Nest's responsible investment report

Our responsible investment activities and outcomes over 2022/23

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Contents

Foreword

Elizabeth Fernando
Chief Investment Officer

At the time of writing, the world marked the one-year anniversary of Russia's war in Ukraine which brought a geopolitical and humanitarian crisis. The economic costs are significant, with vast amounts of infrastructure destroyed in Ukraine, and Russia probably largely isolated from the international community for years to come. Whilst global stock markets have weathered the economic turbulence relatively well, both countries are major commodity exporters of energy, wheat and metals, causing commodity prices to soar and creating a cost-of-living crisis in the UK and many parts of the world.

We believe high global energy prices and insecurity underlined the essential need to accelerate the energy transition and move away from fossil fuels. Unfortunately, this viewpoint hasn't been as widely adopted as we would have hoped, and we've seen a mixed response in policy and commitment from some governments and corporations.

We have since escalated our own engagement with some of our oil and gas holdings. One such action was our support of ClientEarth's landmark case against Shell's Board of Directors over their management of material and foreseeable risks posed to the company by climate change. We hope our involvement sends a strong signal to the energy sector that investors expect to see action on climate risk to ensure their own long-term sustainability and that of the planet, and we will challenge those who aren't doing enough to transition their business and mitigate risks for our members.

World leaders gathered at COP27 in Egypt in November 2022 to discuss global progress in dealing with climate change. Although there were some positive developments in the form of an agreement on funding for loss and damage to developing nations and new pledges on rainforest protections, there is still much to do if we are to keep our hopes of limiting warming to 1.5C. The 'final warning' delivered by the Intergovernmental Panel on Climate Change in its sixth assessment report showed the devastating impacts the world is already experiencing, and the scale of the task ahead for world leaders to avoid the worst impacts of climate change. But the message is clear; we must all act now.

We joined a number of new investor initiatives over the last year that help us deliver on our responsible investment priorities and contribute to new industry investor frameworks. These include Financing the Just Transition Alliance and the FCA's Vote Reporting Group, which we talk about in the report.

An area where we've stepped up our work has been on human rights. Whilst this has always be an important area for us, the backdrop of the Russia/ Ukraine war and the Uyghur crisis in China's Xinjiang region has brought modern slavery and human rights risks in companies' supply chains into sharp focus.

We joined two groups to help us identify and address risks in our portfolio and to support our role as long-term responsible investors. We've also continued to be vocal with a range of standard setters on issues including transition planning as part of our role on the UK Government's Transition Plan Taskforce and sustainability labelling, endeavouring to help raise standards on a range of areas in the industry in which we operate.

Finally, we're delighted to have our signatory status to the Stewardship Code reapproved by the Financial Reporting Council. The Stewardship Code continues to set a high bar for stewardship, and we're pleased to be recognised for our stewardship activities and our reporting.

Purpose of this report

Responsible investment and stewardship are built into the core of our investment strategy. This report demonstrates the outcomes of our approach, showing how our investment beliefs and policies translate into the decisions we make, our engagement with companies and other organisations, and how this affects our members' money.

This is the seventh annual responsible investment report produced by Nest. It mostly covers our activities between 1 April 2022 to 31 March 2023, but we include more recent examples of our work to date.

This report is intended to meet the principles of the Financial Reporting Council's (FRC) **Stewardship Code 2020**. By outlining our mission, purpose, governance, approaches, and processes and explaining why they're appropriate, we aim to remain signatories to the Code. You'll find a breakdown of how this report addresses each principle in **Chapter 7**.

Chapter 1

At a glance

Key figures as at 31 March 2023

£29.6bn
Assets under management

£6.5bn
Total annual contributions

17
Fund managers

1
Financial Conduct Authority (FCA) regulated and authorised investment subsidiary - Nest Invest

6.4%
Five-year rolling annualised returns in the Nest 2040 Retirement Date Fund after annual management charges to 31 March 2023

Our members in numbers

4.8m
are active*

7.2m
are inactive**

52%
male

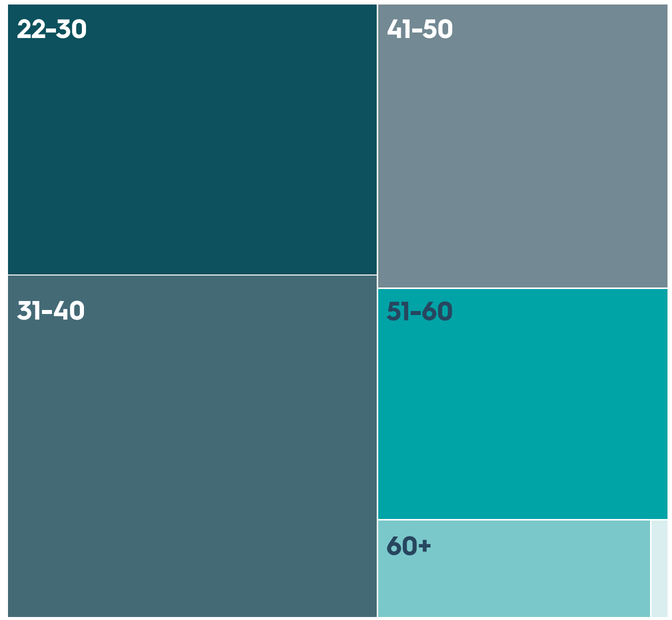
48%
female

0.01% of Scheme membership did not have a gender listed on their Scheme enrolment

* Active members are members that have contributed into the Scheme, and the Scheme has not been notified by either the employer or the member that they no longer wish to pay in contributions in the future, have opted out or have exited the Scheme (retired, died or transferred out).

** 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.

Age profile of Nest members



22-30	**24.73%**
31-40	**31.31%**
41-50	**20.35%**
51-60	**16.59%**
60+	**6.61%**
under 22	**0.41%**

Our engagement activity

49,711

Votes cast on our behalf by our equity managers at company annual general meetings (AGMs)

215

Engagements carried out by our main equity managers, UBS and Northern Trust, on our behalf

23

The number of companies we directly engaged with, over 6 issues

Our portfolio, asset classes and investment mandates

45.0%	Climate aware global developed equities**
5.4%	Climate aware global emerging market equities
1.6%	Commodities
0.01%	Derivatives
4.7%	Emerging market debt*
0.6%	Ethical global equities
0.2%	Ethical sterling corporate bonds*
4.6%	Global high yield bonds*
6.2%	Global investment grade bonds*
1.0%	Global listed property
0.6%	Global short duration investment grade bonds*
6.4%	Hybrid property (UK direct & REITs)
0.1%	UK direct property
2.4%	Infrastructure equity
2.6%	Infrastructure equity - renewables
3.1%	Low-risk sterling liquidity
0.3%	Low-risk sterling liquidity (ethical)
3.8%	Private credit
1.5%	Private equity
0.7%	Sharia compliant equities
4.5%	Sterling corporate bonds*
4.6%	Sterling short duration investment grade bonds

** 50% GBP Hedged

* Developed Market Credit is hedged 100%

Policy group	Asset class	Investment manager
Cash	Money market securities	BlackRock
		Legal & General Investment Management
	Derivatives	Amundi Asset Management
Investment-grade bonds	Investment-grade corporate bonds	Allspring Global Investments* BlackRock BMO Global Asset Management† Royal London Asset Management
Growth credit	Emerging market debt	Amundi Asset Management
	Global high-yield bonds	J.P. Morgan Asset Management
	Private credit	Amundi Asset Management BlackRock BNP Paribas Asset Management
Equities	Developed markets equities	Columbia Threadneedle Investments† HSBC Global Asset Management UBS Asset Management
	Emerging markets equities	Northern Trust Asset Management
	Private equity	Schroders Capital HarbourVest Partners LLC
	Listed property	Legal & General Investment Management
Real assets	Direct property	Legal & General Investment Management
	Infrastructure equity	CBRE Investment Management± Local Pensions Partnership Investments/GLIL Octopus Investments
Alternatives	Commodities	CoreCommodity Management

* Before 1 November 2021 Allspring was known as Wells Fargo Asset Management.

† On 4July 2022 BMO Global Asset Management (EMEA) was rebranded to Columbia Threadneedle (CT) Investments (CT acquired BMO's EMEA asset management business 8th November 2021) .

± Before 22 September 2021 this investment manager was known as CBRE Caledon Capital Management

Chapter 2

Our mission

More than one in three workers in the UK saves with Nest. The privilege of looking after their money comes with the responsibility to do everything we can to grow our members' savings and help them enjoy a better retirement.

We're unlike all other pension schemes in the UK. We're open to every company, big or small, and to all their employees. By operating at scale, Nest can have a significant impact. We can achieve better value for money in our administration and investments, which in turn supports our ability to deliver better financial outcomes for our members.

Our strong social purpose and role as a responsible investor is embedded throughout the whole corporation, which means in addition to proving better investment outcomes for our members we can also seek to make a difference to the society and world our members live in.

To find out more about Nest's goals and purpose, please see **Chapter 6**.

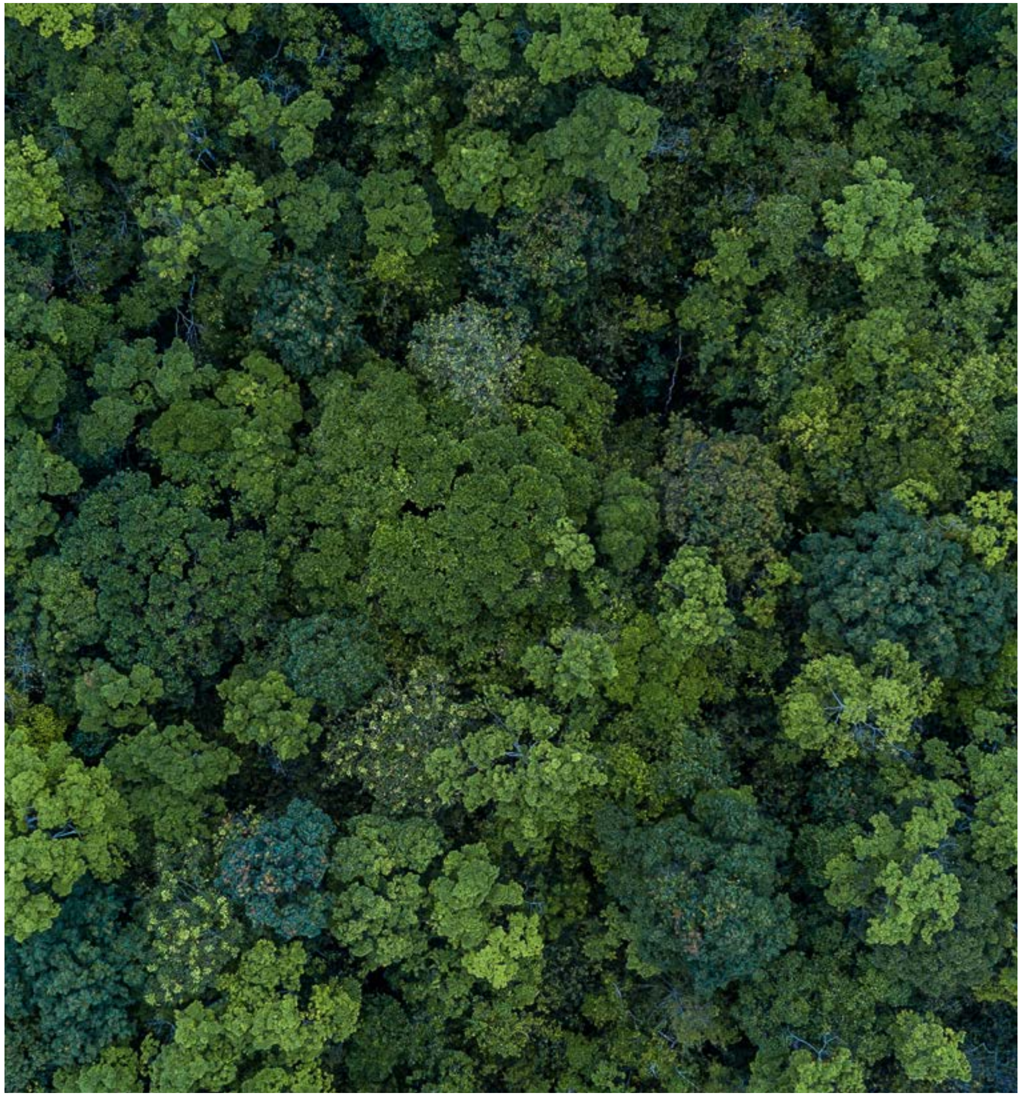
Our investment beliefs

Our investment beliefs help us make better decisions about how we invest members' money. They're set out in our governing document, the **Statement of investment principles** (SIP), and are periodically reviewed as the Scheme and investment practices evolve.

Two of our evidence-led beliefs set out the importance of sustainability and the consideration of environmental, social and governance (ESG) risk factors.

- Incorporating and acting upon climate risk and other ESG factors is a significant driver of investment outcomes.
- Acting as responsible long term stewards has a positive and broad impact on member outcomes

In other words, we need to think about how companies and markets operate and how they treat people and the environment. These issues are likely to have a material impact on the performance of the companies and other assets we invest in over various timeframes.



Our responsible investment objectives

Our **responsible investment objectives** have been created to guide and help prioritise our activities. Every three years we undertake a review of these objectives to ensure they're still fit for purpose, support our evolving investment approach, and serve the interests of our members.

Our responsible investment objectives

Better risk-adjusted returns

We seek to identify and manage ESG-related risks and opportunities across our portfolio where we believe doing so leads to lower risk and/or enhanced returns.

Better functioning markets

We want to improve market transparency and how markets operate and are regulated in jurisdictions where we invest. We also seek to manage and help to mitigate systemic risks which have the ability to impact the real world economy and in turn our portfolio.

Manage reputational risks

We want to protect Nest's reputation and grow trust with our members by encouraging companies to act in ways our members can feel confident about.

Long-term wealth creation

We want to encourage companies and our fund managers to successfully manage and be clear about the risks and impacts of their activities on the environment and wider stakeholders - in order to deliver sustainable performance to support good returns for our members over many years.

Chapter 3

Our ESG priorities

We have continued to work, and make good progress, on our ESG priorities where we believe doing so leads to lower risk and/or enhanced returns for our members in the long term.

We spend a lot of time and resource researching these areas to understand how they impact our members' investments. Each of our responsible investment priorities has been carefully selected. We use our prioritisation framework described in **Chapter 4** to help us focus on issues determined to be a systemic or financially material risk, and/or opportunity to our investments.

We also consider how our fund managers and investee companies manage and report on the impacts their activities have on the environment and wider stakeholders. This helps support long-term wealth creation, as companies who perform better at managing their wider impacts are more likely to be economically successful in the long-term.

Our current ESG priorities

As an asset owner invested across many assets classes, sectors, and geographies, we prioritise key ESG issues so that our resources are put to the best possible use.

Our investment team has identified six priority areas that guide our current work. These are derived using our prioritisation framework and based on research and analysis.

Climate change: We aim to address climate transition risks and the potentially catastrophic impacts of global warming, as well as identify how investments, workers and communities can benefit from the transition to a low carbon economy.

Natural capital: Many aspects of our ecosystem such as forestry, water and agriculture are closely linked to climate change mitigation and adaptation. Achieving net zero emissions by 2050 will require natural capital preservation and significant investments in nature-based solutions for carbon capture and storage which will serve as strong mitigation tools.

Human capital: Companies that treat and pay their workers fairly are more likely to have improved productivity, reduced staff turnover, and be more competitive. It's a key reason to understand how well they manage their workforce and supply chains.

Human rights: Human rights make up a crucial part of the 'S' in ESG and has always been an important focus for the responsible investment team at Nest. As an institutional investor we have a responsibility to respect human rights in line with the UN Guiding Principles on Business in Human Rights and understand and encourage our companies to manage and mitigate risks in their supply chains.

Big tech: We have sizeable investments in a range of technology companies and the risks associated with the sector are wide ranging and multifaceted. As technology and regulation rapidly evolves, companies must move quickly to ensure they have responsible implementation and innovation practices. There can be financial, legal, and reputational risks associated with not safeguarding aspects of their business from digital rights, cyber security and the spread of disinformation.

Diversity: We believe promoting diversity of gender, ethnicity, and thought can improve company performance and reputation, as well as enhancing socio-economic conditions for many people.

Food: The food sector needs to manage a range of health-related and environmental concerns to remain profitable over the long term. There are also negative impacts which invite potentially loss-making government regulation to tackle issues like obesity.

We use a range of tools to address and manage risk within each of our ESG priorities. The following section discusses the progress we're making on each theme and explains how and why we've used the tools below.

	Research	Public policy	Proxy voting	File shareholder resolutions	Direct engagement	Collaborative engagement	Capital allocation	Divestment
Climate change	x	x	x		x	x	x	x
Natural capital	x	x	x					
Human capital	x		x			x		
Human rights	x		x		x	x		x
Big tech	x	x	x			x		
Diversity	x		x		x	x		
Food	x	x	x			x		

Climate change

Why it matters to us

Climate change is one of the biggest risks facing society. Both the physical impacts of a sustained rise in global temperatures such as more frequent extreme weather events, and the economic impacts of transitioning to a low-carbon economy will affect the investments we make on behalf of our members. Climate change risks could impact our members through lower returns on their retirement savings and a lower quality of life in retirement.

Our commitments

In 2020, we set an ambition to align our investment portfolio with limiting global warming to 1.5C by reaching net zero emissions across our portfolio by 2050 at the latest. This is aligned with the commitment made by governments across the world through the Paris Agreement, and consistent with the UK's legislated target of net zero emissions by 2050. Analysis carried out by Aon on our portfolio also showed that over a 30-year horizon, our assets will perform best in a scenario where warming is limited to 1.5C.

In order to achieve this long-term goal, we have set several short- and medium targets, set out in our roadmap on the next page.

We see climate change as a systemic risk, which means that it could trigger the collapse of entire industries and severe economic consequences globally. As a result, we use all the tools at our disposal to manage this risk.

Our journey to net zero

2023

Divest from assets deriving more than 10% of revenues from thermal coal production or power generation, oil sands or arctic drilling

All managers to be disclosing fully in line with the TCFD recommendations

2025

Divest from all assets involved in coal production or power generation, oil sands or arctic drilling unless they have a clear and credible plan to phase out these activities by 2030

Have companies representing 70% of emissions under engagement in our equity portfolio

Aim to have reduced carbon emissions by 30% across our investments

2030

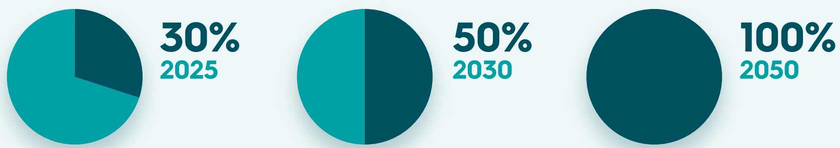
Estimated to invest £1.4bn in renewable infrastructure

Aim to halve emissions in our investments

2050

Net zero emissions in our investments with 100% of AuM in scope

Carbon reduction targets across our investment portfolio*



* Scope 1 and 2 carbon footprint for our equity and fixed income portfolios relative to a 2019 baseline. These targets are our current aims and reviewed regularly in line with our climate change risk policy.

Our four core commitments

1. **Asset allocation**
We'll continue to decarbonise our portfolio

2. **Fund manager selection and monitoring**
We expect all our fund managers to work towards aligning the portfolio they manage for Nest with the 1.5C global warming limit

3. **Stewardship**
We believe that stewardship is one of the most powerful tools investors can use to influence companies to change to low-carbon approaches and will continue to engage with the biggest emitters in our portfolio

4. **Public Policy**
We'll continue to contribute actively to the public discourse on climate change risks and opportunities

Our actions and outcomes

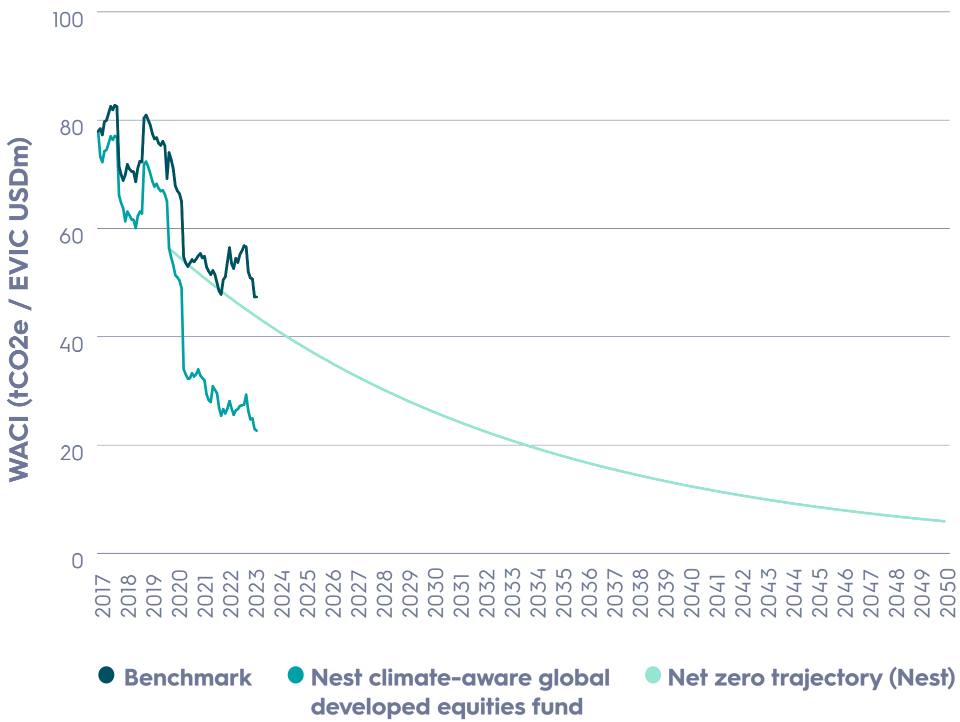
Asset allocation

We research the impact of climate change on asset classes, including the risk and returns and seek to integrate them into how we make investment decisions. In practice, this means:

- Reducing the amount of money we invest in companies that are highly vulnerable to transition or physical risks resulting from climate change. More than two-thirds of our assets are now in mandates with specific climate change objectives.
- Increasing the amount of money we invest in assets that will benefit from a transition to net zero, such as renewable energy infrastructure.
- Excluding investments that we do not believe can be aligned with the goals of the Paris Agreement. Across the entire portfolio we have implemented an exclusion of companies that derive more than 20% of their revenues from, or are developing new projects in, thermal coal production or power generation, oil sands and arctic exploration of oil and gas. We believe that these activities are not compatible with a transition to 1.5C, and that companies deriving significant revenues from these activities will struggle to transition quickly enough.

We are progressing well towards our interim targets. The carbon intensity of our developed market equities portfolio, which makes up nearly 50% of our total assets, has reduced by 56% since 2019. This was achieved through the fund's approach to tilting away from the most carbon-intensive companies as well as selective exclusions. In the past year, the carbon intensity has reduced by 4%.

Developed market equities Carbon intensity trajectory (scope 1 + scope 2 tCO2e / EVIC USDm)*



* Source: UBS Asset Management. Data as at July 2023

Financed emissions are a useful measure but they do not give a full picture. Making asset allocations on financed emissions alone can lead to 'paper decarbonisation' – where highly carbon-intensive companies are excluded with little impact on real-world emissions. Many carbon-intensive companies in sectors such as energy, steel and cement are crucial to the transition and are working on developing solutions to reaching net zero. We are therefore also using additional checks to see how committed companies are to the transition in line with a science-based pathways to reaching net zero for their sector by tracking the number of companies in the portfolio that have science-based targets accredited by the Science-Based Targets Initiative (SBTi)[1]. For the developed market equities fund, 34.7% of the aggregate portfolio weight is subject to an accredited science-based target.

1 The SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). Companies submit their targets to SBTi for validation based on sector-specific science-based criteria.

We believe that the transition to a net-zero economy can also be an investment opportunity. We have so far invested more than £560 million in renewable energy infrastructure and are well on track to meet our target of £1.4 billon by 2030.

Climate solutions are not limited to renewable energy but encompass a range of activities, goods or services that either contribute substantially to enable emissions reductions or to adapting to the physical impacts of climate change. But there is a risk that investors and customers could fall victims to greenwashing, where companies give a false impression or misleading information about how their products or activities are environmentally sound. To address this, some authorities have developed frameworks to define climate solutions.

EU Taxonomy

The EU Taxonomy is a classification system that defines criteria for economic activities that are aligned with a net zero trajectory by 2050 and the broader environmental goals other than climate. It helps financial and non-financial companies to share a common definition of economic activities that can be considered environmentally sustainable. In this way, it plays an important role helping the EU scale up sustainable investment, by creating security for investors, protecting private investors from greenwashing, helping companies become more climate-friendly and mitigating market fragmentation.

Using data from FTSE Russell, we have assessed that our developed market equity funds invest around $21,270 in EU Taxonomy aligned activities per $million invested in the portfolio, which is 32 per cent higher than its benchmark[2]. We are now working with our fund managers on establishing a target for climate solutions for the portfolio.

An important part of our work includes engaging with industry and policymakers to provide further clarity on climate solutions. In the past year, we contributed to the development of a UK Taxonomy through our engagement with UKSIF and responded to a consultation by IIGCC on guidance for investing in climate solutions.

2 Data as at January 2023.

Fund manager selection and monitoring

All of our members' money is invested with external fund managers, which are carefully selected by Nest's investment team for their strong focus on responsible investment. We work closely with our fund managers on how each of our portfolios is aligned with the goals of the Paris Agreement. We have set different objectives and benchmarks for each manager. These will be dependent on how far they have already progressed in evolving their investment approach towards a low-carbon economy.

All managers are expected to report on how they will contribute to Nest's climate change objectives, giving details on:

- their climate commitments or targets
- how they assess and manage the impact of physical and transition risks on the portfolio
- how their investment strategy aligns with Nest's long-term target of reaching net zero emissions by 2050 at the latest
- the climate change data used and how they address any data coverage challenges
- how they can support Nest in its reporting requirements including, but not limited to, carrying out climate change scenario analysis for the strategy and reporting on key metrics such as financed carbon emissions

Stewardship

While it is possible to reduce the financed emissions from our portfolios simply by selling the most carbon-intensive assets, this does not necessarily lead to a reduction in real-world emissions as other investors may purchase the assets. Instead, we want to stay invested and work with other investors to encourage companies to commit to net zero. Companies that aren't responding to engagement, or are progressing too slowly, are most likely to be financially impacted by a transition to a low-carbon economy.

We engage with companies through our fund managers, alongside other investors in engagement coalitions, and directly. We currently have three main engagement strands on climate change:

- ClimateAction 100+: An investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. We currently participate in three engagement groups with companies in emerging markets on improving climate change governance, cutting emissions and strengthening climate-related financial disclosures.

- Institutional Investors Group on Climate Change (IIGCC) Net Zero Banking Working Group: The banking sector has a huge role to play in supporting the transition to net zero. The group engages with a focus list of 21 companies across banks across Europe, Canada and Asia. Nest is leading two of the engagement groups and participating in seven more. This year, the initiative also developed a Net Zero Standard for Banks and an assessment framework, supported by the Transition Plan Initiative Global Climate Transition Centre.
- Individual engagement with UK oil and gas companies: Over the past year, we have carried out direct engagement with several of the energy companies in our portfolio on their plans to transition to net zero generally, and on their plans to reduce fossil fuel production specifically. You can read more about this engagement in the case study on escalation below.

In total, over the past year, Nest and its external fund managers have engaged with 78 companies on climate change.

We use our right to vote at companies' annual general meetings (AGM) to either support companies in setting out their net zero strategies or register our dissatisfaction. We set out expectations of companies and how we will vote in different situations in our **voting and engagement policy.** In early 2023, we updated our voting guidelines on climate change to set clearer expectations of companies publishing say-on-climate resolutions. See **chapter 4** for more details.

Case study: Engaging on climate change

BNP Paribas Bank

Nest has been leading engagement with BNP Paribas Bank since 2021 as part of our involvement with the IIGCC Net Zero Banking Working Group. While BNP Paribas has relatively strong policies on fossil fuel financing in place, it remains the second largest financer of fossil fuels in Europe[3]. In the past year, BNP Paribas has also been subject to the first climate-related lawsuit against a commercial bank for financing companies developing new oil and gas fields.

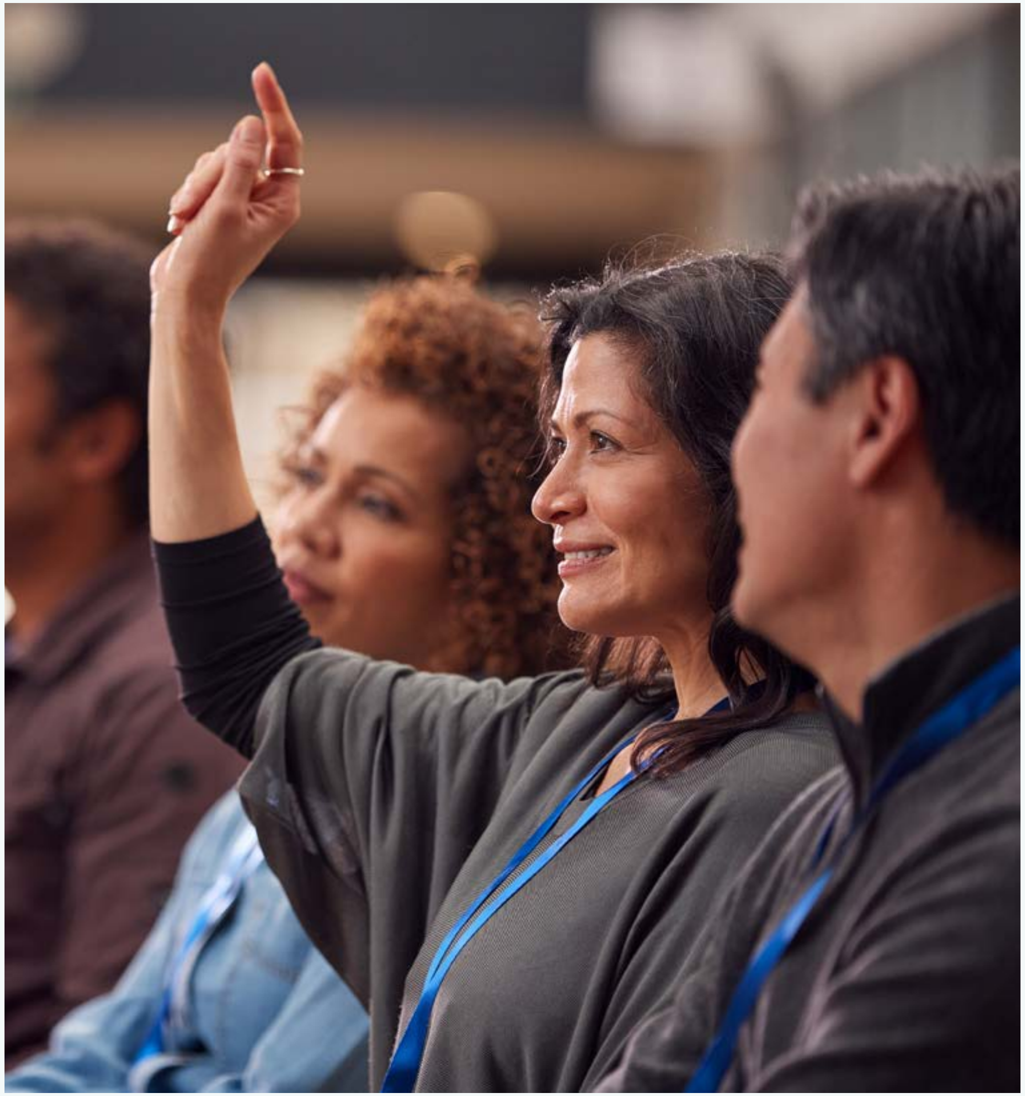
In our engagement with BNP Paribas, we asked the company to align its financing activities with the International Energy Agency's Net Zero Scenario, which suggests that to stay on a path to net zero there can be no more development of new oil and gas fields. We have also asked BNP Paribas to strengthen engagement with clients to encourage them to transition, and to assess how they are addressing deforestation risks.

Since the engagement started, BNP has made progress in several areas:

- Set short- and medium-term emissions reduction targets for the most carbon-intensive sectors, including oil and gas, utilities and automotives.
- Committed to dedicate €200bn to support large corporate clients to transition to a low carbon economy by 2025 and €350 through environmental and social bonds.
- Committed to no longer finance clients producing or buying beef or soybeans from land cleared or converted after 2008 in the Amazon.
- Committed to no longer providing financing for developments of new oil and gas fields.

The investor group led by Nest will continue to engage with BNP Paribas to encourage the bank to fully align its activities with the goals of the Paris Agreement.

3 **Banking on Climate Chaos report**



Public policy and advocacy

As one of the UK's largest pension schemes by membership, we aim to work with peers and policymakers on how climate change will affect the pensions industry and the global economy. Investors have a key role to play in financing the transition to a net zero economy and limit warming to 1.5C. However, without strong policy frameworks that incentivise companies to align their activities, there won't be enough investment opportunities that are aligned with net zero. It is crucial that all parts of the economy work together if we are to be successful in transitioning to net zero. Our policy and advocacy work focuses on the following areas:

- Greening the financial system: We advocate for effective financial sector regulation that promotes climate risk management in the financial sector and mobilises mainstream finance to support the transition towards a net zero economy. This includes disclosure requirements for financial institutions and regulation on marketing of sustainable investment products that protects the interests of pensions savers and retail customers.
- Financing the transition: For Nest to be able to meet its net zero ambition, it is crucial that there are sufficient opportunities to invest in businesses that are delivering solutions to address climate change, and regulatory frameworks that encourage corporates to transition their business models in line with net zero.

Our advocacy work takes places primarily in collaboration with other investors as part of industry groups, such as the UK Sustainable Investment and Finance Association (UKSIF), where Nest is a member of the Policy Committee. We are also involved directly in developing standards, for example through our participation in HM Treasury's Transition Plan Taskforce, which is developing a framework for private sector transition plans.

Chapter 4 provides more examples on how we have engaged with policy makers.

Natural capital

Why it matters to us

Natural capital is the world's stock of natural assets which includes soil, air, water, forests and all living things. When properly preserved, natural capital assets provide a wide range of ecosystem services that make life possible.

Businesses have direct, indirect, and cumulative impacts on natural capital through a wide variety of activities. The main impact drivers affecting natural capital are habitat change, invasive species, overexploitation, pollution/nutrient loading, and climate change.

> Nutrient pollution is a big environmental issue for natural habitats. The sources of excess nutrients are site specific but mainly come from wastewater treatment works and agricultural pollution.
>
> Increased levels of nutrients (especially nitrates and phosphates) damage water dependent sites, reducing the oxygen carrying capacity of the water and speeding up the growth of certain plants which can impact wildlife.

Over half (55%) of global GDP, equal to $41.7 trillion, is dependent on high-functioning biodiversity and ecosystem services. However, a fifth of countries globally (20%) are at risk of their ecosystems collapsing due to a decline in biodiversity and related beneficial services[4]. Companies, real estate and infrastructure we invest in are dependent upon biodiversity and ecosystem services. Degradation of either poses physical and transition risk on a systemic scale, presenting the potential to damage business profitability and value.

As broad market investors, this decrease in economic growth will also result in a decrease in returns for our members so it's important that we understand the vulnerabilities of our investments to natural capital loss, and simultaneously ensure they reduce their own impact on natural capital. Similar to climate change, natural capital loss will impact different sectors, geographies, and asset classes differently. For this reason, it's important to develop a good understanding of where natural capital risks lie within our portfolio so those risks can be managed.

4 Swiss RE group: **Biodiversity and Ecosystems Services Index: measuring the value of nature**

Our actions and outcomes

Natural Capital covers a broad range of issues. We have decided to focus on deforestation which drives 3 of the 5 main drivers of natural capital loss; habitat loss, climate change, and pollution and nutrient loading (especially when forests are cut down for intensive agricultural use).

At the start of 2022 we joined **Global Canopy's deforestation-free pension fund guidance** working group to help develop guidance for pension funds on how to tackle deforestation – a key contributor to natural capital loss - across their portfolios.

Joining this working group is helping us to gain a better understanding of the risks of deforestation and associated human rights abuses, and allowed us to contribute and shape the guidance to meet the challenges faced by most pension funds. The working group will also continue to meet to discuss progress and challenges of implementing the guidance. The final guidance was released in July of 2022 and is comprised of 6 steps to be implemented over several years. These are:

- understanding and mapping risk
- setting an effective policy and managing risk
- monitoring and engagement
- disclosing
- eliminating deforestation
- going above and beyond – becoming nature and people positive

We have completed the first step in the deforestation free guidance through a mapping exercise to identify the holdings most exposed to deforestation risk within our equity portfolios. Using GICS sub-industries, the lowest **Forest 500 scores** (below 40 out of 100), and the **Sustainable Palm Oil Transparency Toolkit (SPOTT) scores**, about 6.0% of our developed market equity portfolio holdings and 1.6% of our emerging market equity portfolio holdings are exposed to deforestation risk as of 31 March 2023[5].

We started the second step by engaging with fund managers on how they are integrating deforestation considerations within the investment process and working to measure and monitor deforestation risk exposure within our portfolios. The issue of deforestation and other natural capital risks is of growing importance to our managers. We chose this method as we believe asking them to undertake a risk mapping assessment on our portfolio will push them to do more to address the issue and develop their own strategies.

5 A large majority of companies in the Forest 500 list are listed in developed markets, and so, using the applied methodology, our developed market equity fund has a higher % of holdings exposed to deforestation. 5.43% of the developed market equity portfolio holdings have low Forest 500 scores and 0.11% have low SPOTT scores

We have also included guidance on voting and engagement on deforestation within our UK voting and engagement policy. We will engage with the worst performing companies in the Global Canopy Forest 350 (the Forest 500 list is comprised of the 350 companies with the largest impacts on deforestation and the 150 financial institutions with the largest impacts on deforestation). Where progress has not been made after one year, we may vote against the Chair or Chair of the sustainability committee.

For new emerging issues, like deforestation, we believe letters signed by multiple institutional investors can sometimes be a more effective way of engaging with policy makers as they tend to carry more weight than an individual letter. That's why we signed 3 investor letters of support for deforestation-free legislation bills in the US; the **FOREST act** which would prohibit agricultural commodities entering the US market from being sourced on land that was illegally deforested and require traceable supply chains, and California and New York public procurement laws would require products purchased by state governments to be deforestation-free and respect human rights.

These pieces of legislation could significantly reduce the US economy's impact on deforestation, and level the playing field for leaders who have already begun applying due diligence measures to address deforestation risk.

Human capital

Why it matters to us

We believe businesses that invest in their workforce will outperform those that do not because taking care of employees directly impacts performance, productivity, business resilience and reputation. A well-treated, fairly paid workforce is likely to have positive staff morale and satisfaction, making a company more likely to be successful over time. The Covid-19 pandemic revealed the vulnerability of those with low-paid and insecure work, and of companies who rely on them.

As an investor, receiving good quality disclosures from investee companies on issues like pay, working conditions, and company culture are essential to help us assess an organisation's social risks. This transparency allows us to monitor a company's performance and accountability in this area while also allowing a dialogue for progress.

The real Living Wage and secure work

The UK is experiencing a cost-of-living crisis as a result of real wages falling due to rising inflation. This puts stress not only on low-paid workers, but companies too as they are at risk of rising costs and losing staff if they don't keep pay in line with inflation. Paying workers the Real Living Wage (RLW), as calculated by the **Living Wage Foundation**, doesn't just help staff, it can help boost company performance too. Cardiff Business School found that 93% of Living Wage employers reported business benefits such as higher recruitment, retention, and productivity.

Pay Disparity

Investors have been questioning companies about disparities in pay between workers and leadership for some time due to its relation to fair worker pay and recognition of their contribution to a business. UK-listed companies are now required to publish pay ratios between the highest paid, the median, and 25th percentile of the lowest paid employees.

Over the last couple of decades, the gap between executive and workforce pay has widened. Last year pay for FTSE 100 Chief Executives rose 12%, despite the cost-of-living crisis. Where companies increase executive remuneration packages, we expect to see evidence that pay and benefits for the lowest paid have been materially prioritised in line with our voting and engagement policy. This year we joined the steering group of a new asset owner initiative on executive remuneration. The group is overseeing the development of a new tool that will help asset owners review executive pay levels and structures through a 'fairness lens', that will inform shareholder engagement with companies.

Our actions and outcomes

Stewardship is the primary tool Nest uses to achieve our responsible investment objectives on human capital. It allows us to inform companies of the financial and societal benefits of prioritising human capital, whilst putting pressure on them to take necessary actions. Nest continues to actively support the **ShareAction-led Good Work Coalition**, which encourages companies to pay the Living Wage to their employees and ensure that their work contracts provide for set working hours, sick pay, and holiday pay.

Alongside a group of investors Nest has signed a letter sent to BT, Bunzl, Tesco, Sainsbury's, Flutter, Entain, and B&M asking them to commit to accreditation as a Living Wage Employer. Part of the selection process was targeting companies who don't pay the RLW and where excessive executive remuneration has been an issue. As one of the largest UK pension funds, signing onto these letters and adding our voice to the investor group can elevate the impact the investor group can make, especially when talking to large UK employers.

In addition, Nest signed an investor statement outlining expectations of companies on addressing insecure work through guaranteed working hours, accurate contracts, and decent notice periods for shifts. The statement further emphasised the importance of showing a long-term commitment to paying at least the real living wage.

Human rights

Why it matters to us

Respect for human rights in business is strongly associated with value chain resilience and a stable business operating environment. As investors, we are aware of the operational, financial, legal, and reputational risks companies may face when they fail to manage human rights risks. Human rights make up a crucial part of the 'S' in ESG and has always been an important part of our responsible investment approach. This year, human rights have once again been at the forefront of responsible investors' minds. The Russian-Ukraine war has had several impacts on human rights, displacing around 12 million people and leaving millions homeless. In addition, there continue to be reports of widespread modern slavery practices linked to companies with operations and supply chains in the Xinjiang Uyghur Autonomous Region (XUAR) of China, forcing Uyghur people to work against their will.

Companies that get caught up in these crises, who don't effectively manage these risks in their business practices and supply chains, are susceptible to hefty fines, media scrutiny, public backlash and high costs of re-organising supply chains.

Over the last few years there have been increasing regulatory requirements on businesses and human rights, which increases the risk of companies breaking the law or having to pay fines. For example, the Uyghur Forced Labour Prevention Act (UFLPA) in the United States, which came into effect in June 2022, requiring companies to identify whether their business operations have a link to the Xinjiang Uyghur Autonomous Region (XUAR). Companies will be expected to cease operations altogether from the XUAR, and failure to provide the necessary requirements may result in fines of up to $250,000 (£205,000). Our engagement efforts have focused on trying to understand how companies manage human rights risks, so they can have a positive impact on all people in their supply chains.

Our actions and outcomes

Nest uses stewardship as one of the primary tools to address human rights risks in our portfolio. Companies need to be made aware of increasing regulatory requirements and emerging best practice to ensure they mitigate operational, financial, legal, and reputational risks. Through having dialogue alongside other investors, we can encourage companies to adopt more robust processes such as supply chain mapping, modern slavery reporting and human rights due diligence.

Rathbones Votes Against Slavery

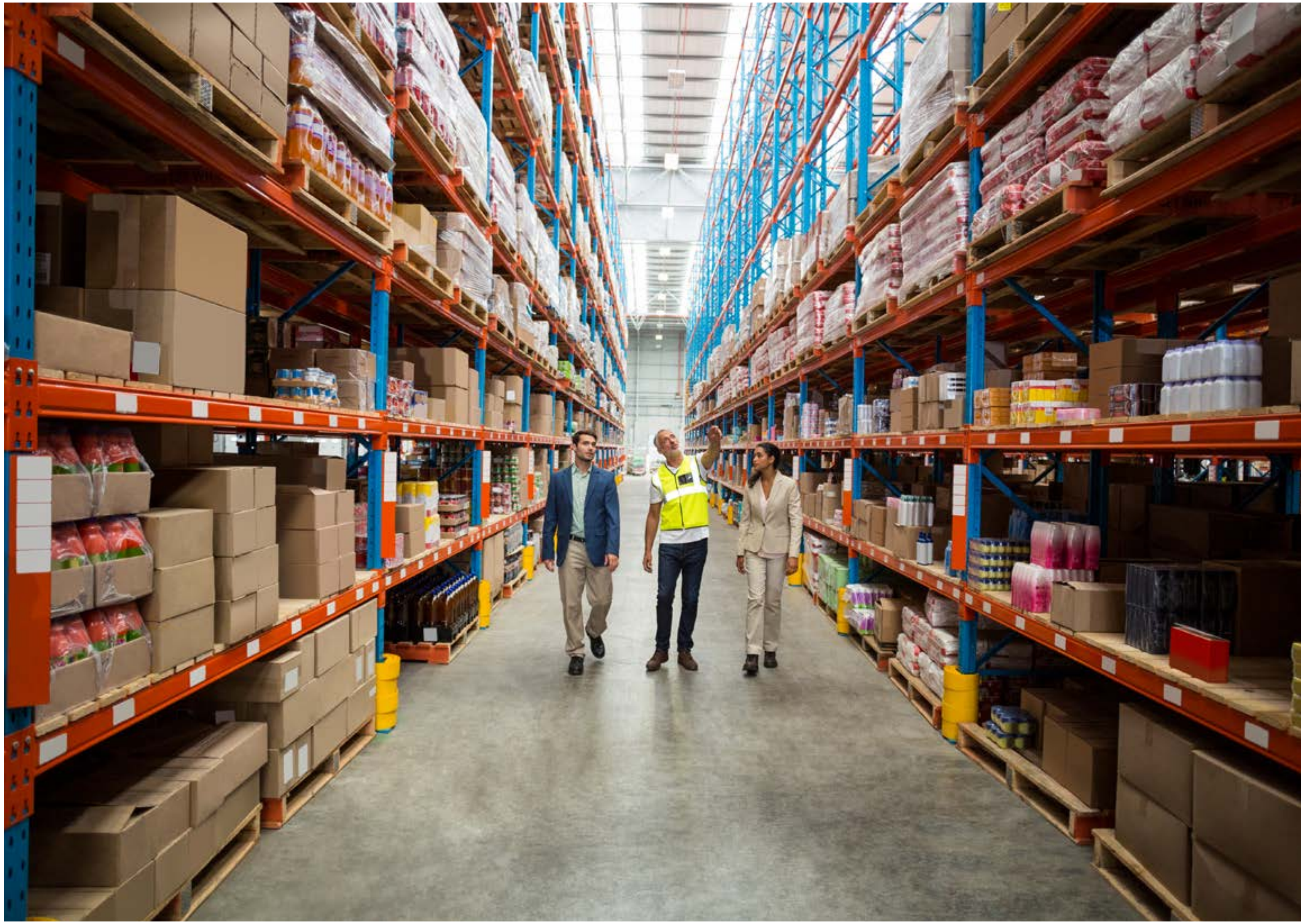
Nest signed up to be part of the **Rathbones Votes Against Slavery 2022** engagement. In their Votes Against Slavery report, Rathbones found there to be 44 FTSE 350 companies that weren't compliant with the section 54 reporting requirements of the Modern Slavery Act. The Act requires companies to prepare a slavery and human trafficking statement each year and provide overall transparency in supply chains. Breaching this Act can lead to hefty fines and reputational damage, so it's important to engage with these companies if they are deemed to be non-compliant. Nest signed onto the investor statement that was sent to potentially non-compliant companies including several companies in the FTSE 100. We hope to have meetings with some of these companies this year.

Investor Alliance for Human Rights – Uyghur forced labour

As part of the Investor Alliance for Human Rights initiative, Nest has signed up to be part of the Uyghur forced labour engagement. Currently 63 companies have been engaged with as part of the initiative in the apparel, information and communication technology, transportation, energy and food and agriculture sectors. This year the engagement will be focused on the automotive sector as a result of the published report: **Driving Force**. The report found there to be more than 100 international automotive parts or car manufacturers exposed to forced Uyghur labour made goods. We will be having meetings with a selected group of companies in the automobile industry to further understand how they plan to deal with the problem of Uyghur forced labour in their supply chains. We have also divested from several companies found to have very severe direct involvement regarding Uyghur forced labour and continue to monitor companies operating in the area.

Other actions and outcomes

Nest signed a letter to Amazon asking the Board to conduct an independent third-party assessment of Amazon's commitment, policies, and practices on freedom of association to prevent misalignments with the International Labour Organisations (ILO) Declaration on Fundamental Principles and Rights at Work. This includes making sure workers are free to exercise their freedom of association and right to collective bargaining without company interference, which are internationally recognised human rights. We believe sending a private letter was appropriate as a form of engagement as it allowed us to highlight all the relevant benefits of alignment with the ILO and opened a safe channel of communication.



Big tech

Why it matters to us

Technology companies have been growing rapidly in size and prominence over the past 20 years, which has led to the evolution of tech giants such as Amazon, Alphabet, Microsoft and Meta. Big Tech companies[6] make up around 6% of Nest's holdings (as of 31 March 2023) and therefore we have a responsibility to understand the increasing legal and reputational risks facing these companies, and ensure they are taking these risks into consideration as they continue to advance. We believe strong governance and responsible tech innovation and implementation will be crucial for the long-term success of technology companies.

Since July 2020, the CEOs of Meta (previously Facebook), Google, and Twitter will each have been called before congress three times, four in Meta's case, to testify about anti-competitive behaviour, allegations of censorship, and the impact of their business activities on digital rights. The sector is facing constant regulatory developments. For example, the UK is producing the online safety bill, which outlines a new set of laws to protect children and adults online. Regulatory developments will continue and it is important that the tech companies we are invested in remain ahead of these changes, to prevent legal, reputational and financial damage. In order to understand how the tech sector is navigating these issues, Nest has been engaging with companies on cyber security risks, digital rights, and wider governance issues.

Cyber security

Technology is embedded in day-to-day life, and an increasing number of companies depend on digital access to run their businesses. While information technology (IT) expenditure suffers from year-on-year volatility, the forecast for global IT spending was £3.1 trillion, with the cost of cyber insurance rising by 130% in the U.S and 92% in the UK in 2021. According to the International Monetary Fund (IMF), cyber-attacks tripled in the last decade as businesses have become increasingly reliant on technology and data for their business activities. Cyber security breaches can inflict substantial damages to the corporate targets in the shape of fines, loss of consumer confidence and revenues, and reputational harm. Markets are quick to punish companies that have suffered security breaches, making cyber and data security an important factor in our investment decisions.

Digital rights

Information and communication technology (ICT) companies must commit to respecting all digital rights, including freedom of expression and privacy on their platforms and services. The unchecked power of technology companies has eroded respect for users' digital rights, this behaviour can negatively impact companies' reputation and lead to the increased likelihood of punitive action by governments. As investors, we believe companies must implement measures to reduce the negative outcomes technology imposes on users and wider society, in order to create a positive and trustworthy environment that allows the sector to develop sustainably.

Our actions and outcomes

Cyber security

This year we finished our cyber security[7] engagement programme, alongside one of our fund managers, Royal London Asset Management, and a coalition of other pension schemes including RPMI Railpen, Brunel Pension Partnership, USS, and Border to Coast. Nest's dialogue with companies has allowed us to better understand the key enablers of cyber resilience, observe best practice, and set up investor expectations.

6 Companies in the Ranking Digital Rights **Big Tech Scorecard**

7 Since 2019 the investor group have engaged with 23 companies.

The final engagements focused on companies that the group deemed to be a material risk as a result of their exposure to cyber breaches, and where there are disproportionately low levels of disclosure on their approach. The minimum expectations we laid out for the engagement are to implement risk identification and oversight at board level, nominate a chief information security officer, include covenants in supplier contracts, include cyber considerations in inorganic growth strategies, input timely disclosure of cybersecurity breaches, ask for disclosures about cyber resilient culture, and include tailored training across the workforce.

In total we reached out to 20 companies and met with management of six, including Meta, Barclays, Tesco, and United Health Group. The meetings gave us an opportunity to push for increased scrutiny and reassurance on our minimum expectations in areas, such as oversight at board level procurement, mergers & acquisitions (M&A) policies, and risk and controls management.

Throughout the engagement programme and discussions with individual companies, we have become comfortable with the level of progress and measures they've taken to mitigate cybersecurity risk.

Digital rights

The Ranking Digital Rights (RDR) scorecards evaluate the world's most powerful digital platforms and telecommunications companies on their disclosed governance, policies, and practices affecting people's rights to freedom of expression and privacy. The latest 2022 RDR digital platform scorecard revealed that these companies still have weak corporate governance and oversight, with insufficient transparency and accountability on policies and practices affecting users' rights to privacy, expression and information. We have used the RDR scorecard to help us identify companies in our portfolio that score poorly on digital rights, which helps us prioritise engagements.

Furthermore, to address corporate governance issues within big tech companies, Nest has joined the Investor Coalition for Equal Votes[8], which focuses on tackling dual class share structures, which are prominent within US Tech companies. Dual class share structures allow the directors of the company to have unequal voting rights to the amount of equity they hold in the company, limiting the rights of minority shareholders and making it difficult to hold management accountable on important issues such as Digital Rights.

Other actions and outcomes

Nest signed onto a shareholder letter being co-led by Boston Common Asset Management, calling on Alphabet/Youtube to implement processes to more effectively manage risk, in regard to digital regulation in the future. Specifically, we asked Alphabet to manage risks associated with the company's current navigation of content modernisation, and equally concerning the social impact that occurs from their approach to harm reduction.

8 The Investor Coalition for Equal Votes (ICEV) is an informal assemblage of UK and US asset owners with over $1T in assets under management who are concerned about the long-term effects of misalignment between invested capital and shareholder voting rights, and who have extensive allocations to the UK market.

Diversity

Why it matters to us

Diversity has always been a focus for Nest. We recognised the investment case early on in our development, and our broad and diverse membership was a further motivation to use our influence as an investor to push for better diversity across the companies in which our members invest.

We support diversity in its very broadest sense and while gender and ethnicity has been a focus, we recognise that considering other aspects, such as disability, sexual orientation and socioeconomic background, are all part of the journey. We believe organisations that foster truly inclusive cultures – cultures that embrace people who look, act and, importantly, think differently – can reach their full potential to deliver for their customers and positively impact their workers, their markets and society at large.

The investment case for boardroom and workplace diversity continues to be strong and of importance for UK organisations, despite a range of competing issues from economic turbulence and supply chain disruption to a broader backdrop of underlying longer-term risks such as climate change and biodiversity loss. Whether convinced by the financial arguments that greater diversity on boards and management teams leads to better decision making, risk management, innovation and ultimately performance, or a moral belief that it is the right thing to do, many companies made significant strides forward despite the challenges.

Our actions and outcomes

Our membership and participation in the **30% Club UK Investor group** is central to our work on diversity. Working together and combining investor resource, voice and action has been key to driving improved diversity in UK companies. Gender diversity on UK boards improved in 2022 as FTSE 350 companies met the 40% target for Women on Boards, three years ahead of the December 2025 target end date[9]. Moreover, the top 10 companies on the list had more than 50% women on their boards. This is welcome progress that meets our calls to have at least 40% women on FTSE boards.

Last year was also a year of progress beyond gender as FTSE 100 companies begun to take action on race equity. The Parker Review requires FTSE 100 companies to have 'at least one person from an ethnic minority' on their board by the end of 2021 and 2024 for the FTSE 250. We were pleased to see that 94 of the FTSE 100 companies met the targets by March, and that a further three had committed and were at advanced stages in the recruitment processes. Through our collaborative engagement programme, we engaged with the three FTSE 100 companies that hadn't met the target and 34 FTSE 250 companies in the course of the year. These in-depth conversations with companies have given us confidence that companies on balance recognise the challenge and are taking steps to make improvements.

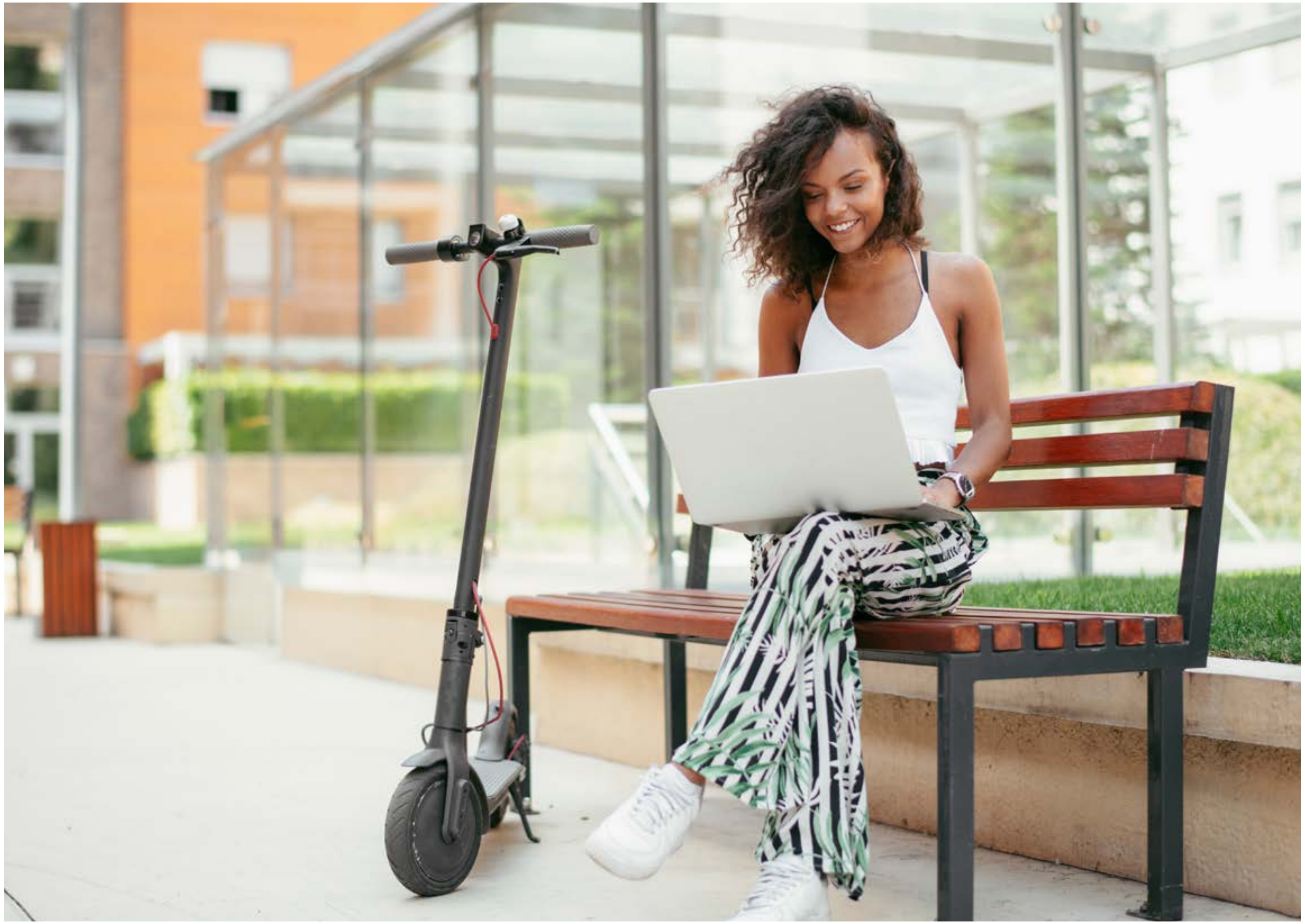
We recognise there is still work to do for the UK to be a place where all people are given an equal opportunity to thrive and progress towards the highest levels of leadership. The progress made in 2022 at board level paves the way for greater attention to be put on the executives and the pipeline below, where much improvement is needed. This is why the 30% club investor group has begun focussing engagement efforts there, targeting the biggest laggards and encouraging them to set realistic, but ambitious targets, gathering sound data, backing up ambitions with a plan of action and determination of the CEO to bring about change.

Given the focus of investors in UK companies and the progress made, we were keen to step up efforts and address lack of progress in other key markets. Nest led a piece of work engaging with a small number of US companies with poor gender and ethnicity board representation. We wrote to these companies on behalf of the 30% Club Investor Group and set out expectations for improvements and need for clear policies. Collaborating alongside other investors in the group and teaming up with the Canadian chapter of the 30% Club helped achieve higher impact, as many of the companies on the list improved representation either during or since our engagement.

9 **FTSE Woman Leaders Review**

This year Nest worked with ShareAction and, sent letters to companies outlining our expectations to advance racial equity in the UK workforce and ethnicity pay gap reporting. Promoting transparency by reporting on the ethnicity pay gap is an important step a company can take to promote racial equity in the workplace. McKinsey's 2018 study **Delivering through Diversity** found that organisations with the most ethnically and culturally diverse executive teams were the most financially successful, being '33% more likely to outperform their peers on profitability'. The letter aimed to gather information regarding ethnicity pay gap reporting, including details about what steps have been taken to capture ethnicity data and publicly report progress.

Ethnicity pay gap reporting is still relatively new for companies and take up is low compared to gender pay gap reporting, which large UK companies are mandated to produce. We therefore thought collaborating with other large investors to raise awareness of the importance of the reporting would be an effective way to bring it to the attention of companies.



Food

Why it matters to us

The food sector faces a number of risks and opportunities; not only does it have an impact on global carbon emissions, it also has an impact on our health. The food industry has a role to play to meet changing consumer preferences in order to remain competitive in their business practices whilst making healthier food and drink more accessible.

The current pace of decarbonisation in the global food system is not enough. According to the UK's National Food Strategy, we must reduce the amount of animal protein we eat by 20-50% for the UK to reach net zero by 2050[10]. Current meat production practices generate significant greenhouse gas emissions, unsustainable water use and pollution, and contribute to habitat loss and deforestation.

These impacts may lead to significant and abrupt policy responses by governments, and we are engaging with food retailers and manufacturers to ensure they are best placed to mitigate these regulatory risks in the future.

Healthy markets

We also consider health to be a systemic risk that affects workers across the whole economy. The growing issue of obesity in the UK is an issue that investors are increasingly acknowledging as an investment risk. With the likelihood of further government policy interventions, it's important that food retailers and manufacturers play a significant role in promoting healthy eating. There's a growing consumer demand for healthier products and we want to invest in companies that are ahead of the curve and taking advantage of this opportunity. We have actively engaged with laggards to improve transparency on their strategies to address these issues.

Our actions and outcomes

Our engagements have focused on understanding the strategies companies have in place to ensure they are evolving in line with upcoming regulation. Where they are lacking, we encourage companies to anticipate and actively address these issues. In addition, we seek to increase transparency in the market and have accelerated engagement with manufacturers and retailers to share data around healthy products with investors.

Nest has continued to be part of the **Healthy Markets Initiative** led by ShareAction. Last year Nest signed letters to food and drink companies requesting that they disclose the proportion of their UK food and drink sales derived from High in fat, Salt or Sugar (HFSS) products and healthier products. In addition, we are asking that they set targets to increase the percentage of sales of those healthier products. Nest, along with other investors, had meetings with the companies we signed letters to last year, including Nestlé, Kraft Heinz, Mondelez, Pepsi Co and Britvic to further understand what their long-term plans are to promote healthier products and increase disclosure. Following our engagements, Nestlé, the largest food and drinks company in the world, announced commitments to benchmark its food and beverages against the **Health Star Rating System**. Although a positive step, this target still fell short of the healthy markets initiative expectations and Nest has co-signed a public statement ahead of Nestlé's AGM calling for Nestlé to rebalance its sales towards healthier products.

Through the **FAIRR Initiative**, we also sent a letter to the UN's Food and Agriculture Organisation (FAO), asking them to create a Global Roadmap for Agriculture, Forestry and Other Land Use sector to a sustainable global food system in 2050 similar to the International Energy Agency's Net Zero roadmap. At COP27, the FAO responded to our request and announced its intention to develop a global roadmap for agriculture, with the aim of launching it by COP28. This roadmap will help investors to align their portfolios and invest in a sustainable food system for 2050.

10 **National Food Strategy**

Chapter 4

How we invest responsibly

In addressing our ESG priorities and delivering on our responsible investment objectives, we take action in five core areas: asset allocation, manager selection and monitoring, risk monitoring, active ownership and advocacy. These activities don't sit in isolation, they complement each other as part of a well-rounded approach.

To achieve our responsible investment objectives, Nest focuses on five interconnected activities. We consider these the main pillars of our responsible investment approach.

1

Asset allocation

We look for opportunities to create or access investment strategies where we can address ESG risks and opportunities across the asset allocation.

2

Manager selection and monitoring

We select and build relationships with fund managers who incorporate ESG factors across their investment approach and whose principles are aligned with ours.

3

Risk monitoring

We monitor, prioritise, and manage ESG risks alongside other financial risks and opportunities across our portfolios. We do this with the help of our responsible investment partners and ESG data.

4

Active ownership

We address certain ESG risks and opportunities in our portfolio by voting and engaging on issues with companies and standard setters.

5

Advocacy

We engage with policymakers and standard setters to help develop regulation to mitigate systemic ESG risks and enable a transparent and sustainable market system.

1 2 3 4 5

Asset allocation

We believe that investments that operate in well-run and transparent markets are more likely to be held to account by investors and regulators, and therefore have a better chance of sustaining good long-term performance. That's one of the reasons we work to help improve standards for investment and stewardship across all the asset classes in which we invest, in line with our responsible investment objectives.

We expect our fund managers to be active in engaging with standard setters and industry associations to help improve standards for investment in the asset classes in which they invest.

Identifying and addressing risks across our asset allocation

Our investment team, led by Nest's Chief Investment Officer, meets every quarter to review how our portfolios in different asset classes are performing, how the markets are performing, and what investment risks and opportunities exist or could emerge, including those we monitor through our asset class dashboard. As part of this, we monitor the net zero alignment of each asset class we invest in, as well as how each asset class might be impacted by ESG factors and what we might do to mitigate them.

If we've identified an asset class with heightened ESG risk, we discuss the best way to approach the issue. This may include asking the external investment firm that manages our members' money in the particular asset category to conduct further research that may help us assess whether to:

- reduce or increase investments in specific assets classes
- place investment managers on a watchlist which could ultimately lead to terminating the mandate if concerns about an asset class cannot be addressed.

i

An example where we have asked one of our investment managers to provide us with further research is in the commodities asset class. Metals such as copper, lithium and cobalt are going to be crucial as the world transitions to a net zero economy and companies require these metals to develop renewable energy sources and low carbon technology. The world also needs to be less dependent on oil and agriculture to become more sustainable and meet the goals of the Paris agreement. We therefore want to ensure that the commodities asset class, which includes investments in metals, energy and agriculture, is aligned with a sustainable future. We have asked our manager to do a piece of research on what a future proof commodity allocation should look like as the global economy transitions. We'd like to understand their view on which commodities will be the 'winners', and which will do less well. We also want to understand whether the strategy we're invested in can take advantage of new investment opportunities that will create value for members in the long-term, and move away from investments that don't.

1 2 3 4 5

Manager selection and monitoring

An important requirement in our fund manager selection process is the demand for high quality ESG integration and stewardship approaches. We expect our appointed managers to exercise responsible investment in line with their own considered and documented policies, and to engage with companies to drive behavioural change and reduce long-term investment risk for clients.

We want to understand how managers integrate ESG considerations into their investment analysis and decision-making. This can also give deeper insight into the quality of the firm's operations, culture and risk profile. If we see the potential for development in certain areas, we'll work as partners to help our managers improve their operations. That's because we're committed to identifying opportunities for growth and setting a higher benchmark in the industry.

The investment team holds a quarterly fund manager monitoring meeting, chaired by the CIO, to discuss managers' performance, update each other on key meetings and review any potential breaches to the mandates, including to ESG criteria. Where we have concerns, managers are placed on a watchlist and prioritised for engagement. The watchlist is reviewed every quarter and if concerns persist, we may ultimately decide to terminate a mandate.

In the past year, we placed a manager on the watchlist because we were not receiving updates on key ESG metrics, such as carbon emissions data. This raised concerns about their ability to deliver on the ESG commitments it had made to us. We escalated the issue with the manager and were offered a meeting with their Head of ESG for the relevant asset class, who presented their strategy for reaching net zero. They also provided more detail on the work undertaken to measure and reduce emissions from the fund's holdings. Following our engagement, we determined that this was primarily a failure in communication rather than pointing to a more serious concern about their approach to ESG integration. We agreed a number of key reporting items to be delivered by the manager and have since removed them from the watchlist.

1 2 3 4 5

Risk monitoring

As a diversified global investor we are exposed to numerous interconnected and often complex ESG risks. We need to have the right systems and information in place to help us identify, understand and manage financially material risks for members. We also recognize that we can't act on all risks simultaneously so we have to prioritise what we do.

Prioritising ESG risks

Our starting point is to identify ESG topics that are financially material and relevant to our members. We rely on various sources of information to feed into our decision-making, including:

- third-party research, including qualitative, quantitative and news flow
- discussions with fund managers on current and emerging risks
- updates from investor groups such as the IIGCC and Climate Action 100+
- information from industry bodies, standard-setters, and Non-governmental organisations (NGO)
- Nest member surveys and engagement initiatives

Our three pilar framework

Financial considerations

- Is there academic evidence linked to risk adjusted returns?
- Is there likely to be a regulation?
- Is there a real-world impact?
- What is the systemic risk?

Member interest

- Is there a member concern?
- Is there a reputational risk on negative impact and doing harm?
- Is there a member impact?

Is it actionable?

- Are there codes and initiatives to support us?
- Can we do any stewardship?
- Is there public advocacy we can do?
- Can we do capital allocation?
- Can our managers assess the risk?

Any new issues are then assessed using our prioritisation framework, which provides a structured approach to our decision making. In 2022 we reviewed and refreshed our prioritisation framework to reflect a broader range of inputs. To help us take a well-rounded view of whether we should pursue an issue and prioritise it we consider the three pillar framework presented below.

Once we've established that an issue meets much of the 'green' criteria set out by the framework which has to be backed up by research and evidence, we develop the research to better understand the substance of the issue, the key risks and opportunities and which underlying companies in our portfolios are affected and what tools we might use to address it. A recent example of this was the work we have done on deforestation and diversity in companies globally which are now key aspects of our priorities.

1 2 3 4 5

Our investment risk committee

We have an investment risk committee that meets quarterly to oversee investment risk management activities across the investment process. The committee makes decisions on risk mitigation measures or resolutions, proposals for changes to existing risk limits/targets or the risk management process.

The committee aims to support a holistic investment risk management approach. It therefore monitors investment risk management activities across the different teams within our investment risk governance structure and ensures adequate checks and balances are embedded consistently within those activities. Its remit includes reviewing key ESG issues including climate-related risks for Nest portfolios and developments in the responsible investment space which could have negative impacts on Nest portfolios. It also ensures ESG, and climate-related risk is properly integrated and considered across the different sub-teams' processes within the investment directorate. This includes asset allocation, market risk and manager selection in both private and public markets.

The investment risk committee discusses risks that have been identified by the responsible investment team or any other team, focusing on:

- how it might impact on our portfolio
- how the committee may be able to resolve it

Nest's ESG risk dashboard

Our ESG risk dashboard helps us collate information and identify risks that companies in our portfolio are exposed to through their business activities.

The dashboard helps flag whether companies act in line with our policies and standards. For example, a company could be at risk of breaching human rights laws because they don't regularly monitor the labour practices of businesses in their supply chain, or it could be at risk of breaching our policies against investing in companies that manufacture controversial weapons through the acquisition of a subsidiary.

The dashboard gathers information from various sources, including:

- financial data through **Bloomberg**
- screening for breaches of the UN Global Compact principles and controversial activities and products and significant negative media coverage through **Clarity AI**
- carbon emissions and environmental footprint from our fund managers
- workforce-related issues through ShareAction's **WDI**
- Nest's proxy voting history through **Minerva Analytics**

Any risks arising will be reviewed and risks deemed to be most significant will be flagged at the investment risk committee.

Monitoring service providers

We frequently discuss voting-related issues with Minerva Analytics, our proxy voting agent – especially during voting season when there's a concentration of activity. We also review global developments in governance and sustainability standards at the beginning of each year so we can update our policies where appropriate.

We meet with all our other providers on at least a semi-annual basis to ensure service is delivered to our expectations and to provide feedback and discuss any new developments. Our regular communication also allows us to actively investigate developments in our providers' service that could help meet our changing needs.

All contracts are monitored by Nest's internal procurement function, which conducts a semi-annual evaluation. In the past year, all of our contracts were fulfilled to our expectations, but we continue to engage with our providers on how their service provision can further improve.

Case study: Procuring a new ESG data service provider – Clarity AI

In 2022, the contracts with our ESG data providers, Sustainalytics and Reprisk, came to an end. This presented an opportunity to explore new products and service providers that have developed within the ESG data space since 2019.

The selection process

ESG data products are developing fast in response to increased demand from investors, increasing disclosure from companies and technological innovation. As a result, data sets and products have expanded in terms of coverage, granularity, and capabilities. The responsible investment team started market engagement which helped us explore newly available ESG data products and understand how they would meet our requirements relating to our new ESG priorities, increased reporting and risk monitoring activities.

The market engagement helped us refine our requirements and we then issued a request for proposal (RFP). We received 12 proposals which were assessed by an evaluation panel comprising members of the responsible investment team and the risk management teams.

We score each proposal against a predefined criteria set out in the RFP including aspects on quality of data, coverage and flexibility as well as cost. Four ESG data providers were selected to progress to a second stage, and we invited them to present their data platform capabilities in person and were again scored on a number of predefined criteria. These scores were combined and we then awarded the contract to the highest scoring provider.

The outcome

The responsible investment team awarded the contract to Clarity AI. The platform met our requirements on screening for controversial activities and products. The platform also has strong coverage on a range of ESG issues, data scores, carbon emissions data, climate scenario temperature alignment, and environmental and impact data. It also helps us to identify significant negative media coverage for the companies we invest in.

1 2 3 4 5

Active ownership

As an asset owner invested in thousands of companies across many assets classes, sectors, and geographies, we prioritise what to focus on so that our resources are put to the best possible use.

Underpinning our approach is the consideration of financial materiality, alignment with our members' interests, our responsible investment objectives, and how much impact we can have when deciding what issues to engage on. We choose asset managers carefully so that we can feel confident that their approach to active ownership is aligned with our long-term way of thinking and engage regularly with them. We're also a strong advocate for improving standards at the macro level. It's a core pillar of our strategy, along with working collaboratively with other investors and standard setters to make a bigger impact on shared values.

We take a holistic approach to active ownership. That means we vote in our members' long-term interests, have direct dialogue with companies and contribute to the development of public policy across a range of ESG issues. Each of these activities complement each other, allowing us to align voting and engagement at each stage of the stewardship process.

Nest's voting and engagement policy

Annual general meetings (AGMs) present an opportunity for shareholders to vote on the re-election of directors and resolutions relating to company issues, such as the annual report and accounts, capital structure, structure of the board, audit, and executive pay. Shareholders are often restricted on which resolutions they can vote on due to local market law, making the process somewhat formulaic.

Voting is a key right of shareholders, who can also submit shareholder resolutions. They often raise issues not typically covered by traditional resolutions, such as special reports and reporting of sustainability issues, and are typically opposed by company management. Shareholder resolutions and the right to vote on them are a valuable tool at an investor's disposal.

Whilst our fund managers generally vote on our behalf, we have our own **voting and engagement policy** that sets out our own viewpoints and expectations of companies. We use Minerva analytics to help us monitor the voting intentions of our fund managers and to vote in line with our views set out in our voting and engagement policy. We take investment considerations, research and analysis, and our engagement history into account to inform our voting decisions. We have no hesitation in overriding our fund managers' votes if we disagree with their views.

We regularly review our voting and engagement policy to ensure it reflects our responsible investment objectives, research and regulatory developments. This year, we strengthened our policy in a number of areas such as:

- Say-on-climate votes (advisory votes on companies' climate transition plans): We have set stricter minimum requirements for say-on-climate votes in our UK voting policy. Companies will need to commit to net zero, disclose scope 1,2, and 3 emissions, as well as short-, medium-, and long-term emission reduction targets and a description of how targets link to business planning and capital allocation decisions
- Natural Capital: We will engage with and then vote against companies in the Forest 350 list with a score below 40. The Global Canopy Forest 350 list is a list of the 350 companies with the greatest exposure to tropical deforestation risk with scores from 0 (worst) to 100 (best)
- Diversity: Updated our UK policy to match the new Financial Conduct Authority's listing rules on board gender diversity to report annually on a 'comply or explain' basis:
  - At least 40 % of the board are women.
  - At least one of the senior board positions (Chair, CEO, Senior Independent Director, or CFO) is a woman.

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Vote overrides

We have the ability to override our fund managers' votes for a number of companies in our developed and emerging markets equity funds when their voting decisions do not align with our views, meaning we can control how votes are cast across the default fund.

Due to the high number of companies held in our equity funds and the short time period during which multiple AGM's occur that we're eligible to vote at, it is not possible to analyse the variance between our fund managers' voting intentions and our own policy for every vote. For this reason, we focus and prioritise efforts on a smaller list of companies – the voting subset.

This year a number of companies were removed from our voting subset, most notably Twitter, which is now private, and Russian companies, that we no longer hold. The total number of companies on the list now stands at 271. The majority of companies in the voting subset are in our developed market fund, as the majority of our significant holdings are in developed markets.

The voting subset comprises a list of our largest holdings, companies that we're currently engaging with, and companies identified as having had ESG issues in the past. Focussing on a pre-defined set of companies helps us to scrutinise how our fund managers are exercising votes on the most significant issues in our largest holdings.

During the 2022 voting season, we overrode our fund managers' voting intentions 119 times to better align with our voting policy and beliefs, highlighting our commitment as active owners. Typically, this involved voting against a resolution that the fund manager would have voted for, or supporting a shareholder resolution that the fund manager would have voted against.

Just under a third - 30% - of these overrides were related to the re-election of directors to the board due to independence issues. A company's senior executives are accountable to the board of directors, who in turn are accountable to shareholders. Board directors must be independent to hold senior executives to account, effectively monitor and challenge management decisions, and consider the best interests of shareholders first, especially when those directors are part of the audit and remuneration committees. We hold strict views on the criteria for an independent director and override votes to re-elect directors who we do not consider to be independent.

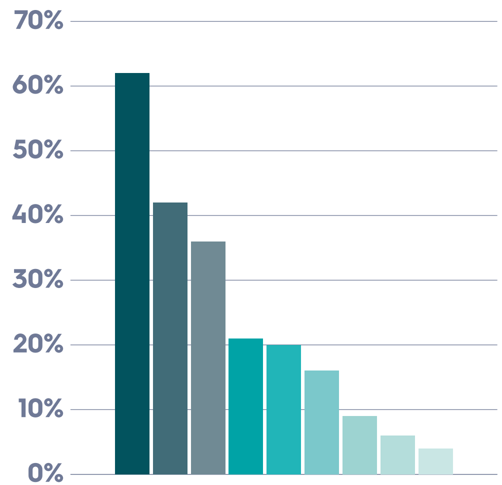
Another 30% of overrides were related to executive remuneration, where we believed remuneration was not structured in a way that most effectively aligned management and shareholder interests. Further examples of vote overrides are detailed in the section below.

Voting activities

Over the last year, our fund managers cast 49,711 votes on our behalf, with 16.1% being against management. From our voting subset list we cast 3,315 votes and voted against management 732 times (22.1%), with sustainability resolutions having the highest percentage of votes against management. 'Sustainability' resolutions are often shareholder resolutions which management typically recommends to vote 'against'. This is the reason for the high rate of votes against management because we tend to vote 'for', as can be seen below.

Full details are available **online**.

Percentage vote against management



- 62% Sustainability
- 42% Political activity
- 36% Remuneration
- 21% Shareholder rights
- 20% Board
- 16% Capital
- 9% Audit and reporting
- 6% Charitable activity
- 4% Corporate actions

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Some notable voting overrides included:

UK Oil and Gas

- We voted against the say-on-climate votes at the 2022 AGMs of oil and gas companies BP, Shell, and Total Energies. Votes against received 11.1%, 19.5% (up from 10.5% the previous year), and 10.5% (up from 7.3% the previous year) of the total vote for BP, Shell, and Total Energies respectively, reflecting the growing concern and action taken by investors to encourage these companies to take greater action to mitigate climate change. You can read more about how we escalated this in **chapter 5**.

Banking

- We focused on taking action to mitigate climate change by the banking sector. This year we overrode our fund managers and voted against Barclays' climate strategy, targets, and progress report for 2022. Barclays is the UK's largest financer of fossil fuels. To limit warming to below 1.5 degrees, scientists state that developed markets must phase out coal by 2030, while Barclays planned to phase out financing to US clients engaged in thermal coal mining and coal-fired power generation by 2035 (suggesting coal power will be in use well beyond 2035). The resolution received 19% of votes against, signalling to management significant concern from shareholders. Barclays has since changed its coal policy to phase out coal in all OECD countries by 2030. At the 2023 AGM, we supported a question by ShareAction asking Barclays to cease financing for new oil and gas fields and associated infrastructure[11].
- We also overrode our fund manager to vote 'For' a shareholder resolution requesting Morgan Stanley adopt a policy to cease financing new fossil fuel development, and a similar shareholder resolution at Goldman Sachs to establish a policy to ensure that the company's lending and underwriting do not contribute to new fossil fuel development (received 8.4% and 11.2% of vote). According to the **International Energy Agency (IEA),** to limit warming to 1.5 degrees we cannot develop new oil and gas fields or coal projects beyond what is already in development (as of 2021). New fossil fuel projects will either directly contribute to warming the planet above 1.5 degrees or become stranded assets. In 2023 similar shareholder resolutions were put to a vote at Morgan Stanley, Goldman Sachs, Bank of America, and Wells Fargo. We voted 'For' the shareholder resolutions at all of the banks.

Environmental

- Looking at the environment more broadly, we overrode our fund manager to vote in favour of a shareholder resolution at Amazon requesting the Board report to shareholders on packaging materials, following a report by **Oceana** estimating Amazon generated 207,500 tonnes of plastic packaging waste in 2019 and that up to 9,800 tonnes entered the world's marine ecosystems (that has jumped to 316,500 tonnes and 11,600 tonnes in marine ecosystems in 2021). The resolution received 48.6% of the votes in favour highlighting how close shareholder resolutions can be and the importance of active stewardship and voting in line with our policy and values. The proposal was up for a vote again at the 2023 AGM and Nest voted 'for'.

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Voting-led engagement

If we override our fund managers to vote against management recommendations, we engage with the company directly. In the last year, we wrote letters to several companies to explain our voting decisions and areas of concern, seeking resolution or ongoing dialogue. Many of these engagements are part our broader active ownership approach for addressing and making progress on our ESG priorities within our investment approach. We had direct engagement with the following companies:

Company	Issue raised
Amazon	Shareholder resolutions on: human rights, worker conditions, tax, lobbying, sustainability
Barclays	Climate strategy, targets, and progress
Blackrock	Board composition, audit, and remuneration
Equinor	Say-on-climate, shareholder climate resolutions
Goldman Sachs	Board independence, shareholder rights, shareholder resolution against lending and/or underwriting for new fossil fuel projects
McDonald's	Shareholder resolutions requesting reduction in use of plastic, and reduction in use of antibiotics
Mondelez	Board composition, remuneration
Morgan Stanley	Board composition, remuneration, auditor independence, shareholder resolution against lending/underwriting for new fossil fuel projects
Northern Trust	Board composition, remuneration

Engagement with fund managers

When deciding to override votes we often engage with our fund managers on the voting decisions they make. We want to understand their rationale for voting differently and what research and engagement they've undertaken to inform their voting decisions. We've been having discussions with our global equity manager on the importance of making voting decisions in our members long-term interests and how they could improve. This is being increasingly recognised as a wider industry issue and as result, a group of large UK pension funds, including Nest, Brunel Pension Partnership and Scottish Widows, have written to their key funds managers inviting them to a meeting to explain their voting approach relating to votes on climate change at oil and gas companies. Collectively we want to encourage the fund management industry to push the oil and gas industry to urgently align their businesses with the goals of the Paris Agreement.

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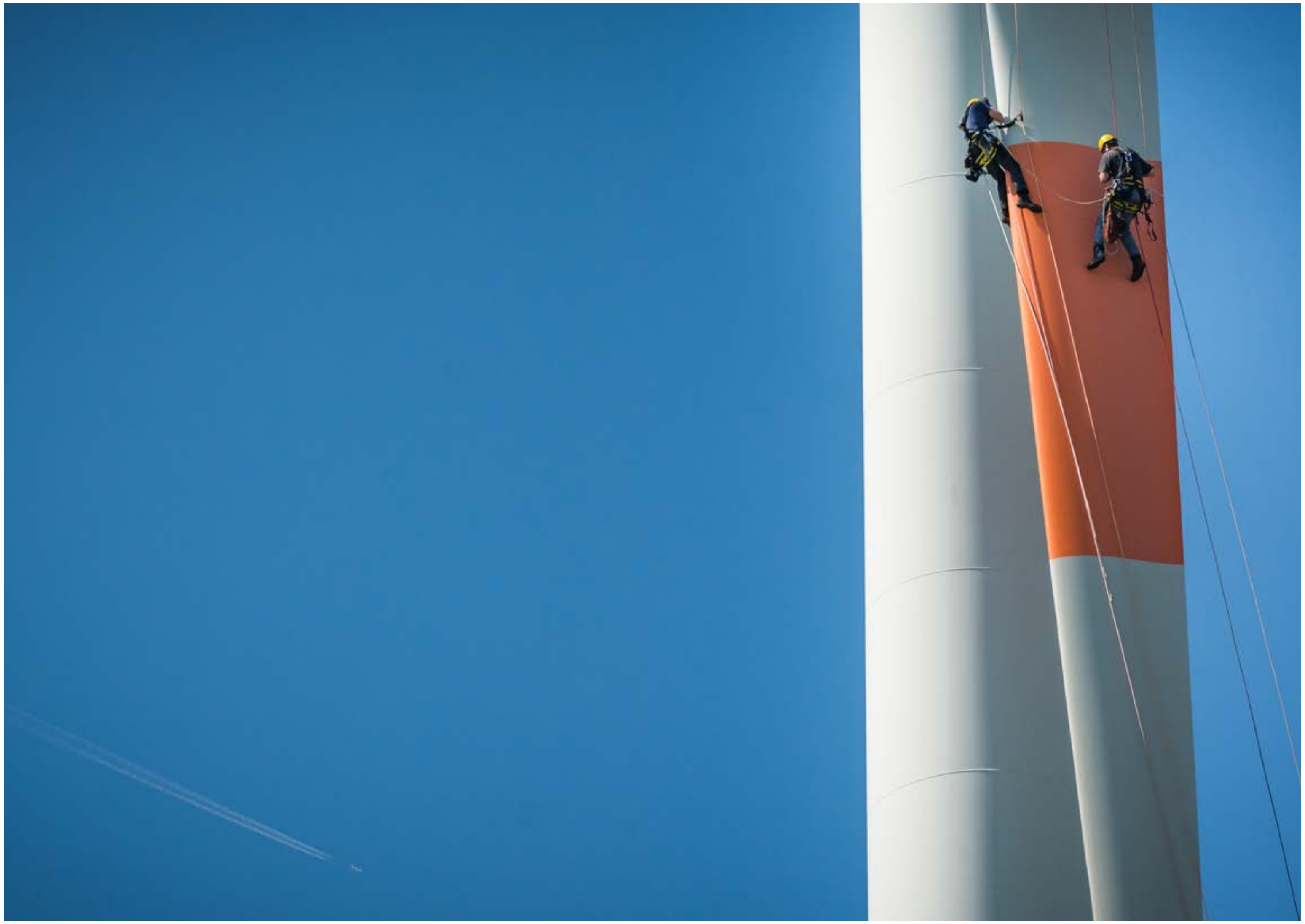
Stewardship across asset classes

Our diversified investment approach means that we invest not only in publicly traded equity and bond funds, but also in real assets such as infrastructure and property. We believe that the combination of these assets contributes to strong risk-adjusted returns and diversification for our members.

In listed equities, we exercise active ownership through proxy voting, co-filing shareholder resolutions, direct or indirect company and industry engagement. In listed corporate debt and private credit, stewardship is more focused on assessing the approaches that the fund managers take by conducting thorough due diligence, engagement with and ongoing monitoring of issuers.



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Below are examples of how our fund managers are managing ESG risks and opportunities across different asset classes to enhance long term value for members.

Asset class: Infrastructure Equity

Fund manager: CBRE Investment Management
In 2022, CBRE Private Infrastructure engaged a third-party sustainability consultant to perform a climate scenario analysis, aimed at mapping the climate physical and transition risks and opportunities, and potential operational and financial impacts of the identified risks and opportunities over the short, medium and long term. The analysis used two scenarios: a high emissions scenario (IPCC's RCP 8.5) and a net zero by 2050 scenario (NGFS Net Zero by 2050).

Results from the analysis were presented in the form of a Climate Report, an activity CBRE IM performs annually. These results were presented to and discussed with each asset management team, fostering integration of climate risks and opportunities in the asset management activities within the portfolio, as well as increasing awareness by the investment team. Furthermore, they were shared with management teams at portfolio companies for review and subsequent discussion, during which we encouraged integration in the existing enterprise risk management systems and practices, as appropriate.

To promote the climate risk upskilling of our portfolio companies, in early 2023 CBRE engaged the same third-party sustainability consultant to provide a 4-hour workshop to sustainability leads and members of the senior management teams of portfolio companies. The workshop focused on the scientific background for the analysis conducted at portfolio level, detailed review of the tools used and output produced, and recommendation on further strategy integration and mitigation initiatives.

To summarise, as a result of this exercise the portfolio is better insulated from climate transition and physical risks. All portfolio companies now report Scope 1 and 2 emissions and have integrated climate risks and opportunities in their risk registers and/or business strategies. CBRE continue to encourage reporting of Scope 3 emissions for those portfolio companies that currently do not report on Scope 3 emissions. They also monitor climate risks of existing investments, considering climate risk assessments and emissions reporting as a priority in CBRE's 100 Day Plan for new investments.

Asset class: Direct Property

Fund manager: Legal & General Investment Managers (LGIM)
When HSBC decided to close their branch at 210 High Holborn, the fund took the opportunity to refurbish the old bank into a high quality office space.

LGIM's asset sustainability plan identified initiatives to reduce energy consumption as well as enhance social value opportunities within the building. LGIM also commissioned a net-zero carbon roadmap to identify the path to net zero, including costings and energy saving potential of the initiatives.

LGIM installed Demand Logic, a system to monitor the performance and efficiency of the building, along with automatic meter readers on both the landlord and occupier meters, enabling LGIM to monitor energy consumption and provide full building emissions data. Additionally, this data is shared with occupiers via LGIM's proprietary occupier engagement platform, providing an opportunity to work collaboratively with occupiers to reduce energy consumption.

The plans also involved a reduction of net lettable area in order to create exceptional end-of-trip facilities (bike store, showers, lockers) to encourage walking/running/cycling to and from work.

In the office suites, LGIM installed Indoor Environment Quality (IEQ) sensors to monitor the quality of the environment while receiving notifications of hot spots, allowing building management to take immediate remedial action. The Fund also had the buildings air quality accredited and it achieved a Gold Air Rated accreditation – the 2nd year in a row that it has achieved this outcome.

As LGIM move ahead with further refurbishment in this building, the air conditioning system is being moved onto Hybrid Variable Refrigerant Flow (HVRF) systems, which do not rely on gas. Once all floors have been moved onto HVRF, the gas boilers will be removed altogether and be swapped for air source heat pumps.

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Advocacy

One of our responsible investment objectives is to help ensure markets function better so that our investments can operate in a properly regulated, transparent and sustainable market system. To do this, we identify key market-wide risks from our own research, external information sources such as industry bodies, investor forums, news flow, fund managers, and external service providers. We discuss the materiality of each potential risk and agree an action plan for addressing it, including:

- responding to consultations
- direct dialogue
- collaborative initiatives
- advocating for better standards through thought leadership

Responding to consultations

This table illustrates a few consultations we have completed this period:

Systemic risk area	Addressing these risks through stakeholder and policy engagement
Green Finance Strategy	We responded to the call for evidence issued by government on the update to its Green Finance Strategy in June 2022. We highlighted that institutional investors need clear policy frameworks in order to channel investment into new green technologies, including a taxonomy of what is considered 'green' and the role of robust data. We also shared our concern that expansion of domestic oil and gas production is not compatible with the UK's legislated target of net-zero emissions by 2050. The updated Green Finance Strategy was published in March 2023 and we were pleased to see that some of our requests had been addressed, such as clarity on the Green Taxonomy.
Private sector transition plans	We responded to the Transition Plan Taskforce call for evidence on private sector transition plans in July 2022, and the subsequent consultation on its transition plan disclosure framework and implementing guidance in January 2023. Through participation in the steering and delivery groups of the Taskforce, we also contributed to the development of the framework. Our consultation response therefore focused on minor changes to the framework, such as greater integration of Just Transition considerations.
Sustainability Disclosure Require-ments	We responded to the Financial Conduct Authority (FCA) consultation on Sustainability Disclosure Requirements and investment labels in January 2023. We were broadly supportive of the direction of travel but noted that more work needs to be done to define the three categories of sustainable investment products proposed by the FCA. We also asked the FCA to consider the applicability of the requirements to overseas and pension products sooner rather than later.
Sustainability standards	We responded to the consultation by the International Sustainability Standards Board (ISSB) on disclosure requirements for sustainability-related financial information in July 2022. We urged the ISSB to include reference to the concept of double materiality by asking companies to report both on sustainability matters that are financially material in influencing business value and how its business activities are material to the market, the environment, and people.

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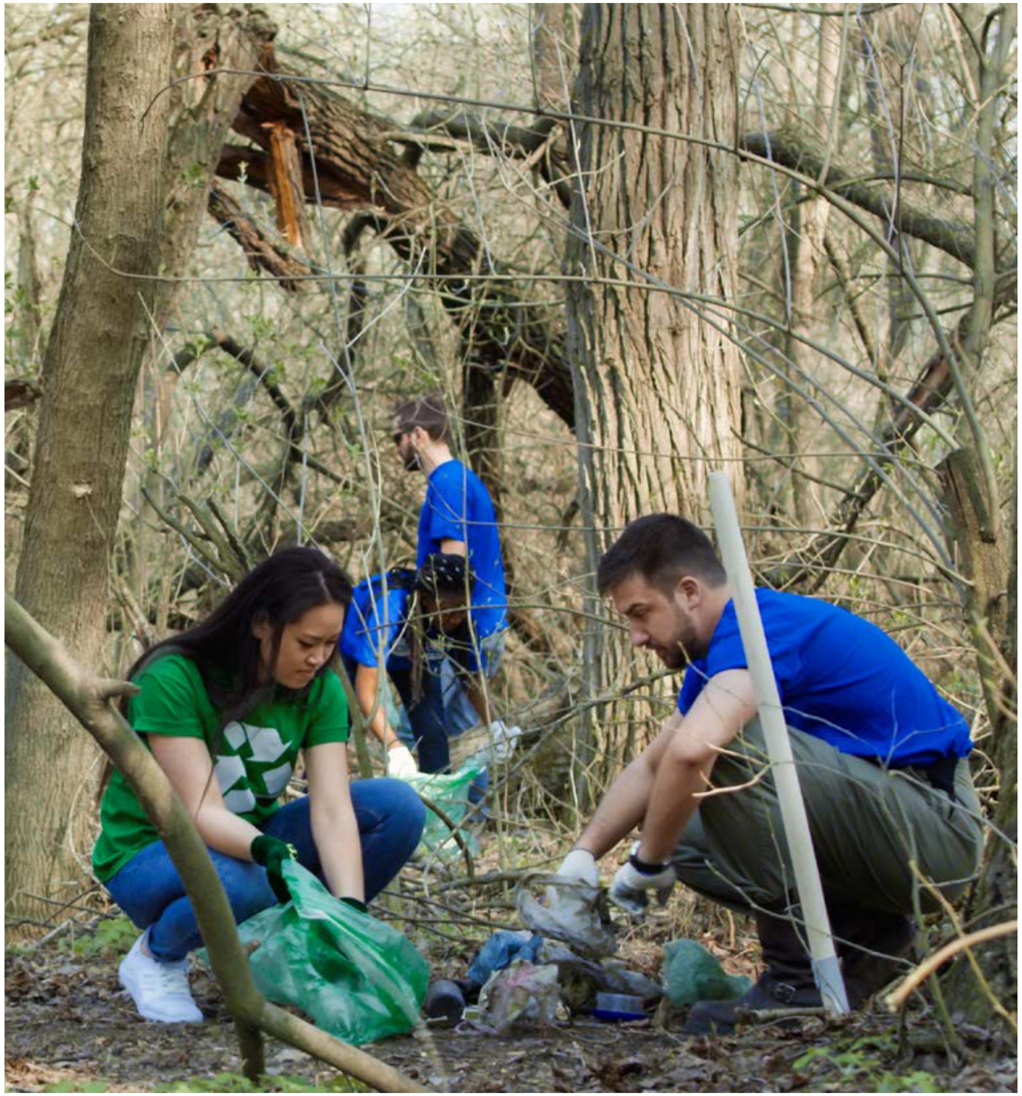
Working with industry initiatives

Our effectiveness in identifying and responding to market-wide and systemic risks is reflected in our track record as early adopters of and advocates for key issues. We support and follow various codes of best practice and actively participate in stewardship and reporting initiatives which also help to inform our own work and create impact across the market. Acting as part of a coalition of like-minded investors gives us collective clout and a clearer voice to the millions of members we act on behalf of.

Nest is currently a member of, signatory to, or supports, these global and domestic initiatives:

- 30% Club UK Investor Group
- Asset Owner Diversity Charter
- ClimateAction 100+
- Global Canopy's Deforestation-free pensions guidance working group
- Farm Animal Investment Risk and Return (FAIRR)
- FCA Vote Reporting Group
- Financing a Just Transition Alliance
- FRC UK Stewardship Code
- Global principles for sustainable securities lending
- Institutional Investor Group on Climate Change
- Investor Alliance for Human Rights
- Just Transition Finance Challenge
- Occupational Pensions Stewardship Council
- Paris Aligned Investment Initiative
- Pensions and Lifetime Savings Association Stewardship Advisory Group
- ShareAction's Good Work Coalition
- ShareAction's Healthy Markets Initiative
- Taskforce on Climate-related Financial Disclosures
- Transition Pathway Initiative
- UK Sustainable Investment and Finance Association including representation on the Policy Committee and Green Taxonomy Advisory Group
- UK Transition Plan Taskforce
- Workforce Disclosure Initiative



Here are some examples of how we engaged in industry initiatives in the past year:

Emerging Markets Just Transition Investment Initiative

We worked closely with 12 other pension schemes to develop principles for a just transition in emerging markets. The guiding principles were published in November 2022 to coincide with COP27.
They covered:

- Advocating for a fair transition in Emerging Markets. This includes supporting real world emissions reductions, recognising the vulnerability of countries to significant physical climate change impacts, supporting country-level agendas on socio-economic developing and equity and engaging with emerging markets domestic policy initiatives and multi-lateral financial institutions.
- Aligning our policies and approaches to understand and enable a Just Transition in Emerging Markets by reviewing existing climate change policies, commitments and initiatives to enable a fairer and more nuanced approach for emerging markets, evolving investor frameworks and developing appropriate national and / or regionalised transition pathways for emerging markets.
- Practically working to de-risk investments in support of intentional allocations within and across asset classes. There is a need for a flexible approach across both existing and new asset classes and scalable investment vehicles, including structures that build confidence in the availability of public funding.
- The principles were open for consultation until the end of March 2023. We will continue to work with the group in 2023.

Transition Plan Taskforce (TPT):

The TPT has a two-year mandate from government to bring together the best of British industry and academia with regulators and the third sector, to develop good practice for transition plans and associated cutting edge metrics, co-ordinating with international efforts. The CEO of Nest Invest is a member of the Taskforce Steering Group, co-chaired by Aviva Group Chief Executive Amanda Blanc and Treasury Lords Minister Baroness Penn. Nest is also represented on the TPT Delivery Group. During 2022, Nest contributed to the development of the disclosure framework published at COP27 focusing on the workstream on developing guidance for users and preparers. Nest will continue to support the work of the TPT in 2023.

Just Transition Finance Challenge

In 2022 we became a founding signatory of the Just Transition Finance Challenge. The initiative was launched by the Impact Investing Institute, with the support of the City of London Corporation, bringing together global financial institutions with over £4 trillion of assets under management to mobilise more public and private capital into investments that support a Just Transition to Net Zero in the UK and other developed and emerging markets. Over the past year, the initiative has been working to develop a set of criteria for financing vehicles that deliver the three critical elements of a Just Transition: advance climate and environmental action, improve socioeconomic distribution and equity, and increase community voice.

FCA Vote reporting Group

We were asked to join a new industry working group convened by the FCA to develop a comprehensive framework and template for vote reporting. The overarching aim is to build consensus on a standardised framework for UK asset managers, as currently, levels and quality of reporting vary from manager to manager. With more consistent and comparable voting disclosure, asset owners like Nest, will be better enabled to oversee, scrutinise and compare how each of its managers voted on important resolutions and more easily report to our own stakeholders. Nest co-chaired the Framework and Aggregation sub-group which was responsible for developing recommendations for the vote related information that asset managers should disclose in relation to every vote, as well as wider aspects of the framework. Proposals for the reporting template will be open for consultation in 2023.

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Engagement with the fund management industry

We have engaged with a range of industry players and standard setters on issues that matter to our investment approach and to our members. For example, we worked with a group of other European asset owners convened by the Institutional Investor Group on Climate Change (IIGCC) to develop a questionnaire for use by investors to assess the climate stewardship of their external managers and integrate this into the selection, appointment and monitoring process. It seeks to align with existing guidance and frameworks to promote consistency in due diligence and reporting and aims to support asset owners in meeting their obligations as part of the Paris Aligned Asset Owner Initiative, as well as the Stewardship Code. We subsequently supported the IIGCC in engaging with asset managers and investment consultants on the questionnaire ahead of a formal consultation which closed in February 2023.

Case study: Schroders Capital's engagement in ESG working group

Schroders Capital is a member of Invest Europe, the world's largest association of private capital providers including Europe's private equity, venture capital and infrastructure investment firms, as well as their investors, including some of Europe's largest pension funds and insurers.

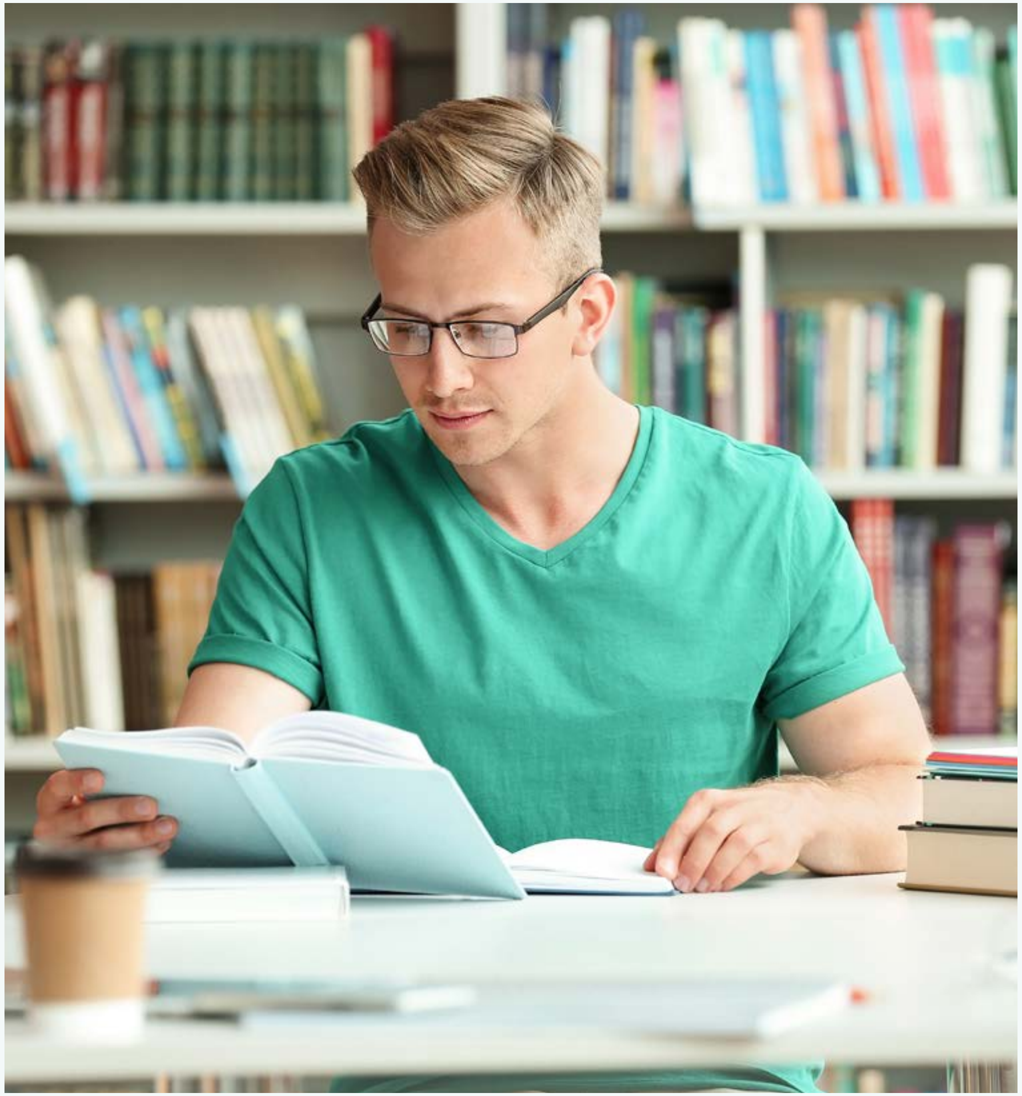
In early 2022, the association started a working group to develop “ESG Reporting Guidelines”. Schroders Capital has played an active role in this working group, providing the basis for its member survey to scope the report and providing constructive feedback throughout every stage of development for the reporting template and guidelines.

Based on this engagement, Invest Europe invited Schroders Capital to become a member of its newly created ESG Committee in 2023. The Invest Europe ESG Committee (ESGC) aims to promote responsible investment practices and the consideration of ESG issues throughout Invest Europe's membership and the broader private equity community by supporting the association in offering practical and tailored guidance to its members on integrating ESG considerations into their business decisions and managing increasing EU regulatory requirements in the field of EU Sustainable Finance.

In parallel, the Committee plays an important role in giving expert advice and shaping the association's position on sustainability-related policy and legislative measures, such as the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy Regulation.

In addition, the ESGC makes recommendations to the Invest Europe Board of Directors about the strategy, policy and practicalities relating to responsible investment helping raise investment[12] practices and standards of reporting across private markets.

12 **investeurope.eu/industry-standards/responsible-investment/esg-committee/**



Chapter 5

How we make and implement decisions

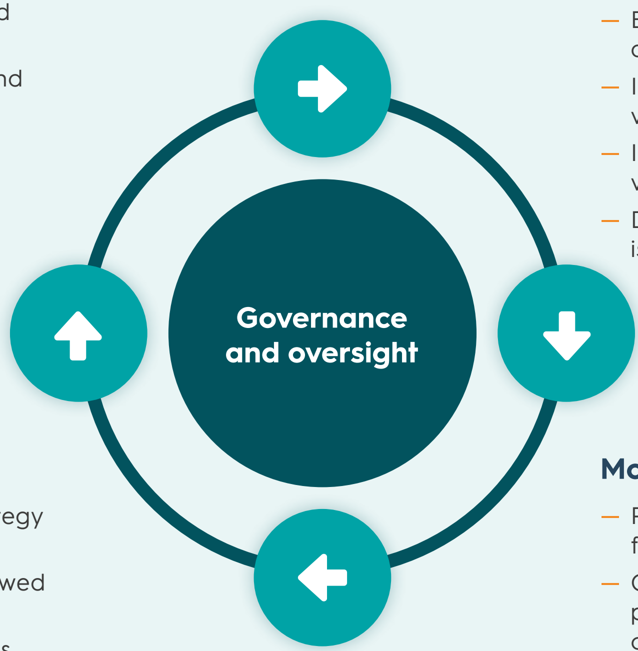
ESG risks and opportunities can cut across our entire investment universe. We can't work effectively if our efforts are spread over every potential issue, so we prioritise our work to have the greatest impact. Our decision-making and prioritisation process follows these key stages, underpinned by rigorous governance and oversight.

Identify and prioritise

- Proprietary investment research carried out
- Issues selected on relevance and interest for members
- Analysis conducted to understand the market-wide and real-world impact of the issue
- Understanding of codes and standards that allow us to meaningfully address issues
- Objectives are defined

Implement

- Develop an evidence-based policy
- Asset allocation decisions are made
- External fund managers are informed
- Issues are incorporated in our voting and engagement standards
- Issues are reflected in our voting subset
- Direct or collaborative engagement is carried out



Review

- Our responsible investment strategy is reviewed annually
- Policies and standards are reviewed periodically
- Third-party ESG data provision is reviewed tri-annually
- Members are surveyed on their interests and priorities
- Our stewardship reporting is reviewed annually
- Gaps in our reporting process are assessed
- Areas of improvement are identified

Monitor

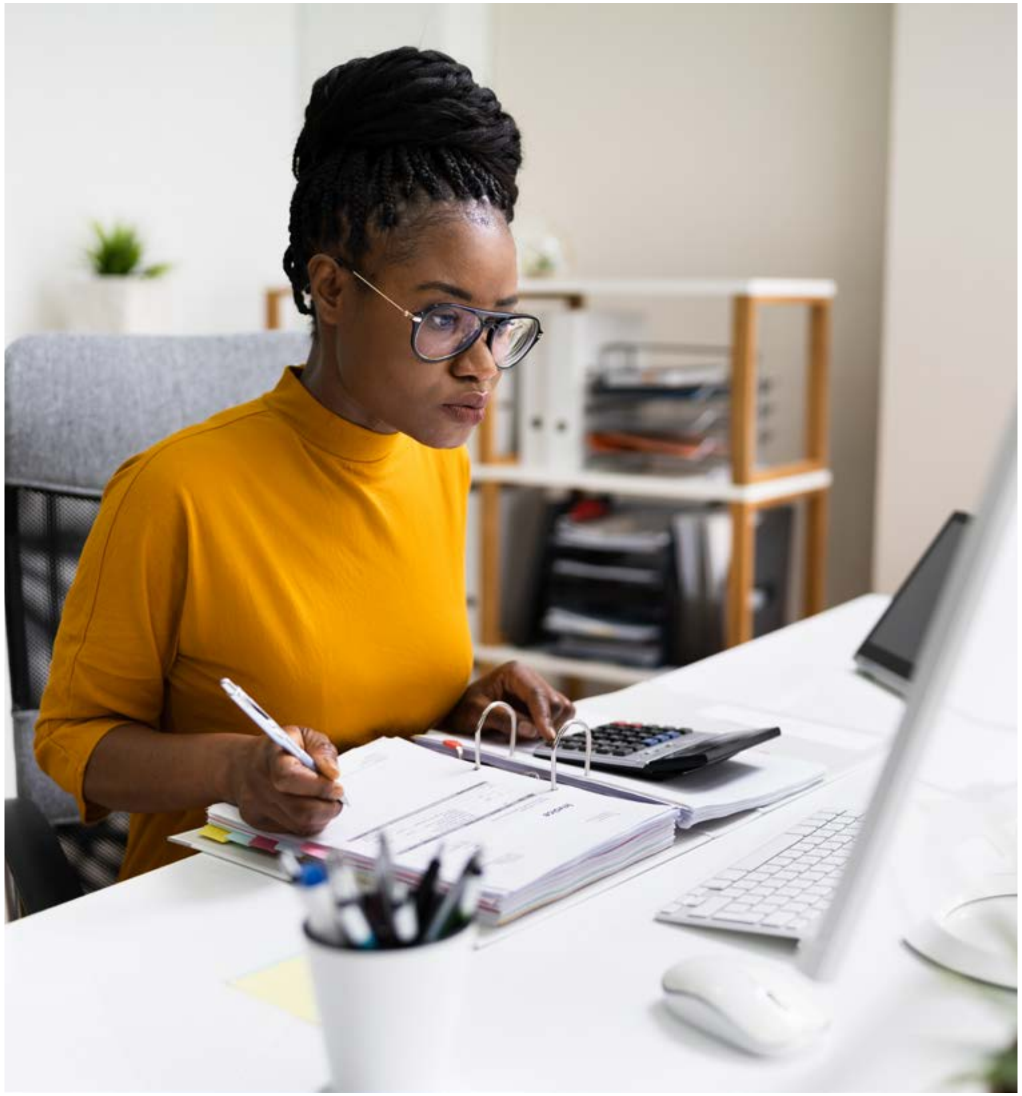
- Regular meetings with external fund managers
- Company engagement and progress against objectives is recorded
- Risk monitored through the ESG risk dashboard
- Escalation options are considered

Review and assurance

Our responsible investment and stewardship programme is subject to a variety of internal and external assurances.

Internally, our formal policies are reviewed either annually or triennially by our investment committee. They provide feedback on our research and position papers on emerging topics and industry developments. Externally, we seek insight and validation from a range of stakeholder such as our peers, fund managers, service providers, industry bodies and advocacy groups such as ShareAction.

We regularly review policies and assess the effectiveness of stewardship reporting and data we receive from fund managers. One example over the past year was when we engaged with our emerging market equities fund manager to assess whether the data we receive on breaches of the UN Global compact (UNGC) screen, offers a fair and balanced representation of the activities undertaken by companies which have been flagged. We assessed the data provided by our fund manager and compared their results with other data providers, to ensure we hadn't missed anything. We then analysed the breaches in more detail so we had a better understanding of the issues and were able to agree and implement the best course of action, such as engagement or exclusion. This process enabled us to establish whether our fund manager has in place an effective oversight mechanism of the UNGC principles which led the manager to develop a more effective reporting tool that better meets our requirements.



Case study: Securities lending policy

Securities lending is a mature, well-regulated practice that can be a source of revenue for institutional investors. Investors temporarily lend their securities to borrowers in return for a fee. As security for the loan the 'lender' receives pre-agreed collateral, typically with an additional margin, in the form of other securities or cash before transferring the title of the securities to the borrower. A legal agreement protects the lender's entitlement to all the economic benefits of the lent securities (such as dividends) and, in the unlikely event of the borrower defaulting, the collateral is used to fund the replacement of the securities borrowed. Our decision to undertake securities lending is based on a number of factors that seek to balance financial, risk and responsible investment considerations.

Our approach

As part of our triennial review of our securities lending policy this year we made the decision to begin securities lending in our segregated mandates. The triennial review is a process we undertake to reassess our policies and positions and to ensure we remain aligned with the best interests of our members.

When we first developed our securities lending policy three years ago, we made the decision not to lend securities in our segregated mandates. This was driven largely by responsible investment risks and transparency concerns for example the ability to vote shares that have been lent out and abusive short selling[13]. We have since continued with our research and market engagement and now believe many of these concerns have reduced due to progressive market developments, or we have determined that they can be managed through lending restrictions and careful management and oversight of the risks by our custodian. As a responsible investor we would expect our custodian and pooled fund managers to have regard for our policies in relation to proxy voting and engagement and have high levels of transparency throughout the securities lending process as is possible. Nest is a member of the **Global Principles for Sustainable Securities Lending (PSSL)** which is an initiative that seeks to align sustainable finance with securities lending. Many of the principles have been a useful guide in helping us set expectations for our custodian on the management of risks and practices associated with securities lending.

13 Short selling is the sale of a security that the seller has borrowed; if a security's price falls then the short seller profits.

A recommendation to commence securities lending within our segregated accounts was brought to the investment committee. We outlined the estimated additional revenue our members could gain from securities lending and the investment committee challenged us to assure them that the risks could be effectively managed, and our policy was robust. They will continue to review and approve the policy every three years.

Read our **securities lending policy**.

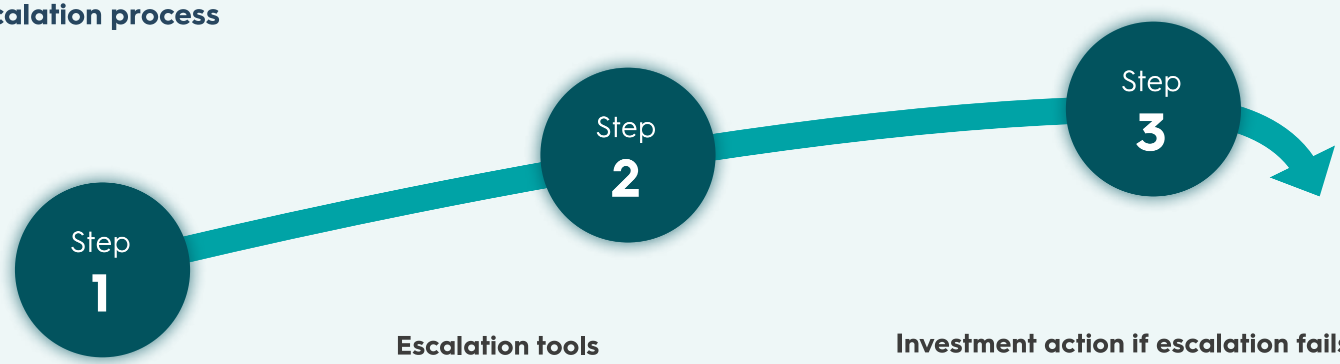
Escalating high risk issues

When it comes to engagement, we strive to be a pragmatic investor. That involves broadly supporting company management to develop and drive forward the business strategy in the interests of its stakeholders. We favour constructive dialogue based on relationship-building and avoid actions which can cause harm or volatility to the company. However, regular engagement doesn't always deliver the outcomes we hope for. If we strongly believe action needs to be taken faster, we'll bring an issue to the spotlight and escalate our engagement.

Before escalating our engagement, we'll think about:

- the materiality of the issue
- the responsiveness of the company to engagement
- any historic patterns of negative behaviour
- the impact and likelihood of success of escalation

Our escalation process



Triggers

- Persistent lack of response to engagement
- Repeated adverse behaviour
- Violation of policies and best practice
- Major incident
- Increasing investment risk

Escalation tools

- Voting against board directors
- Writing an open letter to the Chair
- Initiating or joining a targeted collaborative engagement
- Raising awareness of the issue publicly
- Supporting litigation
- Filing or co-filing shareholder proposals
- Investment action if escalation fails

Investment action if escalation fails

- Divestment
- Exclusion

We've carried out a number of escalated engagements over the last year, including Shell, BP and Nestle. We're currently engaging with fund managers to agree a set of guidelines for escalation. One example is our need to set parameters for filing shareholder proposals.

Our escalation process is well developed in public equities and is applied in all geographies where we have significant exposure. However, we're looking to formalise our thinking across other asset classes, such as private credit and infrastructure.

Case study: Escalating our engagement with the oil and gas sector

This year, we escalated our engagement with the UK's two major oil and gas companies, BP and Shell.

During the 2022 AGM season, we voted against both companies say-on-climate resolutions. While we recognised the progress both companies had made in setting net zero commitments and interim targets, external assessments showed that their short-and medium-term carbon reduction targets were not aligned with the pathway required for the oil and gas industry to reach net zero emissions by 2050. In particular, we are concerned that the companies plans to continue expanding oil and gas production in the short term are not compatible with the remaining carbon budget for limiting warming to 1.5C. We also supported shareholder resolutions filed by the NGO Follow This, asking both companies to set absolute emissions reduction targets for its products, in addition to its operations.

In October 2022 we were contacted by ClientEarth who were planning to file a lawsuit against the Board of Directors of Shell plc for failing to manage the material and foreseeable risks posed to the company by climate change. Litigation is increasingly being used as a tool to advance action on climate change and the number of climate change-related cases globally has more than doubled since 2015[14]. Climate change litigation can have both financial and reputational consequences for companies but as a long-term investor, we want Shell to be profitable in the long-run and we believe that its current strategy puts the company at serious risk of carbon lock-in and stranded assets. This is why we wrote a letter setting out our concerns with Shell's strategy to be used as evidence in the case. While the case was initially dismissed by the English High Court, we hope that this sends a signal to the whole industry that investors want to see action in line with the risk climate change presents and will challenge those who aren't doing enough to transition their business.

In early 2023, both BP and Shell declared record full-year profits driven by high oil and gas prices in 2022. In light of this, BP announced its decision to scale back its targets to reduce oil and gas production by 40% in 2030 to 25%. This resulted in a cut to its emissions reduction target from 35-40% to 20-30% by 2030. We wrote a letter to the Chair of the Board alongside other UK pensions schemes to express our disappointment at this reversal and urged the company to put the revised targets to another vote at the AGM. While BP engaged in dialogue to give more detail on its decisions, this did not alleviate our concerns. BP further confirmed that it would not put the new targets to a shareholder vote as it did not consider them to constitute a change in strategy. We disagreed with this decision and were further concerned that it set a dangerous precedent for companies to renege on their commitments despite approval from shareholders. As a result, ahead of the 2023 AGM we escalated the engagement by publicly declaring our intention to vote against the re-election of the Chair of the Board, and once again supported a shareholder resolution filed by Follow This asking the company to align its existing 2030 reduction target, covering the greenhouse gas (GHG) emissions of the use of its energy products, (Scope 3) with the goals of the Paris Climate Agreement.

While Shell did not change its targets ahead of the AGM and offered an advisory vote on its energy transition report, the company has not yet addressed our asks to set targets for reducing oil and gas production, set absolute reduction target for scope 3 by 2030 and increase capital expenditure in genuine renewables and energy transition technologies. Ahead of Shell's 2023 AGM we therefore publicly pre-declared our decision to vote against their energy transition report and the Chair of the Sustainability Committee, and supported the same resolution on emissions from energy products filed by Follow This as at BP.

We are planning to continue our engagement with both companies.

14 **lse.ac.uk/granthaminstitute/publication/global-trends-in-climate-change-litigation-2022**

Divestment and exclusion

Engagement is usually the most effective tool for changing corporate behaviour. However, companies that aren't responsive to investor engagement or don't move quickly enough to operate sustainably are unlikely to offer a good return for our members in the long-term.

Divestment

Over a period of time, if we think that engagement has been ineffective or reached its limits and the risk of holding the asset outweighs the benefits, we may decide to remove our exposure to a holding or industry. This is known as divestment. This year, we divested from five companies in our emerging market portfolio which had been identified to have legal, financial and reputational risks as a result of severe and direct Uyghur forced labour in their supply chains.

Exclusion

We assess potential exclusions by conducting in-house research on the risks and benefits of continued exposure. Our investment committee is then tasked with reviewing and approving any proposals.

Our fund managers are regularly updated with any exclusion policies. If we spot a breach in our portfolios, we'll talk with the fund manager to understand why they're not aligned with our policies and to rectify the issue. For example, we excluded 126 issuers that make more than 20% of their revenues from thermal coal production and power generation, arctic exploration and oil sands at the end of 2020 and will look to phase out these activities entirely by 2025[15].

Managing conflicts of interest

An institutional investor's duty is to act in the interests of its beneficiaries. For Nest, these are the members of the scheme on whose behalf we invest their pension contributions.

Decisions about voting and engagement activity are agreed by the responsible investment team, with no influence from any other areas of Nest Corporation, including any teams responsible for employer relationships, employer acquisition and fund manager relationships.

15 We'll exclude all companies that derive any revenues from these activities by 2025 at the latest, unless companies have a clear plan to phase out all related activity by 2030.

As part of our **Stewardship Conflicts of Interest** policy we've developed a process to manage conflicts that may arise from our engagement with companies in our portfolio. Here's a recent example of how we handled a potential conflict of interest:

Issue	The potential conflict	How we dealt with it
This year we joined the Rathbones Votes Against Slavery engagement and co-signed letters to FTSE 350 companies who are non-complaint with Section 54 of the modern slavery act. This act requires UK commercial companies to produce a supply chain transparency statement annually. The letters were sent privately requesting a meeting to discuss the potential violations of the act.	We carefully reviewed the list of companies involved in the initiative and recognised a potential conflict of interest as a fund manager was targeted for engagement.	We informed our investment colleagues, who communicated our concerns to the fund manager ahead of a meeting being established with the engagement group. This meant the fund manager was in a better position to answer any queries from Nest. This allowed a clear channel of communication to be opened, and Nest was reassured that no breach of the MSA had arisen. We remained aligned to our voting and engagement policy and acted in the interest of our beneficiaries.

Chapter 6

More about Nest

Resourcing and support for responsible investment

Responsible investment expertise

Our responsible investment team is part of Nest Invest, see organisation chart on **page 58**. The team is made up of four dedicated and experienced individuals who are supported by – and work collaboratively with – the entire investment team, including the public and private markets, market risk and asset allocation teams, to pursue our strategy. The responsible investment team comprises professionals with both investment and stewardship expertise.

On stewardship, members of the team have extensive experience in responsible investment roles and have relevant qualifications, undertaking continuing professional development. The combination of skill sets, backgrounds and practical experience of team members is well suited to the development and execution of our responsible investment strategy and integration into Nest's wider investment approach. For more details on how we invest responsibly please see **Chapter 4**.

Diandra Soobiah is the Head of Responsible Investment at Nest and has 19 years of investment experience. She joined Nest in 2010 and has helped build and develop Nest's responsible investment approach. She's responsible for its delivery and oversees the implementation and management of ESG and stewardship across the scheme's assets. She is part of Nest's investment leadership team and is currently a co-chair of the 30% Club Investor Group and a member of the Pensions And Lifetime Savings Association's (PLSA) Stewardship Advisory Group.

Katharina Lindmeier is a Senior Responsible Investment Manager with 8 years of investment experience. Katharina joined Nest in 2019 having previously worked in responsible investment roles at RPMI Railpen and Aberdeen Standard Investments. Katharina is focussed on environmental issues and is primarily responsible for the development and delivery of Nest's climate change policy. She is a member of the Delivery Group of the UK's Transition Plan Taskforce and sits on the UKSIF Policy Committee.

Louis Ryall is a Senior ESG Analyst at Nest. Louis joined Nest in January 2021 after graduating from Imperial College Business School with a master's degree in climate change management and finance. He leads Nest's proxy voting efforts, natural capital research, and provides support on ESG research and engagement.

Tom Sanders is a ESG Analyst at Nest. Tom joined Nest in September 2022 having previously worked for ISAM, a quantitative fund manager. He graduated from the University of Bath with a Bachelor of Science degree in Economics and International Development. Tom focusses on research and analysis of ESG issues, assists with proxy voting, and leads engagements on social issues with some of Nest's member industry initiatives.

Responsible investment stakeholder group

In 2021 we established the responsible investment stakeholder group, which includes senior departmental leaders across Nest as well as our CEO and Chief Financial Officer. Ongoing responsible investment priorities and progress are discussed at a semi-annual forum, and knowledge is shared so that activities and internal and external messages are aligned. These forums have been crucial in helping the wider organisation better understand Nest's expectations of companies as an investor and identify gaps between UK standards of good corporate practice and Nest as a public corporation.

Training and development

We strive to be thought leaders. It's important that we keep building and sharing our learnings both within the investment team and throughout the organisation to help embed responsible investment in all our decision-making and culture. We do this through:

- **Trustee training:** We've established a training programme for our Board members, covering the fundamentals of responsible investment and key ESG themes, including comprehensive training on management of climate change risk. In the last year the responsible investment team conducted training sessions for the Board on Impact and thematic investing. The session went well with engagement and interest from Board members. It provided a strong basis for the development and governance of an impact investing framework.
- **Responsible investment month:** Every year, Nest holds a company-wide series of events dedicated to responsible investment. The responsible investment team provides an update on its activities and achievements over the year, as well as running a series of presentations and webinars on topical ESG issues, drawing on the insights of both internal and external experts. In November 2022 we hosted presentations on the role of banks in funding the climate crisis by ShareAction, the link between deforestation, climate change and pensions by Global Canopy, and the just transition by the Impact Investment Institute.

Performance and reward

We're focussed on delivering long-term positive investment and social outcomes for our members. We apply that belief to our own company policies. While we have a highly qualified investment team, our performance incentives aren't driven by variable pay and bonuses, and we do not offer variable incentive payments for stewardship. Instead, we aim to provide stability and security for our employees, with a strong culture of flexibility and family-orientation.

Our purpose and goal

The Scheme's purpose is to help millions enjoy a better retirement.

This reflects our primary strategic focus, which is the financial wellbeing in retirement of our membership as well as our primary function, which is to deliver strong retirement outcomes. It also reflects our ambition to make an impact at scale.

Principles that make Nest, Nest

Our focus on members underpins everything we do; from the way we invest to our approach to customer service to the way we operate as a business. We identified six principles that guide the way we work and called them the things that make Nest, Nest. These are the things that we want to keep constant as we grow as a business.

Built around customers' needs and behaviours

We'll build and deliver a product based on research and an expert understanding of the needs and behaviours of our customers – members, employers and intermediaries such as payroll providers and advisers. We'll use technology and best-in-class communication techniques to engage our customers in a timely, relevant and personal way.

Low charges, and open to all employers

We use our scale to keep charges to members as low as possible. We ensure the Nest scheme is available for any employer that wants to use it.

A broader social purpose

We're here to help millions enjoy a better retirement. Our responsibility is to our members, but also to a broader population of mass-market savers, including those already automatically enrolled as well as anyone who could benefit from saving for retirement but currently falls outside of auto enrolment legislation.

Excellence in investments and governance

We provide excellence in investment practice and governance. We design and oversee expert investment strategies and invest responsibly and sustainably.

Not for profit

We aspire to operate as a not-for-profit business over the long term. Once our loan from government has been repaid, our aim is that any surpluses generated should be reinvested in the interests of our members.

An organisation that lives our values

We show the same level of care to our employees as we do to our customers. We champion the scheme's values inside the organisation, making Nest a great place to work. Everything we do is underpinned by our values of transparency, respect, empowerment, and ease. We commit to being open to everyone, putting members long-term values first, sharing the benefits of scale and behaving responsibly.

Our strategic priorities

We currently have five strategic priorities which guide our approach to achieving our goal.

These strategic priorities are:

Support strong member outcomes

We'll grow members' assets and keep their data safe. We'll deliver a targeted approach to increasing member engagement, including at retirement, while continuing to focus on ensuring that the right retirement options exist to meet their needs.

Deliver a good service to our customers

We'll deliver a sustainable, high-quality service to all our customers – members, employers and intermediaries such as advisers and payroll providers.

Grow the business, in the right way

We'll ensure that we have a broad customer base while also remaining fully focused on the needs of our target membership of people on a low to moderate income.

Deliver a sustainable future business model

We'll implement our sustainable approach to service delivery through the safe and secure transition to the new administration service partnership. We'll maintain a cost-efficient business model to ensure we can repay our loan from government.

Deliver a corporation fit for the future

We'll continue to ensure that we have the right skills and expertise to deliver for our members, supported by a diverse and inclusive culture.

We constantly monitor how we are delivering against these strategic priorities through our corporate scorecard, and report on progress in our **annual report and accounts**.

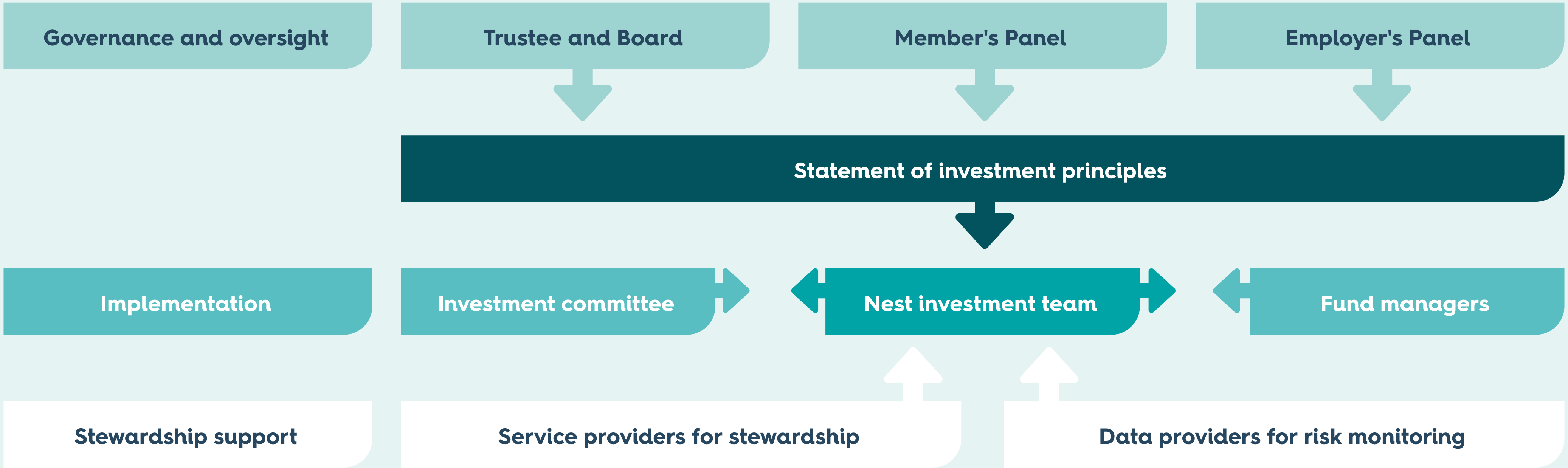
How we're run

Nest was established by the UK government in 2010 to support the introduction of auto enrolment into workplace pensions. The Nest pension scheme is run as a Trust by Nest Corporation with the purpose of providing pensions and other benefits in relation to its members. It's accountable to Parliament through the DWP but is generally independent of government in its day-to-day decisions. Being a public body means that we have no owners or shareholders, and the scheme is run for the benefit of its members.

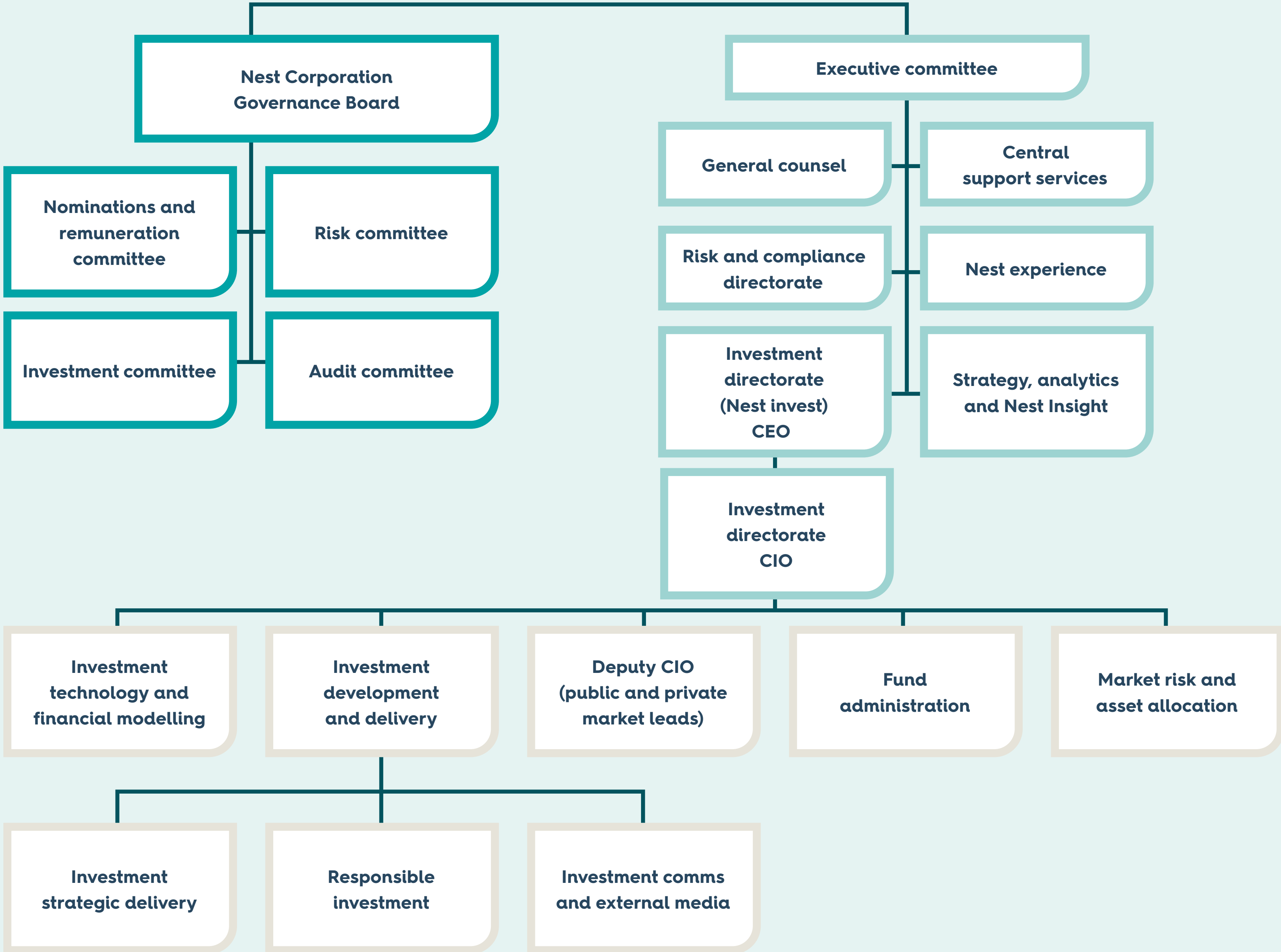
From December 2019, Nest's investment and investment operations teams were seconded into Nest Invest Ltd., the investment subsidiary of Nest Corporation, which is authorised and regulated by the FCA. The responsible investment team sits within Nest Invest.

Our governance mechanisms reflect our position as a publicly accountable scheme, and our stewardship activities and processes are supported and overseen formally by our governing bodies. For further details, please see our organisation chart on **page 58**.

Governance at Nest



Organisation chart



Role	Responsibility
Trustee and Board members	Nest Corporation is the Trustee of the Nest scheme. The Trustee is comprised of up to 15 Board members. The Board members are collectively referred to as the Board of Nest Corporation, or simply the Board. They're supported by an executive team and a range of specialists who aim to make sure Nest works in the way it should. Board members are currently chosen by the Secretary of State for Work and Pensions in line with public appointments guidance that promotes selection on the basis of merit, fairness, and openness. At some point in the future, we'll be able to appoint our own Board members through a process that includes input from our Members' Panel. The Secretary of State will decide when that will be.
Members' Panel and Employers' Panel	The Trustee gets the views of members and employers using Nest through the Members' Panel and Employers' Panel. These two groups provide member and employer perspectives on investment to the Trustee and have a statutory role in reviewing the SIP. These checks and balances provide Nest with a high level of oversight in its investment operations.
Investment committee	All investment decisions are overseen by the Trustee through the investment committee, a group of Board members and independent experts that meets quarterly to formally review investment operations and decisions. They decide on the recommendations of Nest Invest on a range of investment-related matters including: — investment objectives — strategic asset allocation — approach to responsible investment — evolution of fund choices — fund manager selection and monitoring — investment communications for members and employers — investment costs This committee also monitors fund performance and operation to make sure that the Trustee is fulfilling its legal duties.
Nest Invest Ltd (In house investment team)	Nest Invest Limited (referred to as Nest Invest) is the name of Nest's investment subsidiary, which was authorised by the FCA as an occupational pension scheme firm in January 2020. It can act on behalf of its client, Nest Corporation, to provide regulated advice, arrange deals and provide instructions to fund managers with regards to the investments in the scheme's portfolio. The investment team at Nest Invest manages the investment of our members' money. They monitor the performance of our fund managers, consider the opportunities available in different asset classes and assess and implement our responsible investment requirements.
Fund managers	The day-to-day management of Nest's assets is performed by external professional fund managers and from time-to-time, Nest Invest. Fund managers are monitored on a regular basis and performance is reported to the investment committee quarterly. Their activities are defined and constrained by detailed agreements. Fund managers have discretion to buy and sell investments within the terms of their agreements. The most up-to-date list of fund managers and the assets they manage on our behalf can be found in our quarterly investment reports.

Case study: How our governance process works

How our governance approach worked when reviewing and approving Nest's investment beliefs

The need

Since 2011 Nest has had a set of investment beliefs which were developed in conjunction with the Investment Committee as part of our first Statement of Investment Principles. Nest believes it's good practice to revisit investment beliefs periodically, to test whether we collectively still share the same views, or that the evidence remains compelling to support our existing investment beliefs. At the same time investment beliefs - as they are evidenced based - should have a degree of longevity. Over the last decade we have revisited our beliefs every three years.

What we did

We held a workshop with our trustees to discuss and review our existing beliefs and consider:

1. Do we still agree with the broad thrust of each belief?
2. Are we missing any beliefs due to changes in our approach / how we think markets operate?
3. Views on how trustees and the investment team would like to see the beliefs used effectively when making decisions in the future.

Governance process

The investment team took the output discussed at the workshop and worked collaboratively with members of Nest Invest Leadership team to develop an evolved set of beliefs. The CIO was responsible for developing a paper with our revised set of beliefs and made a recommendation to the IC to approve our new beliefs so we could update important parts of the SIP in line with the processes agreed internally to ensure the SIP remains up to date and is an accurate reflection of our investment approach. The changes were approved by the IC and they recommended that NCGB approves the new investment beliefs. Once we received final approval from the NCGB we informed The Pensions Regulator and provided them with a copy of the revised SIP within five working days of the NCGB's decision.

Why it worked well

The process of revising our investment beliefs ran smoothly due to early engagement with trustees. It was helpful to get views from trustees on our existing beliefs and important to get consensus on beliefs we might want to develop further and those that might be less relevant to our approach and stage of evolution. This early discussion with trustees helped us develop beliefs that everyone has bought into that more accurately drive our investment approach.

An industry-recognised approach

Pensions Age Awards 2022

Innovation Award (Investment)

Recognised for truly adding value to the pensions space with originality and innovation.

Corporate Adviser Awards 2022

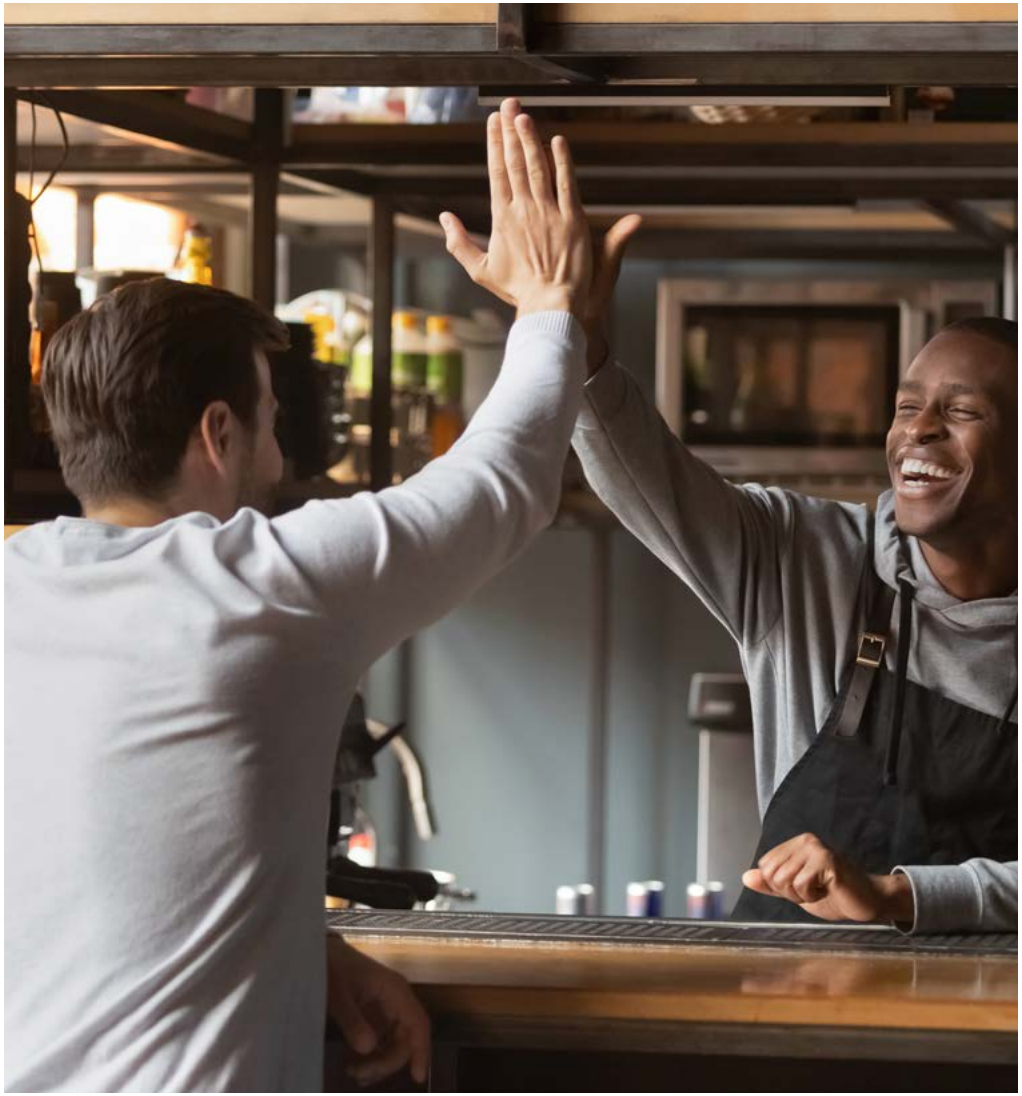
Ultimate Default Fund

European Pensions Awards 2022

Best Investment Strategy Provider

CIO Magazine 2022

CIO NextGen leader- Liz Fernando



Chapter 7

Meeting the FRC's Stewardship Code

The information in this report is intended to meet the reporting expectations against the FRC Stewardship Code's 12 principles. We reference content in the report that covers the expectations of the Code in the table below.

Stewardship code principle	Page reference
Principle 1: Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society	9, 10, 11
Principle 2: Signatories' governance, resources and incentives support stewardship.	53-59
Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	47, 51
Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	35-44
Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.	47
Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	17, 23, 35, 45, 50
Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	10-28
Principle 8: Signatories monitor and hold to account managers and/or service providers.	31, 33

Stewardship code principle	Page reference
Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.	15-28
Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers.	15-28
Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers.	49-50
Principle 12: Signatories actively exercise their rights and responsibilities.	29-45

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