scheme members will be invested with the Scheme for decades. Over this time horizon, the Trustee believes that climate change will present significant investment risks for them.

In 2020, the Trustee published its first Scheme-wide climate change policy.²¹ The policy sets out the Trustee's ambition to align the Scheme's entire investment portfolio with the goal of limiting global warming to 1.5C above the average level recorded between 1850 and 1900, by reaching net-zero carbon emissions by 2050 or earlier. As part of the climate change policy, the Trustee has committed to reporting progress annually through a report to the Task Force on Climate-related Financial Disclosures (TCFD).²²

The TCFD recommends that all organisations, including those in the financial sector, provide climate-related financial disclosures in their mainstream annual report and accounts. It is important that Scheme members and other stakeholders have transparency into how the Trustee is considering both climate risks and opportunities and how it is implementing the climate change policy.

Pension schemes have the ability to influence the entities in which they invest, including to improve those entities' own climate-related financial disclosures. The Trustee welcomes the introduction of mandatory TCFD reporting for large pension schemes in the Pension Schemes Act 2021. This requirement aims to raise standards of reporting across the pensions industry. The Trustee hopes that in time the TCFD will become the global standard for climate disclosure.

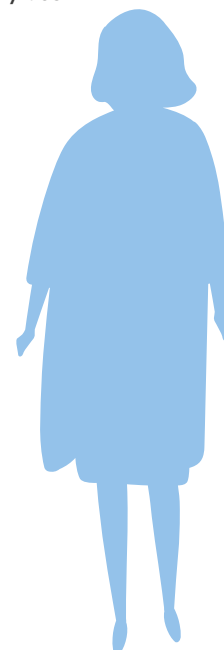
In line with the TCFD's recommendations, the Trustee reports in four areas:

- **Governance:** The Trustee explains how it provides oversight of climate-related risks and opportunities and implementation of the climate change policy. It also describes the processes for day-to-day management of climate change risks and opportunities.
- **Strategy:** The Trustee reviews its understanding of the climate change-related risks and opportunities to Scheme members and the time horizons it considers.
- **Risk management:** The Trustee describes its approach to addressing climate-related risks, including how it considers climate change in the asset allocation, external investment manager selection and monitoring and approach to stewardship.

- **Metrics and targets:** The Trustee reports on the progress in reducing the greenhouse gas emissions of the Scheme's portfolios. It sets out its ambition of aligning the entire Nest Scheme portfolio with the 1.5C degree limit by reaching net zero by 2050. The Trustee discloses, at portfolio level, the latest interim targets developed with the external investment managers.

Massively pleased that Nest is taking seriously the climate and ecological emergency which is facing us all.

Blanche Ward,
Nest member, early 60s



²¹ nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/How-climate-change-could-impact-your-pension.html

²² fsb-tcfid.org

Fund performance

The Nest Scheme's default and non-default funds achieved their objectives in 2020/21.

For contextualising information about the performance of Scheme funds, see 'Investment developments' on pages 56 to 57.

Fund ¹	Objective or benchmark	Fund performance one year to 31 March 2021	Objective or benchmark returns over one year to 31 March 2021
		%	%
Nest Retirement Date Fund in the growth phase ³	CPI + 3% *	28.0	3.7
Nest Ethical Fund in the growth phase	CPI + 3% **	24.5	3.7
Nest Sharia Fund	Dow Jones Islamic Titans 100 Index	35.3	37.6
Nest Higher Risk Fund	***	34.6	-
Nest Lower Growth Fund	****	3.0	0.0
Nest Pre-Retirement Fund		0.2	-
Nest Guided Retirement Fund - Vault	CPI	23.5	0.7

Notes

- Inception for all funds (other than NGRF) is 2011.
- Inception for all funds (other than NGRF) is 2011.
- 2040 Nest Retirement Date Fund

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

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

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

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

Annualised fund performance three years to 31 March 2021	Annualised objective or benchmark returns over three years to 31 March 2021	Annualised fund performance five years to 31 March 2021	Annualised objective or benchmark returns over five years to 31 March 2021	Annualised fund performance since inception ²	Annualised objective or benchmark returns since inception
%	%	%	%	%	%
9.2	4.4	9.8	4.8	9.0	4.7
11.3	4.4	11.8	4.8	10.7	4.7
20.3	20.2	17.7	18.2	14.4	15.2
10.3	-	11.5	-	10.4	-
1.6	0.0	1.0	0.0	0.6	0.0
2.6	-	3.1	-	4.0	-
-	-	-	-	16.0	0.7

Chapter 3

Financial statements



...INT POINT

target
↓
product
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analysis

JUST MAKE
THE BEST
THING

Independent auditor's report to the Trustee of the Nest Scheme

Opinion

We have audited the financial statements of National Employment Savings Trust ("the Scheme") for the year ended 31 March 2021 which comprise the Scheme Account, 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 2021 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and

- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

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

Going concern

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

In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Scheme and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified and concur with the Trustee's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the Scheme will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Trustee, and inspection of policy documentation, including risk register, as to the Scheme's high-level policies and procedures to prevent and detect fraud, as well as enquiring whether it has knowledge of any actual, suspected or alleged fraud.

- Reading Trustee Board, Audit Committee, Risk Committee, and Investment Committee Meeting minutes and the Scheme's breach log.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that the Trustee (or their delegates, including Scheme administrators) may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as Level 3 Pooled Investment Vehicles. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue in a pension scheme relates to contributions receivable as paid under an agreed schedule or pre-determined by each employer; there are no subjective issues or judgements required.

We did not identify any additional fraud risks.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of some of the Scheme-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries posted after the first draft of the financial statements have been prepared and comparing the identified entries to supporting documentation.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Trustee and their delegates (as required by auditing standards), and discussed with the Trustee the policies and procedures regarding compliance with laws and regulations.

As the Scheme is regulated by The Pensions Regulator, our assessment of risks involved gaining an understanding of the control environment including the Scheme's procedures for complying with regulatory requirements and reading the minutes of Trustee meetings.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Scheme is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related pensions legislation) and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Scheme is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation, or the loss of the Scheme's registration. We identified the following areas as those most likely to have such an effect: pensions legislation and data protection legislation, recognising the financial and regulated nature of the Scheme's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Trustee and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Trustee is responsible for the other information, which comprises the Board report, the 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 40, the Scheme Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to wind up the Scheme, or has no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at [frc.org.uk/auditorsresponsibilities](https://www.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, as a body, 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 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, as a body, 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

30 June 2021

Financial statements

Fund account for the year ended 31 March 2021

	Note	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Contributions and benefits			
Contributions - employers	3	1,965,875	1,949,477
Contributions - members	3	2,313,963	2,256,789
Contributions - HM Revenue & Customs	3	595,597	565,687
Transfers in	4	239,229	186,926
Other income		-	200
		5,114,664	4,959,079
Benefits	5	(140,861)	(81,766)
Transfers out	4	(106,638)	(58,888)
Administrative expenses	6	(127,789)	(107,374)
Net additions from dealings with members		4,739,376	4,711,051
Returns on investment			
Investment income and management fee rebates	7	131,663	22,360
Change in market value of investments	8.1	2,756,054	(753,835)
		2,887,717	(731,475)
Net increase in the fund during the year		7,627,093	3,979,576
Net assets of the Scheme at the start of the year		9,928,891	5,949,315
Net assets of the Scheme at the end of the year		17,555,984	9,928,891

Statement of net assets (available for benefits) as at 31 March 2021

	Note	31 March 2021 £000	31 March 2020 £000
Assets and liabilities allocated to members			
Investment assets			
Equities	8.1	8,119,177	43,048
Bonds	8.1	1,477,323	541,742
Pooled investment vehicles	8.1	7,352,472	8,720,997
Derivatives	8.9	39,420	12,163
Foreign currency cash	8.1	123,646	78,511
Other investment assets	8.4	99,689	258,027
Total assets		17,211,727	9,654,488
Investment liabilities			
Derivatives	8.9	(54,288)	(57,652)
Other investment liabilities	8.4	(27,379)	(80,786)
Total investments		17,130,060	9,516,050
Net current assets			
Current assets	9.1	465,426	433,684
Current liabilities	9.1	(39,998)	(21,208)
Total net assets allocated to members		17,555,488	9,928,526
Assets and liabilities not allocated to members			
Net current assets			
Current assets	9.2	1,102	831
Current liabilities	9.2	(606)	(466)
Total net assets not allocated to members		496	365
Total assets of the Scheme at the end of the year		17,555,984	9,928,891

The financial statements summarise the transactions of the Nest Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the Scheme year. The financial statements on pages 70 to 71, including the notes to the financial statements on pages 72 to 87, were signed on behalf of Nest Corporation by:

Otto Thoresen
Chair, Nest Corporation
30 June 2021

Clive Elphick
Chair, audit committee
30 June 2021

Notes to the financial statements

1. Basis of preparation

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

1.1 Identification of the financial statements

The Scheme is a registered pension scheme under Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by the Employers are normally eligible for tax relief, and income and capital gains earned by the Scheme are generally tax exempt. The address for enquiries to the Scheme is included in 'Other useful information' on page 88.

1.2 Going concern

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

the Trustee must assess the viability of the Scheme's funding entity, Nest Corporation.

The Trustee has considered a severe but plausible downside scenario in respect of the Scheme's contributions and assets under management for at least 12 months from approval of these financial statements. The severe but plausible downside scenario considered is markets falling 10% to 20% over the next 18 to 24 months and contributions being 10% to 15% below the current levels for 2021/22 and 2022/23. The Trustee has several mitigating actions that could be used should the need arise including the use of provisions and reserves as well as savings from the budget and asset management fees.

The coronavirus pandemic continues to be the main factor likely to impact on the sustainability of the Scheme. While the continued impact of the Covid-19 situation cannot be accurately predicted and it is not possible to assess all possible future implications for the Scheme, based on the analysis undertaken, the performance of the Scheme since the start of the pandemic, and taking into account the mitigations available, the Trustee believes that the Scheme has a secure financial position that will enable it to continue to trade. The Trustee therefore has a reasonable expectation that the Scheme will be able to continue in operation and meet its liabilities as they fall due over at least the next 12 months and that the going concern basis of accounting remains appropriate.

The going concern statement of Nest Corporation can be found in the 'Corporation annual report and accounts' on its website.¹ In summary, Nest Corporation continues to be a going concern based on four key considerations:

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

Revenue from charges on assets under management will be impacted by any falls in global asset values. However, the Scheme has a diversified portfolio to provide some mitigation against this and any fall in this revenue will be partly offset by a fall in the costs of investment, which are calculated based on asset values.

Nest Corporation has also assessed the pandemic's impact on revenue from contribution charges. The Scheme has a very broad range of participating employers, and its income is not concentrated in any one sector. There is therefore no disproportionate exposure to companies which have been adversely impacted by Covid-19 or other economic factors.

In addition, measures taken by the UK government throughout the pandemic, such as the Coronavirus Job Retention Scheme (CJRS), have been designed to preserve as many employers and jobs as possible.

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

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

The Pensions Regulator (TPR) expects employers to continue to comply with their auto enrolment duties.

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

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

2. Accounting policies

The principal accounting policies of the Nest Scheme are as follows:

2.1 Contributions

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

Contributions made directly by members or other permitted parties are accounted for on a cash basis.

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

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

2.2 Transfers

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

2.3 Benefits

The Scheme may pay benefits to members including:

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

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

2.4 Other income and expenses

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

¹ nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-CARA-2020-21.pdf

2.5 Administrative expenses

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

2.6 Investment income

Investment income is included in the financial statements on the following bases:

- Dividends from equities held directly by the Scheme are accounted for when they are quoted ex-dividend.
- Interest income from bonds held directly by the Scheme is accounted for on an accruals basis and includes interest bought and sold on investment purchases and sales.
- Where investment income arising from the underlying investments of the pooled investment vehicles is rolled up and reinvested within the pooled investment vehicles, it is reflected in the unit price and reported within change in market value of investments. Where investment income arising from the underlying investments of the pooled investment vehicles is not rolled up, income is accounted for on an accruals basis.
- Interest on cash and short-term deposits, and management fee rebates, are accounted for on an accruals basis.
- Investment income is reported net of attributable tax credits but gross of withholding taxes, which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.

2.7 Investments

Investments are included at fair value.

- Pooled investment vehicles are stated at the closing single price as provided by the investment manager.
- Equities are stated at the bid price at the date of the statement of net assets.
- Bonds are stated at their clean price, where applicable, including the indexation element which is payable on maturity. Accrued interest is included in investment income receivable.
- Exchange-traded derivatives are stated at fair value, which is determined using market-quoted prices. Exchange-traded derivatives are only used to contribute to a reduction of risk or to facilitate efficient portfolio management.
- All gains and losses arising on derivative contracts are reported within change in market value.
- Receipts and payments arising from derivative instruments are reported as sale proceeds or purchase of investments.

2.8 Foreign currencies

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

2.9 Change in market value of investments

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



3. Contributions

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Contributions from:		
Participating employers	1,967,806	1,951,603
less employers' share of refund of contributions for members opting out	(1,931)	(2,126)
	1,965,875	1,949,477
Members	2,316,102	2,259,254
less members' share of refund of contributions for members opting out	(2,139)	(2,465)
	2,313,963	2,256,789
HM Revenue & Customs	595,614	565,717
less HMRC share of refund of contributions for members opting out	(17)	(30)
	595,597	565,687
Total	4,875,435	4,771,953

4. Transfers in and transfers out

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Transfers in - registered pension schemes	232,473	181,629
Transfers in - pension sharing orders	6,756	5,297
Total transfers in	239,229	186,926
Transfers out - registered pension schemes	(106,529)	(58,888)
Transfers out - pension sharing orders	(109)	-
Total transfers out	(106,638)	(58,888)

5. Benefits

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Trivial commutations	94,680	58,218
Uncrystallised funds pension lump sums (UFPLS)	32,501	16,864
Death benefits payable to beneficiaries	12,384	5,855
Serious ill health	786	456
Annuities purchased through open-market option	510	373
Total	140,861	81,766

6. Administrative expenses

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Contribution charge	87,322	82,900
Annual management charge	40,452	24,389
Sundry costs	15	85
Total	127,789	107,374

7. Investment income, management fee rebates and withholding tax

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Dividends from equities	89,959	1,296
Income from bonds	20,913	4,449
Income from pooled investment vehicles	17,345	14,213
Management fee rebates	4,415	3,055
Irrecoverable withholding tax	(969)	(653)
Total	131,663	22,360

8. Investments

8.1 Investment movements

	Note	B'fwd as at 1 April 2020 £000	Purchases £000	Sales proceeds £000	Change in market value £000	C'fwd as at 31 March 2021 £000
Equities		43,048	8,385,179	(1,311,587)	1,002,537	8,119,177
Bonds		541,742	2,088,108	(1,078,875)	(73,652)	1,477,323
Pooled investment vehicles	8.2	8,720,997	4,393,162	(7,172,297)	1,410,610	7,352,472
Derivatives - futures	8.9	(44,883)	73,165	(112,346)	91,705	7,641
Derivatives - forward FX contracts	8.9	(606)	210,574	(560,210)	327,733	(22,509)
Total pooled and other investments		9,260,298	15,150,188	(10,235,315)	2,758,933	16,934,104
Foreign currency cash		78,511			(2,879)	123,646
Other investment assets	8.4	258,027				99,689
Other investment liabilities	8.4	(80,786)				(27,379)
Total investments		9,516,050			2,756,054	17,130,060
Represented by:						
Allocated to members		9,516,050				17,130,060
Not allocated to members		-				-
Total investments		9,516,050				17,130,060

8.2 Pooled investment vehicles

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

	31 March 2021 £000	31 March 2020 £000
Unit linked insurance contracts	3,174,598	6,290,061
Undertakings for collective investment in transferable securities (UCITS)	4,177,874	2,430,936
Total	7,352,472	8,720,997

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

	31 March 2021 £000	31 March 2020 £000
Equities	1,829,500	4,840,455
Bonds	3,792,039	2,538,815
Cash	470,844	320,328
Property	674,469	639,857
Private credit	585,620	381,542
Total	7,352,472	8,720,997

The Scheme is a sole investor in three pooled investment vehicles included within the above analysis (also three in 2019/20). An analysis of the underlying asset classes of these sole investor pooled investment vehicles is as follows:

	31 March 2021 £000	31 March 2020 £000
Debt	519,588	326,318
Cash	57,412	60,653
Derivatives	8,620	(5,429)
Total	585,620	381,542

8.3 Investment managers during the year

The investment managers used by the Scheme during the year, together with their assets under management at year-end, is as follows:

	31 March 2021 £000	31 March 2020 £000
UBS Asset Management (UK) Ltd	8,018,611	4,173,059
Amundi Asset Management	1,262,928	658,370
Wells Fargo Asset Management (International) Ltd	1,254,418	375,108
Legal & General Investment Management Ltd	1,218,455	872,558
J.P. Morgan Asset Management (UK) Ltd	1,186,089	440,826
Northern Trust Global Investments Ltd	1,124,909	374,754
Royal London Asset Management Ltd	1,087,844	1,397,116
BlackRock Inc	1,029,323	540,068
CoreCommodity Management LLC	308,603	164,193
BNP Paribas Asset Management Nederland NV	238,356	189,555
BMO Global Asset Management Ltd	133,319	48,557
HSBC Global Asset Management (UK) Ltd	69,545	25,265
State Street Global Advisors Ltd	1,704	869
Total	16,934,104	9,260,298

8.4 Other investment balances

	31 March 2021 £000	31 March 2020 £000
Investment cash including cash in transit	68,172	214,751
Management fee rebates receivable	518	513
Investment income accrued	27,758	2,914
Pending trades receivable	251	35,806
Recoverable withholding tax	1,921	51
Other receivables	1,069	3,992
Other investment assets	99,689	258,027
Pending trades payable	(27,379)	(78,307)
Annual management charge accrued (refer 9.1 below for accrual as at 31 March 2021)	-	(2,479)
Other investment liabilities	(27,379)	(80,786)

8.5 Investment assets allocated to members

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

	31 March 2021 £000	31 March 2020 £000
Nest Retirement Date Funds	16,527,911	9,251,189
Nest Higher Risk Fund	365,594	166,495
Nest Ethical Fund	152,796	61,446
Nest Sharia Fund	69,742	25,289
Nest Lower Growth Fund	9,461	8,860
Nest Pre-Retirement Fund	4,556	2,771
Total assets allocated to members	17,130,060	9,516,050

8.6 Fair value hierarchy

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

- **Level 1:** The unadjusted quoted price in an active market for identical assets or liabilities that the entity can assess at the measurement date.
- **Level 2:** Inputs other than quoted prices included with level 1 that are observable (that is, developed using market data) for the assets or liabilities, either directly or indirectly.
- **Level 3:** Inputs that are unobservable (that is, for which market data are unavailable) for the assets or liabilities.

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

31 March 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equities	8,119,177	-	-	8,119,177
Bonds	1,477,323	-	-	1,477,323
Pooled investment vehicles	-	6,766,852	585,620	7,352,472
Derivatives	(14,868)	-	-	(14,868)
	9,581,632	6,766,852	585,620	16,934,104
Foreign currency cash	123,646	-	-	123,646
Other investment balances	72,310	-	-	72,310
Total	9,777,588	6,766,852	585,620	17,130,060

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

8.7 Investment risk disclosures

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

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

The Trustee determines the Scheme's investment strategy after taking advice from professional investment advisers and Nest Invest.

The Scheme has exposure to these risks because of the investments the Trustee makes to implement its investment strategy, which is described in Chapter 2, 'Investment report', starting on page 44. The Trustee manages investment risks within agreed risk limits which are set taking into account the Scheme's strategic investment objectives.

The Scheme's assets under management are invested in a diversified range of asset classes. The day-to-day management of the underlying investment funds is the responsibility of each designated investment manager. Their responsibilities include the direct management of credit and market risk. A full list of investment managers and their respective assets under management is set out in note 8.3.

Nest Invest monitors the underlying risks on a monthly basis based on holdings data received from the investment managers.

8.7.1 Credit risk

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

- JPMorgan Life Ltd
- Legal & General Assurance (Pensions Management) Ltd
- Managed Pension Funds Ltd
- The Royal London Mutual Insurance Society Ltd

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

The Scheme 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

	Investment grade £000	Non-investment grade £000	Unrated £000	Total £000
31 March 2021				
Bonds	1,477,323	-	-	1,477,323
Foreign currency cash	123,646	-	-	123,646
Pooled investment vehicles	-	-	7,352,472	7,352,472
	1,600,969	-	7,352,472	8,953,441

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

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

Credit risk also arises on forward FX contracts. There are no collateral arrangements for some of these contracts and all counterparties are required to be at least investment grade. Forward FX collateral balances are detailed in note 8.9.

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

8.7.2 Currency risk

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

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

	31 March 2021 £000	31 March 2020 £000
US dollar	110,091	75,506
Euro	5,591	2,829
Japanese yen	3,962	-
Australian dollar	1,535	-
Other currencies	2,467	176
	123,646	78,511

8.7.3 Interest rate risk

The Scheme is subject to interest rate risk on bonds held either as segregated investments or through pooled investment vehicles. At year-end the Scheme held the following investments that are subject to direct interest rate risk:

	31 March 2021 £000	31 March 2020 £000
Bonds	1,477,323	541,742

8.7.4 Indirect credit and market risk

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

	Holdings as at 31 March 2021 £000	Foreign exchange risk	Other price risk	Interest rate risk	Credit risk
Amundi Funds Global Emerging Blended - IE	1,115,631	●	◐	●	●
Amundi Global Commercial Real Estate Debt Fund	147,297	◐	◐	●	●
BlackRock ICS Sterling Liquid Environmentally Aware Fund	470,844	○	○	●	●
BlackRock GBP Infrastructure Debt Fund	199,968	◐	◐	●	●
BlackRock Institutional Sterling Ultra Short Bond Fund	358,511	○	◐	●	●
BMO Responsible Global Equity Fund	97,449	●	●	○	◐
BMO Responsible Sterling Bond Fund	35,870	◐	◐	●	●
BNP Paribas Diversified Private Credit Fund	238,356	◐	◐	●	●
HSBC Islamic Global Equity Index Fund	69,545	●	●	○	◐
JPMorgan Life High Yield Opportunities Fund	1,186,089	●	◐	●	●
LGIM Global Real Estate Equity Index Fund	537,597	●	●	○	◐
LGIM Hybrid Property Fund	662,488	◐	●	◐	◐
LGIM Managed Property Fund	11,982	○	●	◐	◐
LGIM March 2022 Gilt Fund	6,388	○	◐	●	●
Northern Trust Emerging Markets Custom ESG Equity Index Fund	1,124,909	●	●	○	◐
Royal London UK Corporate Bond Pooled Pension Fund	768,350	○	◐	●	●
Royal London Investment Grade Short-Dated Credit	319,494	○	◐	●	●
SSGA UK Conventional Gilts All Stocks Index Fund	1,704	○	◐	●	●
Total pooled investment vehicles	7,352,472				

● Significant exposure

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

◐ Some exposure

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

○ No exposure

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

8.7.5 Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio, which includes directly held equities, futures, equities held in pooled investment vehicles, and property held in pooled investment vehicles.

The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

At the year-end, the Scheme's exposure to investments subject to other price risk was:

	31 March 2021 £000	31 March 2020 £000
Equities	8,119,177	43,048
Futures	7,641	(44,883)
Equities held in pooled investment vehicles	1,829,500	4,840,455
Property held in pooled investment vehicles	674,469	639,857
Total	10,630,787	5,478,477

8.8 Concentration of investment

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

	31 March 2021 £000	31 March 2020 £000
JPMorgan Life High Yield Opportunities Fund Representing (of total net assets)	1,186,089 6.8%	- -
Northern Trust Emerging Markets Custom ESG Equity Index Fund Representing (of total net assets)	1,124,909 6.4%	- -
Amundi Funds Global Emerging Blended - IE Representing (of total net assets)	1,115,631 6.4%	- -
UBS Life World Equity Tracker Fund Representing (of total net assets)	- -	1,466,839 14.8%
UBS Life World Equity Tracker GBP Hedged Fund Representing (of total net assets)	- -	1,445,892 14.6%
Royal London UK Corporate Bond Pooled Pension Fund Representing (of total net assets)	- -	1,035,450 10.4%
LGIM Hybrid Property Fund Representing (of total net assets)	- -	631,916 6.4%
UBS Life Climate Aware World Equity GBP Hedged Fund Representing (of total net assets)	- -	631,327 6.4%
UBS Life Climate Aware World Equity Fund Representing (of total net assets)	- -	629,001 6.3%

8.9 Derivatives

Derivatives held at year-end were as follows:

	31 March 2021		31 March 2020	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Futures	14,651	(7,010)	1,798	(46,681)
Forward FX contracts	24,769	(47,278)	10,365	(10,971)
Total	39,420	(54,288)	12,163	(57,652)
Total net derivatives		(14,868)		(45,489)

Futures

The details of open futures contracts at year-end were 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)	58,474	less than 1 year	4,833	(908)
LME Benchmark Monitor (LME)	28,432	less than 1 year	3,232	(954)
NYMEX Exchange (NYM)	73,862	less than 1 year	3,046	(1,432)
Intercontinental Exchange (ICE)	40,506	less than 1 year	1,351	(230)
COMEX division of NYMEX (CMX)	55,580	less than 1 year	1,186	(2,679)
Chicago Mercantile Exchange (CME)	50,444	less than 1 year	740	-
EUREX	6,739	less than 1 year	146	-
Osaka Exchange	3,716	less than 1 year	117	-
Sydney Futures Exchange	1,776	less than 1 year	-	(11)
ICE Futures US Softs (NYB)	19,443	less than 1 year	-	(796)
Total as at 31 March 2021	338,972		14,651	(7,010)
Total as at 31 March 2020	197,877		1,798	(46,681)
Total net futures as at 31 March 2021				7,641
Total net futures as at 31 March 2020				(44,883)

Included within net assets is £23,603k of US Treasury Bills (compared with £19,441k last year) and cash of £44,925k (compared with £19,585k last year) in respect of collateral held on open futures contracts at year-end.

Forward FX contracts

Currency bought	Local value £000	Currency sold	Local value '000	Forward FX settlement	Asset value at year-end £000	Liability value at year-end £000
Pound sterling	820,287	Euro	948,998	1 to 6 months	12,056	-
Pound sterling	328,953	Japanese yen	48,995,158	1 to 6 months	7,618	-
Pound sterling	108,147	Swiss franc	136,795	1 to 6 months	2,901	-
Pound sterling	3,510,201	US dollar	4,892,223	1 to 6 months	178	(43,267)
Pound sterling	111,528	Canadian dollar	197,236	1 to 6 months	22	(2,225)
Other		Other		1 to 6 months	1,994	(1,786)
Total as at 31 March 2021					24,769	(47,278)
Total as at 31 March 2020					10,365	(10,971)
Total net forward FX contracts as at 31 March 2021						(22,509)
Total net forward FX contracts as at 31 March 2020						(606)

Included within net assets is £3,798k of cash (compared to £740k last year) in respect of collateral held on open forward FX contracts at year-end.

8.10 Transaction costs

Included within the purchases and sales of equities and futures are direct transaction costs of £1,656k (compared with £180k in 2019/20), comprising fees, commissions and stamp duty. In addition to the direct transaction costs disclosed below, indirect costs are incurred through the bid-offer spread on investments. The direct costs are attributable to the key asset classes as follows:

	Fees £000	Commission £000	Stamp duty £000	Total £000
Equities	124	449	936	1,509
Derivatives	-	147	-	147
Total for the year ended 31 March 2021	124	596	936	1,656
Total for the year ended 31 March 2020	-	175	5	180

9. Current assets and liabilities

9.1 Current assets and liabilities allocated to members

	31 March 2021 £000	31 March 2020 £000
Contributions due from:		
Participating employers	114,373	122,138
Members	119,845	134,086
HM Revenue & Customs	146,753	121,547
Cash awaiting investment	84,455	55,913
Current assets	465,426	433,684
Benefits payable	(12,763)	(3,587)
Contributions yet to be allocated to member accounts or returned to employers	(21,739)	(15,433)
Annual management charge accrued (refer 8.4 above for accrual as at 31 March 2020)	(4,541)	-
Other payables	(955)	(2,188)
Current liabilities	(39,998)	(21,208)
Total net assets allocated to members	425,428	412,476

The contributions yet to be allocated to member accounts relate to cash being held after year-end for investment in the next few days. Outstanding member and employer contributions at year-end totalled £234,218k (compared with £256,224k as at 31 March 2020). In respect of these outstanding contributions, £207,013k was received by 31 May 2021 (compared with £225,685k by 31 May 2020).

Employer-related investments

The balance at 31 March 2021 includes contributions due from employers totalling £28,005k (compared with £35,754k at 31 March 2020), which were due after their statutory due dates as required by the payment schedules. These represent employer-related investments at year-end of 0.2% of the Scheme's total net assets (compared with 0.4% in 2020), but they did not contravene subsection (1) of section 40 of the 1995 Pensions Act.

The Scheme's investments in participating employers are shown in Appendix 1 on pages 92 to 93.

9.2 Current assets and liabilities not allocated to members

	31 March 2021 £000	31 March 2020 £000
Cash	298	400
Other receivables	804	431
Current assets	1,102	831
Contribution charge payable	(290)	(188)
Other payables	(316)	(278)
Current liabilities	(606)	(466)
Total net assets not allocated to members	496	365

10. Contingent liabilities and contractual commitments

The following contractual commitments existed at year-end:

	31 March 2021 £000	31 March 2020 £000
Property	400,000	-
Private credit	359,118	215,951
Infrastructure	400,000	-
Total	1,159,118	215,951

11. Related party transactions

The Scheme's Trustee is Nest Corporation, a public corporation accountable to the Secretary of State for Work and Pensions. The Scheme pays the Trustee the contribution charge and annual management charge set out in note 6. The total amount for 2020/21 was £127,774k (compared with £107,289k in 2019/20), of which £4,682k was outstanding at year-end (compared to £2,667 in 2019/20). Nest Corporation paid £nil into the Scheme's general account during the year (compared with £200k in 2019/20).

Nest Corporation is a participating employer in the Scheme. Contributions of £2,705k were payable by Nest Corporation to the Scheme during 2020/21 (compared with £2,309k in 2019/20).

Remuneration and pay for Board members is set by the Secretary of State for Work and Pensions. Total Board member remuneration for 2020/21 was £812k (compared with £836k in 2019/20). More details on Board member remuneration can be found in the 'Corporation annual report and accounts' at nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-CARA-2020-21.pdf

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

The Trustee pays for all of the running costs of the Scheme including the payment of fees for the investment managers, investment fund administrators, the Scheme's administrator Tata Consultancy Services (TCS) and the auditors. The details of these fees can be seen in the 'Corporation annual report and accounts' at nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-CARA-2020-21.pdf

Other useful information

Nest's contact details

[nestpensions.org.uk](https://www.nestpensions.org.uk)

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

Nest, the National Employment Savings Trust
Nene Hall
Lynch Wood Business Park
Peterborough
PE2 6FY

0300 020 0090

Secretary to the Trustee

Nest Corporation Corporate Secretary

Email: secretariat@nestcorporation.org.uk

Regulation and disputes

The Pensions Regulator

The Pensions Regulator (TPR) has powers to regulate workplace 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.

Phone: 0345 600 7060

[thepensionsregulator.gov.uk/en/contact-us](https://www.thepensionsregulator.gov.uk/en/contact-us)

Website: [thepensionsregulator.gov.uk](https://www.thepensionsregulator.gov.uk)

MoneyHelper

MoneyHelper provides impartial guidance about money and pensions that is free to use and backed by the government. It can help both Nest members and members' beneficiaries if they experience problems related to Nest or any other pension scheme.

Phone: 0800 678 1648

Website: [maps.org.uk/moneyhelper](https://www.maps.org.uk/moneyhelper)

The Pensions Ombudsman

The Pensions Ombudsman investigates and determines any complaint or dispute of fact or law, in relation to an occupational pension scheme, which cannot be settled through MoneyHelper's services or Nest's internal disputes resolution (IDR) procedure.

Phone: 0800 917 4487

Email: enquiries@pensions-ombudsman.org.uk

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

Pensions information

Pension Wise

A service of MoneyHelper, Pension Wise provides free help for your pension choices.

Phone: 0800 678 1648

Website: [maps.org.uk/moneyhelper](https://www.maps.org.uk/moneyhelper)



Appendices



Appendix 1

Top 100 investments

The top 100 investments as at 31 March 2021 have been calculated on a look-through basis to the underlying holdings of the pooled investment vehicles and segregated accounts invested in by the Scheme.

Employer-related investments* are the participating employers in which the Scheme invests at arms-length through the investment managers. Any employer-related investments as a result of late contributions are disclosed in the financial statements.

See note 9.1 on page 86.

Number	Investments	% of investments
1	Apple Inc	1.76
2	Microsoft Corp	1.62
3	Amazon.com Inc	1.13
4	Alphabet Inc	1.08
5	Facebook Inc	0.62
6	Samsung Electronics Co Ltd	0.58
7	Chinese yuan forward exposure	0.57
8	Korean Republic won forward exposure	0.48
9	Tesla Inc	0.47
10	Taiwan Semiconductor Manufacturing Co*	0.46
11	JPMorgan Chase & Co	0.43
12	Berkshire Hathaway Inc	0.43
13	Johnson & Johnson	0.42
14	Tencent Holdings Ltd	0.40
15	Alibaba Group Holding Ltd	0.38
16	Brazilian real	0.37
17	Visa Inc	0.34
18	Mastercard Inc	0.33
19	The Home Depot Inc	0.33
20	UnitedHealth Group Inc*	0.31
21	Walt Disney Co	0.31
22	Nestle SA	0.30
23	Nvidia Corp	0.30
24	Bank of America Corp	0.29
25	MUFG Bank Ltd (UK Branch) maturity 01/04/21	0.29
26	Procter & Gamble Co	0.27
27	Prologis Inc	0.27

Number	Investments	% of investments
28	PayPal Holdings Inc	0.26
29	Russian ruble forward exposure	0.26
30	Amundi Funds Emerging Markets Corporate Bond Fund	0.25
31	Intel Corp	0.24
32	Adobe Inc	0.23
33	Cisco Systems Inc	0.23
34	Verizon Communications Inc	0.23
35	Comcast Corp	0.22
36	Amundi Cash Corporate (Fr0010251660)	0.22
37	Polish zloty forward exposure	0.22
38	AT&T Inc	0.22
39	The Industrial Property Investment Fund	0.22
40	JPMorgan Money Market Fund	0.21
41	Thermo Fisher Scientific Inc	0.21
42	Toyota Motor Corp*	0.21
43	Honeywell International Inc	0.20
44	Walmart Inc	0.20
45	Novartis International AG	0.19
46	Singapore dollar forward exposure	0.19
47	Roche Holding AG	0.19
48	Merck & Co Inc	0.19
49	LVMH Moet Hennessy Louis Vuitton SE	0.18
50	Netflix Inc*	0.18
51	Abbott Laboratories	0.18
52	Santander UK Plc 01/04/21	0.18
53	AbbVie Inc	0.18

Number	Investments	% of investments
54	Medtronic plc	0.18
55	PepsiCo Inc	0.18
56	ASMA Holding LLC	0.17
57	Accenture plc	0.17
58	Nike Inc	0.17
59	Pfizer Inc	0.17
60	Heylo Housing Ltd maturity 09/45	0.17
61	Citigroup Inc	0.16
62	McDonald's Corp*	0.16
63	Unilever plc*	0.16
64	Vonovia SE	0.16
65	Renovables Atlasol maturity 12/38	0.16
66	Danaher Corporation	0.16
67	West Cross Industrial Park, Brentford	0.15
68	Broadcom Inc	0.15
69	Oracle Corp	0.15
70	Coca-Cola Co	0.15
71	Applied Materials Inc	0.15
72	Bristol-Myers Squibb Co	0.15
73	Qualcomm Inc	0.15
74	Pioneer maturity 10/26	0.15
75	Salesforce.Com Inc	0.15
76	Wells Fargo & Co	0.15
77	Texas Instruments Inc	0.15
78	AstraZeneca plc	0.15
79	Eli Lilly And Co	0.15
80	TotalEnergies SE	0.15
81	Central Saint Giles, London	0.14
82	United Parcel Service Inc	0.14
83	Fairmont Monaco maturity 12/24	0.14
84	Welltower Inc	0.14
85	Costco Wholesale Corp	0.14
86	AIG Group Ltd	0.14
87	KBC Bank (UK Branch) maturity 04/21	0.14
88	Honda Motor Co	0.14
89	Voltaire maturity 04/24	0.14
90	Amgen Inc	0.14
91	Allianz SE	0.13
92	Viridor maturity 09/27	0.13
93	BRED Banque Populaire maturity 04/21	0.13
94	Mizuho Bank Ltd (UK Branch) maturity 04/21	0.13
95	Toronto-Dominion Bank maturity 04/21	0.13
96	General Electric Co	0.13
97	Public Storage	0.13
98	Simon Property Group	0.13
99	Griffin Due 2032	0.13
100	Sony Corp	0.13

Appendix 2

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

Nest Retirement Date Fund	Fund performance one year to 31 March 2021 %	Annualised fund performance three years to 31 March 2021 %	Annualised fund performance five years to 31 March 2021 %	Annualised fund performance since inception %	Inception
UK CPI INDEX ¹	0.74	1.38	1.77	1.67	August 2011
Nest 2020 Retirement Fund	1.52	1.50	2.45	4.67	August 2011
Nest 2021 Retirement Fund	9.37	4.15	5.41	6.24	August 2011
Nest 2022 Retirement Fund	11.04	4.67	5.97	6.69	August 2011
Nest 2023 Retirement Fund	12.84	5.21	6.55	7.23	August 2011
Nest 2024 Retirement Fund	15.47	6.00	7.27	7.70	August 2011
Nest 2025 Retirement Fund	17.29	6.53	7.84	8.01	August 2011
Nest 2026 Retirement Fund	19.16	7.07	8.42	8.32	August 2011
Nest 2027 Retirement Fund	21.06	7.61	8.89	8.58	August 2011
Nest 2028 Retirement Fund	23.00	8.13	9.18	8.68	August 2011
Nest 2029 Retirement Fund	24.96	8.56	9.43	8.84	August 2011
Nest 2030 Retirement Fund	26.95	8.87	9.62	8.94	August 2011
Nest 2031 Retirement Fund	27.97	9.15	9.79	9.01	August 2011
Nest 2032 Retirement Fund	27.98	9.15	9.79	9.02	August 2011
Nest 2033 Retirement Fund	27.98	9.16	9.79	9.03	August 2011
Nest 2034 Retirement Fund	27.97	9.15	9.79	9.03	August 2011
Nest 2035 Retirement Fund	27.97	9.15	9.79	9.02	August 2011
Nest 2036 Retirement Fund	27.97	9.15	9.79	9.03	August 2011
Nest 2037 Retirement Fund	27.97	9.15	9.79	9.03	August 2011
Nest 2038 Retirement Fund	27.97	9.15	9.79	9.03	August 2011
Nest 2039 Retirement Fund	27.97	9.16	9.79	9.03	August 2011
Nest 2040 Retirement Fund	27.97	9.15	9.79	9.03	August 2011
Nest 2041 Retirement Fund	27.97	9.15	9.79	9.02	August 2011
Nest 2042 Retirement Fund	27.97	9.15	9.79	9.02	August 2011
Nest 2043 Retirement Fund	27.97	9.15	9.79	9.02	August 2011
Nest 2044 Retirement Fund	27.97	9.15	9.79	9.04	August 2011
Nest 2045 Retirement Fund	27.97	9.15	9.79	9.04	August 2011
Nest 2046 Retirement Fund	27.97	9.15	9.79	9.04	August 2011

Nest Retirement Date Fund	Fund performance one year to 31 March 2021 %	Annualised fund performance three years to 31 March 2021 %	Annualised fund performance five years to 31 March 2021 %	Annualised fund performance since inception %	Inception
Nest 2047 Retirement Fund	27.97	9.15	9.79	9.03	August 2011
Nest 2048 Retirement Fund	27.97	9.15	9.79	9.07	August 2011
Nest 2049 Retirement Fund	27.97	9.15	9.79	9.07	August 2011
Nest 2050 Retirement Fund	27.97	9.15	9.79	9.02	August 2011
Nest 2051 Retirement Fund	27.97	9.15	9.79	9.00	August 2011
Nest 2052 Retirement Fund	27.97	9.15	9.79	8.90	August 2011
Nest 2053 Retirement Fund	27.98	9.15	9.59	8.66	August 2011
Nest 2054 Retirement Fund	27.97	9.15	9.30	8.42	August 2011
Nest 2055 Retirement Fund	27.97	9.08	9.03	8.23	August 2011
Nest 2056 Retirement Fund	27.97	8.96	8.74	8.04	August 2011
Nest 2057 Retirement Fund	27.97	8.85	8.53	7.92	August 2011
Nest 2058 Retirement Fund	27.97	9.08	8.58	8.07	January 2012
Nest 2059 Retirement Fund	26.32	8.48	8.26	8.01	January 2013
Nest 2060 Retirement Fund	25.05	8.28	8.13	7.38	December 2013
Nest 2061 Retirement Fund	20.95	7.75	7.80	6.99	January 2015
Nest 2062 Retirement Fund	19.68	7.36	7.53	7.64	January 2016
Nest 2063 Retirement Fund	19.67	7.35	-	6.01	January 2017
Nest 2064 Retirement Fund	19.66	7.36	-	5.88	January 2018
Nest 2065 Retirement Fund	19.63	-	-	8.75	December 2018
Nest 2066 Retirement Fund	19.57	-	-	7.21	January 2020
Nest 2067 Retirement Fund	-	-	-	1.01	January 2021
Nest Starter Fund ²	20.26	7.46	7.38	7.47	August 2011
Nest Guided Retirement Fund - Later Life	6.83	-	-	0.66	March 2020
Nest Guided Retirement Fund - Safe	0.53	-	-	0.51	March 2020
Nest Guided Retirement Fund - Vault	23.45	-	-	16.04	March 2020
Nest Guided Retirement Fund - Wallet	-0.14	-	-	-0.12	March 2020
Nest Post Retirement Date Fund ³	1.48	0.95	0.77	0.59	November 2013

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

2 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.

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

Appendix 3

Transaction costs for the year ended 31 March 2021

These transaction costs have been disclosed in accordance with the Chair's governance statement on page 35.

Fund	Average weighted transaction costs %
Nest 2019 Retirement Fund	0.011
Nest 2020 Retirement Fund	0.010
Nest 2021 Retirement Fund	0.024
Nest 2022 Retirement Fund	0.026
Nest 2023 Retirement Fund	0.029
Nest 2024 Retirement Fund	0.033
Nest 2025 Retirement Fund	0.036
Nest 2026 Retirement Fund	0.039
Nest 2027 Retirement Fund	0.042
Nest 2028 Retirement Fund	0.045
Nest 2029 Retirement Fund	0.048
Nest 2030 Retirement Fund	0.051
Nest 2031 Retirement Fund	0.053
Nest 2032 Retirement Fund	0.053
Nest 2033 Retirement Fund	0.053
Nest 2034 Retirement Fund	0.053
Nest 2035 Retirement Fund	0.053
Nest 2036 Retirement Fund	0.053
Nest 2037 Retirement Fund	0.053
Nest 2038 Retirement Fund	0.053
Nest 2039 Retirement Fund	0.053
Nest 2040 Retirement Fund	0.053
Nest 2041 Retirement Fund	0.053
Nest 2042 Retirement Fund	0.053
Nest 2043 Retirement Fund	0.053
Nest 2044 Retirement Fund	0.053
Nest 2045 Retirement Fund	0.053
Nest 2046 Retirement Fund	0.053
Nest 2047 Retirement Fund	0.053

Fund	Average weighted transaction costs %
Nest 2048 Retirement Fund	0.053
Nest 2049 Retirement Fund	0.053
Nest 2050 Retirement Fund	0.053
Nest 2051 Retirement Fund	0.053
Nest 2052 Retirement Fund	0.053
Nest 2053 Retirement Fund	0.053
Nest 2054 Retirement Fund	0.053
Nest 2055 Retirement Fund	0.053
Nest 2056 Retirement Fund	0.054
Nest 2057 Retirement Fund	0.055
Nest 2058 Retirement Fund	0.055
Nest 2059 Retirement Fund	0.055
Nest 2060 Retirement Fund	0.054
Nest 2061 Retirement Fund	0.049
Nest 2062 Retirement Fund	0.046
Nest 2063 Retirement Fund	0.046
Nest 2064 Retirement Fund	0.046
Nest 2065 Retirement Fund	0.046
Nest 2066 Retirement Fund	0.015
Nest 2067 Retirement Fund	0.004
Nest Starter Fund	0.046
Nest Guided Retirement Fund - Later Life	-0.003
Nest Guided Retirement Fund - Safe	-0.004
Nest Guided Retirement Fund - Vault	0.028
Nest Guided Retirement Fund - Wallet	0.000
Nest Post Retirement Date Fund	0.008
Nest Ethical Foundation Fund	0.026
Nest Ethical Growth Fund	0.030
Nest Ethical Consolidation Fund	0.003
Nest Higher Risk Fund	0.058
Nest Lower Growth Fund	0.006
Nest Pre-Retirement Fund	-0.052
Nest Sharia Fund	0.013

Appendix 4

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

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

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

Years saving	Retirement Date Fund		Ethical Fund		Higher Risk Fund (non-lifestyled)	
	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	1,264	1,239	1,264	1,239	1,287	1,262
3	3,811	3,722	3,811	3,724	4,015	3,927
5	6,551	6,380	6,551	6,384	6,960	6,789
10	14,607	14,141	14,608	14,153	15,378	14,907
15	24,102	23,195	24,107	23,220	25,540	24,616
20	35,277	33,755	35,287	33,801	37,786	36,226
25	48,409	46,072	48,430	46,150	52,527	50,110
30	63,827	60,439	63,864	60,561	70,249	66,714
35	81,908	77,196	81,972	77,380	91,537	86,569
40	100,370	94,033	100,465	94,316	117,089	110,314
45	113,560	105,380	113,680	105,818	147,741	138,709
46	115,351	106,809	115,472	107,259	154,568	145,023

* SMPI is our current prediction of how much your fund will be worth when you retire. We've calculated this without inflation and in current monetary terms. Our assumptions for working this out can be found on page 103.

** 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 investment managers and are the latest figures available in March 2021. These figures will be updated at least annually.

Higher Risk Fund (lifestyled)		Sharia Fund		Lower Growth Fund		Pre-Retirement Fund	
Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1,287	1,262	1,287	1,263	1,267	1,242	1,253	1,228
4,015	3,927	4,015	3,930	3,834	3,748	3,719	3,632
6,960	6,789	6,961	6,797	6,446	6,282	6,131	5,967
15,378	14,905	15,382	14,943	13,178	12,749	11,938	11,517
25,538	24,606	25,556	24,707	20,204	19,406	17,443	16,677
37,782	36,202	37,829	36,409	27,533	26,258	22,668	21,476
52,515	50,064	52,618	50,435	35,173	33,311	27,633	25,938
70,225	66,636	70,422	67,245	43,134	40,572	32,354	30,088
91,494	86,446	91,841	87,394	51,424	48,045	36,851	33,946
111,844	104,991	117,592	111,542	60,055	55,738	41,138	37,535
125,833	116,940	148,536	140,486	69,035	63,656	45,230	40,872
127,681	118,389	155,435	146,931	70,874	65,268	46,026	41,511

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

All calculations are in real terms and are based on the assumption that no withdrawals are made. We've used Nest's Statutory Money Purchase Illustration

(SMPI) assumptions* for investment growth, which require us to make reasonable projections of likely investment returns. The two sets of return figures are: gross of costs and charges; and net of costs and charges. We first deduct transaction costs** from the projected investment returns, and then deduct the annual management charge (AMC) from these adjusted returns to create the figure net of costs and charges. The contribution charge is applied to all contributions before this calculation.

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

Years saving	Retirement Date Fund		Ethical Fund		Higher Risk Fund (non-lifestyled)		Higher Risk Fund (lifestyled)	
	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	1,284	1,259	1,284	1,259	1,287	1,262	1,287	1,262
3	3,985	3,896	3,985	3,897	4,015	3,927	4,015	3,926
5	6,873	6,701	6,873	6,703	6,960	6,789	6,960	6,788
10	14,988	14,517	14,989	14,525	15,378	14,907	15,377	14,902
15	24,169	23,251	24,172	23,275	25,540	24,616	24,806	23,874
20	32,730	31,221	32,736	31,285	37,786	36,336	33,424	31,890
21	34,245	32,606	34,252	32,678	40,521	38,808	34,944	33,279
22	35,672	33,904	35,679	33,980	43,358	41,484	36,375	34,578

Years saving	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	1,287	1,263	1,267	1,242	1,253	1,228
3	4,015	3,930	3,834	3,748	3,719	3,632
5	6,961	6,797	6,446	6,282	6,131	5,967
10	15,382	14,943	13,178	12,749	11,938	11,517
15	25,556	24,707	20,204	19,406	17,443	16,677
20	37,829	36,409	27,533	26,258	22,668	21,476
21	40,570	39,015	29,036	27,653	23,681	22,394
22	43,416	41,717	30,551	29,055	24,684	23,299

* SMPI is our current prediction of how much your fund will be worth when you retire. We've calculated this without inflation and in current monetary terms. Our assumptions for working this out can be found on page 103.

** 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 investment managers and are the latest figures available in March 2021. These figures will be updated at least annually.

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

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

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

Years saving	Retirement Date Fund		Ethical Fund		Higher Risk Fund (non-lifestyled)		Higher Risk Fund (lifestyled)	
	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges	Before costs and charges	After costs and charges
1	1,284	1,259	1,284	1,259	1,287	1,262	1,287	1,262
3	3,976	3,887	3,976	3,887	4,015	3,927	3,989	3,900
5	6,782	6,610	6,782	6,613	6,960	6,789	6,796	6,624
10	13,894	13,433	13,895	13,450	15,378	14,907	13,910	13,450
11	15,267	14,737	15,268	14,757	17,261	16,713	15,284	14,753
12	16,605	16,002	16,606	16,025	19,216	18,584	16,622	16,019

Years saving	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	1,287	1,263	1,267	1,242	1,253	1,228
3	4,015	3,930	3,834	3,748	3,719	3,632
5	6,961	6,797	6,446	6,282	6,131	5,967
10	15,382	14,943	13,178	12,749	11,938	11,517
11	17,267	16,757	14,560	14,065	13,062	12,579
12	19,224	18,638	15,953	15,389	14,175	13,626

* SMPI is our current prediction of how much your fund will be worth when you retire. We've calculated this without inflation and in current monetary terms. Our assumptions for working this out can be found on page 103.

** 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 investment managers and are the latest figures available in March 2021. These figures will be updated at least annually.

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

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

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

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

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

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

* SMPI is our current prediction of how much your fund will be worth when you retire. We've calculated this without inflation and in current monetary terms. Our assumptions for working this out can be found on page 103.

** 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 investment managers and are the latest figures available in March 2021. These figures will be updated at least annually.

Statutory money purchase illustration (SMPI) investment growth assumptions

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

Appendix 5

The Statement of investment principles (SIP) printed here is the latest version as at 31 March 2021.

The latest version of the SIP is available online at nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/statement-of-investment-principles.html and by request using the contact information on page 88.

Nest's Statement of investment principles (SIP)

March 2020 to March 2023

Introduction

- 1.1 The Trustee of the National Employment Savings Trust (Nest) has produced this Statement of investment principles (SIP), which sets out how the Trustee invests the assets of Nest for the scheme's default investment strategy and the additional investment fund choices scheme members can make.
- 1.2 This SIP has been prepared in accordance with all relevant legislative and best-practice guidelines. It outlines the principles and policies governing investment decisions made by or on behalf of the Trustee for the management of Nest's assets, in respect of the default arrangement and the additional investment fund choices scheme members can make. It should be read in conjunction with our latest quarterly investment report.¹
- 1.3 This SIP will be reviewed by the Trustee, the Members' Panel and Employers' Panel every three years, and without delay after any significant change in the investment approach or the demographics of the scheme.
- 1.4 Before revising this SIP, the Trustee will obtain and consider the written advice of a person who is reasonably believed by the Trustee to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of trust-based pension schemes. The Trustee will also consult with the Members' Panel and Employers' Panel on proposed revisions to the default investment strategy and additional investment fund choices scheme members can make before any SIP revisions.

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

Governance of the Nest Trustee

2.1 Investment powers and compliance with the Pensions Act 1995

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

- 2.2 Nest's assets, representing the balances on members' pension accounts, will be invested in the best interests of Nest's members and beneficiaries both for the default strategy and for any other investment choices members may make. In the event of a potential conflict of interest the assets will be invested in the sole interest of members and beneficiaries.
- 2.3 The Trustee's policy for securing that assets are invested in members' best interests is determined following extensive and continuing research into scheme member characteristics, circumstances and attitudes. This research is a mixture of quantitative data on socio-economic characteristics of the scheme's membership, qualitative research into members' attitudes and aspirations for their retirement savings, and, increasingly, management information about our members' savings patterns and behaviour.
- 2.4 Where significant changes to the scheme membership are detected the Trustee reviews the appropriateness of the default strategy and additional investment fund choices accordingly. Details of our member investment research² can be found on our website.
- 2.5 With the Trustee's understanding of members' best interests, it has decided upon an investment approach that provides:
 - a default fund (through a series of Nest Retirement Date funds³) designed to provide appropriate outcomes for members retiring in different years
 - a choice of other investment funds⁴ for scheme members who do not wish to invest in the default fund.

² nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/investment-research.html

³ nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/nest-retirement-date-funds.html

⁴ nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/other-fund-choices.html

- 2.6 Nest Corporation as Trustee is responsible for the governance and investment of Nest's assets but may delegate certain powers to appropriate committees, Board members, employees and investment fund managers. Nest Corporation has established a Financial Conduct Authority (FCA) authorised and regulated investment subsidiary, Nest Invest, to provide investment services and advice, as set out in an Investment Management Agreement between the Trustee and Nest Invest.
- 2.7 The Trustee is satisfied due to regular reporting, Trustee skills' audits, ongoing training and continuous professional development, that it, the respective committees and Nest Invest, have sufficient expertise, information and resources to carry out their roles effectively.
- 2.8 In preparing this SIP for both the default arrangement and the additional investment fund choices scheme members can make, the Trustee has considered written advice from the Chief Investment Officer (CIO) of Nest Invest who is qualified to provide this advice by his ability and practical experience of financial and pension scheme matters.
- 2.9 The Trustee has established an investment committee to consider, make decisions and provide oversight on investment issues. The delegated powers provided by the Trustee to the investment committee comprise of both issues on which the committee can make decisions, and issues on which it makes recommendations to the Trustee. The terms of reference⁵ can be found on our website.
- 2.10 The Trustee has delegated certain powers in relation to investment decisions and oversight to the investment committee. These include the asset allocation strategy, fund manager selection and responsible investment, as well as the monitoring of investment performance and risk.
- Nest Invest is also delegated responsibility to ensure and report to the investment committee that its investment powers are exercised in a manner calculated to ensure security, quality, liquidity, and profitability.
- 2.11 The following sections, except where explicitly referenced, sets out the Trustee's policies in relation to the types of investment, the balance between such investments, the associated risks and the expected return on those investments in the context of both the default arrangement where most of Nest members reside, and the other investment fund choices scheme members may make.

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

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

- 3.1 The day-to-day management of Nest's assets is performed by external professional fund managers and from time to time, Nest Invest. The investment committee are satisfied that the appointed fund managers and Nest Invest have sufficient expertise and experience to carry out their role.
- 3.2 Fund managers are monitored on a regular basis and performance is reported to the investment committee quarterly. The appointment, and dismissal of fund managers is the ultimate responsibility of the investment committee, based on recommendations from Nest Invest. The monitoring of fund managers is the responsibility of Nest Invest with oversight by the investment committee.
- 3.3 Their activities are defined and constrained by detailed agreements. Fund managers have discretion to buy and sell investments within the terms of their agreements. Fees are negotiated individually when a fund manager is appointed and are reviewed periodically to provide ongoing value for money for members.
- 3.4 Fund managers are listed in the scheme's annual report and accounts⁶, which also contains information about investment performance, asset allocation and major investment decisions taken during the year.
- 3.5 The fund managers are selected through an open and transparent process. The process aims to achieve best value for money for members. Professional advice from either Nest Invest or the Trustee's external and FCA-authorised and regulated investment advisers is obtained and considered in the selection of these funds and fund managers. As part of this selection, a due diligence process is performed to ensure that the assets are invested with sufficient security and liquidity and that each of the fund managers is of the appropriate quality and calibre to ensure the quality and profitability of the assets. The ongoing monitoring of these funds and fund managers is delegated to Nest Invest, to ensure all investments are undertaken in accordance with the Trustee's powers of investment.

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

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

- 4.1 Nest's approach to constructing its investment strategy is to use a 'fund-of-funds' model. We work with multiple fund managers with multiple mandates for different asset classes. We are not reliant on any one fund manager to deliver the investment objectives of the default strategy or in most cases the fund choices that members can make.
- 4.2 Each manager is procured through an open competition, to find the most suitable fund manager for each asset class. A thorough procurement process and regular ongoing monitoring ensures that each fund manager is fully aware of Nest's particular objectives for any given asset class in order to align its investment approach with that of Nest and to ensure each manager is appropriately incentivised.
- 4.3 Nest shares a summary of its Standards on issues such as responsible investment; engagement and voting; divestment; unit pricing and fair value; and the use of derivatives, with fund managers as part of the procurement process, and provides to managers updates to these standards when relevant.
- 4.4 As part of our procurement process we set out the detail of our responsible investment Standards, and prospective managers are evaluated on their approach to being long term and responsible stewards of the assets they manage on behalf of Nest members where relevant. We share with our managers our SIP, within which we set out investment beliefs about the importance of making decisions with a long-term mindset.
- 4.5 Nest Invest conducts regular manager monitoring and meets in person with each of the managers at least once a year, and more frequently for active managers. Manager performance is reported to the investment committee on a quarterly basis. As part of our regular evaluation of our managers to ensure they are delivering in line with the objectives for which they were appointed, we monitor fees and charges in the context of our ongoing market evaluation of the price of fund management services.

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

- 4.6 Nest Invest monitors the costs of portfolio turnover as part of its regular manager monitoring. When selecting a new fund manager or new asset class Nest Invest makes an assessment as to our expectations of turnover range for any given asset class or manager style. Where relevant for a particular asset class or manager style, as part of our regular manager review, we monitor levels of turnover to ensure they remain in line with our expectations for that particular mandate.
- 4.7 Nest requires its fund managers to vote on all resolutions of shares managed on behalf of Nest members – this includes voting and engaging on a company's capital structure. Where there is a potential for any conflict of interest between a fund manager and the way they vote, we expect these conflicts to be managed in accordance with the FRC's stewardship code. Nest can override the voting position of our main equity fund manager for the securities managed on behalf of Nest.
- 4.8 As part of Nest's Standards on responsible investing, Nest and Nest's fund managers collaborate with other institutional investors and asset managers. Nest is a signatory to the PRI and other relevant shareholder initiatives. We report engagements undertaken with our fund managers and other stakeholders in our annual responsible investment report.

Types of assets held (default and non-default)

- 5.1 The Trustee invests in a mix of real and monetary assets and a mix of pooled and direct investment vehicles, deemed suitable for pension schemes, balancing expected returns against volatility. The investment committee regularly monitors Nest's funds to ensure that:
- they invest primarily in regulated markets
 - investment in non-regulated markets is kept to a prudent level
 - derivatives are used in a prudent and appropriate way to manage risk or manage the portfolio more efficiently and without excessive risk exposure to a single counterparty or other derivatives.
- 5.2 The Trustee carries out due diligence and takes advice from Nest Invest and may also take advice from its investment advisers to ensure new areas of investment are appropriate.
- 5.3 The investment committee has approved a set of asset class ranges within which investments can be made. Any proposal to amend these ranges must be agreed in advance with the investment committee and the relevant schedules of the Investment Management Agreement updated accordingly.
- 5.4 The detail of the current asset allocation for the scheme's default investment strategy and the additional investment fund choices scheme members can make, is published via the quarterly investment report⁷ on the Nest website.

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

- 6.1 Long-term strategic asset allocation is driven by the specific characteristics of the scheme, in particular its demography, and members' capacity and appetite for risk. The Trustee also considers long-term projections of the likely performance of different types of investments in different economic conditions.
- 6.2 The scheme's strategic asset allocation is reviewed on an annual basis. The methodology for changing the strategic asset allocation is periodically revisited to ensure that changes to the strategic asset allocation are appropriate.
- 6.3 The investment committee is responsible for ensuring both the default strategy and the additional investment fund choices scheme members can make are, as far as practicable, sufficiently diversified so as not to be reliant on any particular asset class, issuer or group of undertakings. The investment committee is responsible for ensuring that investments in assets issued by the same issuer or by issuers belonging to the same group do not expose Nest members to excessive concentration of risk.

Liquidity (default and non-default)

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

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

Risk
(default and non-default)

- 8.1 The Trustee recognises that the scheme is exposed to a number of investment and operational risks. It gives qualitative and quantitative consideration to these risks when deciding investment policy, strategic asset allocation, the fund manager structure, choice of fund managers, the terms of their agreements and other aspects of the ongoing management of the scheme.
- 8.2 The scheme maintains a risk register of the key risks, including investment risks, to which it is exposed. The register rates the impact and likelihood of the risks, and summarises existing mitigations and additional actions. It is reviewed quarterly by the investment committee. Further details on the types of risks identified are shown in Annex 1.

Expected return on investments
(default and non-default)

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

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

Nest Invest reports to the investment committee on a quarterly basis the risk and return characteristics of the Retirement Date Funds and additional investment fund choices, and how each fund manager is delivering against their specific mandates.
- 9.2 Risks and opportunities are assessed for materiality and impact within a broader risk management framework, which takes account of the Trustee’s investment time horizon for a diverse member demographic. While our focus is predominantly long-term, as is appropriate for a pension scheme, the risk management framework allows us to consider a variety of risks including the short to medium term outlook for economic growth and inflation as well as currency, interest rate and political risk.

Realisation of investments
(default and non-default)

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

Investment beliefs
(default and non-default)

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

Investment aims and objectives for the default strategy

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

The Trustee has selected types of investments and the balance between these investments to meet this return objective.
- 12.2 To support this overarching objective the Trustee has also agreed the following sub-objectives:
 - to maximise the pension income and other pension benefits at retirement by taking appropriate risk
 - to seek to deliver similar outcomes for cohorts of scheme members who have similar contribution histories
 - to aim to dampen volatility in members’ pension accounts.

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

Delivering the investment objective for the default strategy

- 13.1 The Nest scheme and its default investment approach have been designed to ensure that scheme members who do not wish to take an active role in how their contributions are invested can do so in confidence. The availability of a well-constructed default strategy is an essential part of auto enrolment and is central to Nest's investment approach.
- 13.2 Investment risk should be taken in varying amounts throughout a member's time saving with Nest. The Trustee has therefore adopted a series of target date funds called the Nest Retirement Date Funds⁸ to deliver the default investment strategy. Each Nest Retirement Date Fund has an asset allocation that is consistent with the expected amount of risk that is appropriate for the age of a member and/or their expected retirement date and the amount of return required to meet the investment objectives of the Nest Retirement Date Funds.

The default strategy glide path

- 14.1 The varying allocation between return-seeking and income-seeking assets through time is known as the glide path. The Trustee has split the glide path into four phases:
- the foundation phase
 - the growth phase
 - the consolidation phase
 - the post-retirement phase.
- 14.2 The foundation phase refers to the early years of younger scheme members' working lives as they develop the savings habit. This phase typically lasts five years. The objective for the foundation phase is to keep pace with CPI after all charges.
- 14.3 The growth phase is where the maximum growth in assets is being targeted through investing in asset classes that are expected to grow in value relative to inflation more than other investments. The objective for this phase is to outperform CPI plus 3 per cent a year after all charges over the long term.

- 14.4 The consolidation phase prepares a scheme member's assets for retirement and typically begins ten years before their Nest Retirement Date Fund matures. Investments in this phase are progressively switched out of higher risk assets. The primary objective of the consolidation phase for funds maturing after 2020 is to outperform CPI after all charges while aiming to progressively dampen volatility as a scheme member's fund approaches maturity. For Nest Retirement Date Funds maturing through 2020, the consolidation phase objective is to manage the risks associated with converting a member's accumulated savings into a cash lump sum.
- 14.5 The post-retirement phase is for those members who have not chosen to withdraw all their savings when their Nest Retirement Date Fund matures. Those members whose pot size is below £10,000 will be automatically moved into the Nest Post Retirement Date Fund. This fund will invest in asset classes with low volatility in order to minimise conversion risk, as we expect members to access their pots and take one, or a number of uncrystallised funds pension lump sums, relatively quickly.

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

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

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

Responsible investing (default and non-default)

- 15.1 The Trustee considers sustainable investment factors, such as (but not limited to) those arising from environmental, social and governance (ESG) considerations, including climate change, in the context of the broader risk management framework. One of the Trustee's investment beliefs is that, as long-term investors, integrating ESG considerations into the investment management process improves risk-adjusted returns.
- 15.2 The Trustee requires its fund managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process. Fund managers are monitored on a regular basis by Nest Invest in this regard. On an annual basis the investment committee receives a report on the fund managers' voting performance and approach to responsible investing more generally.
- 15.3 The Trustee expects fund managers, where appropriate, to have integrated climate risk into their risk analysis and investment process and, where appropriate and practical, we will take it into account in the selection of new fund managers. When monitoring the performance of our fund managers, we will also regularly consider how they are performing with reference to climate risk issues.
- 15.4 The Trustee has an active policy of soliciting members' views on non-financial matters in their investment decision making for one of the non-default investment funds – the Nest Ethical Fund choice strategy. These views are taken into account in the selection, retention and realisation of investments in the Nest Ethical Fund. The Trustee does not currently take into account members' views on non-financial matters in the selection, retention and realisation of investments for the other additional investment fund choices.
- 15.5 The Trustee does not currently take into account members' views on non-financial matters in the selection, retention and realisation of investments for the default investment strategy, as they have provided additional investment fund choices where members' views on non-financial matters can be sought and expressed.
- 15.6 The Trustee surveys members about its responsible investment approach in general and provides to members and stakeholders an annual report⁹ on its responsible investment activities.

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

Responsible investing – stewardship (default and non-default)

- 16.1 The Trustee has a duty to act responsibly with regards to the assets it owns on behalf of Nest members. The Trustee believes that in order to fulfil this duty and to protect and enhance the value of Nest's investments over the long term, it must act as a responsible and vigilant asset owner and market participant.
- 16.2 As part of this duty the Trustee, or its agents on its behalf, exercises its ownership rights, including voting and engagement with investee companies on matters including performance, strategy, risks, social and environmental impact and corporate governance in order to safeguard sustainable returns in the long term. How the Trustee expects its voting and engagement rights to be exercised is set out in a scheme specific voting and engagement policy¹⁰.
- 16.3 Nest takes its responsibilities as an asset owner seriously. As clients, we work closely with our fund managers to help us support good corporate behaviour. Part of our procurement process for choosing fund managers involves ensuring their voting policies are well thought out and documented. Having our own policy enables Nest to document our position and expectations to our fund managers on good corporate behaviour. We use it to monitor and hold our fund managers to account on the decisions they make. Having our own established policy in place helps us have healthy discussion and debate with our fund managers. We always seek to vote and engage in the interest of our members and encourage our fund managers to consider our voting policy in their voting decisions.
- 16.4 Where we have direct voting rights we work closely with our proxy voting agent to ensure Nest's voting intentions are delivered in line with Nest's voting policy.
- 16.5 Each year we publish a voting summary report setting out how all our fund managers have voted and how this compares to Nest's voting policy. We report the votes our fund managers make every quarter.
- 16.6 In addition to engaging directly with companies, Nest also undertakes joint engagements with our fund managers, and other pension schemes. Nest works to engage with public, industry and regulatory bodies in the various markets in which the scheme invests to promote better practices.

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

- 16.7 Given the systemic nature of climate change, we seek to discharge our duties by robust engagement alongside our fund managers with investee companies to encourage alignment with a low carbon economy and with policy-makers and governments to advocate for the same.
- 16.8 The Trustees have signed up to the UK Stewardship Code and the UN supported Principles for Responsible Investment (PRI).
- 16.9 The Trustee reports to its members and stakeholders on its stewardship activities through its annual responsible investment report¹¹.

Policy on divestment

- 17.1 In general, divestment or exclusion goes against our principles of stewardship and responsible investment. However, in certain rare circumstances we believe it's merited for the reasons set out in our divestment policy. Further detail of our divestment policy¹² and how it is implemented can be found on our website.
- 17.2 Nest supports internationally recognised norms of corporate practice. As such we actively seek to avoid investing in companies such as those directly involved in the production or sale of cluster weapons, anti-personnel landmines or chemical and biological weapons.

Additional investment fund strategy choices

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

Nest Higher Risk Fund

Invests in return-seeking assets

Nest Lower Growth Fund

Invests in very low volatility assets

Nest Ethical Fund

Invests primarily in ethical securities and ethical property

Nest Sharia Fund

A fund with an investment approach based on Islamic law

Nest Pre-retirement Fund

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

Nest Guided Retirement Fund

A fund designed for members who:

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

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

- 18.2 The Trustee may add, change or remove any fund choice strategies in accordance with the terms set out in Nest's Order and Rules¹³.
- 18.3 The Trustee endeavours that, for members who choose an alternative fund choice strategy, the risk being taken in the fund also takes into account the expected retirement age of the member, where this is applicable and practicable.

Compliance with this SIP

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

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

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

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

SIP Annex 1

Risks

Inflation risk

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

Pension conversion risk

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

Market risk

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

Counterparty risk

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

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

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

Operational risk

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

Liquidity risk

As far as is practicable and necessary, the Trustee invests primarily in liquid assets which can be quickly realised as required.

Valuation risk

The Trustee invests primarily in liquid quoted assets in order to manage the valuation risk.

Environmental and social risks

These risk factors can have a significant effect on the long-term performance of the assets Nest holds. Where applicable these factors will be considered in the investment process.

Governance risk

This can have a significant effect on the long-term performance of the companies we hold. Where applicable governance risk factors will be considered in the investment process.

Currency Risk

Investments denominated in currencies other than the scheme's base currency carry the risk of adverse exchange-rate movements. Nest looks to manage currency risk by hedging a proportion of its foreign currency exposure back into sterling.

SIP Annex 2

Investment beliefs

Governance

Good governance, including an appropriately resourced investment function, is in the best interests of Nest's members.

It is important to be clear about investment objectives for the funds, risk tolerance, and the time frame over which results are measured. Furthermore, the investment outcomes experienced by our members are determined by the investment relationships we develop with our fund managers, key partners, within our team, and how together we promote long-term wealth creation.

We believe that the culture and governance structure surrounding these are also vital to success.

Responsible investment

As long-term investors, we believe that integrating environmental, social and governance (ESG) considerations into the investment management process improves risk adjusted returns.

We should invest resources in stewardship, consider ESG risks in asset allocation decisions and seek out sustainable investment opportunities. We should also seek to improve the functioning of financial markets. The ESG change we seek in our members' best interests is slowly emerging, and we believe the conditions for successful change require continuous effort from us and many like us.

We believe that long-term returns to investors are likely to be more sustainable if companies consider the interests of wider stakeholders – customers, employees and the wider public as well as shareholders and lenders.

Companies are more sustainable investments and are more likely to sustain their performance when they meet their customers' needs, treat their employees equitably, pay fair taxes and respect their environment and community. There is also read across into infrastructure and property investments.

Asset allocation and risk management

Our members will be saving with us for many years and we believe that should be used as a source of advantage by fostering a long-term investment horizon.

Investors with a long-term horizon can outperform more short-term focused investors over the long run. As long-term (patient) capital is rewarded, setting the risk budget and the associated strategic asset allocation are the key investment decisions, taking account of assets' fundamental values and market prices, economic conditions and long-term market developments.

We believe, however, there are times when we need to manage shorter term risks.

We should be very selective and do so where we believe there is the risk of significant or permanent loss of capital.

Risk and return are strongly related. There are varied investment risks that carry compensations or premiums. Illiquidity risk is one such premium which, as a long-horizon investor, our members can benefit from. Following a diversified investment approach improves the risk-adjusted returns of our member funds.

We will avoid or seek to manage risks that we believe are uncompensated. We look to diversify across a range of asset classes and across the risk factors driving their performance.

Manager selection and manager relationships

We believe that disciplined and rigorous manager selection is a source of value.

We think carefully about how to access each asset class, taking into consideration cost, how best to capture the asset class beta and the extent we can evaluate and access alpha opportunities. Managing fees and other expenses and ensuring efficient implementation can prevent unnecessary cost to our members.

We look to build partnerships with managers as this is a source of value.

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Any return figures are net of the annual management charge and transaction costs but not net of contribution charges. Past performance and any fund objective or target should not be considered as a guarantee of future performance. Return of your investment is not guaranteed as the value of investments can go down as well as up. Performance figures are shown at the fund level and do not reflect individual members' pots. The performance of members' pots will be influenced by factors like the timing and size of contributions paid in.

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