



Nest quarterly investment report

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At end March 2021

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Nest quarterly investment report



Mark Fawcett
Chief Investment Officer

Reflecting on this quarter the overall performance of our funds has been strong, but it hasn't been a straight line upwards.

The competing narratives now are hopes for a global economic recovery versus concerns over future inflation and increasing interest rates.

The economic outlook is looking brighter. Vaccines are being rolled out and many governments are starting to loosen restrictions, though neither is without challenges. Biden has been inaugurated and announced significant government spending that will add to economic growth. Central banks have voiced their commitment to low interest rates – low rates support growth as it reduces the cost of borrowing and encourages investment. The latest round of financial reports from companies also positively surprised investors. These events have supported the strong performance in our developed market equity allocation and commodities

On the other side of this debate, the stronger growth outlook is increasing worries that this will lead inevitably to higher inflation and interest rates. Central banks don't have to raise interest rates and the reported inflation rate doesn't have to rise to impact markets, the anticipation that they will be sufficient. Fixed income securities such as bonds and investment grade credit are particularly vulnerable to such changes in expectations and as a consequence they had disappointing returns this quarter.

Emerging markets have also had challenges this quarter. The unexpected firing of the popular central bank governor in Turkey triggered an exodus of capital from the country and in China the large technology companies are facing increasingly aggressive pressure from the regulator. To help protect the value of members' portfolios from any one event we use a wide range of investments to diversify our exposure. For example, not only the traditional mix of publicly traded company shares and bonds but also unlisted or alternative assets.

This quarter we have enhanced our exposure to alternative investments by adding infrastructure investments. We've partnered with CBRE Caledon, Octopus Renewables and GLIL to deliver global exposure to core infrastructure assets, including renewable energy, utilities, transport, and telecoms. We think this is particularly exciting because as well as adding to our diversification and sources of growth, we are investing in a better future for our members.

Going forward, it is likely that markets will remain driven by tension between the outlook for growth, inflation and interest rates. Nest's well-diversified approach protects us from the extreme outcomes and continues to prove itself with strong performance in challenging environments.

Responsible investment update i

This quarter marks the beginning of the annual voting season and we've published our new [global voting guidelines](#) to complement our existing UK voting standards. We expect companies to adhere to local market governance standards as a baseline and highlight global "red lines", where we take a strong stance on issues such as the independence of the auditors, irrespective of jurisdiction.

We've also strengthened our UK voting policy regarding ethnic diversity. We wrote to all FTSE100 companies that were identified in the updated 2020 [Parker Review](#) as not having met the target of appointing at least one director from an ethnic minority background to the board. We've also strengthened how we address climate change in our voting decisions. We've set our expectations of companies on areas like disclosure of climate change risks and opportunities. We've been busy with engagement in the lead-up to AGM season.

Nest fund facts

£17.2bn

Total Nest assets under management

0.3%

Annual management charge/ total expense ratio

1.8%

Contribution charge

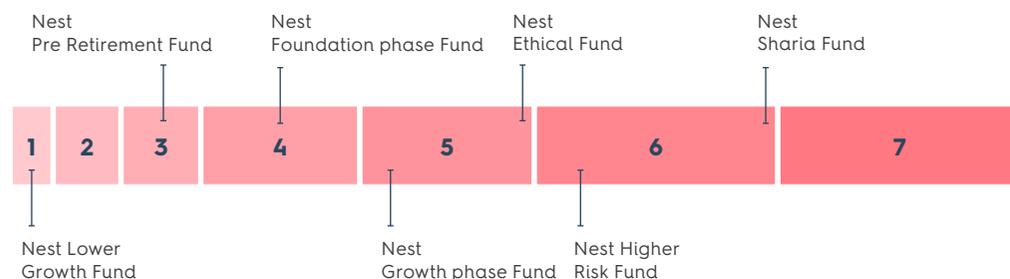
9.9m

Nest members

Performance and risk metrics

Comparative risk i

This chart indicates how we expect the annualised volatility of Nest's funds to compare over the long term. The categories of 1 (very low risk) to 7 (very high risk) are set by the European Securities and Markets Authority.



Realised risk and return of Nest's funds i

This chart compares the realised risk and the return of Nest's funds (net of AMC).



Cumulative performance

Five year cumulative performance (net of AMC) i



Five year cumulative performance figures at end March 2021 (net of AMC) i

	Nest Sharia Fund	Nest Ethical Growth Fund	Nest Higher Risk Fund	Nest 2040 Retirement Fund	Nest Pre Retirement Fund	Nest Lower Growth Fund
5 years	125.5%	74.5%	72.4%	59.5%	16.5%	5.2%

Nest 2040 Retirement Fund

(default strategy – growth phase)

Default strategy i

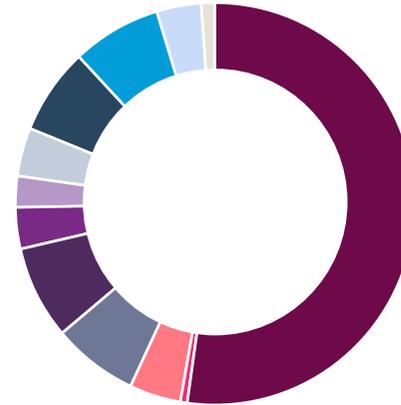
Nest's flagship default strategy provides a fund for each year in which we expect a member could retire. We manage members' assets according to their age and how markets are performing. If members join in their early twenties they'll go through three, dynamically managed investment phases. Most members will spend most of their time invested in the growth phase. It's the engine room of the default strategy, aiming to grow well above inflation over 30 years. The consolidation phase prepares members' money as they approach retirement. The Nest 2040 Retirement Fund is in the growth phase of this lifecycle.*

* For asset allocation of all Nest Retirement Date Funds see page 11 and for all Nest Retirement Date Fund performances please see the button at the top of this page.

Fund objectives i

- target investment returns equivalent to CPI plus 3% and cover all scheme charges over the long term
- expect a long-term volatility average of 11%
- aim for steady growth in real terms over the life of the fund
- maximise retirement incomes by taking sufficient investment risk at appropriate times while reducing the likelihood of extreme investment shocks

Asset allocation i



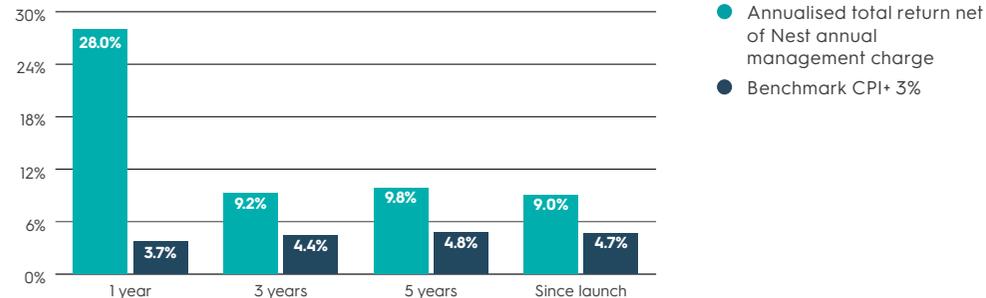
- 52.3% Climate aware global developed equities
- 0.6% Global short duration investment grade bond
- 4.3% Private credit
- 6.7% Global investment grade bonds
- 7.6% Global emerging market equities
- 3.5% Global listed property
- 2.4% Commodities
- 3.9% Hybrid property (UK direct & REITs)
- 6.8% Emerging market debt
- 7.2% Global high yield bonds
- 3.8% Sterling corporate bonds
- 0.9% Infrastructure equity

Top 10 shareholdings i

Company	Percentage within equities
APPLE INC	3.1%
MICROSOFT CORP	2.9%
AMAZON.COM INC	2.1%
ALPHABET INC	1.9%
FACEBOOK INC	1.1%
SAMSUNG ELECTRON	1.1%
TAIWAN SEMICONDUCTOR MANUFACTURER	0.9%
TESLA INC	0.8%
JPMORGAN CHASE	0.8%
BERKSHIRE HATH	0.8%

59.9% of this fund is allocated to global equities portfolio.

Investment performance i



Risk measures i

5 year annualised volatility

9.1%

Nest Ethical Fund

(growth phase)

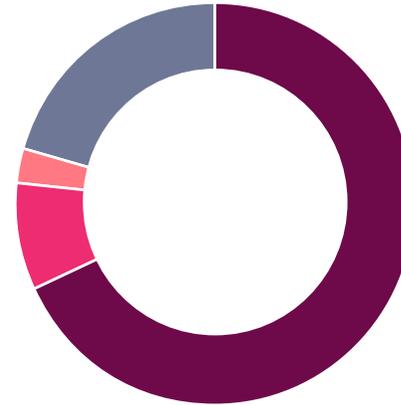
Fund overview

The Nest Ethical Fund is for people who want to invest in line with specific ethical or moral concerns, for example in areas such as human rights and fair trade. It doesn't just exclude companies that harm the world, its people or the environment, it also proactively invests in organisations that make a positive contribution to society. The fund invests in a range of asset classes to manage risk appropriately at different stages of members' lives. It follows a dynamically managed, three-stage glide path which is similar to our flagship Nest Retirement Date Funds. This includes de-risking members' pots as they approach retirement. The fund aims to deliver similar returns to the flagship Retirement Date Fund but it's likely to be more volatile due to it being less diversified. Data below is for the growth phase of this lifecycle.

Fund objectives

- provide a fund choice for members who want to invest in a portfolio that reflects their ethical concerns
- target investment returns of inflation plus 3% and cover all scheme charges over the long term
- expect a long-term volatility average of 13%
- aim for steady growth in real terms over a members' time saving and maximise incomes in retirement by taking sufficient investment risk at appropriate times while reducing the likelihood of investment shocks

Asset allocation



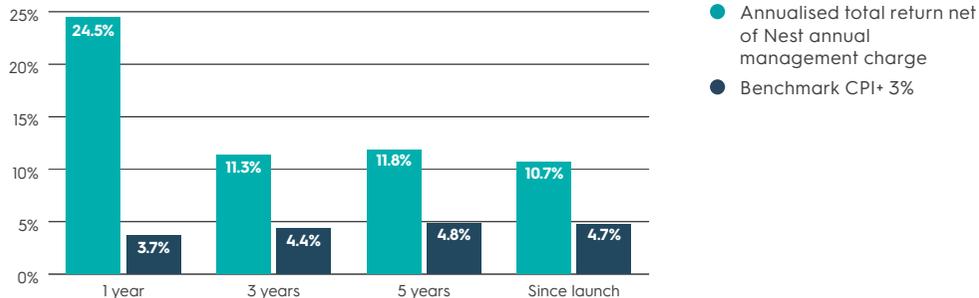
- 68.2% Ethical global equities
- 8.5% UK direct property
- 2.9% Gilts
- 20.4% Ethical sterling corporate bonds

Top 10 shareholdings

Company	Percentage within equities
MICROSOFT CORP	5.5%
APPLE INC	4.8%
LINDE PLC	3.7%
TAIWAN SEMICONDUCTOR MANUFACTURER	3.2%
THERMO ELECTRON	3.1%
MASTERCARD	3.1%
ACCENTURE	2.9%
SCHNEIDER ELECTRIC	2.5%
ROPER TECHNOLOGIES INC	2.4%
PAYPAL	2.4%

68.2% of this fund is allocated to global equities portfolio.

Investment performance



Risk measures

5 year annualised volatility

8.7%

Nest Higher Risk Fund

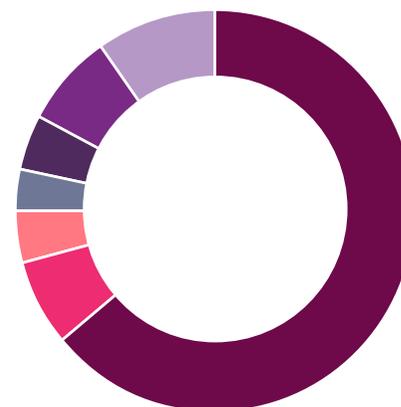
Fund overview

The Higher Risk Fund is for members who are more confident about taking investment risk in the expectation that their pot will grow faster.

Fund objectives

- take more investment risk than the Nest Retirement Date Funds in the growth phase in pursuit of higher potential returns
- expect a long-term volatility average of 17%
- reduce the likelihood of extreme investment shocks by diversifying across a range of return-seeking asset classes

Asset allocation



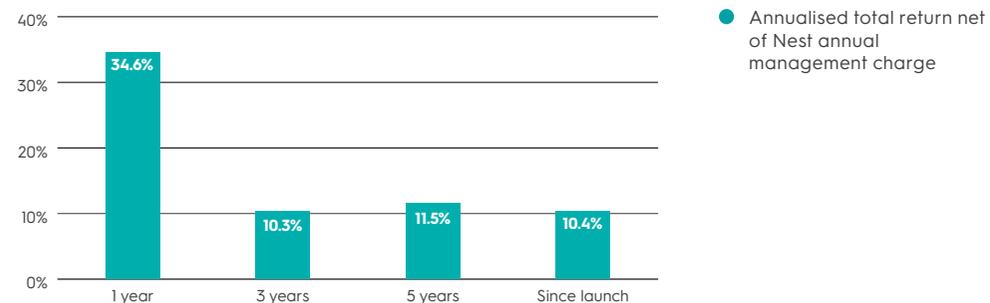
- 64.0% Climate aware global developed equities
- 7.1% Global emerging market equities
- 4.0% Global listed property
- 3.5% Commodities
- 4.4% Hybrid property (UK direct & REITs)
- 7.5% Emerging market debt
- 9.5% Global high yield bonds

Top 10 shareholdings

Company	Percentage within equities
APPLE INC	3.2%
MICROSOFT CORP	3.0%
AMAZON.COM INC	2.1%
ALPHABET INC	2.0%
FACEBOOK INC	1.2%
SAMSUNG ELECTRON	1.0%
TESLA INC	0.9%
JPMORGAN CHASE	0.8%
BERKSHIRE HATH	0.8%
JOHNSON&JOHNSON	0.8%

71.1% of this fund is allocated to global equities portfolio.

Investment performance



Risk measures

5 year annualised volatility

11.5%

Nest Sharia Fund

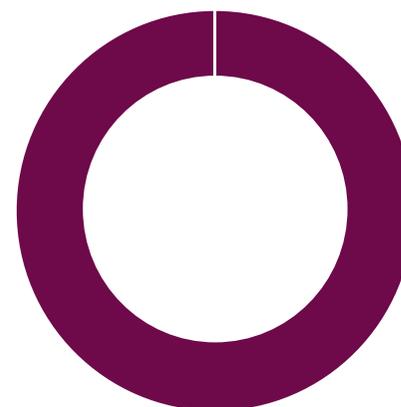
Fund overview

The investments in this fund are screened by Islamic scholars to meet Sharia standards. Lifestyling and diversification at the asset allocation level are not currently possible for this fund as it invests entirely in a single asset class.

Fund objectives

- provide a fund with an investment approach based on Islamic law
- expect a long-term volatility average of 22%
- grow a member's pot in real terms over the course of their savings career

Asset allocation

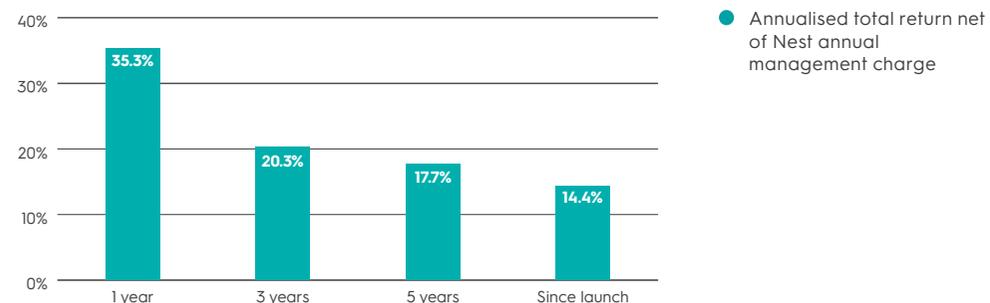


Top 10 shareholdings

Company	Percentage within equities
APPLE INC	7.1%
MICROSOFT CORP	7.1%
ALPHABET INC	6.7%
FACEBOOK INC	3.9%
TESLA MOTORS	2.8%
JOHNSON & JOHNSON	2.4%
VISA	2.0%
PROCTER & GAMBLE	1.8%
NVIDIA	1.8%
HOME DEPOT	1.8%

100% of this fund is allocated to global equities portfolio.

Investment performance



Risk measures

5 year annualised volatility

13.0%

Nest Lower Growth Fund

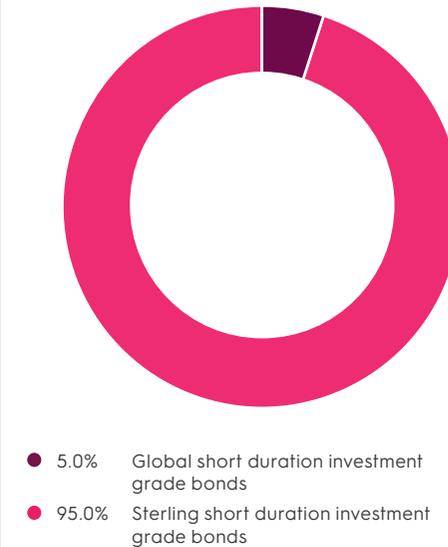
Fund overview

This fund is provided for members who are very cautious about investing and are prepared to accept their pot will not grow very much. The aim of the fund is to maintain the value of members' savings after all scheme charges over the long term. It may not keep up with the rising cost of living.

Fund objectives

- preserve the nominal value of contributions after all scheme charges over the long term and grow the fund in line with low-risk money market investments
- expect a long-term volatility average of 0.5%

Asset allocation

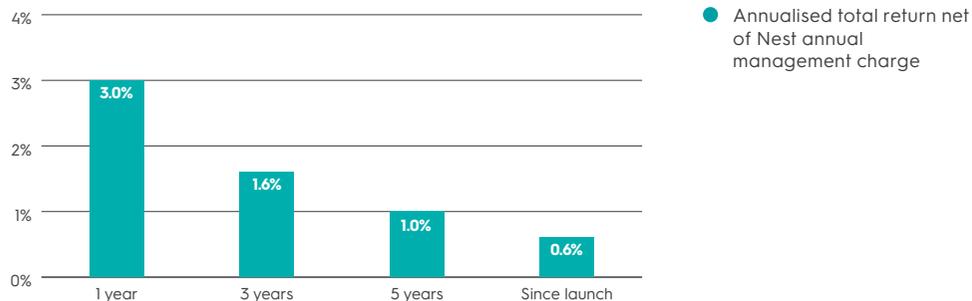


Risk measures

5 year annualised volatility

1.0%

Investment performance



Nest Pre Retirement Fund

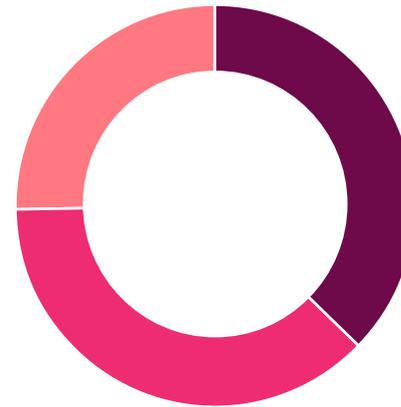
Fund overview

This fund provides a savings vehicle for members close to retirement who expect to buy an annuity and take 25% of their pot as a cash lump sum.

Fund objectives

- invest in 75% annuity-tracking and 25% liquidity-matching assets

Asset allocation



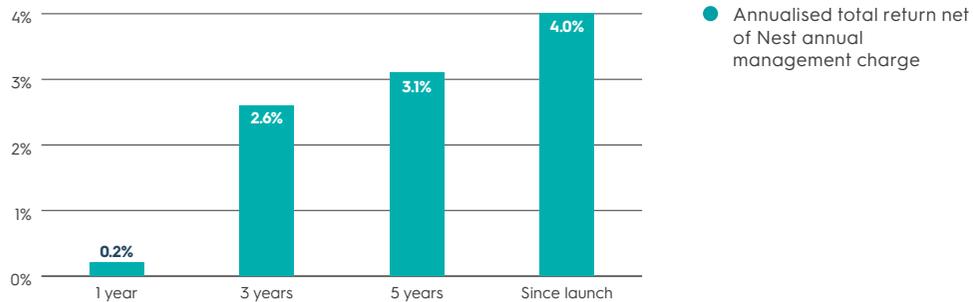
- 37.3% Sterling corporate bonds
- 37.5% Gilts
- 25.2% Low-risk sterling liquidity

Risk measures

5 year annualised volatility

4.3%

Investment performance



Nest Guided Retirement Fund

Fund overview

The Nest Guided Retirement Fund (NGRF) is available for members to join between age 60 and 70 if they have £10,000* or more in their pot. This fund is a key part of Nest's post-retirement phase and aims to invest members' money suitably for their needs throughout retirement. Nest's Investment Committee annually reviews the fund to ensure the rate of money distributed is sustainable for members.

The NGRF is split into four parts:

- When members join the fund, 10% of their initial pot is invested in the Safe to keep aside for emergencies.
- The rest is invested in the Vault and is gradually distributed to the Wallet and the Later Life fund over time.
- The Vault is invested in growth assets with the aim of making the money last through to age 85, while transferring a steady amount each year to the Wallet for members to withdraw.
- The Later Life fund is invested for members to buy an annuity with at age 85 if they choose, to ensure their money lasts for life.

For more details on how each part of the fund works, download this [NGRF factsheet](#) from the Nest website.

* Members with less than £10,000 in their pot will be eligible for the Nest Post Retirement Date Fund, which manages conversion risk associated with withdrawing most or all of the pot as cash.

Fund objectives

Vault

- target investment returns equivalent to CPI and cover all scheme charges over the long term
- provide a predictable and sustainable amount of money that can be transferred to the Wallet every year through to age 85

Wallet

- low investment risk and highly liquid in order for members to take a series of withdrawals over the short term

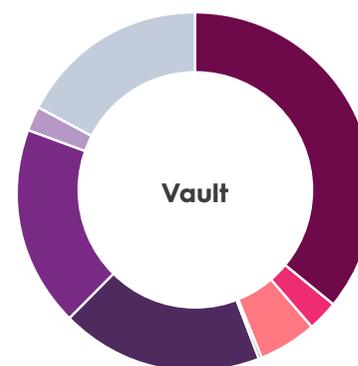
Safe

- preserve the nominal value of contributions and grow the fund in line with low-risk money market investments

Money for later life

- track the underlying performance of annuity assets in order to allow members to purchase a single life flat rate annuity at age 85

Asset allocation i



- 35.9% Climate aware global developed equities
- 2.9% Global investment grade bonds
- 5.2% Global listed property
- 0.3% Hybrid property (UK direct & REITs)
- 18.3% Emerging market debt
- 18.2% Global high yield bonds
- 2.0% Sterling corporate bonds
- 17.2% Low-risk sterling liquidity

Wallet



Safe



Later life

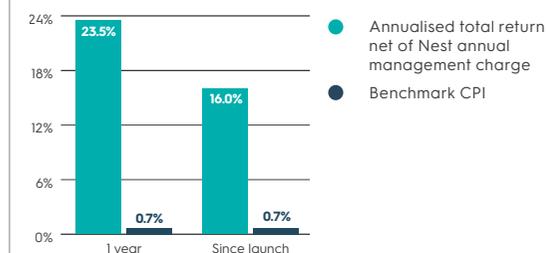


Vault top 5 shareholdings

Company	Percentage within equities
APPLE INC	3.6%
MICROSOFT CORP	3.3%
AMAZON.COM INC	2.4%
ALPHABET INC	2.4%
FACEBOOK INC	1.3%

35.9% of the Vault is allocated to a global equities portfolio. A member's individual exposure to equities will depend on their age and what proportion of their pot is still in the Vault.

Vault investment performance



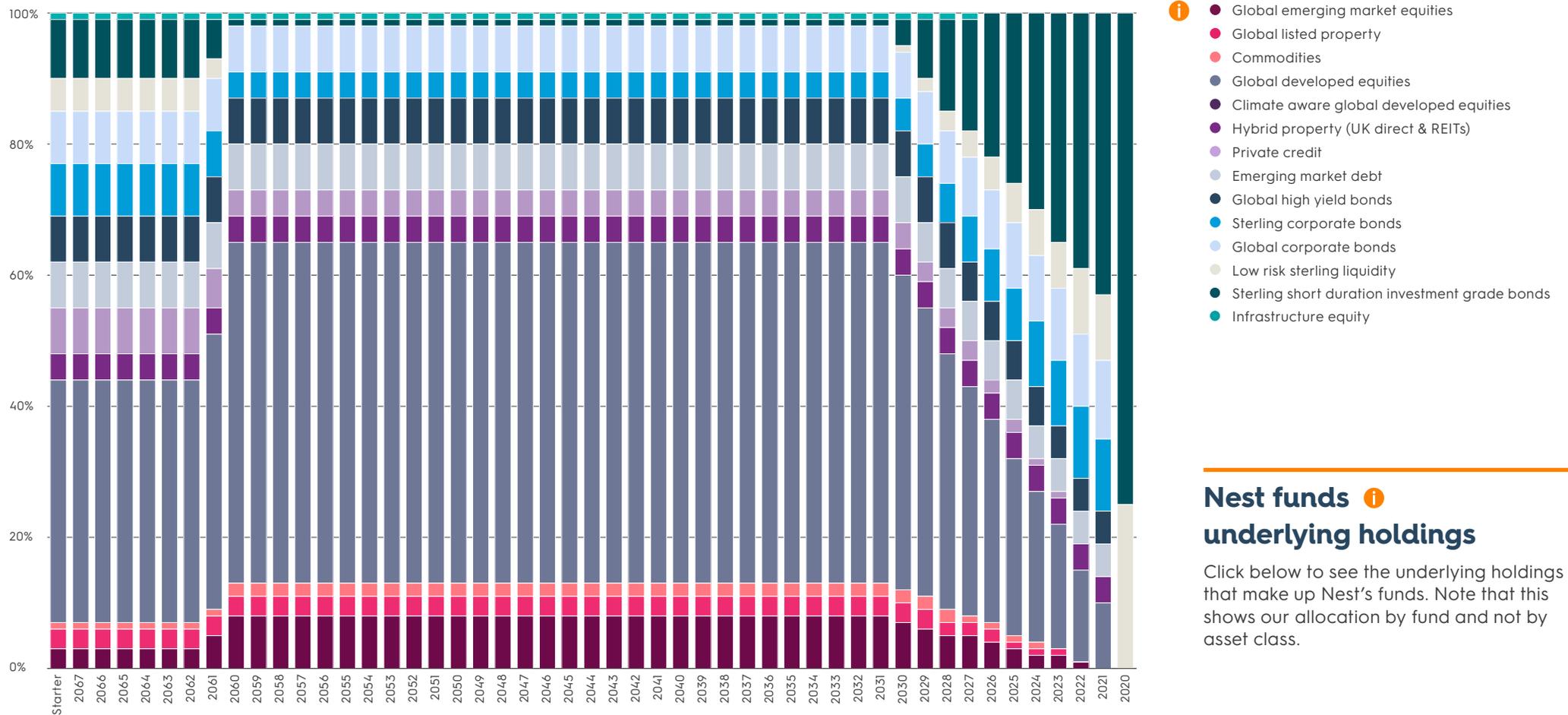
Vault risk measures

5 year annualised volatility

10.3%^Δ

^Δ Since launch March 2020

Nest Retirement Date Funds' asset allocation



Nest funds i underlying holdings

Click below to see the underlying holdings that make up Nest's funds. Note that this shows our allocation by fund and not by asset class.

Overall exposure to underlying funds

Asset class ⁱ	Investment approach ⁱ	Fund name ⁱ	Benchmark** ⁱ	ISIN** ⁱ	Exposure to asset class* ⁱ
Commodities	Active	CoreCommodity/ Nest Program	Commodity Index Total Return	N/A	2.1%
Climate aware global developed equities	Systematic	UBS/Nest Climate Aware Equities Strategy	FTSE AW (Developed) Ex Tobacco (ICB Classified) 50% Hedged to GBP	N/A	47.2%
Emerging market debt	Active	Amundi Funds Global Emerging Blended - IE	50% JPM EMBI Global Diversified Hedged Euro/50% JP Morgan ELMI Plus	LU1361117796	6.5%
Ethical global equities	Active	BMO Responsible Global Equity Fund	MSCI World Index	GB0033145045	0.6%
Ethical sterling corporate bonds	Active	BMO Responsible Sterling Bond Fund	iBoxx Sterling Non-Gilt All Maturities Index	GB00B23YHV29	0.2%
Gilts	Passive	LGIM Mar 2022 Gilt Fund	N/A	GB00B8ZDJY62	0.04%
Gilts	Passive	SSGA UK Conventional Gilts All Stocks Index Fund	FTSE Actuaries All Sto UK Conventional Gilts All Stock Index	GB00BWDBJB71	0.01%
Global investment grade bonds	Active	Wells Fargo/Nest Global Investment Grade Corporate Bond Strategy	Global Aggregate Corporate Index GBP Hedged	N/A	6.9%
Global short duration investment grade bonds	Active	Wells Fargo/Nest Global Short Duration Investment Grade Credit Strategy	Global Aggregate Corporate 1-5 year Index GBP Hedged	N/A	0.9%
Global emerging market equities	Passive	Northern Trust Emerging Markets Custom ESG Equity Index Fund	MSCI Emerging Markets Custom ESG Index	IE00BN79QV37	6.5%
Global high yield bonds	Active	JPMorgan Life High Yield Opportunities Fund	ICE BofA ML Non-Financial Developed Markets High Yield Constrained Index Hedged to GBP	GB00BYW8WR05	6.9%
Global property	Passive	LGIM Global Real Estate Equity Index Fund	FTSE EPRA Nareit Developed Real Estate Index	GB00B6V63105	3.1%
Hybrid property (UK direct & REITs)	Active	LGIM Hybrid Property (70:30) Fund	AREF/IPD UK Quarterly All Balanced Property Funds Index/FTSE EPRA Nareit Developed Real Estate Index	GB00B6V67X08	3.9%
Low-risk sterling liquidity	Active	BlackRock ICS Sterling Liquid Environmentally Aware Fund (LEAF)	GBP 1 Week LIBID	IE00BKC9GJ54	2.8%
Private credit	Active	Amundi Global Commercial Real Estate Debt Fund	3 Month LIBOR	N/A	0.9%
Private credit	Active	BlackRock GBP Infrastructure Debt Fund GP LLP	3 Month LIBOR	N/A	1.2%
Private credit	Active	BNP Diversified Private Credit Fund S.C.Sp. SICAV-RAIF	3 Month LIBOR	N/A	1.4%

* Figures shown to 1 decimal place and may be affected by rounding.

** Where applicable

Overall exposure to underlying funds

Continued

Asset class	Investment approach	Fund name	Benchmark**	ISIN**	Exposure to asset class*
Infrastructure equity	Active	Octopus Renewables Infrastructure SCSp	N/A	N/A	0.0%
Sharia compliant equities	Passive	HSBC Islamic Global Equity Index Fund	Dow Jones Islamic Titans 100 Index	LU1092475968	0.4%
Sterling short duration investment grade bonds	Active	Blackrock Institutional Sterling Ultra Short Bond Fund	GBP 3 Month LIBID	IE00BFZD2350	2.1%
Sterling short duration investment grade bonds	Active	Royal London Investment Grade Short Dated Credit Fund	ICE BofA ML 1-5 year Sterling Non-Gilt All Stocks Index	GB00BDR6MS36	1.9%
Sterling corporate bonds	Active	Royal London UK Corporate Bond Fund	iBoxx Sterling Non-Gilt All Maturities Index	GB00B7N8ML46	4.5%
UK direct property	Active	LGIM Managed Property Fund	AREF/IPD UK Quarterly All Balanced Property Funds Index	GB00B6V5QR44	0.1%

* Figures shown to 1 decimal place and may be affected by rounding.

** Where applicable

Important information

The value of investments may go down as well as up and the return of your investment is not guaranteed. Fluctuations in financial markets, currencies and other risks may cause fluctuations in the value of investments. Any fund objective or target should not be considered as guarantee of performance of any fund. Derivatives may also be used for efficient portfolio management purpose.

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The return figure is net of costs and charges, including the annual management charge (AMC) and transaction costs* but not contribution charges.

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*The transaction costs include both explicit and implicit costs (where applicable)

