Investment

Investment policy on exclusions

How and why we exclude certain investments

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nestpensions.org.uk

1 Executive summary

About this policy

This policy explains how Nest decides not to invest in certain companies or sectors. We refer to this as 'exclusions' or 'negative screening'. Exclusion can apply before we invest, by not buying something in the first place, or after, by selling an investment we already hold if it no longer meets our standards. We refer to this as divestment.

This policy applies to Nest's default investment strategy - the Retirement Date Funds - which is used by around 99% of our members. If members would like to go further, and avoid investing in additional sectors or activities, they are able to switch to one of Nest's alternative fund options, such as **Nest Ethical Fund**.

Our approach to exclusions

As a long-term investor, our preferred approach is to stay invested in companies and use our influence to encourage positive behaviour. We only exclude companies where we believe, based on evidence, that the risks of remaining invested clearly outweigh the benefits, and where stewardship (such as voting or engagement with companies) is unlikely to make a difference.

When we do apply exclusions, we aim to do so in a targeted and proportionate way and use clear definitions for what would qualify as an exclusion.

Our approach to exclusions can be split into two categories:

- Activity-based exclusions: excluding companies based on what they do and/or their involvement in certain activities. In most cases, we use thresholds so that our rules focus on companies with meaningful involvement in the relevant activity, rather than capturing companies with only a minor or incidental connection. (For example, we would not want to exclude a supermarket from our investments simply because a small proportion of its sales come from tobacco products.)
- Conduct-based exclusions: excluding companies based on how they behave (such as failing to respect internationally recognised human rights), rather than the nature of their businesses.

What we exclude

Our exclusions currently cover five areas. The first three are activity-based exclusions, and the last two are conduct-based exclusions:

1. Tobacco: we do not invest in companies that manufacture tobacco products or that derive significant revenue from tobacco-related activities.
2. Controversial weapons: we do not invest in companies directly involved in the production or sale of cluster munitions, anti-personnel landmines, or chemical and biological weapons.
3. Fossil fuels: we seek to avoid investing in companies heavily exposed to the most carbon-intensive forms of fossil fuels, including thermal and metallurgical coal, Arctic drilling, and oil sands.
4. UN Global Compact principles: we expect our fund managers to identify companies we invest in that may breach or violate internationally recognised standards on human rights, labour rights, the environment and anti-corruption, and to take appropriate action, which may include engagement or exclusion.
5. Stewardship escalation: where we (or one of our fund managers) have engaged with a company and efforts to drive change have been unsuccessful, we may reduce or remove our investment as a last resort.

How we manage this

Because our investments are mostly managed by external fund managers, it is the responsibility of those fund managers to apply and implement our exclusions criteria. We monitor our fund managers' compliance with this policy on an ongoing basis and carry out a formal review of our fund managers' implementation each year, with an in-depth review of the full policy every three years.

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3 About this policy

This policy sets out our approach to restricting Nest's investment in certain sectors, activities or practices using defined criteria (referred to as exclusions or negative screening). Our screening criteria can be applied at different points in our investment lifecycle. Most commonly, the criteria apply pre-investment, preventing a security from being purchased. However, it can also be applied if we already own the security and need to sell it to remove our exposure (referred to as divestment).

This policy applies to funds in Nest's default strategy – the Nest Retirement Date Funds - in which over 99% of our members are invested. Members who want to avoid investing in companies beyond this policy can choose **alternative Nest fund options** (for example, Nest Ethical Fund), which have their own fund-specific screens set out in the relevant fund documentation.

The scope of this policy is direct investment exposure to issuers (for example, where we hold shares or provide financing through bonds). It does not apply to indirect connections to companies, which may arise through the operation of certain asset classes, such as commercial occupiers or tenants within real estate holdings (for example, leasing office space in a building we own to a tobacco company).

Nest reviews the implementation of this exclusions policy annually and reports findings to Nest's Investment Committee. This implementation review considers the suitability, adequacy and effectiveness of the approach and whether managers are implementing the policy as intended. A further in-depth review of this policy is conducted every three years, to ensure it remains fit for purpose and aligned with our responsible investment objectives, and evolving market standards. We provide updates on our exclusions and how they have been implemented in our **Responsible investment report**, which is published annually on our website.

Note that our exclusions are designed to help manage financial and sustainability-related risks within our investment portfolios. They do not guarantee specific investment or sustainability outcomes.

4 Nest's approach to exclusions

Nest's default approach as a long-term investor is to take an active ownership approach, using stewardship to influence corporate behaviour and support improvements that contribute to long-term value creation. Exclusion or divestment is therefore not our starting point for issues we identify. We apply exclusions in limited and clearly defined circumstances where, based on research and credible evidence, we assess that continued exposure is fundamentally misaligned with our responsible investment objectives, and the risks of remaining invested outweigh the potential benefits.

Our approach to exclusions can be categorised into two broad types, each with a different basis for application:

- Activity-based exclusions: restricting investment in companies based on their involvement in a specified sector or activity. For these types of exclusions, we typically apply clear definitions and thresholds, informed by industry practice and guidance. These may be based on revenue (such as the proportion of a company's revenue derived from a particular activity) or on absolute measures (such as production volumes of a particular commodity). Thresholds are set to ensure proportionality, focusing our exclusions on companies with material involvement in the relevant activity while avoiding those with limited or incidental exposures. The specific thresholds applied are set out in each schedule.
- Conduct-based exclusions: restricting investment in companies based on how they behave, rather than the nature of their underlying business activities. Conduct-based assessments are typically more subjective than activity-based screens, as they depend on the quality and availability of evidence, amongst other factors. Assessments may also change over time as new information emerges. For this reason, a conduct-based flag does not automatically result in exclusion.

4.1 How we decide on exclusions

In deciding whether an exclusion position is warranted, we use the same approach employed within our prioritisation framework, as set out in our latest **Responsible investment report**. In practice, this means considering whether holding specific securities may lead to poorer investment returns in the long term; be misaligned with UK and international law, norms, or standards; and/or undermine members' trust in Nest and harm our reputation.

Crucially, exclusion positions will only be decided if we judge that stewardship (such as company engagement and voting) is unlikely to be effective in mitigating the relevant risks associated with a security, or where escalation has proved unsuccessful.

For the default Retirement Date Funds, our exclusions are primarily grounded in financial risk management. In most cases, the rationale for an exclusion reflects the financial implications of the activity or conduct in question, including the potential for long-term underperformance, regulatory or litigation risk, or stranded asset exposure. Where exclusions are introduced (in part) for non-financial reasons such as member trust, we carry out analysis to ensure that limited exclusions are unlikely to cause financial detriment to investment returns. This approach is consistent with the framework set out by the **Law Commission**, which permits the consideration of non-financial factors in investment decision-making, provided trustees have good reason to think that scheme members would share the concern, and where the decision does not involve a risk of significant financial detriment to the fund.

5 Exclusions schedule

The table below summarises the exclusions schedules covered by this policy, and the sections that follow set out further detail on each exclusion, including why it has been included, and the definition and scope used to apply it in practice.

Schedule		Policy statement
Activity-based exclusions		
1	**Tobacco**	Nest does not invest in or finance companies with significant involvement in the tobacco industry. This includes companies that manufacture tobacco products, as well as companies that derive 10% or more of their revenue from the distribution of tobacco, the supply of key products used in tobacco manufacture or production, or the sale of tobacco.
2	**Controversial weapons**	Nest seeks to avoid exposure to activities that are widely prohibited or considered unacceptable due to their indiscriminate impacts on civilians. Therefore, we do not invest in companies that are directly involved in the production or sale of certain controversial weapons.
3	**Fossil fuels**	Nest seeks to align its investment portfolio with the goals of the Paris Agreement of limiting global warming to 1.5C above pre-industrial levels by reaching net zero emissions by 2050 or sooner, as set out in **Climate change policy**. One of the levers we have set out in our policy to achieve this ambition is to use divestment selectively, focusing on companies that are heavily involved in activities that are not aligned with the goals of the Paris Agreement, and therefore expose the scheme to stranded asset risk. We therefore exclude companies heavily exposed to thermal and metallurgical coal, oil sands, and oil and gas exploration in the Arctic.
Conduct-based exclusions		
4	UN Global Compact principles	Nest expects its fund managers to identify and manage exposure to companies assessed as violating, or at risk of violating, one or more of the UN Global Compact (UNGC) principles. Managers apply UNGC screening within relevant mandates using appropriate third-party data and research, and take action in line with their own documented approach.
5	**Stewardship escalation**	Where we (or one of our fund managers) have escalated an engagement with a company, and stewardship efforts are still unsuccessful, and/or the risk of continued exposure to a company outweighs the benefits, we may reduce our exposure or divest entirely from that company.

5.1 Schedule 1: tobacco

Policy statement

Nest does not invest in or finance companies with significant involvement in the tobacco industry. This includes companies that manufacture tobacco products, as well as companies that derive 10% or more of their revenue from the distribution of tobacco, the supply of key products used in tobacco manufacture or production, or the sale of tobacco.

Rationale

The sector remains exposed to material risks from regulatory tightening, litigation risk, rising contingent liabilities, falling consumer demand, and shifting investor sentiment. From a financial standpoint, the manufacture and sale of tobacco is associated with worsening long-term earnings prospects and a higher cost of capital, increasing the risk of sustained underperformance. **Research** supports this, finding that all nine leading listed tobacco companies substantially underperformed the broader market from 2016 onwards, with six experiencing real revenue declines in their underlying business.

Tobacco manufacture as well as its use and exposure impose large, economy-wide costs on societies, governments and businesses. These externalities are increasingly addressed through policy and regulation. The UK is a signatory to the **World Health Organization Framework Convention on Tobacco Control**, which aims to protect present and future generations from the health, social, environmental and economic consequences of tobacco consumption and exposure, and reinforces the right to the highest attainable standard of health. Since the treaty came into force in 2005, global tobacco use prevalence has fallen by **approximately one third**. Most recently, the **UK's Tobacco and Vapes Act 2026** introduced a generational sales ban, making it illegal to sell tobacco to anyone born on or after 1 January 2009, representing one of the most significant pieces of tobacco control legislation globally. This policy trajectory supports an ongoing reassessment of the sector’s long-term valuation and business prospects as the associated financial impacts can feed back into company valuations and long-term investor returns.

The tobacco industry also presents severe and persistent environmental, social and governance (ESG) risks, with evidence of harmful practices in parts of the sector including lobbying to weaken regulation, bribery and corruption, and marketing to children. These factors heighten reputational and licence-to-operate risks and can be value destructive.

Nest’s engagement with members on their views of responsible investment also indicates that avoiding exposure to tobacco aligns with their likely values and expectations.

More broadly, excluding tobacco investments is increasingly becoming an industry norm. Nest is a signatory to the **Tobacco-Free Finance Pledge**, a commitment made by over 216 financial organisation signatories representing more than US$18 trillion in assets under management.

Finally, tobacco is a sector where stewardship has limited effectiveness. For many manufacturers, tobacco is largely a single-line business, and the core harms of the product cannot be meaningfully mitigated through voting or engagement. In practice, exclusion is a more proportionate tool to manage the combined financial, legal, systemic and reputational risks associated with tobacco.

Definition and scope

Nest’s tobacco exclusions approach applies to investments in shares or bonds issued by companies, and applies across our investment portfolios, including the Nest Retirement Date Funds and other fund choices.

Nest defines a tobacco investment as:

- Securities issued by companies that manufacture tobacco products, including subsidiaries and joint ventures.
- Companies that derive 10% or more of their revenue from the distribution of tobacco, supply of key products for tobacco manufacture or production, or the sale of tobacco.

Our tobacco exclusion approach does not apply to:

- The wider supply chain (for example companies that manufacture or supply flavourings, filters, roll paper or packaging, or that sell tobacco), unless they derive 10% or more of their revenue from tobacco products.
- Commercial occupiers/tenants within our real estate holdings (for example, leasing office space in a building we own to a tobacco company).

We also recognise that tobacco companies are moving into the production and distribution of electronic cigarettes and other so-called ‘harm reduction’ products. We do not view these products as sustainable or viable alternatives.

5.2 Schedule 2: controversial weapons

Policy statement

Nest seeks to avoid exposure to activities that are widely prohibited or considered unacceptable due to their indiscriminate impact on civilians. Therefore, we do not invest in companies that are directly involved in the production or sale of certain controversial weapons.

Rationale

Nest recognises that certain categories of weapons are widely considered controversial because they are weapons of mass destruction and/or can have indiscriminate impacts on civilians. Nest's exclusion approach reflects the prohibitions established by international agreements on certain controversial weapons, which the UK has ratified and implemented into domestic law. The UK remains committed to these treaties and the underlying legal framework continues to prohibit the use, production and stockpiling of these weapons. In addition, our approach reflects findings that our members are supportive of excluding controversial weapons. Alongside this, our assessment is that limited exclusions are not expected to cause financial detriment to our investments.

Definition and scope

Nest's controversial weapons approach applies to investments in shares or bonds issued by companies whose business is directly involved in the production or sale of:

- Cluster munitions
- Anti-personnel landmines
- Chemical and biological weapons

It applies across our investment portfolios, including the Nest Retirement Date Funds and other fund choices.

This approach does not extend to nuclear weapons. See appendix for our **statement on investments in companies involved with nuclear weapons**.

5.3 Schedule 3: fossil fuels

Policy statement

Nest seeks to align its investment portfolio with the goals of the Paris Agreement of limiting global warming to 1.5C above pre-industrial levels by reaching net zero emissions by 2050 or sooner, as set out in our C**limate change policy**. One of the levers we have set out in our policy to achieve this ambition is to use divestment selectively, focusing on companies that are heavily involved in activities that are not aligned with the goals of the Paris Agreement, and therefore expose the scheme to stranded asset risk. We therefore exclude companies heavily exposed to thermal and metallurgical coal, oil sands, and oil and gas exploration in the Arctic.

Rationale

The objective of our climate change policy is to protect our members' savings from the financial risks of climate change and take advantage of the investment opportunities arising from the energy transition. Transition risks are those that materialise as the economy decarbonises towards net zero; the sectors most at risk are those that are highly carbon-intensive. Risks can arise from government policies such as carbon taxes, which raise costs for high-emitting companies and could negatively impact their financial value. Transition risks may also arise from competition from new, lower-cost, lower-emission technologies, such as electric vehicles and renewable energy sources. To manage our exposure to such risks, Nest restricts investment in some high cost and/or high emissions activities, namely metallurgical and thermal coal, oil sands, and oil and gas drilling in the Arctic.

Research suggests that these activities are highly exposed to stranded asset risk, meaning the assets used to extract or produce these fuels could lose significant value as the world transitions to a lower-carbon economy:

- Thermal coal: thermal coal is the most carbon-intensive fossil fuel and a leading contributor to global greenhouse gas emissions. Climate scenarios, such as those from the International Energy Agency (IEA), indicate that no new thermal coal projects are compatible with a net-zero emissions pathway; many countries have started phasing out coal from their energy systems and global demand is **expected** to decline significantly by 2050. Continued investment in thermal coal expansion could therefore expose investors to heightened downside risk.
- Metallurgical coal: also known as coking coal, metallurgical coal is used primarily for the production of steel using blast furnaces. The steel sector accounts for around 10% of global greenhouse gas emissions, with the majority driven by metallurgical coal-based blast furnace production. **Research shows** a global phase-out of metallurgical coal from the steelmaking process is achievable by the 2040s, and existing mining capacity is sufficient to meet global demand for metallurgical coal by 2050. Downward trends in future metallurgical coal demand will likely expose the sector to stranded asset risk.
- Oil sands: producing oil from oil sands (also known as tar sands) has a far higher emissions intensity than conventional sources of oil. New oil sands projects are also among the highest-cost sources of oil globally and are **therefore** structurally exposed to declining demand for oil.
- Arctic exploration: drilling for oil and gas in the arctic is highly capital intensive and incurs high operating costs; projects also have long lead times and carry very high technical risks. Combined, these factors mean that Arctic oil and gas are exposed to a high degree of stranded asset risk.

Definition and scope

This approach applies to our segregated mandates investing in the equities or debt of companies, whether publicly listed or privately held, who meet the following criteria:

<table>
<tr><th colspan="2">Coal</th><th>› Oil & gas</th></tr>
<tr><th>› Thermal coal</th><th>› Metallurgical coal</th><th>› Arctic drilling</th></tr>
<tr><td rowspan="3">› >10% of revenues derived from thermal coal production or power generation, or
› >5Mt of annual thermal coal production, or
› >5GW of installed thermal coal-fired power generation capacity
per the Global Coal Exit List</td><td rowspan="3">› >10% of their revenues from metallurgical coal-based activities, or
› >5Mt of annual metallurgical coal production, or
› Planning or building new metallurgical coal mining capacity
per the Global Metallurgical Coal Exit List</td><td>› >10% of revenues from Arctic drilling</td></tr>
<tr><td>Oil sands</td></tr>
<tr><td>› >10% of revenues from oil sands</td></tr>
</table>

5.4 Schedule 4: UN Global Compact principles

Policy statement

Nest expects its fund managers to identify and manage exposure to companies assessed as violating, or at risk of violating, one or more of the **UN Global Compact (UNGC) principles**. Managers apply UNGC screening within relevant mandates using appropriate third-party data and research and take action in line with their own documented approach.

Rationale

The UNGC principles cover key areas such as human rights, labour standards, environmental protection, and anti-corruption measures. Companies that breach these principles may face legal, reputational, and operational risks. By having a screen in place, Nest can assess the risks associated with our investment portfolios and work with fund managers to make informed decisions about potential financial implications.

Conversely, companies that align with UNGC principles may be better positioned for stronger long-term performance as they manage risks effectively, attract and retain talented employees, and adapt to changing market dynamics.

In addition, by investing in companies that violate UNGC principles, we risk damaging our reputation and trust with members. Nest's members increasingly expect us to consider environmental, social, and governance factors when making investment decisions. Using a screen to identify companies breaching UNGC principles, can help us proactively manage our reputation and demonstrate Nest's commitment to responsible investing.

Finally, our fund managers have the ability to influence companies and encourage responsible practices. By screening our portfolios for breaches against the UNGC principles, our fund managers can identify potential engagement opportunities and mitigate risk. They can actively engage with those companies to promote positive change, encourage transparency, and foster improvements in sustainability performance. If our manager decides to divest or exclude a company based on a breach of the UNGC principles, it will likely be because our manager has determined that stewardship with that company has had/will have limited effectiveness.

Definition and scope

The policy applies to companies that have been assessed as violating or potentially violating one or more of the UNGC principles.

This approach applies to our segregated mandates investing in the equities or debt of publicly listed companies. In private markets, where external data is currently insufficient to screen effectively, Nest expects managers to undertake their own due diligence to minimise the risk of investing in assets that undermine the UNGC principles.

Nest recognises that UNGC assessments are inherently judgement-based and can vary by data provider and methodology, and that assessments may change over time as new information becomes available. For that reason, a UNGC breach does not automatically result in an outright exclusion. Nest takes a nuanced approach and gives managers discretion to determine the most appropriate next steps, in line with their documented approach, taking account of the nature and severity of the breach, available evidence, and whether credible corrective action is underway. Manager actions may include engagement with the issuer to understand the breach and encourage corrective action, or where engagement is not appropriate or is unsuccessful, divestment of a company from the portfolio. We expect evidence of credible corrective action and/or engagement progress, and good justification before a company is reintroduced or retained where there is a relevant breach flag.

5.5 Schedule 5: stewardship escalation

We seek to pursue engagement with issuers in a constructive manner, aiming for dialogue that supports improved corporate behaviour and positive outcomes. However, recognising that stewardship may not always lead to our desired outcomes, we may consider escalating our engagements when there is:

- Insufficient progress made by the company
- A persistent lack of response to engagement
- Repeated adverse behaviour
- Violations of global norms and/or major incidents without sufficient remedy
- Increasing investment risk

Such escalation may include voting against the re-election of board directors, signing public statements, co-filing shareholder resolutions, and writing to the board chair, where appropriate.

In limited circumstances, where engagement and escalation by Nest or one of our fund managers have proved unsuccessful, and the issue is considered significantly material, we may consider reducing our exposure or divesting from the company entirely. The decision to move from escalation to exclusion is made by the investment team on a case-by-case basis, subject to review and approval by the Chief

Investment Officer, taking into account the severity of the issue, the length and outcome of the engagement, and the risk of continued exposure. Where a decision to exclude is taken, we will work with the relevant manager to remove the holding, and Nest will communicate the exclusion to all other fund managers where we have segregated accounts, so the issuer is not held in other portfolios where possible. Any companies excluded through this route are reviewed as part of the annual implementation review of this policy.

6 Implementation

Because Nest's assets are largely externally managed, Nest's exclusions criteria are implemented through our fund managers. While implementation is delegated, Nest retains full accountability for the application of this policy and actively oversees and challenges managers on their compliance with our requirements.

We set clear requirements for our current and prospective fund managers and monitor implementation on an ongoing basis. These requirements are reflected in the relevant tender documentation, due diligence and contractual arrangements (for example, investment management agreements or equivalent documentation) and are tailored to the relevant asset class, investment strategy and mandate structure.

Nest recognises that, because managers may use different investment universes, third-party research providers, and methodologies, there may be some divergence in how exclusions are applied in practice. This is particularly the case with our conduct-based exclusions. We seek to understand and manage these differences through regular dialogue with our managers and by periodically reviewing the data sources and methodologies they rely on. Where a screen involves judgement, Nest gives managers discretion to determine the most appropriate next steps in line with their own documented approach and the requirements set out in the relevant schedule, but we expect managers to provide clear justification for their decisions. At the same time, we seek to promote a closer alignment of approaches and outcomes where possible, and engage with them where differences arise.

In exceptional circumstances, and with strong supporting explanations, Nest may reserve the right to override a screen applied by its managers. Any override decisions are documented with rationale and reviewed as part of the annual implementation review.

Nest monitors the implementation of this policy on an ongoing basis. We expect our fund managers to review their application of our exclusion criteria regularly and to provide us with annual attestations on compliance. Our custodian also supports us in monitoring adherence to the policy, providing an additional check on whether holdings comply with key exclusion criteria. Where a potential breach is identified, we will investigate with the relevant manager and require that it is resolved promptly. Where a breach is confirmed, it is recorded and taken into account as part of our ongoing manager evaluation, which is subject to review by our Manager Monitoring Committee. Breaches are also captured within our broader risk monitoring and reporting processes, which are reported to the Nest Invest Board.

Appendix

6.1 Statement on investments in companies involved with nuclear weapons

Position

Nest does not exclude companies from its investable universe solely on the basis that they are involved in the supply chain for, or the maintenance of, nuclear weapons.

Where members wish to avoid exposure to companies associated with nuclear weapons, Nest offers an Ethical Fund option that excludes them, and members can switch funds quickly and free of charge.

Rationale and considerations

Nest's approach reflects our assessment of the legal context, the likely effectiveness of divestment as a tool, and the practical challenges of applying a nuclear weapons exclusion in a precise and proportionate way.

Legal and fiduciary context
Nest supports internationally recognised norms of corporate practice and recognises the relevance of international conventions in investment decision-making. In considering nuclear weapons specifically, we note that the UN Treaty on the Prohibition of Nuclear Weapons (UN TPNW) is not recognised as binding on the UK because the UK has not signed the treaty and has stated that it does not accept that the UN TPNW constitutes a development of customary international law that is binding on non-parties. However, the UK remains a party to the UN Non-Proliferation Treaty (NPT), which seeks to prevent the spread of nuclear weapons but does not prohibit them.

Effectiveness of exclusion as a tool
Our assessment is that excluding companies involved in the production and/or maintenance of nuclear weapons is unlikely to have any real-world impact on nuclear weapon stocks, on governments' stance/use of nuclear weapons, or on member returns.

Precision and proportionality

It is difficult to determine the exact percentage of companies' revenues generated by the production and/or maintenance of nuclear weapons, although it is estimated to be only a small portion. For the companies concerned, the majority of their revenues are generated by a wide variety of activities, which Nest would no longer be exposed to should a nuclear weapons divestment policy be implemented. A policy on nuclear weapons divestment is not precise and would exclude some of the largest companies in the aerospace & defence industry.

Review

Nest keeps this position under review. In addition to our regular review of our exclusions policy, we will review our position on investing in companies involved in the supply chain and/or maintenance of nuclear weapons if there is a change in UK law, or if there is a clear investment case to do so.

7 Glossary

Term	Definition
Anti-personnel landmines	Explosive devices placed on or near the ground that are designed to be detonated by the presence or proximity of a person.
Arctic drilling	The extraction of oil or gas from reserves located in Arctic regions. It is considered one of the most carbon-intensive and environmentally risky forms of fossil fuel extraction.
Asset	Something of economic value that an individual, an organisation, a corporation or a government owns. For example, a piece of property, a share in a company, or a building or machinery.
Asset class	A group of assets that have the same characteristics, for example, real estate, equities or bonds.
Bonds	Loans, issued as tradeable securities, made between an investor and a borrower. Bonds are usually issued in the investment markets by corporations or governments.
Chemical and biological weapons	Weapons that use toxic chemicals or biological agents (such as viruses or bacteria) to cause harm.
Cluster munitions	Weapons that release multiple smaller explosive devices (submunitions) over a wide area. Unexploded submunitions can remain dangerous long after a conflict.
Default fund	A pension fund set up for members into which they are automatically enrolled. The Scheme’s default investment strategy, the Nest Retirement Date Funds, are target-date funds, where the investment objectives follow a glide path based on how far away the member is from their expected retirement date, year by year.
Divestment	The act of selling an investment that is already held in the portfolio, typically because it no longer meets certain criteria.
Engagement	The process of communicating directly with a company, usually as a shareholder, to raise concerns and encourage improvements in its behaviour, strategy or practices.
Equities	Shares in a company or other entity which can be bought or sold.
Escalation	Steps taken when engagement with a company has not led to sufficient progress. This can include voting against directors, co-filing shareholder resolutions, or writing to the board, and may ultimately lead to divestment.
Investable universe	The full set of companies or securities that are eligible for investment. When a company is excluded, it is removed from this universe.
Issuer	The company or organisation that creates and sells a financial security, such as a share or bond.
Metallurgical coal	A type of coal used primarily in the production of steel using blast furnaces. Its extraction and processing are associated with significant carbon emissions. It is also known as coking coal.
Oil sands	A naturally occurring mixture of sand, water, clay and a dense form of petroleum known as bitumen. Extracting oil from oil sands is significantly more carbon-intensive than conventional oil production.
Revenue threshold	A percentage of a company's total revenue used to determine whether its involvement in a particular activity is significant enough to trigger an exclusion. For example, a 10% threshold means only companies that earn more than 10% of their revenue from the relevant activity are excluded.
Securities	A general term for tradeable financial instruments such as shares and bonds.
Segregated mandate	An arrangement where a fund manager invests in a portfolio that is managed exclusively for Nest, as distinct from a pooled fund shared with other

Term	Definition
	investors. This gives Nest more control over how exclusion criteria are applied.
Stewardship	The responsible use of Nest's position as an investor to influence company behaviour through engagement, voting and other tools, with the aim of protecting and enhancing long-term value.
Thermal coal	Coal that is burned to generate electricity or heat. It is the most carbon-intensive widely used fossil fuel and is a major contributor to greenhouse gas emissions.
UN Global Compact (UNGC) principles	A set of ten internationally recognised principles covering human rights, labour standards, environmental protection and anti-corruption.

8 Version control

Version	Change	Date implemented
1	Document created. Consolidation of previous standalone exclusion policies and positions on tobacco, controversial weapons and UN Global Compact principles into a single document. No changes to our approach have been made, though minor wording and structural updates have been applied. The document also incorporates the enhanced fossil fuel exclusions introduced in 2026 and includes a new section articulating our approach to stewardship escalation.	July 2026

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