



# Nest quarterly investment report

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At end December 2021

This information is designed for professional investors. To help other readers understand it we've added an A-Z glossary of terms on pages 14 and 15.

# Nest quarterly investment report



**Mark Fawcett**  
Chief Investment Officer

The final quarter of 2021 was driven by many of the same themes seen throughout the year: Covid variants, corporate profits, inflation and central banks, regulatory action in China and energy prices.

This saw developed market equities continuing their strong performance and producing another year of strong returns, particularly in the US. The strength of earnings through the year and future expectations have continued into 2022 managing to keep driving equities higher and benefitting Nest's funds. Through the year, we've seen evidence in company results that many businesses have navigated challenges well. Corporate earnings have grown faster than stock prices, easing concerns that prices were too far from fundamentals and that markets were expensive. Emerging market equities have struggled as investors grappled with increased regulation from Chinese authorities.

US inflation rose to 7% in December, the highest since 1982. Across the US, UK and Europe inflation has been trending higher through the year and is sitting well above their central bank's targets. Elevated inflation has persisted longer than anticipated and has led to expectations that interest rates will need to be raised earlier pushing up yields on short term debt. At the same time expectations for longer term economic growth and inflation have been revised down due to the impact of Omicron and the impact of the higher cost of borrowing. This has reduced bond yields on long term debt. The balance of these two effects has meant bond markets have been relatively flat over the quarter.

Energy markets have had an eventful year and the fourth quarter impacted individual markets differently. Natural gas prices have risen as limited supply has come up against strong demand in the winter months. Whilst the opposite has developed in oil markets. The oil price fell as the OPEC+ has said they will increase supply to the market whilst Omicron concerns have lowered expectations for demand. Overall, commodity prices ended the quarter lower than they started - mainly driven by the fall in oil price outweighing the impact of rising prices elsewhere.

The longer the pandemic lasts, the more the risks to the outlook increase. For now, markets are quite sanguine over future prospects, and the hope is that the lesser severity of Omicron will allow economies to get swiftly back on track.

It's important to keep a close eye on the moving parts and how they can impact different markets in different ways. Covid, labour markets, and China are some of the barometers we're closely watching. Our diversified investment approach gives us confidence that we have the toolkit to perform well, but we remain vigilant of the persistent inflation risk and further disruptions to the global economy.

## Responsible Investment

Climate change was the dominant theme this quarter as policymakers convened in Glasgow for COP26. Nest published its annual report on climate change risks and opportunities in line with the recommendations of the Taskforce on Climate-related Financial Disclosures, which included a summary of progress made in the first year of our climate change policy. Working together Nest and UBS Asset Management, which manages our developed market equities climate-aware fund, exited our holdings in five energy companies: Exxon Mobil, Imperial Oil, Kepco, Marathon Oil and Power Assets due to their lack of progress in managing climate change risk. The decision follows a 3-year engagement program which is a fundamental part of managing our members' exposure to climate related risks. In addition, as an active member of the Occupational Pensions Stewardship Council (OPSC), we were involved in sending letters to 44 asset managers calling on them to focus on the voting priorities of pension schemes.

## Nest fund facts

**£23.1bn**

Total Nest assets under management

**0.3%**

Annual management charge/ total expense ratio

**1.8%**

Contribution charge

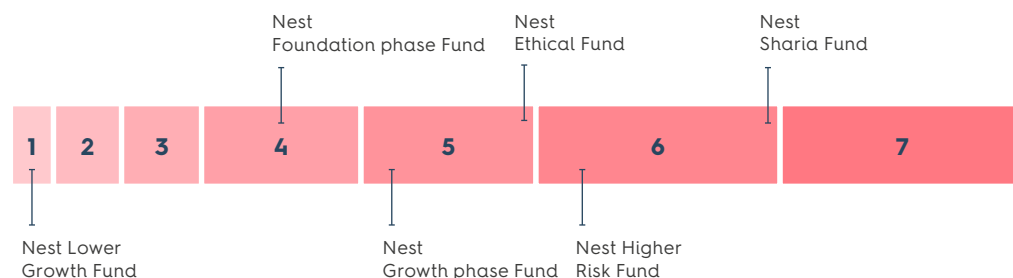
**10.8m**

Nest members

# Performance and risk metrics

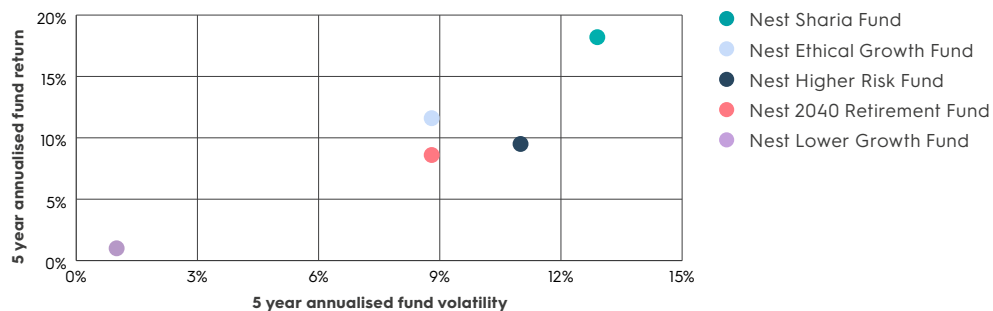
## Comparative risk\*

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

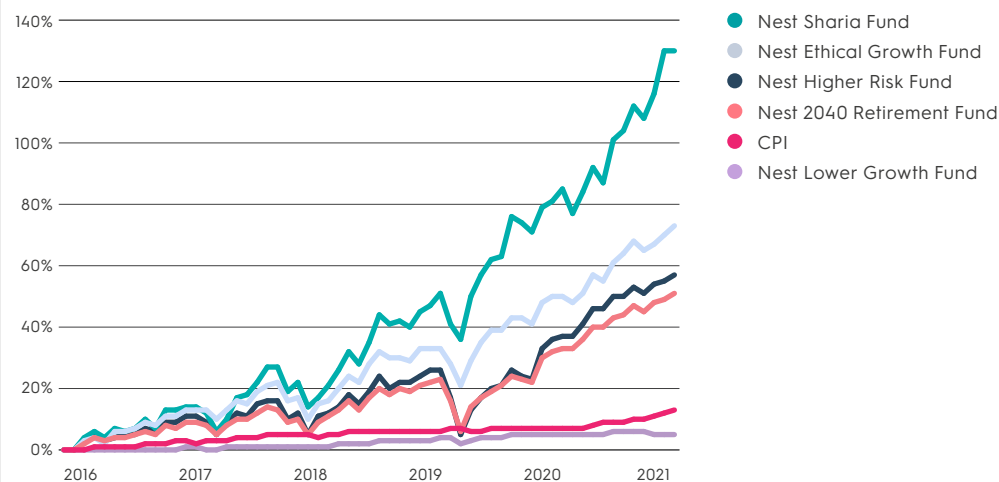
This chart compares the realised risk and the return of Nest's funds (net of AMC).



\* Annualised volatility means how much a market's price goes up or down over a year. Markets that are more likely to swing higher and lower are considered riskier for your money, but they also offer more opportunities for your money to grow faster. As each Nest fund has a different mix of markets, they have different levels of risk. You might choose to take more or less risk based on your goals and circumstances. Most members will be in one of our Nest Retirement Date Funds which vary between mid-four and low-five on the chart.

## Cumulative performance<sup>Δ</sup>

### Five year cumulative performance (net of AMC)



### Five year cumulative performance figures at end December 2021 (net of AMC)

	Nest Sharia Fund	Nest Ethical Growth Fund	Nest Higher Risk Fund	Nest 2040 Retirement Fund	Nest Lower Growth Fund
5 years	130.3%	73.4%	57.5%	51.3%	5.2%

<sup>Δ</sup> This chart shows the 5-year cumulative performance of Nest funds against the Consumer Price Index (CPI). CPI shows you the change in price of a basket of household goods and services, so it's a good measure of inflation. If a fund is underperforming against CPI, it means that money saved in it is growing less than the rise in your cost of living, so you have less money in real terms.

# Nest 2040 Retirement Fund

## (default strategy – growth phase)

### Default strategy

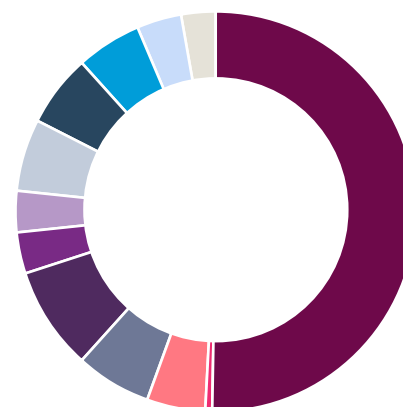
Nest's flagship default strategy provides a fund for each year in which we expect a member could retire. We manage members' assets according to their age and how markets are performing. If members join in their early twenties they'll go through three, dynamically managed investment phases. Most members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

- 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



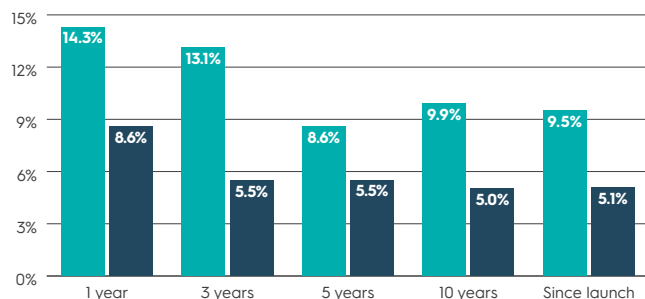
- 50.5% Climate aware global developed equities - GBP Hedged
- 0.5% Global short duration investment grade bonds
- 4.6% Private credit
- 6.4% Global investment grade bonds
- 8.2% Climate aware global emerging market equities
- 3.3% Global listed property
- 3.3% Commodities
- 5.8% Hybrid property (UK direct & REITs)
- 5.9% Emerging market debt
- 5.1% Global high yield bonds
- 3.7% Sterling corporate bonds
- 2.7% Infrastructure equity

### Top 10 shareholdings

Company	Percentage within equities
APPLE INC	3.7%
MICROSOFT CORP	3.5%
ALPHABET INC	2.3%
AMAZON.COM INC	1.9%
TESLA INC	1.2%
META PLATFORMS	1.1%
NVIDIA CORP	1.0%
TAIWAN SEMICONDUCTOR MANUFACTURE	1.0%
SAMSUNG ELECTRON	1.0%
BERKSHIRE HATH	0.8%

58.7% of this fund is allocated to global equities portfolio.

### Investment performance



- Annualised total return net of Nest annual management charge
- Benchmark CPI + 3%

Performance information reflects all the money in this fund rather than your individual pension pot.

### Risk measures

#### 5 year annualised volatility

8.8%

# Nest Ethical Fund

(growth phase)

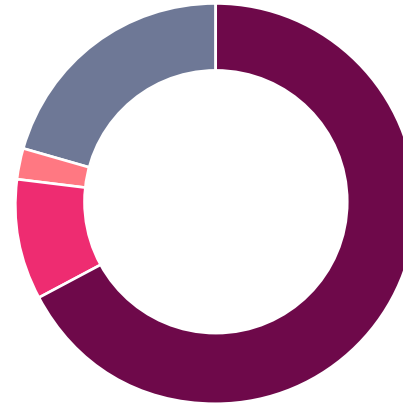
## Fund overview

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



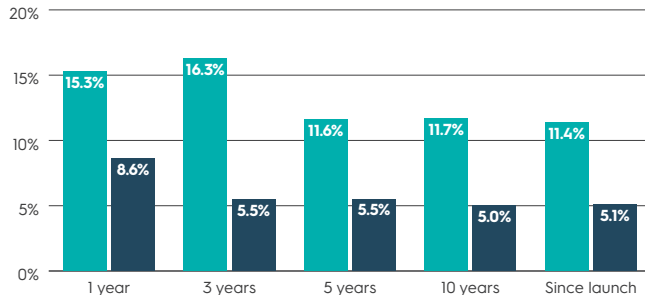
- 67.4% Ethical global equities
- 9.7% UK direct property
- 2.5% Gilts
- 20.4% Ethical sterling corporate bonds

## Top 10 shareholdings

Company	Percentage within equities
APPLE INC	6.8%
LINDE PLC	3.9%
THERMO ELECTRON	3.9%
ACCENTURE	3.7%
MASTERCARD	3.1%
TAIWAN SEMICONDUCTOR MANUFACTURE	2.9%
SCHNEIDER ELECTRIC	2.7%
AUTODESK	2.7%
METTLER TOLEDO	2.6%
ROPER TECHNOLOGIES INC	2.5%

67.4% of this fund is allocated to global equities portfolio.

## Investment performance



- Annualised total return net of Nest annual management charge
- Benchmark CPI+ 3%

Performance information reflects all the money in this fund rather than your individual pension pot.

## Risk measures

### 5 year annualised volatility

8.8%

# Nest Higher Risk Fund

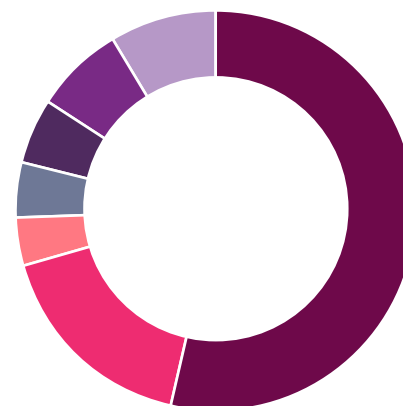
## Fund overview

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



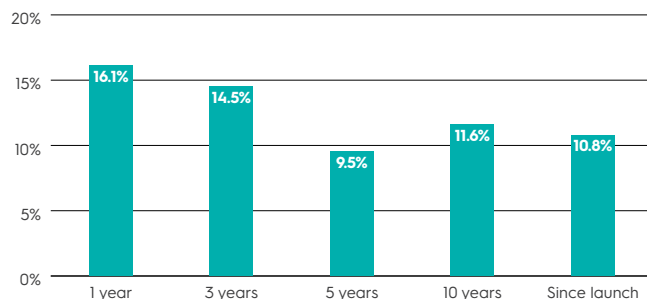
- 53.8% Climate aware global developed equities - GBP Hedged
- 17.0% Climate aware global emerging market equities
- 3.7% Global listed property
- 4.4% Commodities
- 5.3% Hybrid property (UK direct & REITs)
- 7.4% Emerging market debt
- 8.4% Global high yield bonds

## Top 10 shareholdings

Company	Percentage within equities
APPLE INC	3.3%
MICROSOFT CORP	3.1%
ALPHABET INC	2.1%
AMAZON.COM	1.7%
TAIWAN SEMICONDUCTOR MANUFACTURE	1.7%
SAMSUNG ELECTRON	1.4%
TENCENT	1.1%
TESLA INC	1.1%
META PLATFORMS	1.0%
NVIDIA CORP	0.9%

70.8% of this fund is allocated to global equities portfolio.

## Investment performance



● Annualised total return net of Nest annual management charge

Performance information reflects all the money in this fund rather than your individual pension pot.

## Risk measures

### 5 year annualised volatility

11.0%

# Nest Sharia Fund

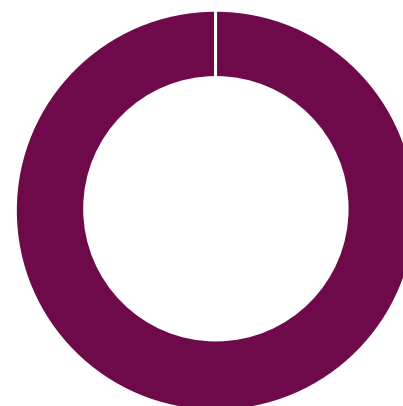
## Fund overview

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

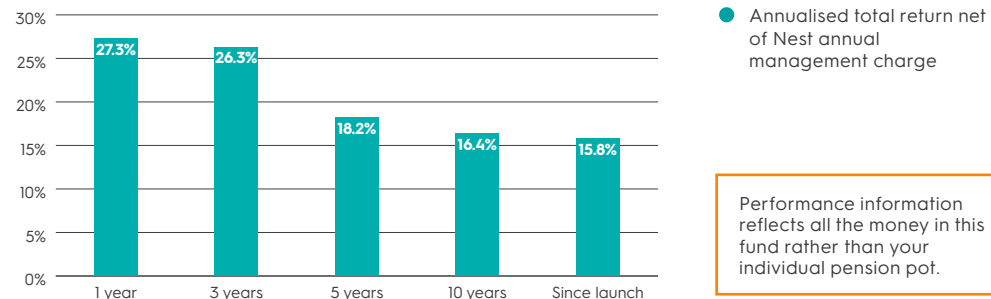


## Top 10 shareholdings

Company	Percentage within equities
APPLE INC	7.7%
MICROSOFT CORP	7.6%
ALPHABET INC	7.0%
AMAZON.COM	6.1%
TESLA INC	3.6%
META PLATFORMS	3.3%
NVIDIA	3.1%
JOHNSON & JOHNSON	1.9%
HOME DEPOT	1.8%
PROCTER & GAMBLE	1.6%

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

## Investment performance



## Risk measures

### 5 year annualised volatility

12.9%

# Nest Lower Growth Fund

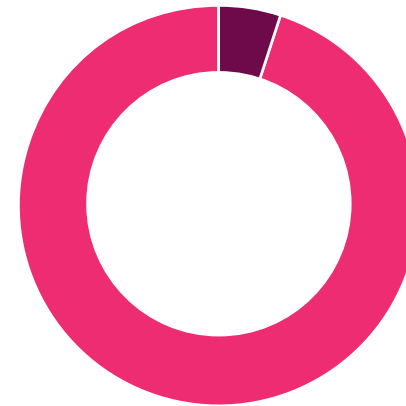
## Fund overview

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



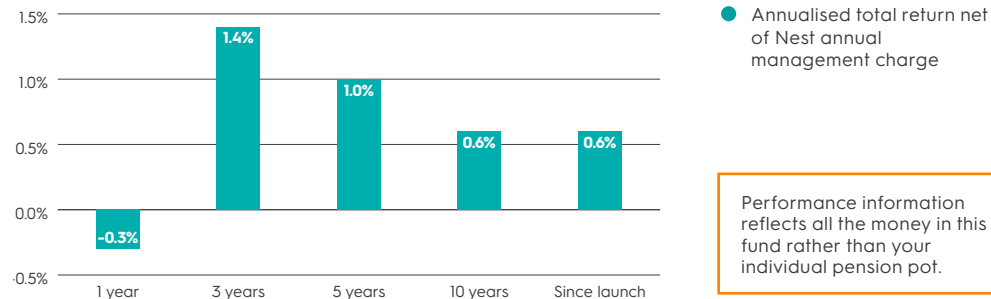
- 5.0% Global short duration investment grade bonds
- 95.0% Short duration UK investment grade bonds

## Risk measures

### 5 year annualised volatility

1.0%

## Investment performance





# Nest Guided Retirement Fund

Members who are in Nest's default Retirement Date Funds (RDF) and meet the criteria will be automatically moved into this fund once their RDF closes. You can choose a different fund or choose to transfer your money out of Nest at any time.

## 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

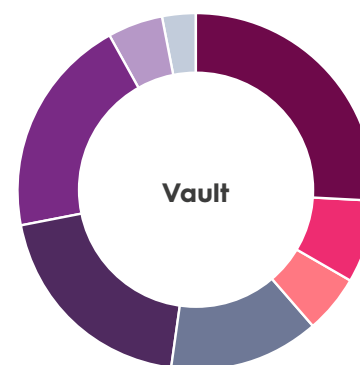
### Safe

- 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



- 26.0% Climate aware global developed equities - GBP Hedged
- 7.6% Global investment grade bonds
- 5.2% Global listed property
- 13.5% Hybrid property (UK direct & REITs)
- 19.9% Emerging market debt
- 19.8% Global high yield bonds
- 5.1% Sterling corporate bonds
- 2.9% Low-risk sterling liquidity

### Wallet



### Safe



### Later life



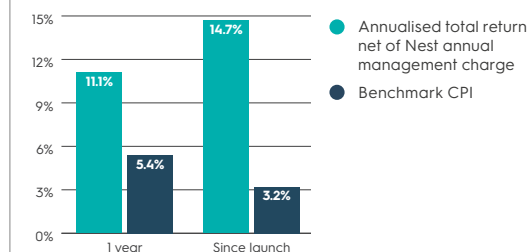
- 42.0% Global investment grade bonds
- 30.1% Global high yield bonds
- 27.9% Sterling corporate bonds

## Vault top 5 shareholdings

Company	Percentage within equities
APPLE INC	4.3%
MICROSOFT CORP	4.1%
ALPHABET INC	2.7%
AMAZON COM	2.2%
TESLA INC	1.4%

26.0% 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



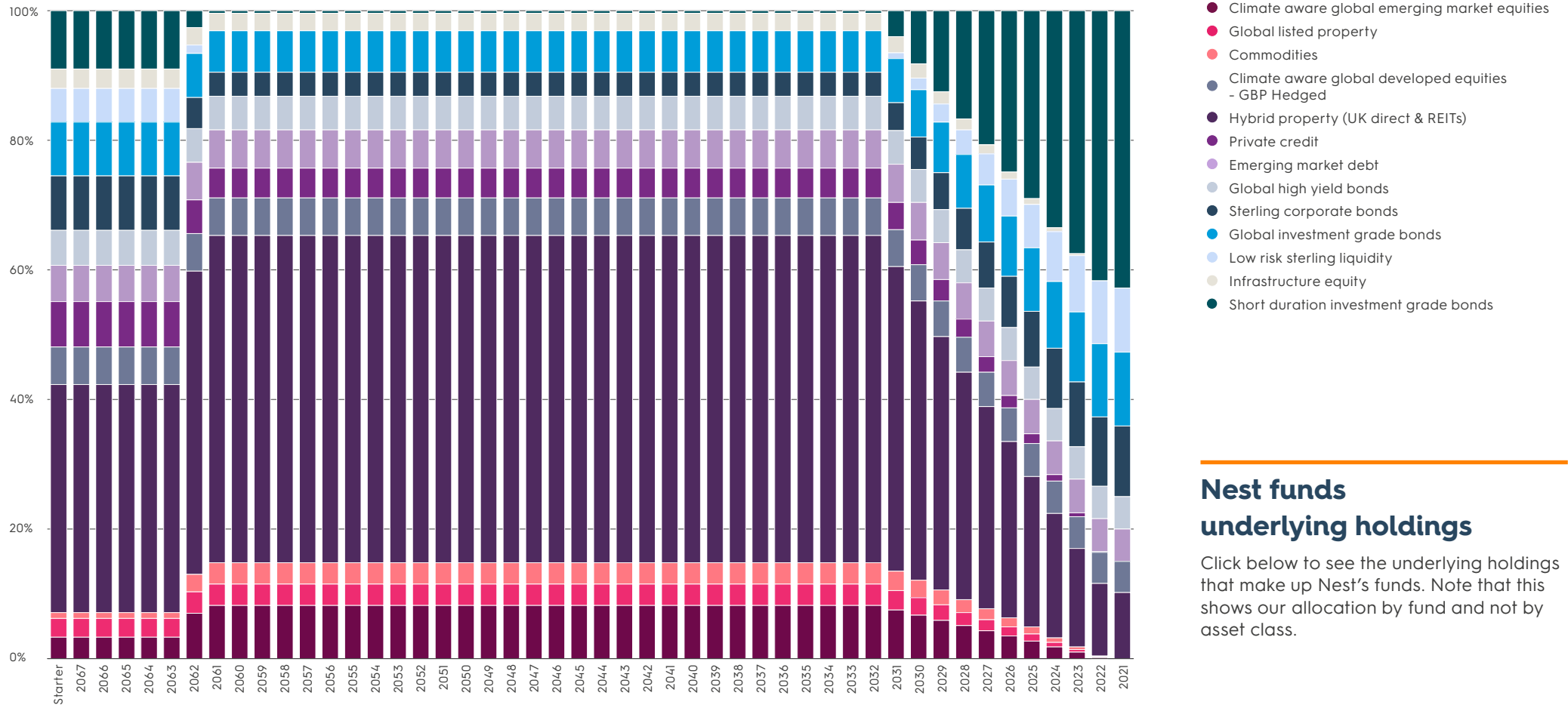
## Vault risk measures

### 5 year annualised volatility

8.2%<sup>Δ</sup>

<sup>Δ</sup> Since launch March 2020

# Nest Retirement Date Funds' asset allocation\*



## Nest funds 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.

\* Different markets have different levels of risk and return. Our approach in our default strategy is to ensure that members who are about to retire aren't invested in overly risky markets. This is to help protect their savings from losses. For those who are still building up their savings, we spread their investment in lots of markets to help grow their money and help cushion it against sudden falls. This chart shows you which markets our default funds are invested in based on how close you are to retirement.

# Overall exposure to underlying funds

Asset class	Investment approach	Fund name	Benchmark*	ISIN*	Exposure to asset class**
Commodities	Active	CoreCommodity/ Nest Program	Commodity Index Total Return	N/A	2.8%
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	45.6%
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	7.4%
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	0.7%
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	Treasury 4% 2022 Gilt	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	Allspring/Nest Climate Transition Global Investment Grade Corporate Bond Strategy	Global Aggregate Corporate Index GBP Hedged	N/A	6.5%
Global short duration investment grade bonds	Active	Allspring/Nest Climate Transition Global Short Duration Investment Grade Credit Strategy	Global Aggregate Corporate 1-5 year Index GBP Hedged	N/A	0.7%
Global high yield bonds	Active	JPMorgan Life High Yield Opportunities Fund	ICE BofAML Non-Financial Developed Markets High Yield Constrained Index Hedged into GBP	GB00BYW8WR05	5.1%
Global listed property	Passive	LGIM Global Real Estate Equity Index Fund	FTSE EPRA Nareit Developed Real Estate Index	GB00B6V63105	3.0%
Hybrid property (UK direct & REITs) (UK direct & REITs)	Active	LGIM Hybrid property (UK direct & REITs) (70:30) Fund	AREF/IPD UK Quarterly All Balanced Property Funds Index/FTSE EPRA Nareit Developed Real Estate Index	GB00B6V67X08	5.6%
Low-risk sterling liquidity	Active	BlackRock ICS Sterling Liquid Environmentally Aware Fund (LEAF)	GBP 1 Week LIBID	IE00BKC9GJ54	2.4%
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	1.3%
Private credit	Active	BNP Diversified Private Credit Fund S.C.Sp. SICAV-RAIF	3 Month LIBOR	N/A	1.4%

\* Where applicable

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

\*\*\* 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	1.1%
Infrastructure equity	Active	CBRE Caledon Capital Management	N/A	N/A	0.6%
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	2.1%
Sterling short duration investment grade bonds	Active	Royal London Investment Grade Short Dated Credit Fund	ICE BofAML 1-5 year Sterling Non-Gilt Index	GB00BDR6MS36	1.7%
Sterling corporate bonds	Active	Royal London UK Corporate Bond Fund	iBoxx Sterling Non-Gilt Index	GB00B7N8ML46	4.3%
UK direct property	Active	LGIM Managed Property Fund	AREF/IPD UK Quarterly All Balanced Property Funds Index	GB00B6V5QR44	0.1%

\* Where applicable

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

\*\*\* 50% hedged to GBP

# Glossary

## Annual management charge

This is a charge taken on the value of the whole of your Nest retirement pot each year.

## Asset allocation

This shows the different asset classes the fund invests in. An asset class is a group of investments or markets that are similar to each other, such as company shares (known as equities), property, or commodities. Investing in more assets generally means you're spreading investment risk.

## Asset class

An asset class is a group of investments or markets that are similar to each other, such as shares, property or commodities.

## Benchmark

This column in the performance chart on each fund page shows the names of the benchmarks around which the investment strategy for each particular building block fund is set.

## Contribution charge

Contribution charges help cover the costs of running the scheme. Nest has a contribution charge of 1.8%.

## Exposure to asset class

Exposure means how much of the total money that Nest manages is invested in each of these funds or asset classes across the portfolio.

## Fund name

We use several funds as building blocks for the main fund that your pension pot is held in. Each of these has its own different area of focus, for example company shares, property or cash, and is managed by an external fund manager with specific expertise in that type of investment. To find out which underlying funds your money is in, you can click the button at the bottom of [page 10](#).

## Fund objectives

Different funds have different goals. For example, funds for members who are about to retire are focused on protecting your savings rather than growing your money.

## Investment approach

A passive investment approach will follow a popular market index such as the FTSE 100. This approach can benefit from the overall upward trend of markets and tends to have lower costs attached. An active approach is more hands on, where portfolio managers aim to beat the markets' returns.

## Investment performance

These graphs show the average yearly performance of the fund over different time frames. They reflect the fund as a whole, not an individual's pension pot. That's because the performance of your pot depends on things like when you first joined the fund and when your contributions are paid in.

## ISIN

ISIN stands for International Securities Identification Number. The number is used to track listed funds.

# Glossary

## Continued

### Nest 2040 Retirement Fund

You'll be first enrolled into one of our default funds when you join Nest. Which one you go into will depend on your age at the time. The Nest 2040 Retirement Fund is one of our default funds and it's for members who are set to retire in 2040. Because that's still a long way off, we're taking more risk to try to grow your savings as quickly as we can. That's why we call this the 'growth phase'. We've chosen to display the 2040 fund on this factsheet because most of our members will be in a growth phase fund for quite a lot of time.

We have a different default fund for each year a member could retire. For the performance of another default fund click the button in the top right corner of [page 4](#). For a breakdown of where all our other default funds are invested see [page 10](#) of this report. Please remember that your individual pension pot only makes up a part of the overall fund you're in. The performance therefore reflects how all the money in the fund has performed rather than your individual pension pot.

### Realised risk and return of Nest's funds

We believe there's no point taking more risk than needed with your money unless there's a higher chance of making it grow. The chart on [page 3](#) compares how risky each fund has been against how well it's delivered over the last five years. The further left a fund is, the more sharply it has risen and fallen in value over that time. The higher a fund is, the more profitable it has been.

### Responsible Investment

We put responsible investing at the heart of what we do, taking environmental, social and governance (ESG) issues into account when deciding where to put members' money. While we apply this approach across nearly all the money we invest on members' behalf, we take a different approach in our Ethical and Sharia funds to match the specific objectives of those funds.

The commentary in the introduction of this report highlights the activities taken in the quarter by Nest's responsible investment team to keep your money safer and grow it more sustainably over the long term.

### Risk measures

Realised volatility measures how much the price of the fund moves every day, regardless of whether it's rising or falling. Riskier investment approaches are likely to be more volatile. The European Securities and Markets Authority suggests that 0-0.5% volatility is considered very low risk, whereas anything above 25% volatility is considered very high risk.

### Top 10 shareholdings

This lists the top 10 companies the fund holds shares in, otherwise known as equities. These top holdings are worked out from our equity allocation and doesn't include companies we may invest in via other asset classes, such as property.

# Important information

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