



Nest quarterly investment report

At end September 2021

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Nest quarterly investment report



Mark Fawcett
Chief Investment Officer

After a strong first half of the year, this quarter has brought some challenges to investment returns.

The focus of investors has remained predominantly on the prospects for economic growth and what path inflation will follow. However, the view that the future will be one of high economic growth and moderate inflation was challenged this quarter. After a consistent run of strong performance, this quarter it's been more of a mixed bag. The question around are we to face a moderate economic growth and a persistently higher inflation era has not been a good environment for stocks or bonds.

It was known that inflation rates would be high through the summer of this year as the economy transitioned back to normal. But shortages in labour and goods markets are beginning to last longer than originally expected and are taking a toll on the economy. The prospect of higher inflation remaining, and the recent hawkish central bank rhetoric have negatively impacted fixed income assets with most bonds struggling this quarter.

In a similar vein, developed market equities and emerging market equities have diverged again this quarter. Though developed market stocks came up against the same challenges as bonds in September, company reports showing stronger than expected performance supported equity returns through most of the quarter, allowing them to finish positively. Emerging markets have struggled due to developments in China. Regulators have continued to apply pressure on a range of sectors and China's largest property developer is close to bankruptcy. These have meant emerging market equities have held back performance and are seen vulnerable.

Despite bonds and equities struggling throughout the quarter, inflation of oil and gas prices has been positive for investment returns in commodities. It highlights the importance of our diverse portfolio, with the same factor driving these assets differently.

It's important to keep in mind the strength of the investment returns in the first half of the year and last year. We need to remind ourselves that developed market equities still remain about 10% higher than they were at the start of the year even after a stumble in September. The shortages and mismatches in labour and goods markets should begin to ease and lead to more sustainable economic conditions. Though these shortages pose a downside risk right now, we are confident in our diverse approach which should ease the ebbs and flows in markets.

Responsible Investment

We've been working with other pension schemes on **a joint initiative** aimed at encouraging fund managers to report their workforce and diversity data to pension scheme clients. We've seen further positive reinforcement in this area as the **30% Club**, an investor group dedicated to improving board diversity across UK corporations and of which Nest is a Co-Chair, announce the intention to widen their remit from gender to include race and ethnicity and encouraging companies to improve their progress against the targets set by the **Parker Review**.

Following the peak season of company Annual General Meetings (AGMs) we've written to investee companies where we voted against management due to governance or sustainability concerns. In total we wrote to 13 companies, including Ocado, Mondelez and Rio Tinto to outline our concerns and ask them to improve their practices in areas such as remuneration and oversight of environmental issues. In addition, we continued our engagement with investors coalitions like the **ShareAction Healthy Markets Initiative**. We recently supported the initiative in sending letters to food retailers and producers asking for better disclosure on healthy food sales following the national food strategy's recommendations.

Nest fund facts

£20.9bn

Total Nest assets under management

0.3%

Annual management charge/ total expense ratio

1.8%

Contribution charge

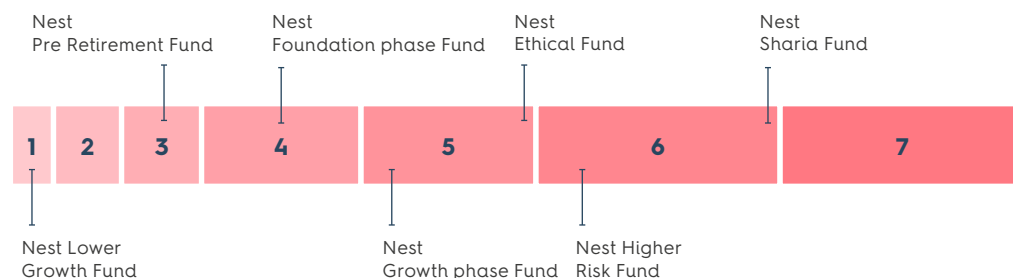
10.1m

Nest members

Performance and risk metrics

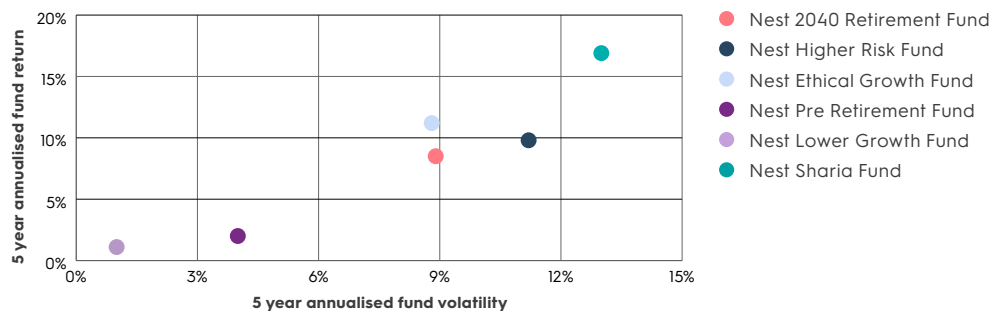
Comparative risk i

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.



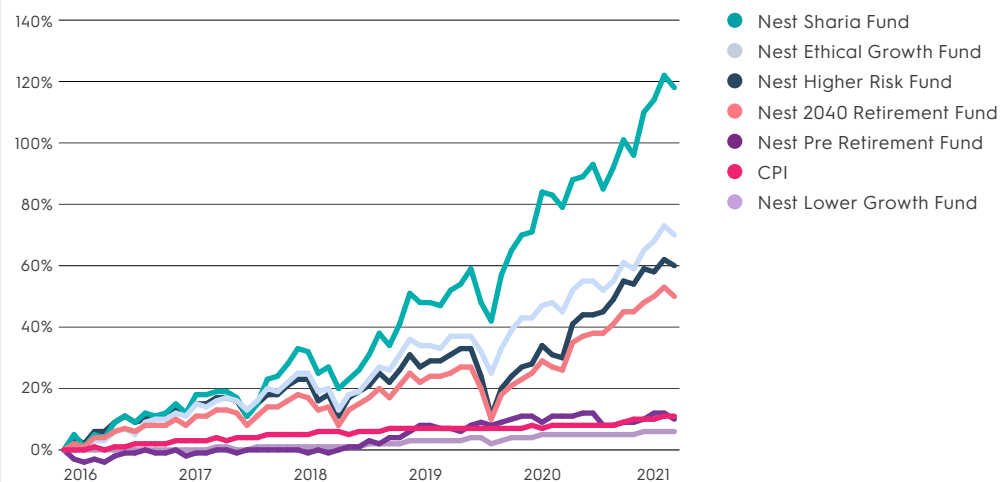
Realised risk and return of Nest's funds i

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 September 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	118.0%	69.8%	59.6%	50.1%	10.5%	5.5%

Nest 2040 Retirement Fund

(default strategy – growth phase)

Default strategy i

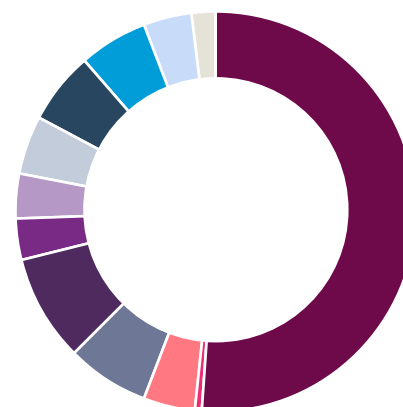
Nest's flagship default strategy provides a fund for each year in which we expect a member could retire. We manage members' assets according to their age and how markets are performing. If members join in their early twenties they'll go through three, dynamically managed investment phases. Most members 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



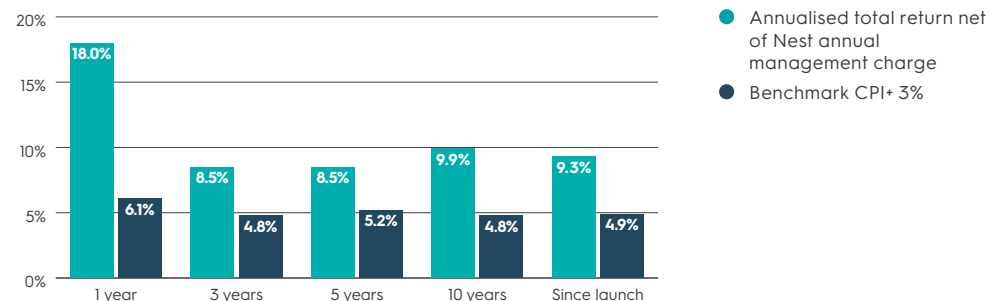
- 51.2% Climate aware global developed equities - GBP Hedged
- 0.5% Global short duration investment grade bonds
- 4.2% Private credit
- 6.9% Global investment grade bonds
- 8.5% Climate aware global emerging market equities
- 3.4% Global listed property
- 3.6% Commodities
- 4.5% Hybrid property (UK direct & REITs)
- 5.9% Emerging market debt
- 5.6% Global high yield bonds
- 3.9% Sterling corporate bonds
- 1.8% Infrastructure equity

Top 10 shareholdings i

Company	Percentage within equities
APPLE	3.3%
MICROSOFT CORP	3.1%
ALPHABET	2.3%
AMAZON.COM	2.0%
FACEBOOK	1.2%
SAMSUNG ELECTRON	1.0%
TAIWAN SEMICONDUCTOR MANUFACTURER	1.0%
TESLA	0.9%
BERKSHIRE HATH	0.8%
NVIDIA CORP	0.8%

59.7% of this fund is allocated to global equities portfolio.

Investment performance i



Risk measures i

5 year annualised volatility

8.9%

Nest Ethical Fund

(growth phase)

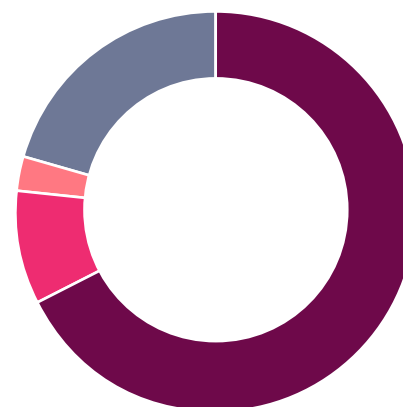
Fund overview

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



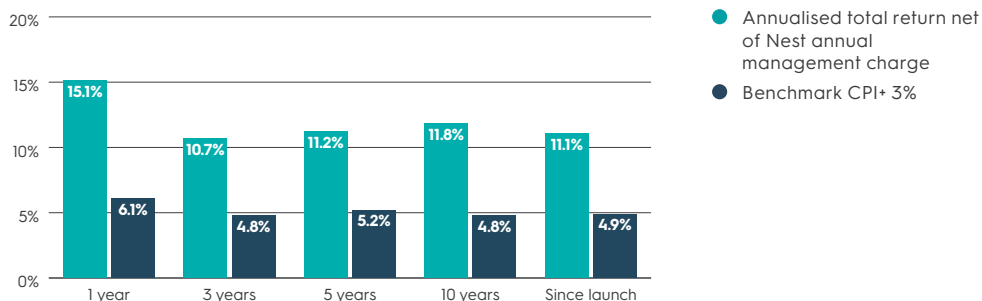
- 67.7% Ethical global equities
- 9.1% UK direct property
- 2.9% Gilts
- 20.3% Ethical sterling corporate bonds

Top 10 shareholdings

Company	Percentage within equities
APPLE	5.9%
LINDE PLC	3.6%
THERMO ELECTRON	3.6%
MASTERCARD	3.2%
ACCENTURE	3.1%
TAIWAN SEMICONDUCTOR MANUFACTURER	2.9%
ILLUMINA	2.6%
SCHNEIDER ELECTRIC	2.5%
ROPER TECHNOLOGIES	2.5%
METTLER TOLEDO	2.3%

67.7% of this fund is allocated to global equities portfolio.

Investment performance



Risk measures

5 year annualised volatility

8.8%

Nest Higher Risk Fund

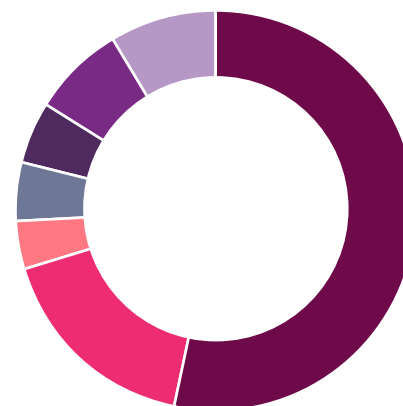
Fund overview

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



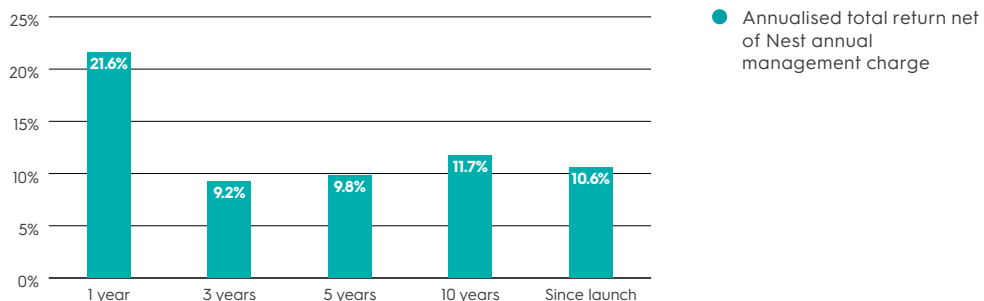
- 53.5% Climate aware global developed equities - GBP Hedged
- 17.0% Climate aware global emerging market equities
- 3.8% Global listed property
- 4.7% Commodities
- 5.1% Hybrid property (UK direct & REITs)
- 7.5% Emerging market debt
- 8.4% Global high yield bonds

Top 10 shareholdings

Company	Percentage within equities
APPLE	2.9%
MICROSOFT CORP	2.8%
ALPHABET	2.0%
AMAZON.COM	1.8%
TAIWAN SEMICONDUCTOR MANUFACTURER	1.6%
SAMSUNG ELECTRON	1.3%
TENCENT	1.1%
FACEBOOK	1.1%
ALIBABA GROUP	0.9%
TESLA	0.8%

70.5% of this fund is allocated to global equities portfolio.

Investment performance



Risk measures

5 year annualised volatility

11.2%

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



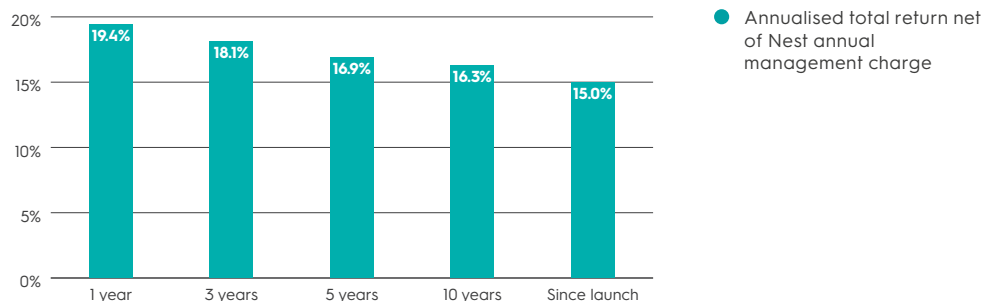
● 100% Sharia compliant equities

Top 10 shareholdings

Company	Percentage within equities
MICROSOFT CORP	7.5%
APPLE	7.2%
ALPHABET	7.1%
AMAZON.COM	6.5%
FACEBOOK	3.7%
TESLA	2.9%
NVIDIA	2.3%
JOHNSON & JOHNSON	1.9%
VISA	1.7%
HOME DEPOT	1.6%

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

Investment performance



Risk measures

5 year annualised volatility

13.0%

Nest Lower Growth Fund

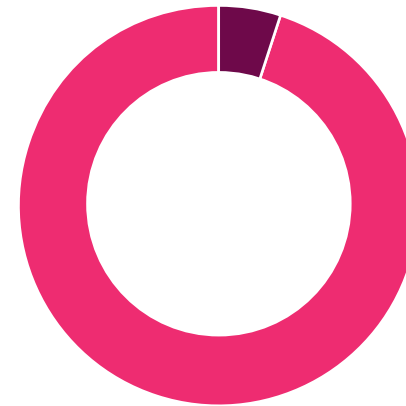
Fund overview

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



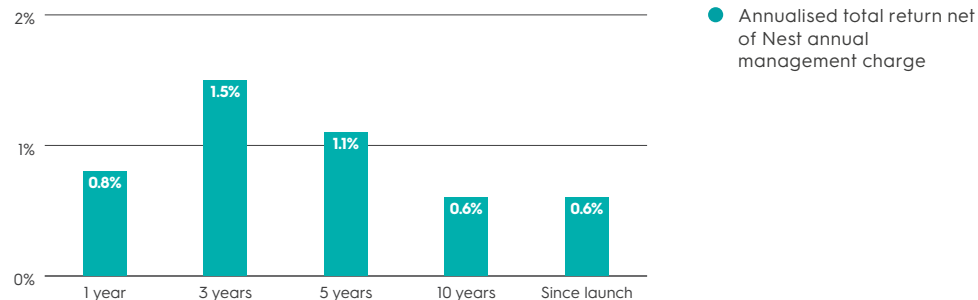
- 5.0% Global short duration investment grade bonds
- 95.0% Short duration UK investment grade bonds

Risk measures

5 year annualised volatility

1.0%

Investment performance



Nest Pre Retirement Fund

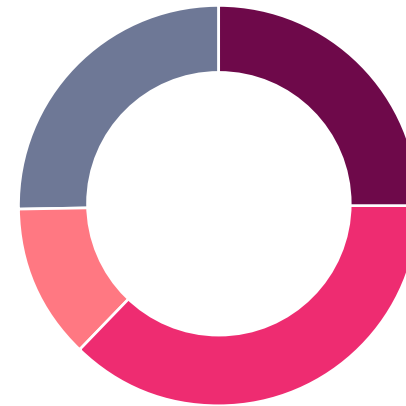
Fund overview

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



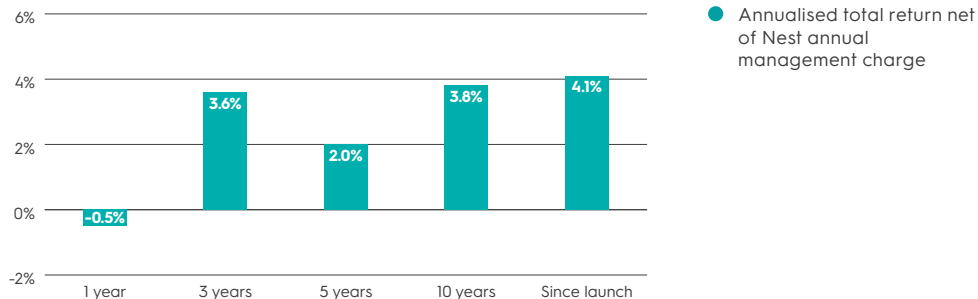
- 25.2% Global short duration investment grade bonds
- 37.1% Sterling corporate bonds
- 12.5% Short duration UK investment grade bonds
- 25.2% Low-risk sterling liquidity

Risk measures

5 year annualised volatility

4.0%

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

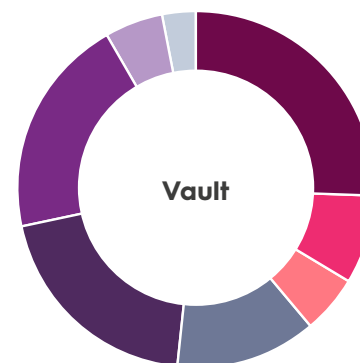
Safe

- 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



- 25.8% Climate aware global developed equities - GBP Hedged
- 7.9% Global investment grade bonds
- 5.2% Global listed property
- 12.8% Hybrid property (UK direct & REITs)
- 20.0% Emerging market debt
- 20.1% Global high yield bonds
- 5.2% Sterling corporate bonds
- 3.0% Low-risk sterling liquidity

Wallet



● 100% Low-risk sterling liquidity

Safe



● 100% Sterling short duration investment grade bonds

Later life



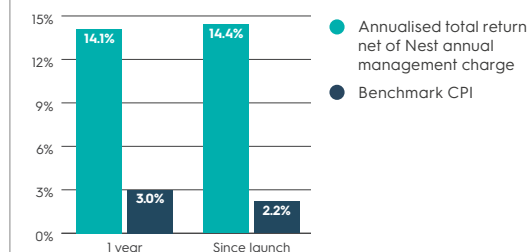
- 42.0% Global investment grade bonds
- 30.2% Global high yield bonds
- 27.8% Sterling corporate bonds

Vault top 5 shareholdings

Company	Percentage within equities
APPLE	3.8%
MICROSOFT CORP	3.7%
ALPHABET	3.8%
AMAZON.COM	2.4%
FACEBOOK	1.4%

25.8% 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



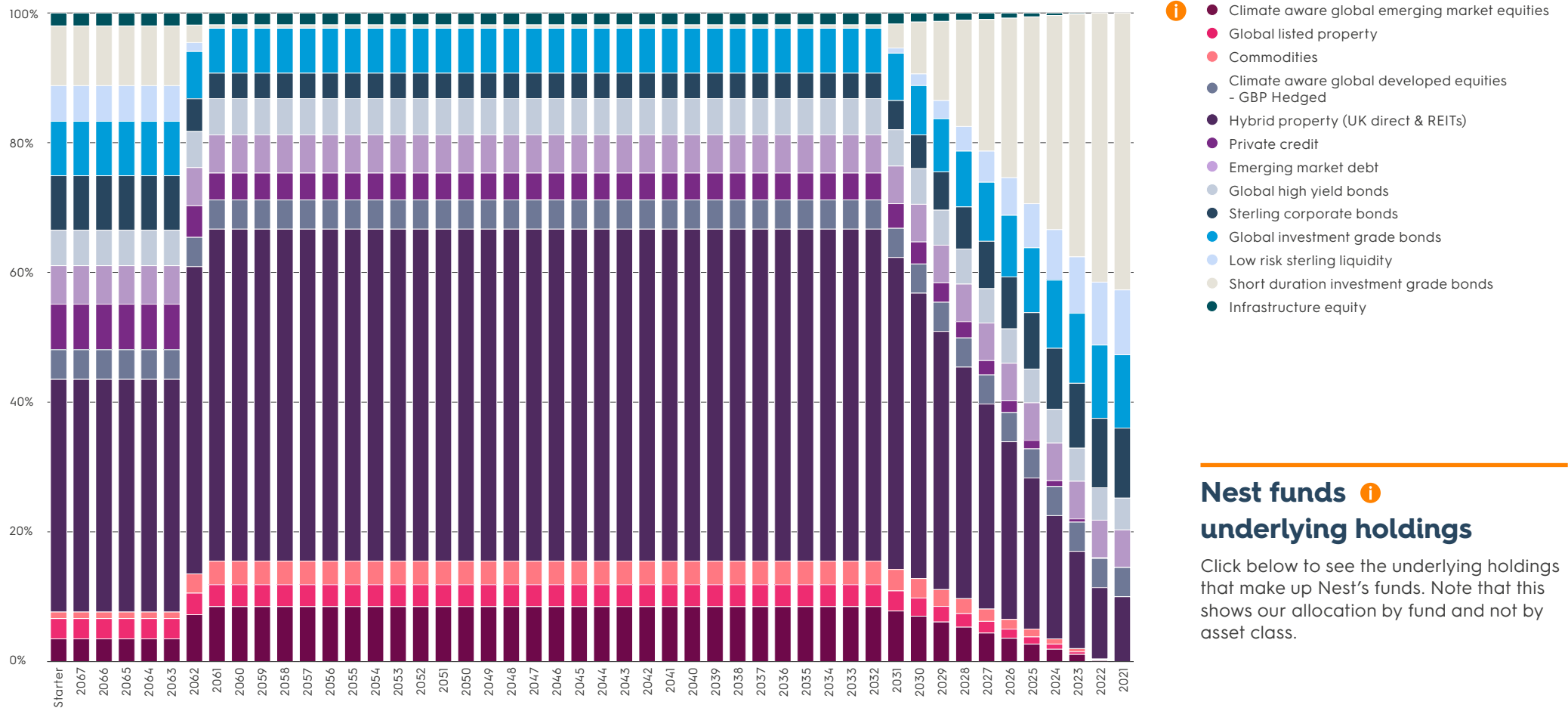
Vault risk measures

5 year annualised volatility

8.9%^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	3.1%
Climate aware global developed equities - GBP Hedged ***	Systematic	UBS/Nest Climate Aware Global Developed Equities Strategy	FTSE AW (Developed) Ex Tobacco (ICB Classified) 50% Hedged to GBP	N/A	46.2%
Climate aware global emerging market equities	Systematic	Northern Trust/Nest Climate Aware Emerging Market Equities Strategy	MSCI Emerging Markets Custom Climate Aware Index	N/A	7.6%
Emerging market debt	Active	Amundi Funds Emerging Markets Blended Bond	50% JPM EMBI Global Diversified Hedged Euro/50% JPM ELMI Plus	LU1361117796	5.7%
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	GB00B8ZDIY62	0.04%
Gilts	Passive	SSGA UK Conventional Gilts All Stocks Index Fund	FTSE Actuaries UK Conventional Gilts All Stocks Index	GB00BWDBJB71	0.0%
Global investment grade bonds	Active	Wells Fargo/Nest Climate Transition Global Investment Grade Corporate Bond Strategy	Global Aggregate Corporate Index GBP Hedged	N/A	7.0%
Global short duration investment grade bonds	Active	Wells Fargo/Nest Climate Transition Global Short Duration Investment Grade Credit Strategy	Global Aggregate Corporate 1-5 year Index GBP Hedged	N/A	0.8%
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	5.5%
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	4.4%
Low-risk sterling liquidity	Active	BlackRock ICS Sterling Liquid Environmentally Aware Fund (LEAF)	GBP 1 Week LIBID	IE00BKC9GJ54	1.9%
Private credit	Active	Amundi Global Commercial Real Estate Debt Fund	3 Month LIBOR	N/A	1.0%
Private credit	Active	BlackRock GBP Infrastructure Debt Fund GP LLP	3 Month LIBOR	N/A	1.3%
Private credit	Active	BNP Diversified Private Credit Fund S.C.Sp. SICAV-RAIF	3 Month LIBOR	N/A	1.3%

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

** Where applicable

*** 50% hedged to GBP

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	1.2%
Infrastructure equity	Active	CBRE Caledon Capital Management	N/A	N/A	0.04%
Infrastructure equity	Active	GLIL LLP	N/A	N/A	0.0%
Sharia compliant equities	Passive	HSBC Islamic Global Equity Index Fund	Dow Jones Islamic Titans 100 Index	LU1092475968	0.5%
Sterling short duration investment grade bonds	Active	BlackRock Institutional Sterling Ultra Short Bond Fund	GBP 3 Month LIBID	IE00BFZD2350	2.2%
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	1.7%
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

*** 50% hedged to GBP

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