Statement of investment principles

2027–2030

nestpensions.org.uk

Version record

Version	Change	Date implemented
1	Document created	October 2019
2	Governance section updated to reflect the creation of Nest Invest Update to investment beliefs following the triennial review	January 2020
3	Updated to reflect the introduction of Nest's new fund, the Nest Guided Retirement Fund, and new regulations governing SIP content.	March 2020
4	Ad hoc review – updated to reflect changes to the consolidation phase and the removal of the pre-retirement fund choice	May 2022
5	Conclusion of triennial review – new SIP approved with updated investment objectives and investment beliefs.	July 2023
6	Updated to reflect a change to the Nest Post Retirement Date Fund 2, which is now also a standalone fund option and has been renamed the 'Nest Ready to Retire Fund'.	December 2024
7	Changes to reflect new regulations regarding liquidity considerations and our evolving approach to accessing private markets	April 2025
8	SIP triennial review – changes to the member glidepath to reflect a greater ability to deliver higher risk-adjusted returns; shortening of the glidepath to decumulation; triennial review of investment beliefs, updates to governance sections to reflect changes to the Nest Invest Board.	November 2026

© Nest Corporation 2026. All rights reserved. This information does not constitute financial, investment or professional advice and should not be relied on. Any form of reproduction of all or any part of this material is not allowed. We do not give any undertaking or make any representation or warranty that this material is complete or error free. We do not accept responsibility for any loss caused as a result of any error, inaccuracy or incompleteness. The Nest trade marks and trade names used above are owned by Nest Corporation and should not be used in any way without our permission.

Contents

1	**Introduction**	4
2	**Governance of the Nest Trustee**	4
3	**Day-to-day management of Nest's assets** (default and non-default)	5
4	**Policy in relation to the Trustee's arrangement with existing asset managers** (default and non-default)	6
5	**Types of assets held** (default and non-default)	7
6	**The balance between different types of investments** (default and non-default)	7
7	**Liquidity** (default and non-default)	8
8	**Risk** (default and non-default)	8
9	**Expected return on investment** (default and non-default)	9
10	**Realisation of investments** (default and non-default)	9
11	**Investment beliefs** (default and non-default)	10
12	**Investment aims and objectives for the default strategy**	10
13	**Delivering the investment objective for the default strategy**	10
14	**The default strategy portfolio building blocks**	11
15	**Responsible investing** (default and non-default)	12
16	**Responsible investing – stewardship** (default and non-default)	12
17	**Policy on divestment**	13
18	**Additional investment fund strategy choices**	13
19	**Compliance with this SIP**	14
Annex 1		15

1 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 section 35 of the Pensions Act 1995, the Occupational Pension Schemes (Investment) Regulations 2005 (as they apply to Nest), the Nest Order 2010 and relevant guidance issued by The Pensions Regulator. 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**.

1.3 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.

2 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.

Nest's assets, representing the balances in 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 solely in the interests of members and beneficiaries.

2.2 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 the socio-economic characteristics of the scheme's membership, qualitative research into members' attitudes and aspirations for their retirement savings, and scheme management information about our members' savings patterns and behaviour.

Where significant changes in the scheme's membership are detected, the Trustee reviews the appropriateness of the default strategy and additional investment fund choices accordingly. Details of our latest **member investment research** can be found on our website.

2.3 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 funds**) designed to provide appropriate outcomes for members retiring in different years.
- a choice of **other investment funds** for scheme members who do not wish to invest in the default fund.
- A guided default pathway and choice of other funds for members looking to retire, take a regular income, or take one, or a series of cash lump sums.

2.4 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 asset 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.

The Trustee is satisfied, on the basis of 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.

2.5 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 their ability and practical experience of financial and pension scheme matters.

2.6 The Trustee has appointed the Nest Invest Board to provide oversight of investment issues. The delegated powers provided by the Trustee to Nest Invest comprise both issues on which Nest Invest can make decisions, and issues on which it makes recommendations to the Trustee. The **terms of reference** of the Nest Invest Board can be found on our website.

2.7 The Trustee has delegated certain powers in relation to investment decisions and oversight to Nest Invest. These include responsibility for implementing the asset allocation strategy, asset manager selection and responsible investment, as well as the monitoring of investment performance and risk. As set out in the Nest Invest Board's terms of reference, Nest Invest makes decisions on the matters delegated to it and recommendations to the Trustee on matters reserved to the Trustee.

2.8 Nest Invest is also delegated responsibility via the Investment Management Agreement for ensuring that its investment powers are exercised in a manner calculated to ensure security, quality, liquidity and profitability.

The following sections, except where explicitly stated otherwise, set out the Trustee's policies on the types of investment, the balance between them, the associated risks and the expected returns, in the context of both the default arrangement and the other investment fund choices available to scheme members.

3 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 asset managers and, from time to time, by Nest Invest. The Trustee is satisfied that the appointed asset managers and Nest Invest have sufficient expertise and experience to carry out their roles.

3.2 Asset managers are monitored on a regular basis and performance is reported to the Nest Invest Board quarterly. The appointment, monitoring and dismissal of asset managers is the responsibility of Nest Invest.

3.3 Asset managers' activities are defined and constrained by detailed agreements. They have discretion to buy and sell investments within the terms of these agreements. Fees are negotiated individually when an asset manager is appointed and are reviewed periodically to provide ongoing value for money for members.

3.4 Asset managers are listed in the scheme's **annual report and accounts**, which also contains information about investment performance, asset allocation and major investment decisions taken during the year.

3.5 Asset managers are selected through a rigorous due diligence process to help achieve the best value and outcomes for members.

3.6 As part of this selection, due diligence is performed to assess whether the assets are invested with sufficient security and liquidity and whether each asset manager is of the appropriate calibre to ensure the quality and profitability of the assets. The ongoing monitoring of funds and asset managers is delegated to Nest Invest to ensure that all investments are undertaken in accordance with the Trustee's powers of investment.

4 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' building-block model. Nest works with multiple asset managers under multiple mandates across different asset classes. Nest is not reliant on any one asset manager to deliver the investment objectives of the default strategy or, in most cases, the fund choices that members can make.

4.2 Nest's manager-selection process is designed to find the most suitable asset manager or fund mandate for each asset class. A thorough due diligence process and regular ongoing monitoring ensure that each asset manager is fully aware of Nest's particular objectives for any given asset class or sub-asset class, enabling it to align its investment approach with Nest's and ensuring that each manager is appropriately incentivised. Nest expects its asset managers to make investment decisions based on assessments of the medium- to long-term financial and non-financial performance of the companies and other issuers in which they invest, and to engage with those issuers to improve their performance over that period.

4.3 Nest shares with asset managers a summary of its policies and expectations on issues such as responsible investment (including Nest's approach to managing climate-change risks); engagement and voting; divestment; unit pricing and fair value; securities lending; and the use of derivatives. Nest provides updates to managers when relevant.

4.4 As part of our due diligence process, Nest sets out the detail of our responsible investment policies and expectations, 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. Nest shares with our managers this 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 with each of the managers at least once a year, and more frequently for active managers. Manager performance is reported to the Nest Invest Board 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 asset management services. Managers' performance is evaluated over a medium- to long-term horizon that is consistent with the duration of their mandates and the Trustee's investment time horizon, rather than on short-term results alone. We also consider whether the way each manager is remunerated is in line with the Trustee's policies and encourages decisions that support the long-term interests of members.

4.6 Our contractual relationships with asset managers are open-ended (subject to termination provisions negotiated as part of the appointment terms), as we believe in building long-term partnerships with asset managers. Where managers are no longer delivering against 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.

4.7 Nest Invest monitors portfolio-turnover costs as part of its regular oversight of asset managers. When selecting a new asset manager or asset class, Nest Invest assesses the expected turnover range for the relevant asset class or management style. Where relevant, regular manager reviews monitor turnover levels to ensure that they remain in line with expectations for the mandate.

4.8 Nest requires its asset managers to vote on resolutions relating to shares managed on behalf of Nest members, except where Nest votes directly; this includes voting and engagement on a company's capital structure. Where there is potential for a conflict of interest between an asset manager and the way it votes, we expect the conflict to be managed in accordance with the Financial Reporting Council's (FRC) Stewardship Code.

4.9 As part of Nest's responsible-investment policy, Nest and its asset managers collaborate with other institutional investors and asset managers. Nest is a signatory to the FRC's Stewardship Code and other relevant shareholder initiatives. We report on engagement undertaken with our asset managers and other stakeholders in our annual responsible investment report.

5 Types of assets held (default and non-default)

5.1 The Trustee invests in a mix of financial assets through a variety of legal structures and investment vehicles, suitable for pension schemes, balancing expected returns against investment risk. Nest Invest 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 external investment advisers to ensure new areas of investment are appropriate.

5.3 The Nest Invest Board has approved a set of asset classes and constraints within which investments can be made. Any proposal to invest outside these constraints must be agreed in advance with the Nest Invest Board.

5.4 Details of the current asset allocation for the scheme's default investment strategy and the additional investment fund choices available to scheme members are published in the **quarterly investment report** on the Nest website.

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

6.1 Long-term portfolio construction and 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 portfolio construction and asset allocation is reviewed on an annual basis. The methodology for changing how the portfolio is constructed is periodically revisited to ensure that changes to the strategic asset allocation are appropriate.

6.3 Nest Invest 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. Nest Invest 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.

7 Liquidity (default and non-default)

7.1 The liquidity profile of Nest's investments is regularly reviewed by Nest Invest. The majority of the scheme is invested in liquid assets, and the Nest Invest Board reviews the proportion of the portfolio that should be invested in illiquid assets for members at different stages of their investment lifecycle. Some investments, such as property and other unlisted assets, are less readily sold.

7.2 The Trustee believes that appropriately selected illiquid investments may improve portfolio diversification and provide access to return sources that are not available in public markets. These potential benefits are not guaranteed and must be assessed net of fees, costs, complexity, valuation uncertainty and liquidity risk.

7.3 Nest Invest manages liquidity with regard to expected and stressed member cash flows, benefit and transfer payments, investment commitments, collateral requirements and the liquidity characteristics of the underlying assets and investment vehicles. Exposure to illiquid assets varies according to the objectives, time horizon and liquidity needs of each investment strategy.

7.4 Depending on the structure of the investment opportunity, we may invest through collective pooled vehicles or segregated mandates, co-invest with third-party asset managers, or hold assets directly.

7.5 The long-term benefits of investing in illiquid assets are particularly relevant for members with a lengthy investment horizon. Younger members in the default strategy are more likely to be exposed to a higher proportion of illiquid assets than members closer to their expected retirement date or in retirement. However, because of Nest's size, scale and cash-flow profile, older members can also benefit from investing in illiquid assets, albeit in lower proportions than younger members. We expect younger members to benefit most from the potentially higher returns that an illiquidity premium may deliver over the long term.

7.6 We carefully monitor the overall proportion of illiquid assets at different stages of our members' investment lifecycle and report regularly to the Nest Invest Board on the illiquidity risks we are taking, with a focus on private market investments, including infrastructure, private credit, private equity and property. We pay close attention to our current and projected cash flows to ensure there is sufficient liquidity to meet unexpected demands for cash (i.e., through unforeseen member or market activity), whilst ensuring we expose our members to the opportunities that an illiquidity premium can afford them.

7.7 As the scheme grows, we expect to increase the overall proportion of illiquid assets in the default strategy's asset mix, with the aim of delivering higher and more predictable retirement incomes for members, although this cannot be guaranteed. This increase will be subject to certain conditions, such as asset availability and ongoing cash flow positivity.

8 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 asset manager structure, choice of asset 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 principal risks, including investment performance risk, to which it is exposed. The register rates the impact and likelihood of the risks and summarises existing mitigations and additional actions. Risks are therefore measured through these ratings and the qualitative and quantitative analysis described above, and managed through the mitigations and actions recorded in the register. The investment performance risk appetite is reviewed quarterly by the Nest Invest Board.

8.3 As part of our risk management process, Nest Invest operates executive investment, risk, operations, manager-monitoring and procurement forums under its approved governance frameworks.

The following non-exhaustive list sets out some of the key investment risks our members face which we careful monitor.

- Climate risk
- Concentration risk
- Counterparty and credit risk
- Currency Risk
- Derivatives risk
- Environmental, Social and Governance (ESG) risks
- Event risk
- Inflation risk
- Interest rate risk
- Leverage risk
- Liquidity risk
- Longevity risk
- Market risk
- Operational risk
- Outsourcing risk
- Pension-conversion risk
- Political risk
- Sequencing risk
- Valuation risk

9 Expected return on investment (default and non-default)

9.1 The types of investment chosen by the Trustee are selected and combined with the aim of achieving the specific objectives of the default strategy and the additional investment fund choices available to scheme members.

9.2 The Trustee seeks to take account of financially material considerations, including (but not limited to) those arising from environmental, social and governance (ESG) considerations and climate change, over the appropriate time horizon of the investments, 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 investment risks. These capital market assumptions incorporate long-term forecasts of the key drivers of risk and return including economic growth, inflation and asset values.

9.3 The Nest Invest Board reviews quarterly the risk and return characteristics of the Retirement Date Funds and additional investment fund choices, and how each asset manager is performing against its specific mandate. An overview of risk and return is reported to the Trustee quarterly.

9.4 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, liquidity, environmental, social and governance, and political risks.

10 Realisation of investments (default and non-default)

10.1 In determining the scheme's investment arrangements, the Trustee has regard to the expected realisability of investments and the scheme's current and projected cash-flow requirements. Nest Invest maintains arrangements intended to enable the scheme to meet benefit payments, transfers, member investment switches, fees, collateral requirements, investment commitments and other foreseeable

cash flows. Investments may also be realised for portfolio rebalancing, risk management, changes in investment strategy or the appointment or termination of an asset manager.

11 Investment beliefs (default and non-default)

11.1 The Trustee and Nest Invest have established a set of investment beliefs to provide an objective and transparent framework for consistent investment decision making. These beliefs act as a guide to enable effective delivery of all investment functions for both the default strategy and the fund choices that members can make. The beliefs are reviewed at least once every three years. The beliefs can be found in Annex 1.

12 Investment aims and objectives for the default strategy

12.1 The Trustee's overarching investment objective for the default strategy is:

Delivering the best lifelong retirement income for as many as possible.

The Trustee has selected different types of investments and adjusts the balance between these investments to meet this overarching objective.

12.2 To support this overarching objective the Trustee has also agreed the following supporting sub-objectives which aim to:

- Grow member savings faster than inflation (CPI) after all charges during a member's working life.
- As a member approaches retirement invest to deliver a predictable retirement income.
- Provide members with a smooth transition between their working and retirement years.
- Reduce the dispersion of outcomes for members with similar contribution histories and similar ages.

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

13 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 automatic 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 Funds**, to deliver the default investment strategy. Each Nest Retirement Date Fund has an asset allocation that aims to be consistent with the level of investment risk and return appropriate for a member's age, in order to meet the investment objectives of the Nest Retirement Date Funds throughout a member's savings journey.

14 The default strategy portfolio building blocks

14.1 The Trustee uses five internal portfolio building blocks in different proportions for each of the Nest Retirement Date Funds. The building blocks are:

- Higher growth
- Long-term stable growth (which contains a large proportion of illiquid assets)
- Income seeking
- Capital preservation
- Longevity risk management.

By varying allocations between growth-seeking, capital preservation and income-seeking assets, as well as varying the allocations to liquid and illiquid assets, through time, the Trustee aims to best meet members' different needs throughout their savings and retirement income journey. These building blocks allow for the construction of three broad phases in a member journey depending on their age:

- the growth phase
- the consolidation phase
- the retirement income phase.

14.2 **The growth phase** targets strong asset growth by investing in asset classes that are expected to grow significantly in value relative to inflation and other investments. This phase includes a proportion of long-term stable-growth assets to deliver investment growth with lower volatility and to harness illiquidity premia for younger members. This exposure gradually decreases as a member approaches the point at which they need a retirement income. The objective for this phase, which supports the aim of growing member savings faster than inflation, is to outperform inflation (CPI) by more than three per cent a year after all charges over the long term.

14.3 **The consolidation phase** prepares a scheme member's assets to provide an income in retirement and typically begins seven years before their Nest Retirement Date Fund matures. Investments in this phase are progressively switched out of higher-growth and long-term stable-growth portfolios into a mixture of capital-preservation, income-seeking and longevity-risk-management building blocks. However, older members will retain some exposure to higher-growth and long-term stable-growth building blocks, and therefore to illiquid assets, as they transition into retirement, although in much smaller proportions than younger members. The objective of the consolidation phase is to provide a smooth transition from the growth phase into assets that better meet members' retirement-income needs. The retirement-income phase is for members who have not chosen to withdraw all their savings when their Nest Retirement Date Fund matures and closes.

14.4 Members in the default strategy who are aged between 60 and 70, have pot sizes of £10,000 or more and have passed their Intended Retirement Date (IRD) without making a retirement choice are automatically moved to the **Nest Guided Retirement Fund**. This investment strategy is designed to provide a retirement income. It consists of four sub-funds, each of which has a specific purpose in meeting members' needs throughout the retirement-income phase. Members will have different allocations to each sub-fund depending on their age. As they get older and progress through the strategy, they will gradually be de-risked from a sub-fund that aims to outperform CPI after all charges into sub-funds invested primarily in liquid capital-preservation assets and assets that help manage longevity risk.

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

14.6 Members in the default strategy who have passed their IRD without making a retirement choice and whose pot sizes are below £10,000 are automatically moved into the **Nest Ready to Retire Fund**. This fund invests in highly liquid, lower-volatility asset classes to reduce the pension-conversion risk associated with converting a member's accumulated savings into one or more cash lump sums relatively quickly. The Nest Ready to Retire Fund is available to all Nest members aged over 60, regardless of pot size.

15 Responsible investing (default and non-default)

15.1 The Trustee considers financially material factors over the appropriate time horizon of the investments, including sustainable investment factors such as (but not limited to) those arising from environmental, social and governance (ESG) considerations and climate change, in the context of our broader risk management framework.

15.2 The Trustee requires its asset managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process. Asset managers are monitored on a regular basis by Nest Invest in this regard.

15.3 The Trustee expects asset managers to have integrated climate risk into their risk analysis and investment process and we take it into account in the selection of new asset managers. When monitoring the performance of our asset managers, we also regularly consider and report to the Nest Invest Board how they are performing with reference to climate risk issues.

15.4 We set out our objectives for managing climate-change risk in our climate-change risk policy. Our ambition is to align our whole investment portfolio with limiting global warming to 1.5°C above pre-industrial levels by reaching net-zero carbon emissions by 2050 or earlier. We report annually on our progress towards meeting our targets using the Task Force on Climate-related Financial Disclosures (TCFD) reporting framework.

15.5 The Trustee has an active policy of seeking members' views on non-financial matters in its investment decision-making for one of the non-default investment funds: the **Nest Ethical Fund**. 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 members' views on non-financial matters into account in the selection, retention and realisation of investments for the other additional investment fund choices.

15.6 The Trustee does not currently take members' views on non-financial matters into account in the selection, retention and realisation of investments for the default investment strategy (the Nest Retirement Date Funds), as it provides additional investment fund choices through which such views can be sought and expressed. The Trustee does, however, consider reputational risks and their potential impact on member trust and investment outcomes where it believes they are financially material (see Annex 1, belief 4). The Trustee is trialling new techniques to incorporate members' views into investment decision-making, such as the 2026 member assembly to inform this work.

15.7 The Trustee surveys members about its responsible-investment approach and provides members and stakeholders with an **annual report** on its responsible-investment activities. In 2026, the Trustee convened a member assembly to consider key questions about investment priorities, stewardship and member involvement. The assembly's recommendations inform Nest's approach to responsible investing, helping to ensure that members' needs, preferences and values are central to the decisions that shape their financial futures.

16 Responsible investing – stewardship (default and non-default)

16.1 The Trustee has a duty to act responsibly with regard to the assets it owns on behalf of Nest members. The Trustee believes that, to fulfil this duty and 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 acting on its behalf, exercises ownership rights, including voting and engagement with investee companies on matters such as performance, strategy, risk, capital structure, social and environmental impact, and corporate governance, to safeguard sustainable long-term returns. Where there is potential for a conflict of interest between an asset manager and the way it votes, the Trustee expects the conflict to be managed in accordance with the FRC's Stewardship

Code. The Trustee's expectations for the exercise of voting and engagement rights are set out in Nest-specific **voting and engagement guidelines**.

16.3 Nest takes its responsibilities as an asset owner seriously. As a client, we work closely with our asset managers to support good corporate behaviour. Our due diligence when selecting asset managers includes assessing whether their voting policies are well considered and documented. Our own guidelines enable Nest to set out its position and expectations for asset managers on good corporate behaviour. We use them to monitor our asset managers and hold them to account for their decisions. Having established views also supports constructive discussion and debate with our asset managers.

16.4 Where Nest has 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 guidelines.

16.5 Each year we publish a voting summary report setting out how all our asset managers have voted and how this compares to Nest's voting policy. We report the votes our asset managers make every quarter.

16.6 In addition to engaging directly with companies, Nest also undertakes joint engagements with our asset 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.

16.7 Given the systemic nature of climate change, we seek to discharge our duties through robust engagement, alongside our asset managers, with investee companies to encourage alignment with a low-carbon economy, and with policymakers and governments to advocate for the same objective.

16.8 The Trustee reports to its members and stakeholders on its stewardship activities through its annual **responsible investment report**.

17 Policy on divestment

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

Further detail of our **divestment policy** and how it is implemented can be found on our website.

17.2 Nest supports internationally recognised norms of corporate practice. Accordingly, we actively seek to avoid investing in companies directly involved in the production or sale of cluster munitions, anti-personnel landmines, or chemical or biological weapons.

18 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 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 a sustainable and predictable income from their Nest pot in retirement while remaining invested in a proportion of growth-seeking assets.

Nest members who are in the default strategy (Nest Retirement Date Funds) 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.

Nest Ready to Retire Fund

A fund designed for members who:

- are over the age of 60,
- want to withdraw their pots as a single payment or as a series of withdrawals that they manage themselves; and
- want to be invested in liquid, relatively low-volatility assets.

Nest members who are in the default strategy (Nest Retirement Date Funds) and have passed their Intended Retirement Date (IRD) without making a retirement choice and have pot sizes below £10,000 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 Rules**.

18.3 The Trustee seeks to ensure that, for members who choose an alternative fund-choice strategy, the level of risk taken by the fund also reflects the member's expected retirement age, where applicable and practicable.

19 Compliance with this SIP

19.1 The Board of Nest Invest monitors compliance with this SIP on a quarterly basis. The Trustee reviews the investment strategy to ensure it remains in line with the SIP on an annual basis and receives a report from Nest Invest to this effect.

The Trustee publishes a SIP implementation statement each year, reporting on how it has followed, reviewed and, where relevant, changed the SIP during the scheme year.

Annex 1

Investment beliefs

Investment Function

1. **An expert, well-resourced and well-governed internal investment function will deliver better long-term investment outcomes for Nest's members than a wholly outsourced solution.**

   Why

   - *To deliver better, consistent investment outcomes, understanding and "owning" the investment choices and drivers to be a patient, long-term investor is crucial.*
   - *An effective in-house team is best placed to realise this, providing closer alignment between investment decision making and member needs and aspirations.*

   What it means

   - *The functions of Nest's in-house investment team will evolve with our growing scale and range of skills, enabling us to continue delivering innovative investment strategies and excellent value to our members.*
   - *International benchmarking and looking outwards is central to this ambition.*
   - *Decisions are made by the people best equipped to make them.*

2. **We focus on delivering the highest value for money for our members while maintaining cost discipline.**

   Why

   - *We seek the most cost-effective solutions for our members, but are prepared to select assets that cost more, notably illiquid assets, if we believe that the net risk-adjusted return objective could not be achieved in another way.*

   What it means

   - *Before choosing assets and strategies, total costs need to be transparent, and a solid investment case needs to be made that the net risk-adjusted returns outweigh the costs.*
   - *We focus on ensuring value for money and minimising 'cost leakage' from the investment process through benchmarking.*

Member Engagement and Choice

3. **Our members have different objectives throughout their time investing with us – carefully evaluating the amount and type of investment risk to take to achieve these objectives leads to better outcomes for them.**

   Why

   - *Risk is much more than just volatility and risk premia are not static over time but fluctuate as a function of investors' preferences and economic and market conditions; we harness and manage a variety of different risk premia to meet the differing needs of our members at different times.*
   - *There are limits to the overall risk reduction achievable through diversification, and there are scenarios in which correlations between asset classes increase and diversification becomes less effective.*

What it means

- *Nest carefully designs Retirement Date Funds to balance risk and reward at different stages. To accommodate other preferences, members can choose alternative funds if they have a high risk appetite or a low capacity for loss.*

4. **Building and maintaining Nest members' trust in our investment approach throughout their time saving with us will support better retirement outcomes.**

Why

- *Transparency and clear communication about how we invest promote trust and lead to better member outcomes.*
- *As a large institutional investor, we can be increasingly circumspect about where and to whom we allocate members' capital; consideration of reputational risks and their impact on members' trust in Nest is a factor in some investment decisions.*
- *Our members have agency over where, when and how much they save for their pension. We do not assume that inertia is the same as indifference to their investment experience or to the way their capital is allocated.*

What it means

- *Nest can show what it invests in and proactively communicate and engage with members about investment choices across the portfolio.*
- *We are not indifferent to what we invest in and recognise that reputational risk can affect member trust and investment outcomes.*
- *Given the breadth and diversity of our membership, we focus on common priorities that can be reflected in our portfolios.*

5. **Acting as responsible long-term stewards has a positive and broad impact on member outcomes.**

Why

- *In well-diversified portfolios, performance is shaped broadly by the global economic systems in which companies operate. Engaging with companies, asset managers and policymakers to improve corporate behaviour and support the long-term health of financial systems is in our members' best interests and forms part of our fiduciary duty.*
- *We consider the impact of our investments from different perspectives, including the economic, social and environmental conditions in which they are made and their effect on members' standards of living.*
- *Our ambition is to be intentional about where we invest, while remaining realistic about what stewardship can achieve. We therefore focus on areas where we can make a meaningful difference for members.*

What it means

- *Understanding what we own and why we own it helps build members' trust and confidence and supports better investment decisions.*
- *Our scale and reputation allow us to influence asset-manager behaviour, improve industry standards and support better long-term outcomes. We work alongside our asset managers and partners to achieve this.*
- *We help shape structures that make domestic investment more attractive, creating opportunities to improve diversification while strengthening the UK economy, which also benefits our members.*

Investment Approach

6. Portfolio construction is the most important contributor to our long-term performance.

Why

- *Combining diversification across asset classes with a range of approaches to structuring investments creates more resilient portfolios.*
- *Risk relationships change over time, and market opportunities seldom align neatly with strategy-review cycles or assumptions.*

What it means

- *We assess, select and combine investments according to their contribution to the long-term performance and overall resilience of the total portfolio, rather than considering them in isolation.*
- *A strategic approach to private markets can capture opportunities and structures unavailable in public markets, offering potential additional returns—including complexity and illiquidity premia—as well as diversification.*
- *Within Nest, we pursue innovation where it can deliver a more consistent investment experience and excellent value for members.*

7. Patient asset owners can earn better returns net of costs because they can invest in assets with higher risk premia and make strategic choices that add value for members. Nest's membership profile means we are well placed to take advantage of this.

Why

- *As a patient investor, we can invest primarily in assets expected to generate higher long-term returns, notably by taking equity and illiquidity risk.*
- *Measuring long-term performance is more relevant than focusing on short-term noise. Nest invests through economic cycles, seeking to capture tides rather than waves.*
- *Being a long-term investor allows us to build enduring, productive relationships with asset managers and other partners, giving us access to opportunities and innovations that may not be available to investors with shorter time horizons.*

What it means

- *Subject to appropriate risk limits, equities and illiquid assets form a sizeable part of Nest's portfolios.*

8. Asset owners that are cash-flow positive for long periods can use this position as an additional source of value.

Why

- *Our ability to withstand short-term investment shocks without becoming a forced seller is likely to benefit members.*

What it means

- *Nest is able to construct portfolios with a higher allocation to illiquid investments.*
- *Nest consistently rebalances portfolios, even during times of market stress.*
- *In addition to rebalancing, Nest can deploy capital counter-cyclically where we believe this will produce better long-term outcomes.*

9. **Incorporating and responding to climate risk and other environmental, social and governance (ESG) factors can significantly influence investment outcomes and contribute to improvements in the world in which our members retire.**

Why

- *Capital allocation by investors and companies can influence how ESG risks develop and is most effective when supported by high-quality data and scenario analysis.*
- *As a universal owner, Nest considers broader systemic risks and opportunities that investors with shorter time horizons may be unable to address.*

What it means

- *Integrating sustainability factors throughout our investment process—from asset allocation and benchmark construction to manager selection and risk management—supports the identification of ESG risks and opportunities.*
- *Nest is well placed to identify and invest in climate- and energy-transition opportunities over a long horizon. We can deploy capital counter-cyclically and remain patient in pursuit of better long-term outcomes.*

10. **Deep relationships with carefully selected external partners deliver the best investment exposure for our members and can provide additional value.**

Why

- *By designing tailored mandates and benchmarks, we can align asset managers' commercial incentives with members' needs.*
- *Our scale allows us to access expertise through strategic stakes and partnerships where these offer stronger alignment, lower costs or more suitable exposure than appointing external asset managers alone. We use our partners' resources to deliver better value for money for members.*

What it means

- *We are comfortable working with a relatively small number of carefully selected partners and asset managers, building relationships that are not purely transactional.*
- *We are comfortable with good, rather than exceptional, performance gross of fees because lower costs and deep partner relationships are dependable sources of long-term value creation.*



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

nestpensions.org.uk