Nest's responsible investment report

Our responsible investment activities and outcomes over **2023/24**

nestpensions.org.uk

Contents

Foreword

Elizabeth Fernando

Chief Investment Officer

This year, we saw the emergence of greater conflict in the Middle East and an escalation of the ongoing war in Ukraine. These conflicts have created serious humanitarian and health crises, with many civilians being caught in the middle, at the risk of death, severe injury and displacement. While we as investors do not directly influence these conflicts, now more than ever, it's crucial for us to identify and address actual and potential negative human rights outcomes we may be connected to through our investments. Nest continues to do this through our UN Global Compact screen to identify and address human rights abuses in our holdings, the implementation of our controversial weapons exclusion policy and other stewardship activities addressing human rights risks.

We also believe continued volatility in global energy prices and supply insecurity spurred by conflict in key regions underlines the essential need to accelerate the energy transition and move away from fossil fuels.

We were relieved that world leaders who gathered at COP28 in Dubai in November kept the 1.5C temperature limit alive and recognised the need for urgent action to keep it within reach. The final text called on all member states to contribute to global efforts by transitioning away from fossil fuels, triple renewable energy capacity globally and double energy efficiency improvements by 2030. The physical impacts of climate change are playing out more vigorously every year across the world, and as a globally diversified investor, Nest is starting to act on how best to identify and manage these risks across our portfolio. We were also delighted to have appointed a new thematic active equity manager who will help us tap into further growth opportunities by investing in companies that are benefiting from and enabling the climate transition, delivering nature-based solutions and recognising changing demographics and other social issues.

As always, there has been a lot happening across the responsible investment landscape and this year saw some worrying developments unfold. The politicisation of environmental, social and governance (ESG) issues in the US led to several large asset managers and banks leaving collaborative investor initiatives such as Climate Action 100+. It's likely that some of this 'anti ESG' sentiment will find its way to the UK and Europe, and we should firmly stick to our first principles that this is about managing investment risk and enhancing returns in the long-term financial interests of our members. We were pleased to see this view underpinned by a new report by the Financial Markets Law Committee on **Pension Fund Trustees' Fiduciary Duties**. This looked at trustee decision making in the context of sustainability and climate change and concluded that pension scheme trustees should be taking into account sustainability factors such as climate change, unless there are compelling arguments as to why this isn't financially material for their strategy. We were pleased to have participated in this working group.

Finally, we're delighted to have our signatory status to the Stewardship Code reapproved by the Financial Reporting Council (FRC). The Stewardship Code continues to set a high bar for stewardship, and we're pleased to be recognised for our stewardship activities and reporting. We look forward to the FRC's consultation process later this year.

Principle 6

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.

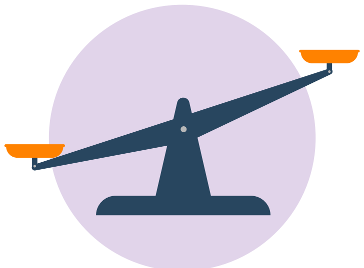
This is the 8th annual responsible investment report produced by Nest. It mostly covers our activities between 1 April 2023 to 31 March 2024, but we also include a few more recent examples of our work to date.

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. A breakdown of how this report addresses each principle can be found in **chapter seven**.

Flags can also be found throughout the report to indicate which chapters and sections align to the various parts of the FRC Stewardship Code.

How we have ensured this report is fair, balanced and understandable

This report has been developed and reviewed by a range of internal and external stakeholders and draws on various sources of information.



The report was written by Nest's responsible investment team, to make sure it was informed by those team members responsible for the various work areas covered in the report, and therefore is as accurate and up to date as possible. Data and evidence were gathered from a combination of sources, including from our third-party service providers and internal tracking systems. Information on our work provided by our fund managers and other partners has been reviewed and assured by them. In addition, our in-house compliance team has reviewed this report, and Nest's communications team have been extensively involved to offer independent and objective challenge to make sure the report is clear for the intended readership, and claims made are backed up by evidence and examples. Finally, Nest's investment committee has reviewed and approved the full report.

Further information on our review and assurance processes can be found in **chapter four**.

This process has given us confidence that our reporting is fair, accurate and balanced – as well as of interest and use to our members, the employers who use our scheme and our wider stakeholders.

Chapter 1

At a glance

We're unlike other pension schemes in the UK. We're open to every UK employer, big or small, and to all their employees. By operating at scale, Nest can have a significant impact.

Chapter 1

At a glance

Principle 6

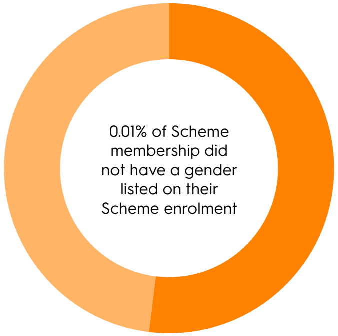
Our members in numbers

4.9m are active*

8.8m are inactive**

3.8m contributing members

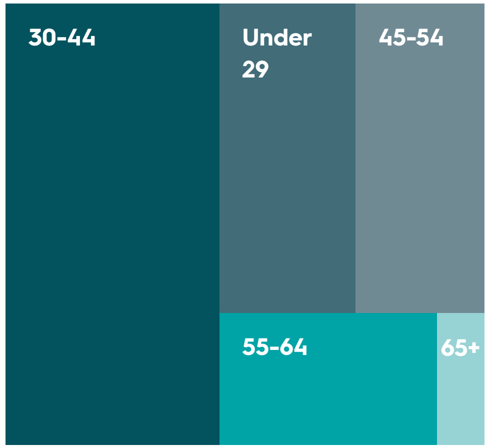
9.2m non-contributing members



48% female

52% male

Age breakdown of membership



30-44	**45.04%**
Under 29	**20.17%**
45-54	**18.67%**
55-64	**13.55%**
65+	**2.56%**

* 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.

Key figures as at 31 March 2024

£40.7bn
Assets under management

£7.3bn
Total annual contributions

21
Fund managers

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

8.3%
10-year rolling annualised returns in the Nest 2040 Retirement Date Fund after annual management charges to 31 March 2024[1]

1 After annual management charges to 31 March 2023.

Our engagement activity

36,481

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

353

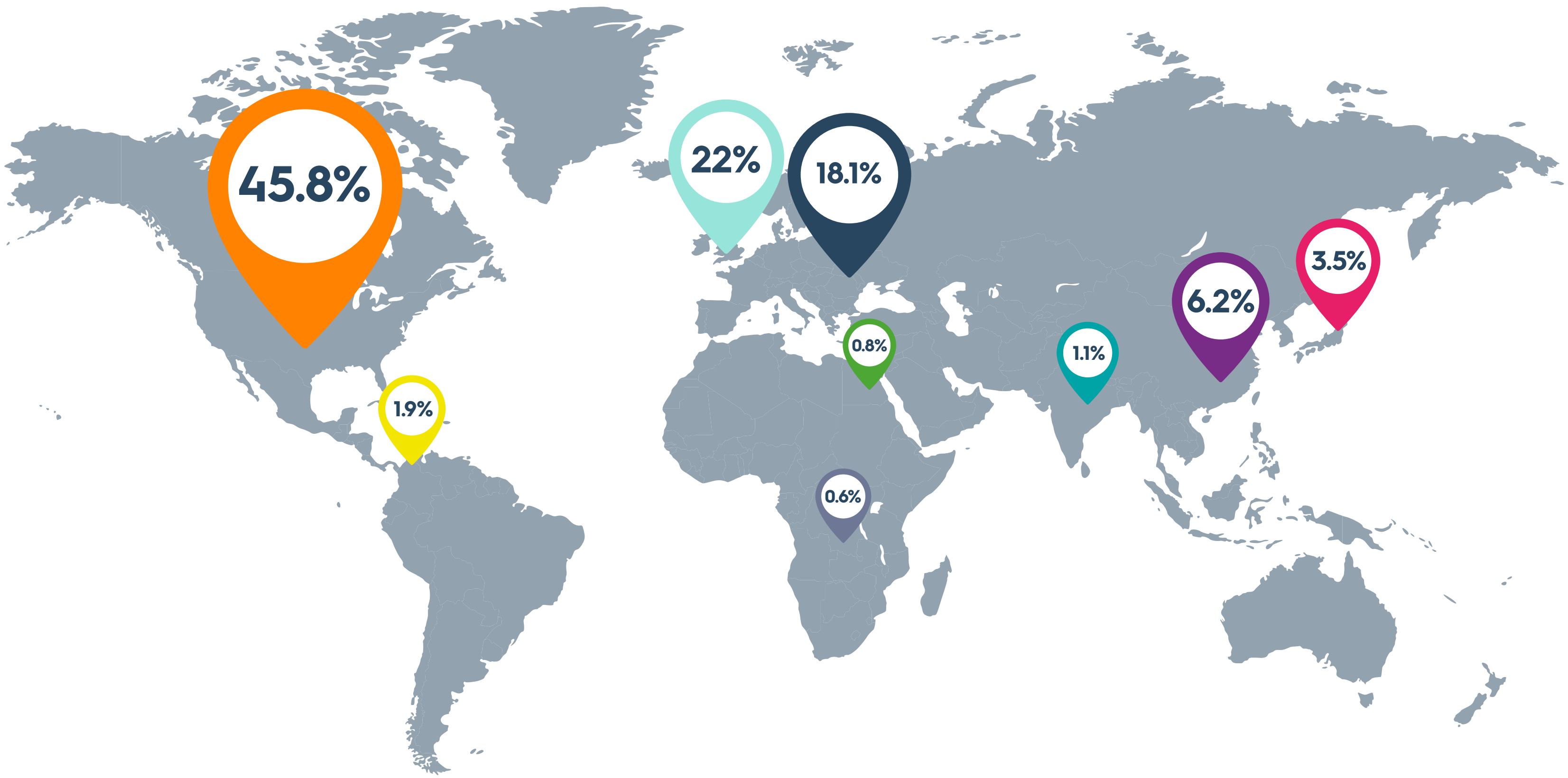
engagements carried out by our main equity managers, UBS and Northern Trust, on our behalf

34

companies directly engaged with, on over 6 issues

Direct engagement refers to when Nest has been involved in a meeting with a company (either one-to-one or as part of a broader investor meeting) and/or has written to a company directly.

Assets under management by region

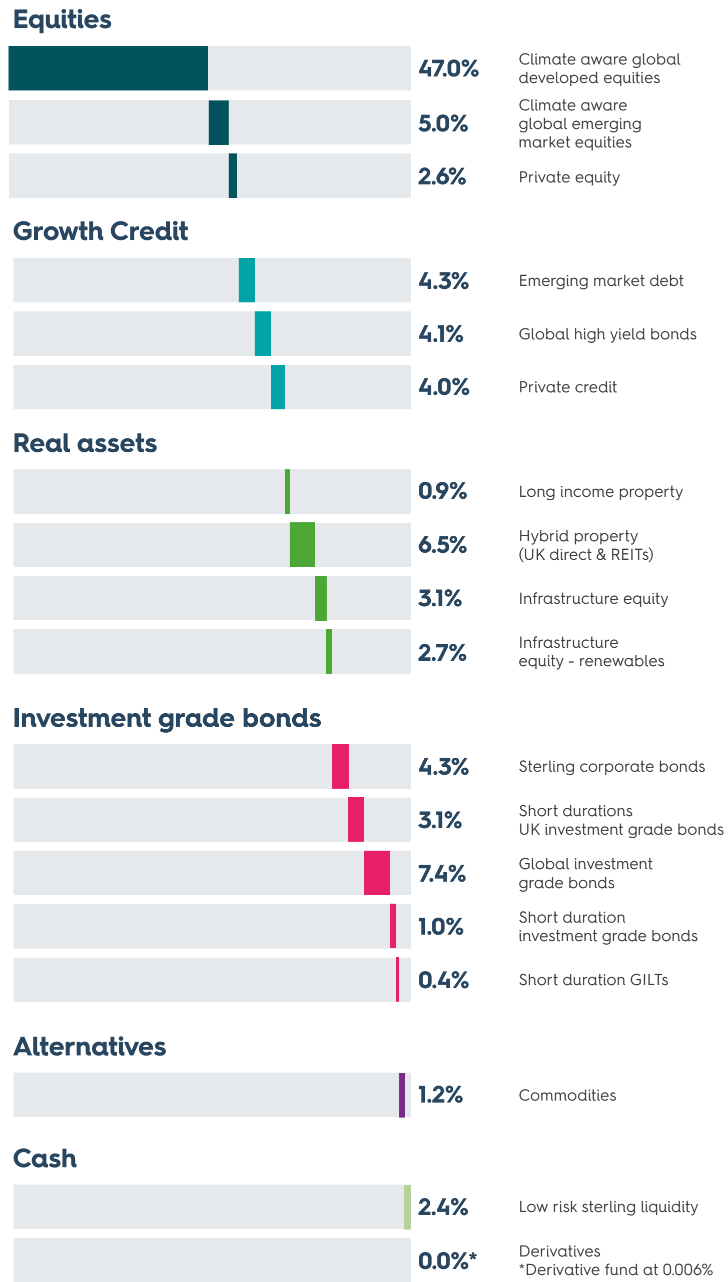


North America	45.8%
Europe and Central Asia Ex UK	18.1%
East Asia and Pacific Ex Japan	6.2%
South Asia	1.1%
Middle East and North Africa	0.8%
Japan	3.5%
United Kingdom	22%
Latin America and Caribbean	1.9%
Sub-Saharan Africa	0.6%

Data correct at time of print, however, asset allocations are indicative only and subject to change. The data presented in this chart may vary slightly from other Nest reports due to minor differences in the classification of investments.

Our portfolio, asset classes & investment mandates

Asset class	Fund strategy	Investment manager
Cash	Money market funds	BlackRock
		Legal & General Investment Management
		State Street Global Advisors
Investment-grade bonds	UK government bonds	BlackRock
		Royal London Asset Management
	Investment-grade corporate bonds	Allspring
		BlackRock
		Columbia Threadneedle
		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
		HSBC Global Asset Management
		UBS Asset Management
	Emerging markets equities	Northern Trust Asset Management
	Private equity	HarbourVest Partners LLC
		Schroders Investment Management Limited
	Listed property	Legal & General Investment Management
	Thematic equities	Lombard Odier Investment Managers
Real assets	Direct property	Legal & General Investment Management
	Infrastructure equity	CBRE Investment Management
		GLIL Infrastructure LLP
		Octopus Energy Generation
Alternatives	Commodities	CoreCommodity Management
	Derivatives	Amundi Asset Management



Principle 1

Chapter 2

Our mission

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

Our mission

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

We're unlike other pension schemes in the UK. We're open to every UK employer, 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 organisation. This means in addition to providing better investment outcomes for our members, we 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 six**.

"Our investment approach recognises the changes in people's investment return objectives and risk tolerances in different phases of life"

Our investment beliefs

Our investment beliefs help us make better, more consistent 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.

Principle 6

As set out in the SIP, risks and opportunities are assessed for materiality and impact within a broader risk management framework, which takes account of the Trustee's investment time horizon for a diverse member demographic. Our investment approach recognises the changes in people's investment return objectives and risk tolerances in different phases of life. For example, we recognise that we currently have a large cohort of young members who will be nearing or in retirement by 2050. This was an important consideration in developing our climate change policy and setting 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. Further information on our members' age profile and what it means for our investment approach can be found in our **member investment research report**.

A number 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.**

- Integrating sustainability factors into our investment process, from asset allocation and benchmark construction to manager selection and risk management, supports the identification and ultimately the pricing of ESG risk and opportunity.
- Capital allocation by investors and corporations can make a difference in how ESG risks play out and is particularly effective when aligned with policy and regulation.

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

- Where portfolios are well diversified, performance is broadly determined by the global economic systems in which investees operate – engaging with companies, fund managers, and policy makers to improve financial markets and influence the long-term health of these systems is in our members' best interests and part of our fiduciary duty.
- We consider the impact of our investments as an economic actor in our own right and as part of a wider investor community. We believe we can deliver on our investment objectives and have a net positive impact on externalities that affect members' investments and retirement outcomes.

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

- Transparency and clear communications about how we invest promotes trust and leads to better member outcomes.
- Our members have agency as to where, when, and how much they save for their pension – we do not assume inertia is the same as indifference to the investment experience members have, or the way their capital is allocated.
- Member behavioural as well as socio-economic factors influence how we manage different risk premia at different times – this is complementary to our fiduciary responsibility to achieve the best risk adjusted returns to meet members' different investment objectives.
- As a large institutional investor, we can be increasingly circumspect about where and to whom we allocate members' capital; consideration of reputational risks and their impact on members' trust in Nest is a factor in some investment decisions.

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. In addition, how we act as an investor will have an impact on how our members and employers view Nest as an organisation, and whether we are seen as a trusted partner.

"We need to think about how companies and markets operate and how they treat people and the environment."

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.

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.

Foreword

Chapter 1
At a glance

Chapter 2
Our mission

Chapter 3

Chapter 4
How we invest responsibly

Chapter 5
How we make and implement decisions

Chapter 6
More about Nest

Chapter 7
Meeting the FRC's Stewardship Code

Principle 7 9 12

Chapter 3

Our environmental, social & governance priorities

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

Principle 4

Our environmental, social & governance priorities

We have continued to work, and make good progress on our environmental, social & governance (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 resources 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 four** 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.

Principle 10

Our current ESG priorities

As an asset owner invested across many asset 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 seven priority areas that guide our current work. These are derived using our prioritisation framework and are based on thorough research and analysis.

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

Nature and biodiversity: Many aspects of our environment such as forests, water, and agriculture are closely linked to climate change mitigation and adaptation. Achieving net zero emissions by 2050 will require the preservation of ecosystems and significant investments in nature-based solutions for carbon capture and storage.

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: As an institutional investor, we have a responsibility to respect human rights in line with the UN Guiding Principles on Business and Human Rights, and encourage our companies to manage and mitigate risks in their supply chains.

Digital rights and technology: 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 address potential risks and negative impacts on wider society.

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.

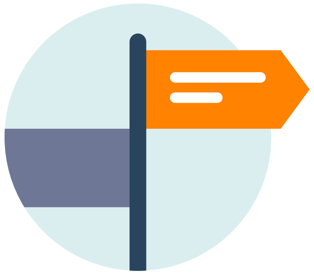
Health and food systems: The food sector needs to manage a range of health and environmental concerns to remain profitable over the long term. With the likelihood of further government policy interventions, it's important that food retailers and manufacturers promote healthy eating.

We use a range of tools to address and manage risks within each of our ESG priorities. This table sets out which responsible investment tools we have used over the last year to address these risks. And the following section discusses the progress we're making on each theme and explains how and why we've used these tools.

	Research	Public policy	Voting	File shareholder resolutions	Direct engagement	Collaborative engagement	Capital allocation	Divestment
Climate change	✓	✓	✓	✓	✓	✓	✓	✓
Nature and biodiversity	✓	✓	✓			✓	✓	
Human capital	✓		✓			✓		
Human rights	✓		✓		✓	✓		✓
Digital rights and technology	✓	✓	✓			✓		
Diversity	✓		✓	✓	✓	✓		
Health and food systems	✓	✓	✓			✓		

Climate change

Why it matters to us: Climate change is one of the biggest risks facing society. Both the physical impacts of rising 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, if not managed properly.



Our commitments

We've 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.

To achieve this long-term goal, we have set out several short- and medium-term targets, in our roadmap.

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

We will review our climate change policy and roadmap in 2024 and publish new targets where appropriate.

Our climate change roadmap

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

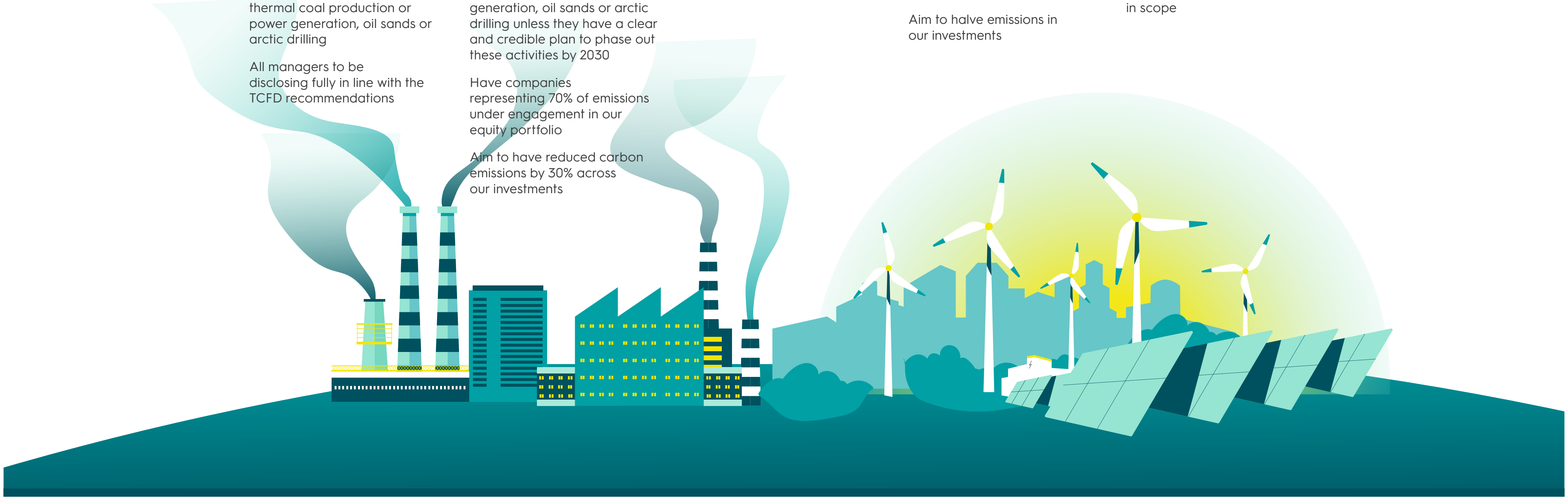
2030

Estimated to invest £1.4bn in renewable infrastructure

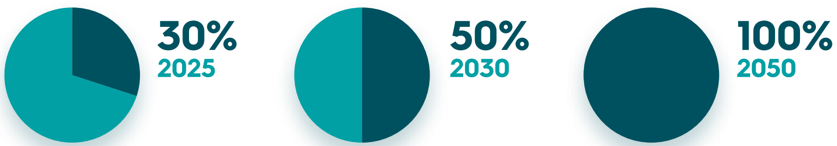
Aim to halve emissions in our investments

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 on their expected risk and returns, and seek to integrate them into how we make investment decisions. In practice, this means considering climate change when deciding which asset classes to invest in, as well as the allocation within a particular asset class. At the moment, there is a lack of robust and comparable data to assess climate change risks and opportunities across all asset classes. We therefore focus primarily on allocation within asset classes.

Some of the actions we have undertaken include:

- We're transitioning our portfolios to directly manage transition risk 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. We exclude companies that make more than 10% 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.

Case study

Understanding physical climate risk

Physical climate risk refers to the potential for financial losses from the physical impacts of climate change. This can be caused by extreme weather events such as flooding, storms, heatwaves and wildfires. But also, by slower changes such as increased temperatures, sea level rise or shifting rainfall patterns. These are also referred to as 'climate hazards'.

These financial impacts can vary from lower property values in areas prone to wildfires, to operational disruptions caused by droughts or increased insurance costs when cyclone damages become too frequent.

Even if we stop emitting greenhouse gases today, global average temperatures will continue to rise by more than 1.3C and the weather will get even more unpredictable. This means that we need to start adapting to a new climate today to avoid more and larger financial losses in the future.

Approach

A researcher from the University of Oxford and UK Centre for Greening Finance and Investment was seconded to Nest to help us get a clearer picture of the science and data available for understanding physical climate risks. They reviewed academic research to understand the limitations of current climate models and whether they should or should not yet be used to inform investment decisions. They then looked at a range of available physical climate risk tools and assessed them against these concerns.

We also worked with two of our asset managers to understand how they assess physical climate risks in the portfolios they manage for us. In parallel, we assessed the exposure to physical climate risk in our equity, bonds and infrastructure portfolios, by looking at individual facilities, such as power plants and data centres, that are operated by the companies we have invested in. We overlaid the location of these facilities with datasets from the **GRI risk viewer** and **Aqueduct water risk** atlas to estimate current and future climate risks.

Results and next steps

Our research found that the climate data today is not yet fit for purpose for financial risk analysis at a company level. The climate models used in most physical risk tools do not model extreme weather events properly and contain a lot of uncertainty. Additionally, we have very little data around the vulnerability of companies' operations to a changing climate and how they are building resilience. Whilst the tools available right now have their limitations, they can be used by investors to start building an understanding of physical risk across their portfolios.

Our internal analysis showed that most of the facilities we looked at are already exposed to at least one climate hazard today, and many facilities are exposed to more than one hazard. Water stress, cyclones and extreme heat are the biggest concerns. The analysis also shows that these risks will increase even more in the future. The extent to which this will disrupt and financially impact our investments needs further investigation. We will continue to work with our asset managers, peers and researchers at the UK Centre for Greening Finance and Investment to improve the assessment and mitigation of physical climate risk. We will also use the data to inform the climate engagement framework for our climate-aware developed market equities fund.

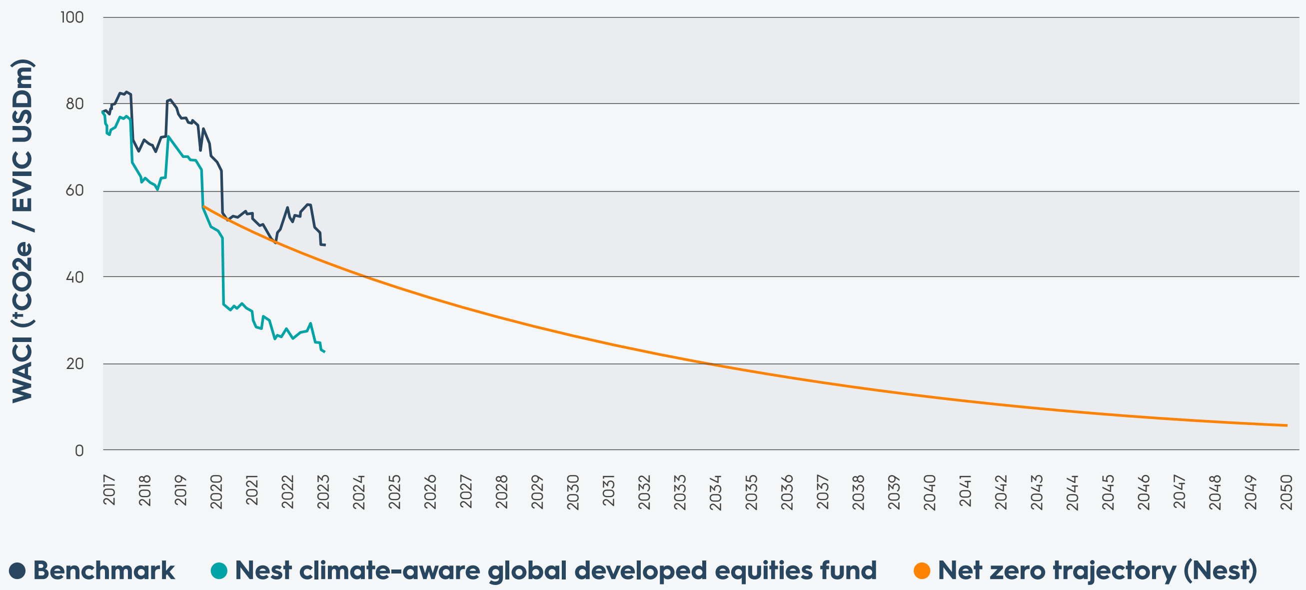
We are progressing well towards our interim targets. The Scope 1+2 carbon intensity of our developed market equities portfolio, which makes up nearly 45% of our total assets, has reduced by 58% since 2019. This was achieved through the fund's approach to tilting away from the most carbon-intensive companies as well as selective exclusions. In the past year, the Scope 1+2 carbon intensity has reduced by 10.8%.

Financed emissions are a useful measure but they do not give a full picture. Making asset allocation decisions based 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. We are 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, 33.7% of companies have an accredited science-based target.

We believe that the transition to a net zero economy can also be an investment opportunity. We have so far invested almost £1.3 billion in renewable energy infrastructure and are well on track to meet our target of £1.4 billon by 2030.

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.

Developed market equities Carbon intensity trajectory (scope 1 + scope 2 CO2e / EVIC USDm)



Source: UBS Asset Management. Data as at March 2024

Climate solutions are not limited to renewable energy but encompass a range of activities, goods and services that either contribute substantially to enable emissions reductions or to adapting to the physical impacts of climate change. Our developed market equities fund manager has also developed a 'Green Opportunities Score' for the portfolio, which will capture companies involved in activities including alternative energy, energy efficiency, green building, and pollution prevention. This enhances the existing methodology which was only able to capture renewable energy. We have a target to increase the allocation to Green Opportunities by 10% relative to the benchmark.

We have also recently invested in a thematic equity mandate with Lombard Odier Investment Managers that will help us access solutions for climate mitigation and adaptation. We talk about this appointment in more detail in the case study in **chapter four**.

Principle 8

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 are 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

In 2020, Nest set objectives for all its managers tailored to the relevant asset class the fund is in and maturity of their own climate change policies. These objectives were due to be met at the end of 2023. A total of 83% of objectives were achieved in full by this deadline. For some objectives, progress was slow because of particular difficulties for the relevant asset classes.

For example, reporting on ESG metrics, in particular carbon data, remains very challenging in private debt. This is a wider industry challenge, and the fund manager for that mandate is a member of the ESG Data Convergence Initiative which aims to improve consistent reporting across the industry.

"In 2020, Nest set objectives for all its managers tailored to the relevant asset class the fund is in and maturity of their own climate change policies."

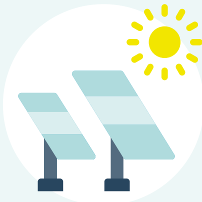
Stewardship

While it's 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 because other investors will purchase the assets. Instead, we want to stay invested and work to encourage companies to decarbonise, be that via our fund managers, on our own or in collaboration with others. 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 believe collective engagement with like-minded investors is more likely to yield positive results. We currently take part in three collaborative engagement initiatives on climate change:

1) **Climate Action 100+:** This is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. We take part in three engagement groups with companies in emerging markets on improving climate change governance, cutting emissions and strengthening climate-related financial disclosures. We believe the initiative delivers positive impact in pushing companies to increase their climate change ambitions and actions. 77% of companies now have a commitment to net zero emissions by 2050 or sooner across at least Scope 1 and 2 emissions.[1] Our engagement with companies is increasingly focusing on their action plans to meet the targets they have set. The Net Zero Company Benchmark is also a key tool in helping us assess the alignment of individual companies, showing how companies are performing on emissions reductions, disclosure and engagement with policymakers.

[1] Climate Action 100+ (2023), Progress update



2) **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 20 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. The framework covers 10 areas including net zero commitments, targets, strategy, financing climate solutions and policy engagement. The initial assessment shows that there is still a lot of work to be done. While many banks now have net zero commitments and governance structures in place, scores were much lower for areas such as their decarbonisation strategies and engagement with policymakers. We are using the assessments to set more targeted objectives for the companies we engage with.

3) **Net Zero Engagement Initiative:** This initiative builds on Climate Action 100+ by extending the engagement to companies that are heavy users of fossil fuels. The main objective is for companies to develop robust net zero transition plans, that set out how they will decarbonise their businesses in line with a pathway to net zero. We currently engage with two companies that are large contributors to our portfolio's Scope 3 carbon emissions. One is a global chemicals company and the other is a food company.

Case study

Escalating our engagement with Barclays

In 2023, we escalated our engagement with Barclays by co-filing a shareholder resolution for its 2024 annual general meeting. The resolution asked the company to issue a report describing how it's responding to the risk of stranded assets of planned new oil and gas infrastructure and assets.

We have had a long-standing engagement with Barclays on its climate change strategy. In 2020, we publicly declared our support for a shareholder resolution filed by ShareAction asking the bank to set a net zero target. Barclays met this ask and published its first energy policy in response.

However, several years on, Barclays remains the biggest financer of fossil fuels in the European banking sector, and lags compared to peers, such as HSBC on its policies on financing fossil fuels. We engaged with Barclays multiple times and co-signed a letter to the company co-ordinated by ShareAction in March 2023, asking the company to update its energy policy. Specifically, we asked Barclays to stop financing new oil and gas fields. We also supported an investor statement at the annual general meeting in May 2023, making the same ask.

As these interventions did not yield any results, we decided to escalate the engagement by co-filing a shareholder resolution with ShareAction and other investors.

In response to this, Barclays highlighted that it was in the process of updating its energy policy and offered the investor group the opportunity to review the policy on a confidential basis and provide feedback ahead of publication. We reviewed several versions of the policy and engaged several times with Barclays. This resulted in the policy being updated to include a commitment to stop financing new oil & gas expansion projects. Given this welcome development, the group decided to withdraw the resolution, but will continue discussions with the company to encourage further progress.

For example, we would like Barclays to adopt a global policy to stop financing fracking.

Fracking is a process of creating fractures in rock formation below the earth's surface to extract oil or gas by injecting water, sand and chemicals into gaps at high pressure. It can also sometimes be called hydraulic fracturing.

The process is controversial due to concerns about its impact on the environment and human health. Fracking is water-intensive, and releases methane and other potential pollutants. Studies have linked fracking to the loss of biodiversity and land degradation. There have also been studies linking fracking to negative impacts on human health, including some cancers, pregnancy outcomes, and respiratory issues.

In response, several countries have banned fracking. But in the US, fracking makes up a significant proportion of total oil production, with around 64% of crude oil production in 2023 from fracking, according to the US Energy Information Administration.

Barclay's current policy is limited to the UK and Europe.

Our engagement and escalation so far

February 2020
Nest declares support for ShareAction resolution asking Barclays to set a net zero target

March 2020
Barclays announces its intention to set a net zero ambition

May 2020
Multiple investors, including Nest approve Barclays' resolution to set a net zero ambition

October 2020
Nest sends follow-up letter to Barclays Chair to re-iterate support for the ambition and set out expectations for its forthcoming energy policy

April 2021
Nest co-signs follow up letter to Barclays raising concerns about its continued financing of fossil fuel activities

May 2022
Nest votes against Say on Climate resolution at Barclays AGM given ongoing concerns about the loopholes in its coal financing policy

February 2023
Nest co-signs another letter to Barclays asking the company to commit to stop financing new oil & gas infrastructure

May 2023
Nest supports ShareAction's AGM statement reiterating the ask to commit to stop financing new oil & gas infastructure

December 2023
Nest co-files a shareholder resolution with ShareAction and other investors, asking the company to issue a report describing how it is responding to the risk of financing new oil and gas infrstructure

January 2024
Following engagement with the investor group, Barclays publishes an updated energy policy which includes a commitment to stop direct financing for new oil and gas. In response, the shareholder resolution is withdrawn

May 2024
Nest co-signs a follow-up letter to Barclays asking the company to close loopholes in its policy in relation to fracking

In the past year, we have also continued engaging with several energy companies on their plans to transition to net zero generally, and on their plans to reduce fossil fuel production specifically. In total, over the past year, Nest and its external fund managers have engaged with 110 companies on climate change.

We use our right to vote at companies' annual general meetings 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 on a range of areas in our **voting and engagement policy**. In early 2024, we updated our voting guidelines on climate change to set clearer expectations of companies publishing say-on-climate plans. See **chapter four** for more details.

"In total, over the past year, Nest and its external fund managers have engaged with 110 companies on climate change."

Case study

Continuing our engagement with Shell

In last year's report, we highlighted our engagement with Shell on its energy transition strategy. We had engaged with Shell asking it to set targets for reducing oil and gas production, set an absolute reduction target for scope 3 by 2030 and increase capital expenditure in genuine renewables and energy transition technologies. Ahead of Shell's 2023 annual general meeting, we publicly pre-declared our decision to vote against their energy transition report and the re-election of the chair of the sustainability committee, and 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.

We engaged further with Shell in 2023, pushing the company particularly on setting a target for the use of its energy products. However, at its capital markets day, Shell announced changes to its production targets. It had previously suggested that oil production would fall by 1-2% per year until 2030, but it would now be kept stable.

We were disappointed by this shift in strategy and decided to escalate our engagement by co-filing a shareholder resolution with Follow This and 27 other institutional investors. The resolution asked Shell to align its medium-term emissions reduction targets covering the use of its energy products (scope 3) with the goal of the Paris Agreement of limiting warming to well-below 2C and pursuing efforts to limit warming to 1.5C.

In March 2024, Shell published an updated strategy. We acknowledged that it had responded to our ask in part and set an ambition to reduce emissions from oil products by 15-20% by 2030 from 2021. However, this ambition covered only half of Shell's total scope 3 emissions and at the same time, Shell scaled back other targets for 2030, and retired its 2035 target. We therefore decided to continue with the shareholder resolution.

At the annual general meeting in May 2024, 19% of investors voted in favour of the shareholder resolution. 22% of investors also voted against Shell's new energy transition targets. While we were disappointed that support for the resolution was not higher, we believe it still sends a strong signal to the company that many of its shareholders are not satisfied with the progress it has made. We look forward to seeing how Shell responds to these concerns.

Public policy and advocacy

As one of the UK's largest pension schemes, we aim to work with our peers to engage policymakers on how climate change will affect the pensions industry, our members 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's crucial that all parts of the economy work together if we are to be successful in transitioning to net zero. Our public 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 protect the interests of pensions savers and retail customers.
- **Financing the transition:** For Nest to be able to meet its net zero ambition, it's crucial that there are sufficient opportunities to invest in businesses that are delivering solutions to address climate change, and regulatory frameworks that encourage companies to transition their business models in line with net zero. We advocate for consistent disclosure standards across all companies and support policies that make it easier for Nest to invest in climate solutions, such as subsidies for renewable energy generation.

Our advocacy work takes place 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 directly involved 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. A full list of the initiatives we take part in can be found in **chapter four**.

> **"Investors have a key role to play in financing the transition to a net zero economy and limit warming to 1.5C."**

Case study

Contributing to the Transition Plan Taskforce

The Transition Plan Taskforce (TPT) was announced at COP26, the global climate change conference. COP26 was held in Glasgow in November 2021 by the then Chancellor as part of a set of proposals to make the UK the world's first net zero aligned financial centre.

It was launched in April 2022 with a two-year mandate to establish best practice for firm-level transition plans, and develop a set of templates setting out both generic and sector-specific disclosures and metrics. Its mandate was recently extended by HM Treasury to support the Transition Finance Market Review, a market-led review looking at how to support companies in the UK and abroad to continue to access the capital they need to decarbonise and deliver our net zero ambition.

We think the work of the TPT is incredibly important. Understanding how companies are setting strategies to address the climate emergency and thrive in a net zero economy is crucial to us as investors. Companies that aren't reporting adequately, do not respond to investor engagement or are progressing too slowly are most likely to be financially impacted by a transition to a low-carbon economy.

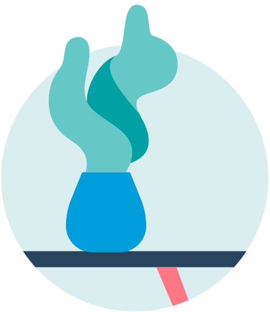
While some companies have published voluntary transition plans, there is no current standard for this, making it difficult for investors to assess whether plans are robust. The TPT has developed both a general disclosure framework and sector-specific guidance which will be invaluable tools to help us understand whether companies' net zero commitments are credible and underpinned by a robust decarbonisation strategy.

Nest has been involved in the TPT from the start. Mark Fawcett, the CEO of Nest Invest, sits on the Steering Group, which is co-chaired by Amanda Blanc, CEO of Aviva, and Baroness Vere, Treasury Lords Minister. Nest has also been represented on the delivery group. We contributed to the development of the sector-specific guidance for asset owners and were part of the Just Transition Working Group, which provided guidance on how to anticipate, assess and address social risks and opportunities of the transition to net zero, and ensure meaningful dialogue with impacted groups such as workers, communities, supply chains and consumers.

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

Nature and biodiversity

Why it matters to us: Natural capital is an economic term for the world's stock of natural assets and biodiversity, 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. These ecosystem services can be described as the links between nature and business, which represent a benefit that nature provides to enable or facilitate business production processes.



Businesses have direct, indirect, and cumulative impacts on nature through a wide variety of activities. The main impact drivers affecting nature loss are habitat change, invasive species, overexploitation of resources, pollution/nutrient loading, and climate change. Businesses also rely on aspects of nature or ecosystem services to function (known as 'dependencies'), for example, bees pollinating our fruit and vegetables.

In 2020, 52% of global GDP, equal to $44 trillion, was moderately or highly dependent on nature.[1] However, 20% of countries globally are at risk of their ecosystems collapsing due to a decline in biodiversity and related beneficial services.[2] Degradation of biodiversity and ecosystems also pose physical and transition risks on a systemic scale, presenting the potential to damage business profitability, economic growth and ultimately, returns to our members.

Therefore, 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.

[1] World Economic Forum (2020), **Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy**
[2] Swiss Re Institute (2020), **Biodiversity and Ecosystems Services Index: measuring the value of nature**

Our actions and outcomes

A healthy natural environment is key for healthy societies and economies. But the extent to which companies are dependent on natural resources or impact those resources, varies between industries and geographies. Therefore, this year, we completed a risk screening exercise to assess the largest nature impacts and dependencies exposures across most of our funds.

In our case study on the next page, we looked at eight natural capital assets (which are specific elements within nature that provide the goods and services that the economy depends on) and assessed to what extent companies in our portfolios could be dependent or highly dependent on those:

- Atmosphere is the mass of air surrounding the earth
- Habitats refer to the conditions of the environment necessary for life to prosper. These conditions vary widely between species but can include elements such as water and food availability, temperature range, or absence of predators
- Land geomorphology describes the structure of the land, such as mountains and valleys
- Minerals are naturally occurring compounds not produced by living beings which can be metallic or non-metallic
- Ocean geomorphology describes the structure of the marine environment such as shelfs and slopes
- Soils and sediments are the layers of the earth's surface that support life which include top-soil, sub-soil and ocean sediments
- Species includes plants, animals, fungi, algae and genetic resources, which can be wild or domestic/commercial, for example livestock
- Water includes surface water, ground water, ocean water, fossil water and soil water

Details of this screening exercise can be seen in the case study on the following page.

Case study

Natural capital loss exposure assessment

Approach

We used the **Exploring Natural Capital Opportunities, Risks and Exposure (ENCORE) tool** to identify the highest natural capital impacts and dependencies across Nest portfolios. ENCORE is an open-source tool developed by environmental NGOs that maps natural capital risks to economic sectors. It's widely used by corporates, investors, and regulators for high-level risk screening purposes.

Results

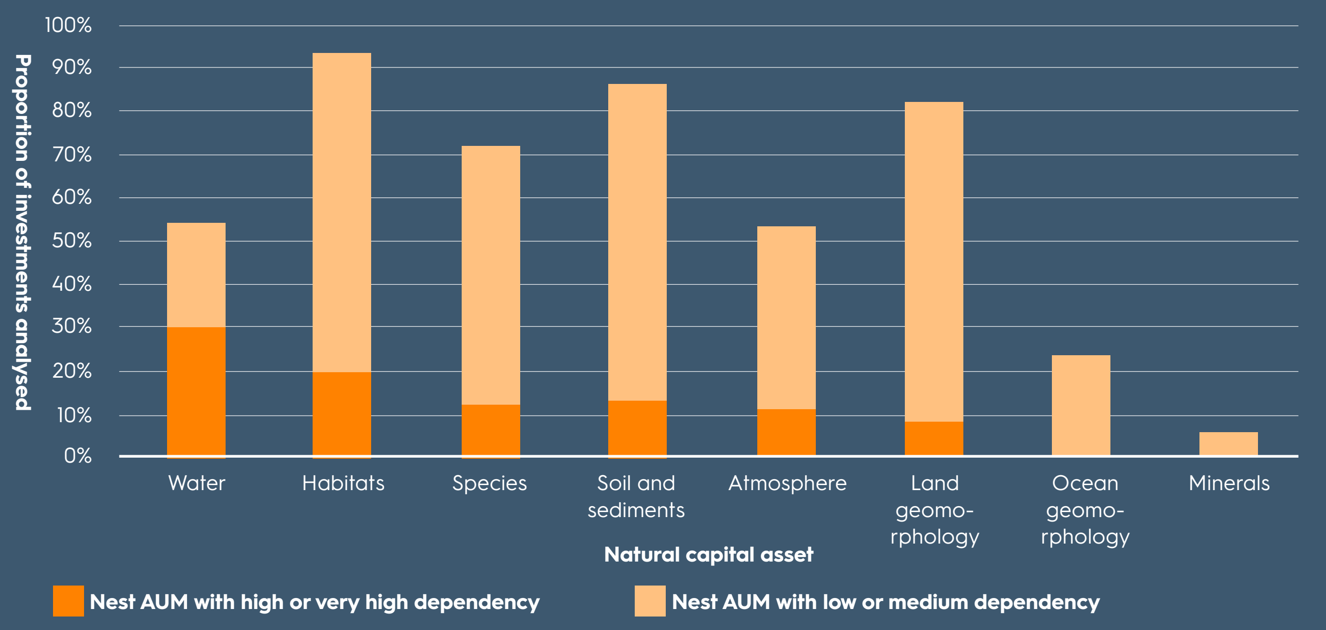
We analysed our investments across our equity, bonds, and infrastructure portfolios, which represent more than 80% of our assets under management (AUM). Some of the key findings were that:

- All sectors in our portfolios rely on aspects of nature or ecosystem services to function (have 'dependencies'), and have positive or negative effects (have 'impacts') on nature
- Consumer staples, materials, utilities, and real estate sectors have the highest dependencies on nature
- Overall, assets representing 37% of AUM in the sample have at least one high or very high dependency on natural capital
- Dependencies are highest for water and habitats
- Real estate, energy, materials, and industrials sectors have the highest nature impacts
- Overall, investments representing 79% of AUM in the sample have at least one high or very high impact on natural capital
- Companies had the highest impact on water, species, habitats and atmosphere

Limitations and next steps

This analysis is a first step on our journey to measure and mitigate natural capital risks. But it's likely to underestimate natural capital risks due to limitations of the ENCORE tool. ENCORE only covers direct dependencies and impacts of sectors and excludes dependencies and impacts across supply chains to avoid double counting. And it does not account for geographic or company specific differences. We will continue to work with our asset managers, our peers, and the research community to improve our understanding and mitigation of natural capital risks.

Figure 1: Proportion of the investments analysed that have either a high/very high or low/medium dependency on specific natural capital assets. For instance, **30%** of Nest's assets under management (AUM) are invested in sectors with a high or very high dependency on water. **25%** of Nest's AUM are invested in sectors with a medium or low dependency on water. While **45%** of Nest's AUM are invested in sectors with a very low or no meaningful dependency on water.



In 2023, Nest joined the Nature Action 100 engagement group which aims to drive greater corporate action on tackling nature and biodiversity loss. Nature Action 100 targets the 100 companies with the greatest impact on nature and biodiversity. Nest participates in six company engagement groups. Five of the six companies fall within the consumer staples sector, with three in the food industry and two in the personal products industry. Each engagement group engages with a single company and encourages it to meet **Nature Action 100's six investor expectations**.

We have also started engaging with our fund managers on how they manage nature risks and dependencies.

The following case study provides an example of how GLIL Infrastructure has been working with Anglian Water to meet its environmental targets. While Anglian Water has made some progress, Nest has ongoing concerns about the company's financial performance and recent serious pollution events. Therefore, Nest has continued to engage with Anglian Water to address these concerns, and help them mitigate reputational and long-term financial risks. In addition, in **chapter four**, we provide an example of how we have been engaging with the water services regulation authority (OFWAT) to encourage them to set stricter environmental and performance criteria for the UK water industry as a whole.

Case study

How GLIL's approach to stewardship is helping Anglian Water to meet its environmental targets

GLIL Infrastructure (GLIL) is a partnership of UK pension funds specially designed to help pension fund members tap into the stable, inflation-linked returns that infrastructure investment offers. Nest has been invested with GLIL since 2021.

GLIL believes active ownership is one of the best ways to have positive influence over businesses in its portfolio. It typically invests for a significant shareholding to ensure it has a presence at board level, strong engagement with senior management and direct relationships with key internal and external stakeholders.

In GLIL's experience, this model of private market active ownership, with a small group of similarly motivated investors, allows shareholders to be a significant and powerful voice around the boardroom table. A recent example of the success of this approach is Anglian Water, a utility responsible for the provision of water and sewage services in the East of England. GLIL invested in Anglian Water in 2018, but in recent years GLIL became concerned that there was a lack of improvement in preventing and addressing serious pollution events. GLIL and Anglian Water's other shareholders stepped in and, following engagement with the Board, oversaw a series of measures including new appointments, the inclusion of financial penalties into senior executives' compensation packages, the creation of an Environment and Quality Directorate, and the introduction of new technology to monitor the network and provide greater visibility of performance. The work undertaken by GLIL and Anglian Water's shareholders has led to significantly more engagement with the senior management team, including regular scrutiny of their performance, as well as influence over the content of the current Pollution Incident Reduction Plan 2023-2025. This is backed by significant investment from the shareholders. By the end of 2023, Anglian Water has already installed more than 10,000 new sewer monitors across its network and completed an Event Duration Monitoring programme, allowing it to monitor 100% of its storm overflows and access the data it needs to continue targeting and reducing spills, one year ahead of the plan agreed with the regulators.

GLIL is continuing to support Anglian Water's senior management team as they roll out the plan. It will use its active approach to stewardship, alongside the financial support, to give its investors' confidence that Anglian Water is building on the progress made to-date to meet its environmental targets, including achieving a 70% reduction in capital carbon by 2030.[1]

[1] Capital carbon refers to emissions associated with the creation of an asset. Capital carbon is often used within the infrastructure sector because it aligns with the concept of capital cost.

Human capital

Why it matters to us: We believe that taking care of employees directly impacts company performance, productivity, business resilience and reputation. A well-treated, fairly paid workforce is likely to have positive staff morale and satisfaction - with lower turnover rates, making a company more likely to be successful over time. For instance, a **study by Cardiff Business School** found that 93% of employers who pay the accredited Real Living Wage[1] reported business benefits such as higher recruitment, retention and productivity of workers.

[1]The Real Living Wage is a voluntary wage rate in the UK, calculated based on the actual cost of living. Unlike the National Minimum Wage and the National Living Wage, which are set by the government, the Real Living Wage is determined by the Living Wage Foundation. It reflects what people need to earn to cover everyday expenses like groceries, housing, and other essentials.

In addition, over 1/3 of workers in the UK save with Nest. We believe that better management of risks related to working conditions, can directly impact our members' working lives as well as their lives during retirement.

This issue is of particular interest to Nest at a time when the cost of living is rising for people across the UK, including for many of our members. The cost-of-living crisis brings considerable risk to markets and society. A recent **ONS report** found that 89% of adults in the UK have reported a rise in their living costs and **research by PwC** found that 86% of UK adults are concerned about day-to-day living costs. These impacts can negatively affect workers' health, wellbeing, and morale, and in turn, have damaging consequences on company productivity and turnover.

We believe that by driving better company performance and disclosures on issues such as fairness of pay, freedom of association and collective bargaining, and social protections, we can help to tackle some of these challenges being faced by our members and address risks and opportunities in our investments.

Our actions and outcomes

Stewardship is the main tool used 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 encouraging them to take necessary action.

Nest continues to participate in the **ShareAction-led Good Work Coalition**, which encourages companies to pay the Real Living Wage to their employees and ensure that their work contracts provide for set working hours, sick pay, and holiday pay. This year, Nest signed a collaborative investor letter asking ten UK companies in the retail sector, including Tesco and JD Sports, to demonstrate progress towards paying the Real Living Wage. The coalition chose to engage with retail companies due to their large workforces, often made up of third-party contracted workers. In addition in 2023, Nest signed an investor statement outlining expectations of US companies to take steps towards the payment of a living wage to direct and contract workers, in line with international human rights standards.

Case study

Presenting evidence to the Business and Trade Select Committee on good work

In May 2024, Paul Todd, the Chief Operating Officer at Nest Invest **presented evidence to the Business and Trade Select Committee** on good work protecting workers' rights.

MP's heard from Nest, along with economists and other stakeholders on what best practice and good employment reporting looks like, and how applying it could make for a more supportive business landscape.

Our aim was to set out why decent work is important in helping us can enhance outcomes for our members, in line with our fiduciary duty. We set out three key reasons for this:

1. We believe that businesses that invest in their workers will outperform those that don't over the long term
2. As globally diversified investors, our returns to our members are heavily reliant on sustainable economic growth, which is supported by a healthy and productive workforce
3. A well-treated and fairly paid UK workforce is in our members' best interest. Decent work can contribute to better financial security and wellbeing of our members in their working lives as employees, as well as during their retirement

We also outlined what we consider to be good company practice on decent work, including transparency and sufficient workforce disclosures. We argued that tangible, comparable data from companies allows institutional investors to make informed investment decisions and hold companies to account on their workforce policies and practices.

Overall, we consider this to be a good example of Nest using its position in the market to share knowledge and advocate for stronger action on key systemic risks, such as decent work.

Where there is a lack of information on company performance related to human capital, we aim to work with companies and peers to drive better company disclosure and accessibility of data. For instance, Nest was a founding member of the Workforce Disclosure Initiative (WDI) in 2018. The WDI is focused on encouraging better workforce disclosure from companies around the world, including disclosures on talent retention and satisfaction.

More recently in 2023, we joined the steering group of the **Fair Reward Framework**, a new asset owner initiative on corporate pay. The initiative will launch its new tool assessing companies' pay policies and practices this year. Further information on our work in the Fair Reward Framework can be found in our case study in **chapter four** on working with industry initiatives.

Case study

Investor letter to Amazon on freedom of association and collective bargaining

Workers' ability to express their concerns, organise, bargain collectively and actively participate in the decisions that affect their interests at work are important components of human capital management, and are key enabling rights that underpin decent work. For example, effective dialogue between employers and workers (or representatives) can help to achieve stronger health and safety practices and ultimately safer workplaces. Studies have found that union representation at a company can help to create safer working environments by working with employers to lower accident rates at work and reduce stress-related ill health caused by, for example, working long hours, being bullied or working in poor quality environments – which has the added benefit for employers of significantly reducing the costs of ill health and accidents.[1]

Freedom of association and collective bargaining at Amazon has been a concern for many investors over the last few years. In 2022, Nest signed an investor letter to Amazon asking its board to conduct an independent third-party assessment of Amazon's commitment, policies, and practices on freedom of association to prevent misalignments with international standards.

This year, we signed an additional investor letter to Amazon in response to an **inducement claim filed by GMB Union** regarding activity by Amazon following workers' organising efforts at the Coventry facility. The claim included allegations that Amazon had:

- Pressured staff to leave the union
- Forced workers to attend anti-union seminars and listen to anti-union messages on work time
- Displayed anti-union messages throughout Amazon workplaces
- Bullied and intimidated union representatives amongst Amazon staff

The letter asks Amazon to take immediate action to implement its stated commitment to the International Labour Organization (ILO) Core Conventions, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Universal Declaration of Human Rights, as articulated in Amazon's Global Human Rights Principles, including by ceasing all anti-union communications.

As of June 2024, 50 investors have signed this letter, with a collective $1.2 trillion in assets under management. We look forward to receiving Amazon's response.

[1] Ethical Trading Initiative (2010), Working with trade unions to improve working conditions

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 recognise the operational, financial, legal, and reputational risks companies may face when they fail to manage human rights risks. Companies that get caught up in human rights crises and don't effectively manage these risks are susceptible to hefty fines, media scrutiny, public backlash and high costs of reorganising supply chains and ensuring they are compliant with the new law.

There are increasing regulatory requirements on businesses and human rights, which increases the risk of companies breaking the law or having to pay fines. Last year, we mentioned the Uyghur Forced Labour Prevention Act (UFLPA) in the United States, requiring companies to identify whether their business operations have a link to the Xinjiang Uyghur Autonomous Region (XUAR). Companies are now expected to cease operations from the XUAR, and failure to provide the necessary requirements may result in fines of up to $250,000 and the inability to sell goods produced in the region. This year, the EU approved a human rights due diligence law, requiring companies to adhere to a higher set of standards within their supply chains. Companies in the EU will have to prove they are taking action to protect human rights. Our engagement efforts have focused on trying to understand companies' human rights strategies so they can have a more positive impact on people in their supply chains and ensure they are compliant with the new law.

Our actions and outcomes

As an institutional investor, we also have a responsibility to respect human rights across our investments. We use a variety of investment tools to help us to identify and address key human rights risks throughout our portfolio.

This year, we developed a portfolio-wide policy requiring our fund managers who manage our segregated funds to screen our portfolio to identify whether companies have been assessed as violating or have potentially violated one or more of the UN Global Compact (UNGC) principles, which includes respecting international proclaimed human rights. By having a screen in place, Nest can assess human rights risks associated with our investments and work with fund managers to make informed decisions when breaches occur. Further information on our UN Global Compact policy can be found in our case study in **chapter four**.

We also use stewardship as a key tool for encouraging companies to better identify and address human rights risks across all business activities and relationships. We take part in several investor initiatives focused on driving company progress on human rights issues.

Rathbones Votes Against Slavery

Nest, for the second year in a row, has remained part of the **Rathbones Votes Against Slavery** engagement. The campaign engages UK-listed companies that do not comply 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 investor letters that were sent to 29 potentially non-compliant FTSE 350 companies. By the end of 2023, 27 of these companies had become compliant (or confirmed that no statement was required - and committed to make this clearer in future reporting).

Investor Alliance for Human Rights – Uyghur forced labour

Over the past year, we have continued to work with companies as part of the Investor Alliance for Human Rights (IAHR) engagement on Uyghur forced labour in the automotive sector. This was developed as a result of a **report on automotive supply chains and forced labour in the Uyghur region**. The report found there to be more than 100 international automotive parts or car manufacturers exposed to products made by people in forced labour in the Uyghur region. Since last year, we have met with five companies including Ford, General Motors and Tesla, to get further insights into their due diligence processes and push for greater transparency within their supply chains. Over the coming year, we plan to have follow-up meetings to discuss what further actions these companies are taking to mitigate human rights risks and adhere to the stricter regulatory landscape. We excluded around 10 companies from our investable universe who were found to have very severe direct involvement regarding forced labour in the Uyghur region and we continue to monitor the list of companies operating in the area.

Fund manager case study

UBS engagement with Hyundai

Hyundai is a South Korean multinational automotive manufacturer. The company operates the world's largest integrated automobile manufacturing facility, in Ulsan, South Korea. The company sells its vehicles, including Ioniq, their electric vehicle brand, in over 190 countries. Hyundai has an aspiration to achieve net zero by 2045 in both vehicles and production; this includes the goal to cease production of internal combustion engine (ICE) vehicles by 2045 and replace domestic and overseas energy with hydrogen technology. Hyundai is also increasingly focused on improving its board structure and on establishing human rights assessments across overseas work sites and with suppliers.

In September 2022, UBS engaged with Hyundai, covering a wide range of ESG issues and identified future milestones for follow-up engagements. These included seeking further information on:

- Progress on establishing and disclosing interim carbon reduction targets
- Coverage of human rights assessment of subsidiary and supplier operations

In late 2022, **Reuters reported** that an investigation into a Hyundai-owned auto parts supplier had found children as young as 12 were working in its factories. Several factories in Alabama were subsequently raided by state and federal investigators for child labour. The suppliers had used third-party agencies which had illegally hired underage workers. In response, Hyundai audited its suppliers and discouraged them from using staffing agencies. It also announced it would sell its majority stake in the supplier.

UBS engaged with Hyundai again in late 2023 to discuss progress on the issues identified in the previous meeting. The child labour case in Alabama and broader supply chain transparency was a key topic UBS wanted to discuss with the company.

The child labour incident had led the company to accelerate ESG assessments of its suppliers. Hyundai confirmed that it had completed on-site assessments of Korean suppliers and was beginning the assessment process for overseas suppliers. Another positive development was the completed mapping exercise of domestic supply chains, with a view to replicating this exercise for direct overseas supply chains by the end of 2023 and additional suppliers by 2024. This was a welcome development.

Additionally, the board has strengthened its oversight of human rights issues. After the initial incident in 2022, as well as a number of labour union strikes at the company, Hyundai appointed independent director, Yoon Hee Choi in 2023, who is former commissioner at Human Rights Commission of Korea.

There had also been other areas of progress related to supply chain transparency and direct monitoring, including increasing involvement in raw materials sourcing via a joint venture with a Korean mining company in 2023. This is expected to also help the company's effort in circular economy within the battery recycle business.

Status and next steps

Overall, UBS concluded that the company had made positive moves in the right direction with regards to the various ESG issues identified, with zero child labour found across its supply chain. Additionally, Hyundai Motors have ongoing human rights due diligence for child labour issues down the supply chain to further address the controversy and any other potential child labour risks in its operations and across its suppliers.

UBS will continue to monitor the company on its ongoing implementation of the controversy mitigation plan, including its policies, programmes, and supplier due diligence.

Digital rights and technology

Why it matters to us: Technology has evolved rapidly over the last few years, from the widespread adoption of generative artificial intelligence (AI),[1] growth in media consumption and introduction of digital labour platforms (such as those across the gig economy). Technology has changed major sectors over the past 20 years. For example, generative AI is being widely used as a business tool across multiple industries such as in healthcare and financial services.

[1] Generative AI can be defined as AI systems, using Machine Learning techniques capable of generating a wide range of content such as text, code, or images

Alongside this, we've seen technology companies themselves grow significantly in size and prominence, which has led to the evolution of a number of tech giants. This small group is often referred to as the Magnificent Seven. These are Amazon, Alphabet, Apple, Microsoft, Meta, Nvidia and Tesla. The Magnificent Seven make up over 18.1% of Nest's equity holdings (as of 28th March 2024).

The rise in innovation and use of digital technologies has many benefits. For example, the development of generative AI has the capability to transform industries by creating content, improving customer service, enhancing efficiency, and fostering new businesses. For instance, we have seen that AI can help to improve accurate medical diagnosis and broaden financial inclusion. However, there are multiple potential risks associated with this growth. We have a responsibility to understand and address the potential impacts of this technology, as well as the financial, legal and reputational risks facing these companies. We believe strong governance and oversight, responsible innovation and implementation of technology, and transparency will be crucial for the long-term success of companies, and as a result, our investments and returns to our members.

Some potential risks related to technology (including generative AI) include:

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 ICT companies can erode respect for users' digital rights, by contributing to the spread of misinformation and hate speech, increased levels of surveillance including that which enables attacks on democracy, the censorship of dissident voices, and discrimination against marginalized communities through artificial intelligence and algorithmic bias.

Workers and digital inclusion

A **report by PwC** found that an estimated 30% of jobs are at high risk of automation by the mid-2030s. The prevalence of technology also risks deepening the 'digital divide'. This divide between those who have access to digital technology and those who do not can have a significant impact across education, employment, healthcare and more – deepening social inequalities and hindering economic growth. To ensure workers are not displaced from the changing nature of jobs and people are able to use digital technology in a way that benefits them, companies should take into consideration issues such as affordable access to digital technology and digital skills development.

Regulation

Alongside the innovation in AI comes subsequent regulatory developments and risks, as companies navigate a new environment. Both the US and the EU have published regulatory documents, which outline a set of parameters to protect society from both the systemic risks of AI and limit certain use cases. Regulatory developments will continue and it's important that the companies we are invested in remain ahead of these changes, to prevent legal, reputational and financial damage. To better understand how the tech sector is navigating these issues, Nest has been engaging with companies on AI, digital rights, and wider governance issues.

Our actions and outcomes:

Artificial intelligence

This past year, we have started research on the implications of Artificial intelligence (AI) for investors. We have started with actively engaging with our fund managers to understand their approach to integrating AI in both their investment decision-making processes and stewardship activities. Through these discussions, we have gained insights into how our fund managers are identifying risks emerging opportunities in the market. Additionally, we have sought to understand how our fund managers are ensuring that the companies we are invested in are deploying AI responsibly and ethically, that is aligned with our shared responsible investment objectives and values as long-term investors.

Tech, mental health, and wellbeing

In 2023, we joined the **tech, mental health and wellbeing engagement** led by AXA Investment Management and Sycomore Asset Management. We joined this engagement as we believe excessive technology usage can harm people's mental health by causing concentration issues, depression, and social isolation, especially when introduced at a young age. **Research suggests** that technology use, particularly social media, can elevate stress levels and diminish self-esteem, while also disrupting sleep patterns. We consider these to be a systemic risk to society and future economic growth, as well as a material risk for investors in the the hardware, media, internet, gaming, and fintech space. Globally, there has been a rising regulatory focus on technology's impact on mental health. Initiatives like the European Union's Digital Services Act aim to hold digital platforms accountable for harmful content distribution, while laws such as the UK's Children's Code Legislation and the US's Children's Online Privacy Protection Act seek to protect children from targeted advertising and excessive online engagement. These regulations signal growing pressure on tech companies to prioritise user well-being.

To address our concerns, we signed an investor statement asking companies in the hardware, media, internet, gaming, and fintech space to develop a policy and implement measures to mitigate risks of addiction and potential adversary effects on end consumer mental health and wellbeing. Over the past year, the investor coalition has met with several companies to work alongside them to outline high-level commitments, supported by specific goals and targets.

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 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. This has helped to us prioritise our engagements and set expectations for companies based on their performance within the scorecard.

Tackling dual class share structures at US technology companies

This year, to address corporate governance issues within big technology companies, Nest has remained a signatory to the Investor Coalition for Equal Votes.[1] It focuses on tackling dual class share structures, which are prominent within US technology companies. Dual class share structures allow company directors 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. We signed a number of letters that were sent to companies identified as high risk in regard to listing with dual class share structures. These were mostly non-public or pre-IPO tech companies. Over the coming year, we hope to have meetings with both the executives and investors at these companies to outline why we believe dual class share structures are detrimental to the long-term value of publicly listed companies.

[1] 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[1], 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 belief that it's just the right thing to do, many companies have made significant strides forward despite the challenges.

1 PRI (2022), **Diversity, equity & inclusion: Key action areas for investors**

Our actions and outcomes

UK

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. Female representation on UK boards continued to steadily improve in 2023 as FTSE 350 boards increased beyond the 40% target ahead of the December 2025 target end date. This is welcome progress that meets our calls to have at least 40% women on FTSE boards.

This past year we also focused on women in leadership roles, which covers roles at the executive committee level and roles that report directly into them, where progress has been slower. FTSE 100 and FTSE 250 companies in the UK averaged growth of 1% on the number of women in leadership positions. However, the presence of women within FTSE 100 executive committees has reached a milestone, achieving 30% representation for the first time.[1]

Last year was also a year of progress beyond gender as FTSE 100 companies stepped up action on race equity. The Parker Review requires FTSE 100 companies to have 'at least one person from an ethnic minority background' on their board by the end of 2021, and by 2024 for FTSE 250 companies. We were pleased to see that 96 of the FTSE 100 companies met the target by 31 December 2023, and that 56 exceeded the target by having more than one director from an ethnic minority background on their board. Through our collaborative engagement programme, we engaged with the three FTSE 100 companies which gave us some confidence that these companies on balance recognise the challenge and are taking steps to make improvements.

1FTSE Women Leaders (2024), **Achieving Gender Balance**

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 2023 at board level paves the way for greater attention to be put on the executive level and the pipeline below, where much improvement is needed. This is why the 30% Club UK 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 with determination of the CEO to bring about change.

This year, Nest also participated in ShareAction's Good Work Coalition and met with and sent letters to companies outlining our expectations to advance racial equity in the UK workforce and ethnicity pay gap reporting. The letters aimed to gather details about what steps have been taken to capture ethnicity data and publicly report progress. Promoting transparency by measuring and reporting on the ethnicity pay gap is an important step a company can take to promote racial equity in the workplace. **A 2018 study by McKinsey** 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'.

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 believe that collaborating with other large investors to raise awareness of the importance of reporting can be an effective way to bring it to the attention of companies.

Globally

Given the progress made in UK companies, based on the 30% Club UK Investor Group focus, we were keen to step up efforts and address the lack of progress in other key markets we invest in. Nest co-led a piece of work engaging with companies in the US, Korea, China and Japan with low female board representation. We wrote to these companies alongside other investors from the 30% Club Investor Group and set out expectations for improvements and the need for clear policies. Collaborating with other investors in the group helped achieve higher impact, as many of the companies on the list improved representation either during or since our engagement.

Escalating our engagement efforts by co-filing shareholder proposals is another tactic we consider when companies do not meet our expectations on diversity. For example, we co-filed a shareholder resolution at the 2024 annual general meeting of Charter Communications, an American telecommunications and mass media company. We asked them to develop a diversity policy and increase female representation on the board. Following a productive meeting with the company and further commitments made by them, we decided to withdraw the proposal. A more in-depth case study on this escalation can be found in **chapter five**.

Health and food systems

Why it matters to us: The food sector faces a number of risks and opportunities; not only does it have an impact on nature and global carbon emissions, but it also has an impact on our health. The food industry must evolve and meet changing consumer preferences 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. 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. 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 consider health to be a systemic risk that affects consumers and workers across the whole economy. The growing issue of obesity in the UK and other developed nations is an issue that investors are increasingly acknowledging as a long-term investment risk. With the likelihood of further government policy interventions, it's important that food retailers and manufacturers promote healthy eating. There's 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 remains part of the **Healthy Markets Initiative** led by ShareAction. Last year Nest continued its engagement with food and drink companies in Europe. We continued our engagement with Nestlé and Unilever, who have both made improvements in their level of disclosure and increased the healthiness of their portfolios in line with their own nutrient profile models. For the first time, Unilever began publishing its annual assessments of the healthiness of its products on a global basis for 16 key strategic markets, in line with six government-endorsed nutritional criteria. Following our engagements with Nestlé, the largest food and drinks company in the world, it announced commitments to benchmark its food and beverages against the **Health Star Rating System**. Although a positive step, this target fell short of the Healthy Markets Initiative's expectations. With the likelihood of further government policy interventions coming, due to a global growth in health crises, it's important that food manufacturers play a significant role in promoting healthy eating. As a result, a group of shareholders co-filed a shareholder resolution for Nestlé's 2024 AGM. We stated our intent publicly to support this resolution and sent a letter to the CEO.

Other actions and outcomes

We have remained members of the **FAIRR Initiative** and **Food Foundation**, as both organisations continue to show their commitment to address the systemic risks associated with health and unsustainable food systems. The FAIRR Initiative and Food Foundation take a number of steps to achieve their goals, including engaging directly with food companies and influencing food policy to help governments make successful evidence-based decisions.

In addition to publicly supporting the shareholder resolution filed at Nestlé, Nest also co-signed a letter to the then CEO Mark Schneider, outlining our disappointment in the company's efforts to obstruct the public health policy of the government of Mexico in December 2023. The country had planned to introduce warning labels on less healthy products, a policy we considered to be important in helping combat the country's obesity crisis and reduce the associated risks on wider society. We believe Nestle's actions are misaligned with responsible corporate conduct and is detrimental to the company's reputation.

Principle 7 12

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.

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.

Asset allocation

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

Active ownership

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

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.

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.

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.

Asset allocation

ESG considerations are a key element when we decide whether to add a new asset class to our portfolio. We also look for asset classes that will help us achieve our responsible investment objectives. For example, our decision to invest directly in renewable energy infrastructure was partly driven by our ambition to align the portfolio with net zero emissions by 2050.

Identifying and addressing risks across our asset allocation

Our investment team, led by Nest's Chief Investment Officer (CIO), meets every quarter to, for example, 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. We have developed an asset class dashboard, which monitors the likelihood of each asset class to meet our investment objectives. As part of this, we endeavour to 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 these risks.

If we identify an asset class with heightened ESG risk, we discuss the best way to approach the issue. This may include asking the relevant fund manager to conduct further research that may help us assess whether to:

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

An example of this is the work we conducted this year to understand the risks and opportunities from the climate transition to the commodities asset class. We undertook analysis assessing how we might need to evolve our investment in commodities to benefit from the increased demand in metals and minerals needed to develop the green technologies needed for a low carbon future.

Diversifying our developed market equity allocation

Nest's developed equity market exposure, which accounts for almost 50% of Nest's total assets, is currently managed by UBS in a climate aware systematic strategy. The mandate is tilted in a manner designed to achieve alignment with a transition to net zero by 2050 whilst maintaining a low tracking error to the FTSE Developed World Index. Whilst we are comfortable with the UBS mandate and pleased with the way it's evolving, we have explored ways to diversify the concentration in sector, style, and size which exist in the FTSE index. We have also been keen to gain investment exposure to other themes which we have been researching for some time that are not included in the UBS mandate, which the investment team believe will be rewarded by financial markets in the future.

Case study

Procuring a thematic equities mandate

In February 2024, Nest appointed Lombard Odier Investment Managers to manage a new thematic equity fund for Nest focusing on three themes: climate change mitigation and adaptation, natural capital, and social factors.

As part of the research process for this mandate, we conducted our own research into each of these themes. We know there will be physical risks from climate change and that there will be winners and losers from a shift to a greener economy. Similarly, the loss of nature and biodiversity poses risks to the economy, and the recognition of those risks and new regulations will impact companies. Finally, changing demographics and social issues will also drive shifts in the labour force and consumer preferences.

Our belief is that each of these themes will drive structural shifts in the economy over the long term and present new investment opportunities because they are supported by strengthening macroeconomic, technological, regulatory and consumer trends. We aim to benefit from these trends and investment opportunities to create value for our members.

Lombard Odier was the standout candidate in the procurement process, demonstrating robust sustainability research capabilities, accompanied with a strong investment process and governance. They have been asked to continue to monitor the development of each of these themes to ensure they play out as expected, as well as the emergence and development of new themes. This research will help Nest better understand long-term trends and structural shifts in the economy.

Principle 8

Manager selection and monitoring

Once we have decided which asset classes to invest in, we need to ensure that we have selected the right fund managers to invest on our behalf, set expectations on their approaches to responsible investment and stewardship, and monitor and engage with them on an ongoing basis.

Fund manager selection

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 positive behavioural change and reduce long-term investment risk for clients. For our listed equity funds, part of our procurement process for choosing fund managers also involves ensuring their voting policies are sufficiently rigorous and voting decisions are executed thoughtfully.

We also 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.

Principle 12

Ongoing monitoring

Reviewing fund managers' approaches to responsible investment and stewardship doesn't stop with their appointment. Engaging with our existing fund managers to ensure they continue to evolve their approach in line with best practice for their asset class is a core part of our work. We set expectations for our fund managers on their responsible investment and stewardship activities. These are tailored to each individual fund manager and vary depending on the market and asset class. These expectations are formally articulated in our Investment Management Agreements (IMAs) with each fund manager.

Two examples of some of the expectations we set through our IMAs are below:

- **Thematic equities mandate:** We ask the manager for bi-annual engagement activity updates on their climate-related company engagements and progress of companies against specific engagement objectives set by the manager
- **Climate aware equities mandate:** We expect the manager to support shareholder resolutions (where reasonable) that seek to promote good environmental stewardship and corporate citizenship, while enhancing long-term shareholder and stakeholder value

We also hold regular meetings with our fund managers to hear more about their stewardship activities, including engagement, voting, collaboration and any escalation they have undertaken. We use these meetings to push for more ambitious stewardship and escalation where necessary.

The investment team holds an internal quarterly fund manager monitoring meeting to discuss managers' performance, update each other on key meetings and review any potential breaches to our 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.

Case study

Monitoring our fund managers

In the last year, we began to have concerns about one of our private markets managers and the extent to which they integrate ESG considerations into their due diligence of companies. This was triggered by a potential investment that was presented to us where we felt that important social considerations had not been taken into account. We flagged these concerns at our quarterly manager monitoring committee and placed the manager on a watchlist. We had several meetings with the manager to discuss their ESG assessment in more detail. These meetings reassured us that the manager was considering critical ESG topics, but they were not incorporated in the main deal sheets we receive. We gave some feedback on the process and set expectations of what we would like to see. We asked the manager to include a RAG rating in their assessment to flag to us which issues were considered potentially material, and to develop a clear action plan and objectives for improvement. We have since seen an improvement in the information shared with us on the initial due diligence and the ongoing engagement with the companies. The manager has also been working on a new due diligence template and a framework for engaging with any third-party fund managers they work with. We continue to engage with the manager to further improve their processes, including more consistent collection and reporting of data on topics such as carbon emissions.

Principle 4

Risk monitoring

We believe that ESG-related risks and opportunities are financially material and will impact our ability to achieve good risk-adjusted returns for our members. We seek to identify, prioritise and manage ESG risks across the different asset classes we are invested in.

Prioritising ESG risks

Our starting point is to identify ESG risks 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 ShareAction's Good Work Coalition and Climate Action 100+
- Information from industry bodies, standard-setters, and non-governmental organisations (NGO)
- Nest member surveys and engagement initiatives

Any new issues are then assessed using our prioritisation framework, which provides a structured approach to our decision making. 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 on the next page.

Once we've established that an issue meets many of the 'green' criteria set out by the framework (which is research and evidence based), we conduct more in-depth research to better understand the substance of the issue, the key risks and opportunities, which underlying companies in our portfolios are affected and what tools we might use to address it.

A recent example of this is the work we have done so far on artificial intelligence where the issue has the potential to be of high concern and financially impactful to members if not managed properly. However, we are still formulating a plan on how best to take action, given how complex and multi-faceted it is. There is also a lack of data and initiatives to help investors address the issue, so we are currently undertaking our own research and data gathering.

Our three pilar framework

Financial considerations	RAG rating
Is there academic evidence linked to risk adjusted returns?	
Is there likely to be a regulation?	
Is there a real-world impact?	
Is it a systemic risk?	

Member interest	RAG rating
Is there a member concern?	
Is there a reputational risk on negative impact and doing harm?	
Is there a member impact?	

Is it actionable?	RAG rating
Are there codes and initiatives to support us?	
Can we undertake any stewardship?	
Is there public advocacy we can undertake?	
Is capital allocation an option?	
Can our managers assess the risk?	

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 risks are 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, and
- The action which could be taken 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.

Last year, we procured Aladdin, a risk management system which will help us further build out the dashboard. It includes data on climate change physical and transition risks across bonds and equities and will also allow us to bring together other external data sources into one platform.

The dashboard gathers information from various sources, including:

- Financial data through **Bloomberg**
- Screening for breaches of the UN Global Compact principles, controversial activities and products, and significant negative media coverage through **Clarity AI**
- Carbon emissions and environmental footprint from our fund managers and **Aladdin**
- Workforce-related issues through the **Workforce Disclosure Initiative (WDI)**
- Nest's 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.

Case study

Developing a UN Global Compact policy

Nest takes a number of measures to identify and address risks within our investment portfolio, including both ESG integration and stewardship. To mitigate our exposure to ESG risks in some of our investments, we implemented a United Nations Global Compact (UNGC) screen within our emerging market equities fund in 2014. The UNGC aims to mobilise the global business community to contribute to sustainable development the principles cover key areas such as human rights, labour standards, environmental protection, and anti-corruption measures. Companies that breach these principles may face legal, reputational, and operational risks. As a result of the screen, we were able to divest from several companies found to have very severe direct involvement in forced labour in the Uyghur region.

This year we developed a portfolio wide policy requiring our segregated fund managers to screen our portfolio, using a third-party data provider of their choice, to identify whether companies have been assessed as violating or have potentially violated one or more of the UNGC principles. Where violations do occur, we set expectations for our fund managers to engage with those companies to get further insights into the breaches and encourage corrective action. By having a screen in place, Nest can assess the ESG risks associated with the investment and work with fund managers to make informed decisions when breaches occur.

Recently, we have seen a welcomed rise in transparency and mapping of company supply chains, which will help companies identify where they may be causing harm to people, planet and society. Additionally, there has been an increased focus on social issues and increasing evidence that these social factors are financially material and can impact investment returns over the long-term if not appropriately managed. We will continue to engage with companies in our developed market equity fund to encourage them to improve transparency, better monitor their supply chains and reduce the risk of violating any of the UNGC principles.

Principle 8

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 voting and engagement policies where appropriate.

We meet with all our other providers on at least a semi-annual basis to ensure services are 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' services 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.

Principle 4 9 12

Active ownership

As an asset owner invested in thousands of companies across many asset 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. 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.

Principle 8

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. Our policy also outlines our position and expectations to our fund managers on good corporate behaviour. We use it to hold our fund managers to account on the decisions they make. We use Minerva Analytics to help us monitor the voting intentions of our fund managers and to vote in line with our views as 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.

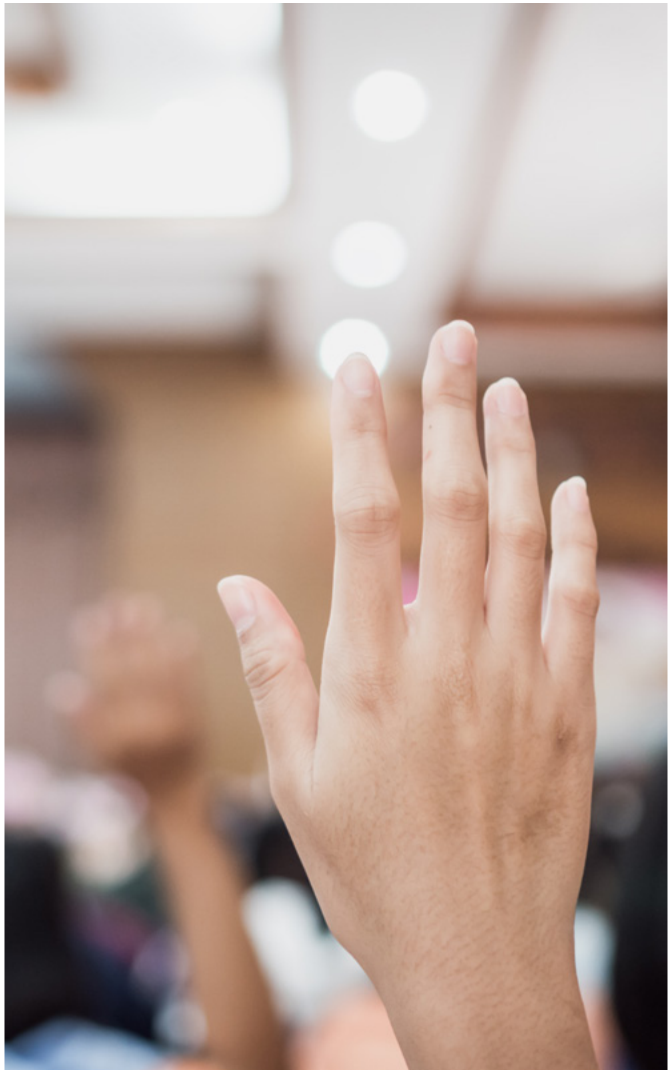
We regularly review our voting and engagement policy to ensure it reflects our responsible investment objectives, research and regulatory developments. This year, we strengthened our policy in a number of areas such as:

New guidance for companies that have **breached the UN Global Compact**. We expect companies to comply with the UN Global Compact principles and may engage with those that breach them

Strengthened guidance by adding **'do no significant harm'** criteria, which ensures that economic activity has no significant negative environmental impact – a company that does, might receive a vote against the re-election of the chair of the board, sustainability committee, or risk committee

More clarity on our expectation of oil & gas companies publishing **transition plans**

> **"We regularly review our voting and engagement policy to ensure it reflects our responsible investment objectives, research and regulatory developments."**



Voting activities

Due to the high number of companies held in our equity funds and the short time period during which multiple annual general meetings occur, it's not possible to analyse how our fund managers plan to vote on our behalf for every vote. For this reason, we focus and prioritise efforts on a smaller list of companies – the voting subset.

The total number of companies on this voting subset list now stands at 303. 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.

From our voting subset list, we cast 4423 votes. Of these votes cast, 18.3% were against management (808 votes).

Of all the different types of resolutions we voted on, we voted against management on resolutions related to remuneration, sustainability and the board the greatest number of times. Sustainability-related votes also had the highest proportion of votes against management: of the votes we cast related to sustainability, just under 60% were against management. See the table on this page for more detail.

Full details **can be found in our voting report.**

Vote overrides

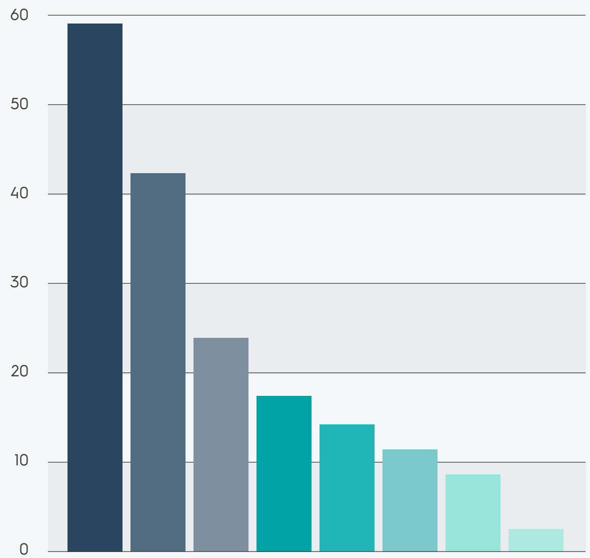
We have the ability to override our fund managers' votes for a number of companies in our developed and emerging markets equity funds when their voting decisions don't align with our views, meaning we can control how votes are cast across the default fund.

We review the variance between our fund managers' voting intentions and our own policy for companies within our voting subset list. 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 2023-24 voting season, we overrode our fund managers' voting intentions 152 times to better align with our voting policy and beliefs.

> **"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."**

Percentage of votes against management



- **59.2% Sustainability**
- **41.3% Political activity**
- **24.0% Remuneration**
- **17.7% Capital**
- **15.7% Shareholder rights**
- **13.2% Board**
- **9.7% Audit and reporting**
- **1.4% Corporate actions**

Just under 33% 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, 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.

An example of a vote we over-rode last year was on antimicrobial resistance (AMR) at McDonald's

McDonald's had not achieved its goal announced in 2018 and 2020 to prohibit routine preventive use of antibiotics by meat suppliers and reduction targets for medically important antibiotics across 80% of its global beef supply. As a result, Nest supported two shareholder resolutions at its 2023 AGM requesting that:

1. McDonald's board reports to shareholders on the adoption of a company-wide policy to phase out the use of medically important antibiotics for disease prevention purposes in its beef and pork supply chains
2. The board instate a policy that complies with World Health Organization (WHO) standards on the use of medically important antimicrobials in animals throughout McDonald's supply chain

We supported these resolutions as we believe that greater action is needed on antimicrobial resistance - a systemic

risk that could have damaging consequences on public health, financial markets and outcomes to our members in the long-term. We also sent a letter to McDonald's after its AGM to explain our voting rationale and encouraged McDonald's to make further efforts to address the concerns set out in the shareholder proposals. At the 2024 AGM, we overrode our fund manager and voted in support of a similar resolution filed at the company, highlighting our continued concern on the issue.

Although our manager's view was that the company discloses a comprehensive policy on its use of antibiotics in its supply chain, describes its strategy and is aligned with the World Health Organisation (WHO), we were concerned about the progress towards its target and the rescinding of its commitment to reduce the use of supply chain antibiotics, replacing this commitment with targets for 'responsible use'.

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 of our broader active ownership approach for addressing and making progress on our ESG priorities. We had direct engagement with the following companies:

Company	Issue raised
Bank of America	Remuneration, fossil fuel financing
Wells Fargo	Remuneration, audit, fossil fuel financing
Goldman Sachs	Remuneration, audit, fossil fuel financing
Ford	Board independence and diversity, recapitalization for one vote per share
McDonalds	Use of antibiotics, animal welfare

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.

At Tesla's 2024 AGM, we considered overriding our fund manager's voting intention to support both Tesla directors up for re-election: James Murdoch and Kimbal Musk. This was due to concerns regarding the board's ability and willingness to provide efficient and strong oversight of management. Instead of overriding the vote immediately, we emailed our manager to understand the reasons for their voting intention, and to express our concerns on issues at Tesla that the directors may be accountable for, including reporting on a sustainability strategy, board composition and non-executive supervision. The manager carefully considered their intentions and reviewed the resolution through their stewardship committee process. We were pleased to see that our manager amended their decision and voted against the re-election of James Murdoch.

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 by voting, co-filing shareholder resolutions, and company and industry engagement. In listed corporate debt and private credit, we focus more on on assessing the approaches that the fund managers take by conducting thorough due diligence, engagement with, and ongoing monitoring of issuers. We conduct regular reviews of our fund managers across each asset class to understand their approach to stewardship, objectives they have set and progress to date.

To the right is an example of how one of our fund managers is managing ESG risks and opportunities and making an impact in different asset classes to enhance long-term value for members. In **chapter three** we also provide an example of how one of our fund managers is conducting private market stewardship.

Fund manager case study

Legal & General Investment Management's approach to delivering on the 'S' of ESG in direct property

Real estate owners and investors have a unique opportunity to play a tangible role in delivering on the 'S' of ESG considerations. One way we can do this is to consider the long-term impact of our investments on the local communities in which our assets are located. This is known as a place-based impact approach.

Last year, we went on a site visit to Poole in the Southwest of England to the Dolphin Community and Shopping Centre which is owned by our UK real estate manager Legal & General Investment Management (LGIM). It comprises 120 shops, flexible working and community event spaces, an NHS outpatient assessment clinic as well as a curated high street for local independents.

LGIM were keen to demonstrate that through their ownership and management approach of these assets in Poole, they're able to intentionally contribute, deliver, and catalyse positive social outcomes that address local needs, which align with their commercial objectives. For example, they partnered with the NHS and developed an outpatient assessment clinic in the shopping centre, and the first in Dorset, to help tackle long patient waiting lists. Over half of these patients stay and shop within the asset following their medical appointment. So, alongside delivering positive social outcomes for the community, LGIM are bolstering footfall and revenue for their occupiers, creating a relevant and resilient asset, and therefore, driving stronger returns for us as investors.

They also showed us a once vacant section of the high street that they transformed into an eclectic mix of independent retailers, selling a range of goods from plants to fish, coffee and restored furniture. Through LGIM's intervention, such as developing ten new stripped back shop units, enabling tenants to move in and quickly begin trading, rent and rate-free units for the first two years and equitable performance-linked leases, these small businesses were given the support they needed to establish and grow, contributing to an ecosystem at The Dolphin and generating £2 million turnover in the first two years.

We observed how LGIM's investments were delivering on its social priorities selected for the Dolphin Centre including an inclusive economy through new jobs, supporting health and wellbeing whilst managing the assets in line with their commitment to achieve net zero carbon emission across the UK real estate portfolio by 2050.

LGIM's approach shows that delivering social impact should not, in our view, come at the expense of risk-adjusted returns for investors. In fact, we believe social impact can enhance returns over the longer term. There is a compelling argument for real estate owners to consider social impact as an indispensable part of their investment process.

Principle 4

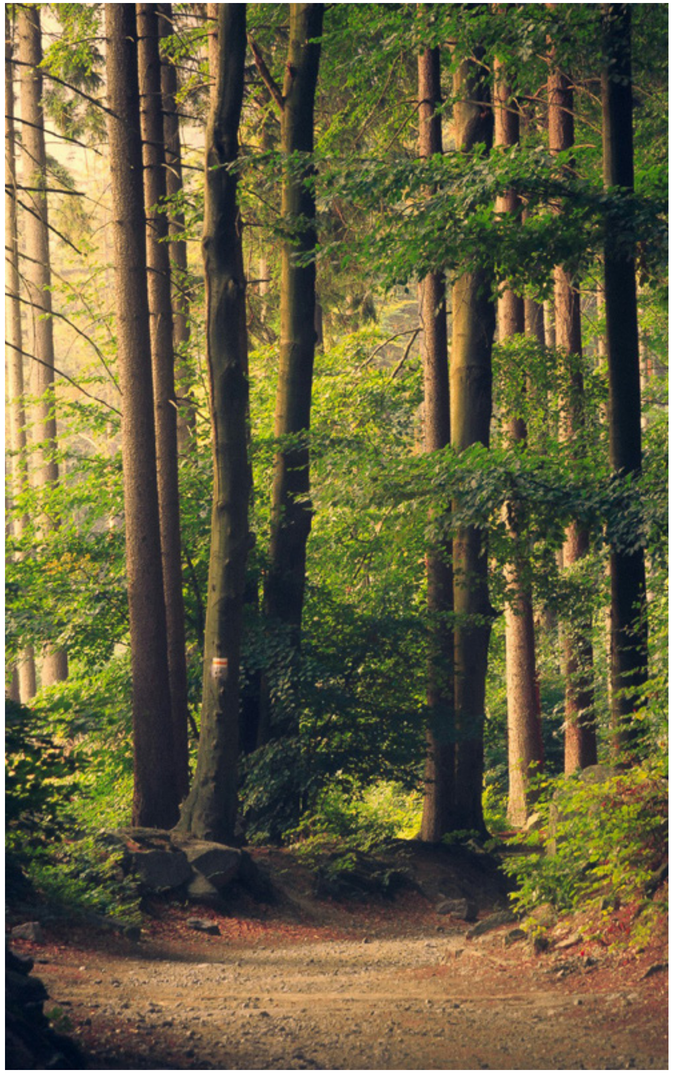
Advocacy

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 with important actors such as policy makers**
- **Participating in collaborative initiatives**
- **Advocating for better standards through thought leadership**

We also 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.



Responding to consultations and advocating for better standards

This table illustrates a number of the consultations and thought leadership we have contributed to this period:

Systemic risk area	How we addressed these risks through stakeholder and policy engagement
Private sector transition plans	We contributed to the development of the **sector-specific asset owner transition plan guidance**, which was published in April 2024. We also participated in a thematic working group on embedding social considerations regarding the transition (known as the 'just transition') in the framework. Through participation in the steering and delivery groups of the Taskforce, we also contributed to the development of the general disclosure framework.
Listing rules	We responded to the Financial Conduct Authority (FCA) consultation paper (CP23/31): primary markets effectiveness review and detailed proposals for listing rule reforms. The listing rule reforms are focused on the creation of a single listing category for equity shares in commercial companies (ESCC), which includes the removal of sunset clauses on dual class share structures (DCSS), the removal of shareholder votes relating to significant and related party transactions and the removal of certain specific financial information eligibility requirements. Our position was that we support the FCA's intention to ensure the UK continues to be attractive to high-growth companies, however we strongly believe that the aforementioned proposals would be counter-productive in supporting the development of high-quality, deep and liquid capital markets. Our response was focused on ensuring the FCA strike the right balance between the desire for a competitive UK listed market and investor protection.
Social factors	The Taskforce for Social Factors convened by Department for Work and Pensions (DWP) released a guide for consultation with the UK pensions industry, which includes recommendations about how social factors can be better incorporated into investment decisions. Nest submitted a response to this consultation in support of the taskforce and advocating for a greater amount of detail in relation to certain social factors.

Direct dialogue

Certain systemic risks are best addressed through direct dialogue with a market regulator that can implement or change regulations to benefit the market as a whole.

For example, we've used direct dialogue with the UK regulator of water utilities. Nest invests in several water utilities through our listed equity and bond funds as well as our infrastructure mandate. Water utilities are critical infrastructure that provide essential services to the public. Their financial resilience, operational, and environmental performance can have a direct impact on our members' finances and their overall wellbeing: as investors, the financial performance of these utilities will impact members retirement pots and as customers, through their water bills. Furthermore, how water utilities supply, maintain and treat water impacts our members as local citizens. We therefore have a heightened interest in ensuring water utilities are run in the interests of our members.

Since 2022, we have had growing concerns about UK water utilities, the regulatory environment they operate in, and their impact on people and the environment. Water utilities have been criticised for the hundreds of thousands of spill events across the UK from storm overflows (used to relieve the sewage system in times of 'heavy downpours'), the lack of investment in sewage and water treatment systems, and excessive dividends and debt levels.

In **chapter three**, we describe how one of our fund managers is engaging with a water utility in the portfolio they manage for Nest. Water utilities have a natural monopoly and so are regulated by the water services regulation authority (OFWAT) and the Environment Agency, which oversees water resource and discharge issues. For this reason, we decided to engage directly with OFWAT and met with the Chief Executive Officer and Director of Investor Relations. OFWAT welcomed our input, often receiving feedback from non-governmental organisations (NGOs) and the public, but less so from investors. We encouraged the use of performance related pay recovery mechanisms in the protection of customer interests as well as higher targets for investments, operational, and environmental performance.

We will continue to engage with OFWAT and encourage them to set stricter environmental and performance criteria for the UK water industry as a whole, to complement the direct engagement with the water companies.

"We've used direct dialogue with the UK regulator of water utilities. Nest invests in several water utilities through our listed equity and bond funds as well as our infrastructure mandate."

Principle 10

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 Council (formerly Occupational Pensions stewardship Council)
- Asset Owner Diversity Charter
- Climate Action 100+
- Collective Impact Coalition for Ethical AI
- Emerging Markets Just Transition Investment Initiative
- Fair Reward Framework
- Farm Animal Investment Risk and Return (FAIRR)
- FCA Vote Reporting Group
- Financing a Just Transition Alliance
- FRC UK Stewardship Code
- Global Canopy's Deforestation-free pensions guidance working group
- Global Principles for Sustainable Securities Lending (GPSSL)
- Green Taxonomy Working Group
- Institutional Investor Group on Climate Change (IIGCC)
- IIGCC Banks Engagement and Research Initiative
- Investor Alliance for Human Rights' (IAHR) Human Rights Crisis in the Uyghur Region initiative
- Investor Alliance for Human Rights' (IAHR) Technology and Human Rights initiative
- Investor Coalition for Equal Votes (ICEV)
- Nature Action 100
- Net Zero Engagement Initiative
- Paris Aligned Investment Initiative
- Pensions and Lifetime Savings Association (PLSA) Stewardship Advisory Group
- Rathbones' Votes Against Slavery
- ShareAction's Banks Initiative
- ShareAction's Good Work Coalition
- ShareAction's Healthy Markets Initiative
- Sustainable Markets Initiative (SMI)
- Transition Pathway Initiative (TPI)
- UK Sustainable Investment and Finance Association (UKSIF) including representation on the Policy Committee and Green Taxonomy Advisory Group
- UK Transition Plan Taskforce
- Workforce Disclosure Initiative (WDI)

Example	More information
Fair Reward Framework	Nest worked with 11 other UK asset owners and the High Pay Centre to develop a new framework to help investors take a holistic approach to assessing pay in UK corporations. Building on an executive pay summit organised by the Church of England Pensions Board in 2022 where large pension funds discussed the issue of excessive executive remuneration and the increasing disconnect with workers' pay, asset owners decided to reconvene and develop a tool to help broaden the focus from high executive pay to fair reward. The asset owner group's collective objective is to promote fairer reward to board members and executives by encouraging disclosure of a broader set of metrics beyond executive pay metrics. We inputted into a consultation that asked the investment industry for feedback on a range of proposed indicators including pay ratios, the payment of the real living wage and gender pay gaps. Companies are currently being assessed on their disclosures against these measures and the tools will be available to use for investors ahead of next year's AGM season.
Collaboration with the other UK asset owners	Nest participated in a project with other asset owners from the UK Asset Owner Council to review fund manager voting practices on management resolutions in the oil and gas sector. There has been growing concern amongst the asset owner community that oil and gas companies are hearing different messages from fund managers who invest on our behalf and are not always voting in asset owners' long-term interests. We commissioned an academic study to analyse the voting records of serval large asset managers and compare them with UK asset owners' voting records from 2015-2023. The analysis showed varying degrees of voting misalignment with stronger deviations noted for US oil and companies in more recent years. We held a roundtable to discuss the results with several fund managers and explored how we might be able to achieve closer aligned in voting on climate issues.

Principle 2

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.

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

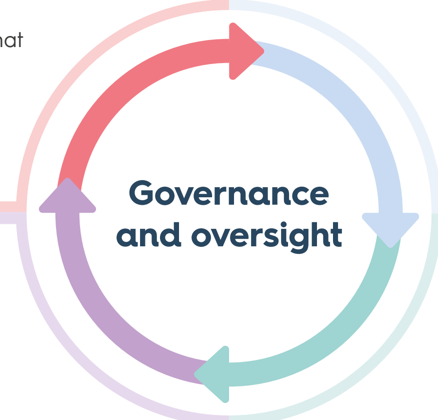
Asset allocation decisions are made

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



Monitor

Regular meetings with external fund managers

Company engagement and progress against objectives are recorded

Risk monitored through the ESG risk dashboard

Escalation options are considered

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

Principle 5

Review and assurance

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

Internally, our formal policies, and the implementation of these policies by our fund managers 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. There is a diverse range of investment industry experience on our investment committee and the feedback and challenge we receive from the committee has led us to enhance many of our policies and improve transparency.

For example, when we produced our climate change policy in 2020, we were encouraged by our investment committee to develop a climate change roadmap to accompany the policy. They wanted to see interim short to medium term targets and clear metrics to measure progress which give our stakeholders a clearer view of our journey towards meeting our climate ambition - to align our portfolio with net zero emissions by 2050 at the latest. Developing targets and key performance indicators also allowed our committee to better monitor our progress on decarbonising our portfolio and hold us to account.

As a public corporation and a relatively large and fast-growing institutional investor, we recognise the potential influence we have in the market, as well as the large interest in our work from a wide variety of stakeholders (including our members, peers and standard setters).

We take this responsibility seriously, and carefully select external stakeholders to provide us with reliable, robust validation and insights. We draw on this input from a broad range of organisations, such as auditors, fund managers, service providers, industry bodies and advocacy groups.

We believe that this approach:

- **Leads to more informed stewardship policies and processes** – by drawing on a diverse set of perspectives and expertise (for example, by gathering input into our engagement priorities from experts on ESG issues, such as ShareAction)
- **Maintains trust with our members and others** – by seeking assurances from stakeholders with strong credibility (such as auditors), and demonstrating our commitment to accountability and transparency
- **Ensures for more objective assessments of our responsible investment approach** – by seeking input from external organisations with wide-ranging viewpoints

An example of how this approach has helped us is last year, when EY conducted an internal audit of Nest's segregated mandate oversight. Following the audit, it was highlighted that we recorded the reasons why we overrode our fund managers' voting decisions at company annual general meetings, but we did not have a record of why we *did not* override these decisions. Once this observation was flagged to us, we began recording our reasons for not overriding our fund managers' votes. This has helped us to improve our audit trail of voting overrides and strengthen our vote reporting and transparency to our members and the broader market.

Principle 12

Case study

Enhancing our securities lending policy

After approval from the investment committee last year, we switched on our securities lending service in October 2023. To promote a responsible and transparent approach to securities lending in line with our responsible investment objectives, we have agreed a number of requirements with our custodian on areas such as voting recall and ESG screening. These requirements and expectations have been enhanced and reflected in minor updates to **our securities lending policy** this year as part of our annual review of the policy.

We have also included a new section outlining an internal process to agree ad-hoc trades that occasionally arise outside the normal course of lending. Since starting securities lending, State Street (our current fund administrator and custodian) have proposed special trades that require separate approval from us. We want to understand the nature of these trades and ensure that no malpractice is taking place, so we have convened an internal committee that will seek input from different teams including the responsible investment team, with final approval given by our Head of Public Markets.

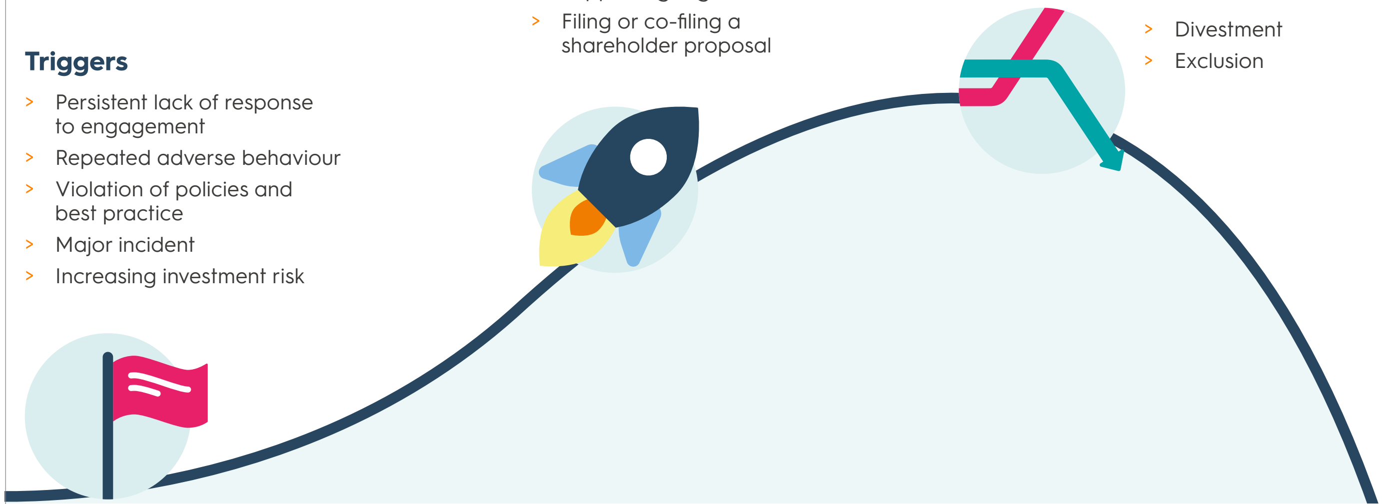
We have also reflected in the updated policy that Nest has become a co-chair of a new Asset Owner Council within the Global Principles of Sustainable Securities Lending (GPSSL) of which we are already members. Now that we are involved in securities lending, we want to help drive positive change across the market and ensure it is more transparent and aligned with asset owner interests.

Principle 11

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.

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 of the board
- Initiating or joining a targeted collaborative engagement
- Raising awareness of the issue publicly
- Supporting litigation
- Filing or co-filing a shareholder proposal

Investment action if escalation fails

- Divestment
- Exclusion

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

We've carried out a number of escalated engagements over the last year, including with 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 co-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

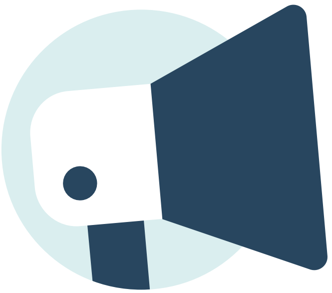
Escalating our engagement on diversity at Charter Communications

In 2021, Nest collaborated with other members from the 30% Club Investor Group, to engage with key laggards in the US to improve gender and ethnicity board representation. The research we undertook showed that Charter Communications was a clear laggard as it had well below average female board representation of 7.7% when compared to its peers in the US. We sent a letter to the company in July 2022, expressing our concerns around their gender board representation and encouraged the company to adopt the suggestions outlined in the 30% Club guidance toolkit on diversity reporting in annual reports. After receiving no response from the company and with them remaining a laggard in their market, we kept them as an engagement target for 2023. We helped co-ordinate another letter alongside UBS – one of our fund managers, escalating our concerns about their board gender representation. UBS had also previously tried to reach out to the company for a meeting directly but had been unsuccessful. Having had no response from Charter Communications, we decided to co-ordinate an escalation strategy in line with our current escalation process. We decided to collaborate with British Columbia Investment (BCI) who are members of the Canadian 30% Club Investor Group who also had similar concerns with the company. Together with BCI, UBS and Brunel Pension Partnership, we co-filed a shareholder resolution at Charter Communications ahead of their 2024 annual general meeting, asking them to develop a diversity policy and increase female representation on the board. We believed this was a great opportunity to exert direct action alongside other investors and send a signal to the company that board diversity is an issue we as investors take seriously. Soon after, Charter Communications informed us that they had appointed a second female to the board and offered to meet with us. We had a constructive meeting with the company who assured us that diversity is an important part of the board recruitment process and have included a commitment to consider diversity within its corporate governance guidelines.

Given the progress made, we withdrew the shareholder resolution, and view this as a positive outcome for investor stewardship. The company still has less than 30% female representation on the board, and therefore in line with our voting and engagement policy, both UBS and Nest voted against the re-election of the chair of the nomination committee at Charter Communications at their 2024 annual general meeting.

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 three securities in our emerging market portfolio which had been identified as violating or potentially violating one or more of the UN Global Compact principles.

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 133 issuers that make more than 10% of their revenues from thermal coal production and power generation, arctic exploration and oil sands at the end of 2023.

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.

We maintain a process to manage conflicts that may arise from our engagement with companies in our portfolio and publicly disclose our **stewardship conflicts of interest policy**. The policy aims to:

- Demonstrate where potential conflicts of interest may arise
- Demonstrate how Nest plans to manage these conflicts
- Show responsibility and alignment with our members' likely values and interests

As set out in this conflicts of interest policy, in order to manage these conflicts, we have a clearly articulated statement of how we will act as an institutional investor in the form of our voting and engagement policy. 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. Where an issue is not clearly articulated in our published voting and engagement policy or where there is a dispute across Nest Corporation as to the interpretation of those policies, the investment team will revert to our Investment committee to determine how to resolve the conflict in accordance with their trustee responsibilities to act in beneficiaries' best interests.

Opposite are two recent examples of how we handled potential conflicts of interest:

Issue	The potential conflict	How we dealt with it
As part of a collaborative investor engagement on human capital management we participate in, Nest were invited to sign an investor letter to a set of companies in the retail sector on their pay practices. These letters were sent out privately to companies and the companies were then invited to meet with the investor group to speak more about their efforts and discuss the group's expectations.	We carefully reviewed the set of companies on the list and recognised a potential conflict of interest; the member of Nest's responsible investment team responsible for this work was related to a senior employee at one of the companies on the list.	We consulted with our internal compliance team and then submitted the potential conflict to our register of outside business interests held by our corporate secretariat before signing the investor letter. The team also decided to have an alternative colleague participate in any potential future engagement meetings with the company.

Issue	The potential conflict	How we dealt with it
Nest participated in engagement meetings (along with other institutional investors) with a handful of UK companies in the food services sector on their reporting on workforce diversity. Following these meetings, the investor group noted that more forceful engagement may be necessary with some of these companies where they were slow to make improvements.	We reviewed the set of companies we planned to further engage with and found that some of the companies in question used Nest to provide their workplace pension scheme. This creates a potential conflict of interest as Nest's client relationship team may feel uncomfortable with Nest's investment team taking any escalatory action for fear of damaging the client relationship.	As set out in our conflicts of interest policy, the engagements were undertaken by Nest's responsible investment team with no influence from outside Nest's investment team. We logged these engagements for the attention of Nest's communications team (for information only), so the client relationship team could manage any communication with the employers appropriately.

Chapter 6

More about Nest

It's essential that we understand what our members need and expect from their pension savings, so that we can refine our investment beliefs and decisions to meet these requirements.

How we engage with our members

It's essential that we understand what our members need and expect from their pension savings, so that we can refine our investment beliefs and decisions to meet these requirements.

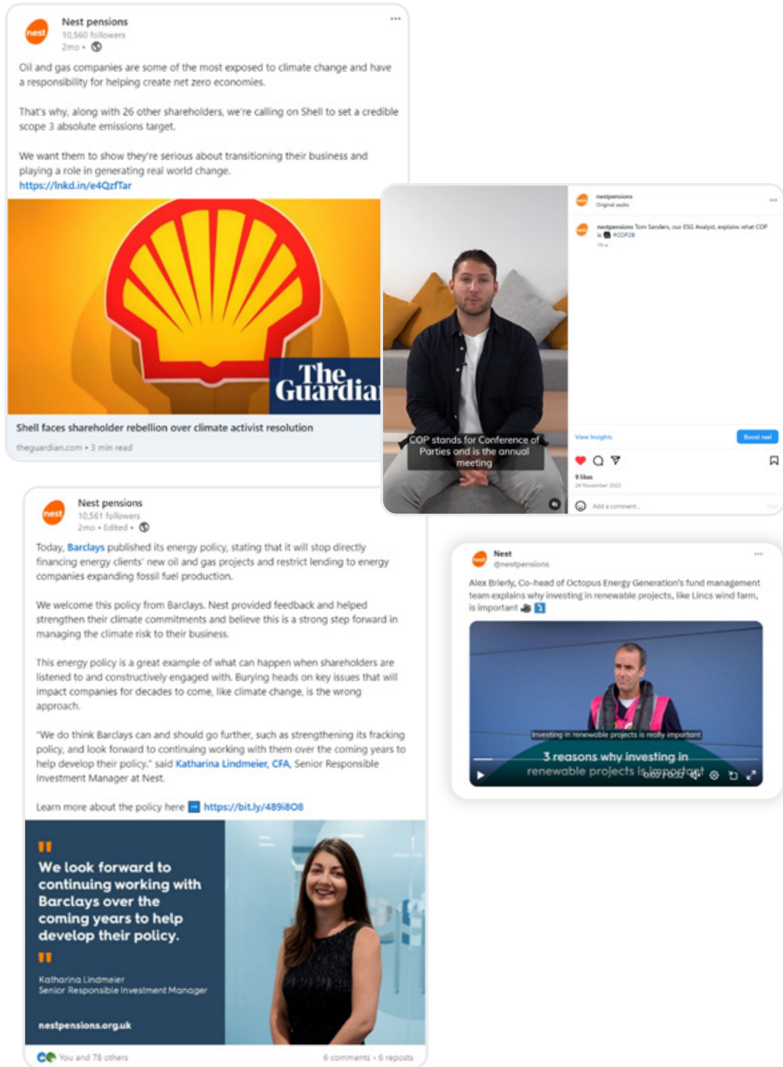
To understand what our members need and expect from their savings, we run regular surveys that include questions on how our members feel about investment and ESG issues, as well as getting feedback from our Members' Panel. Our latest **member investment research report** summarises a range of evidence about our members and their investment which influences the evolution of our investment strategy.

We publish updates on our responsible investment approach and activities in many ways including our:

- **Annual responsible investment report**
- **Voting summary report, setting out how all our fund managers have voted and how this compares to Nest's voting policy**
- **Task Force on Climate-related Financial Disclosures (TCFD) report**
- **Responses to public consultations**
- **Policies and frameworks**

Over the last year we've created email campaigns and videos and social and digital content on a variety of investment topics including sharing regular updates on our stewardship activities. On this page are a few examples of this communication.

We're continuously looking for ways to adapt our communication to ensure content is easy to understand and accessible to all our members. It's led us to create more effective communications that aim to break down the barriers and demystify the world of pensions.



Our Everyday Investors

Our award-winning investment strategy means that all 13 million Nest members are investors in an array of companies and infrastructure projects both here in the UK and around the world. But research has found that a large portion of Brits didn't see themselves as investors or know enough about how their pension was invested on their behalf. **A survey of 2,000** people found 64% of people wanted to know where their money was being invested. In addition, 55% wanted to learn more about investing, but 47% were daunted at the thought of it.

Being one of the largest pension schemes in the UK, with one in three of the UK working population having a retirement fund with us, we wanted to show that everyone is an investor when saving with Nest.

Launched last year, The 'Everyday Investor' campaign set about trying to do just that: de-bunking the dated investor stereotypes and highlighting the tangible assets that our members money is invested in.

We began by setting sail from Grimsby with a handful of members who lived locally to show them firsthand where some of their money is invested, and it was a lot closer to home than they thought. In partnership with our fund manager, Octopus Energy Generation, we visited the Lincs offshore windfarm, just one of the renewable energy infrastructure projects that members are investors in. The members learned about wind energy firsthand from the team who service and build the turbines. We captured their reactions when they learned exactly where their pension savings go.

The campaign featured content across all our social media channels, a proactive print media campaign and direct email communications to our members.

Helen: Nest member for 18 months

'I don't class myself as an investor, but I obviously am. You usually think of someone in London in a suit, but we're all investors through our pensions.

I was surprised to find out my pension was invested in something like this. It's not something I'd thought about before.

Sustainability is important to everyone in society. You're investing in something that's not only going to help you, but also future generations to come.

I wish people could see where their money was going and how it benefits the local community. It's great to see the changes in my town.

It makes you proud of where your money is going.'

Pete: Nest member for 10 years

'The windfarm has completely changed Grimsby. And for the better.

The boats that service the windfarms are usually rented from local companies, which brings in business to local fishermen. The docks have also transformed over the years. They've become more alive. It's now one of the busiest places in Grimsby.

Before this trip, I thought that all investments were in stocks and shares. I didn't realise that you could invest in infrastructure projects too. I was even more surprised to find out that my money goes into things right on my doorstep that I see most days from work.

Knowing that my money is going into things life windfarms makes me feel good that it's having an impact on the world.'

We're currently looking at ways to continue and expand this idea of the Everyday Investor. We want Nest members to feel inspired and proud like Helen and Pete. You can watch the video of their experience and get to know more about our Everyday Investors by **visiting our website**.

Principle 2

Resourcing and support for responsible investment

Our responsible investment team is part of Nest's investment directorate (see organisation chart at the end of this chapter) and is made up of five dedicated and experienced individuals. Responsible investment is embedded across Nest's entire decision making and culture, and the responsible investment team works closely with the whole 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.

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.

Diandra Soobiah

Diandra Soobiah is the Director of Responsible Investment and ESG Integration and has 21 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 UK Investor Group and a member of the Pensions and Lifetime Savings Association's (PLSA) Stewardship Advisory Group.

Katharina Lindmeier

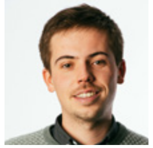
Katharina Lindmeier is the Head of Sustainability Strategy, with 9 years of investment experience. Katharina joined Nest in 2019 having previously worked in responsible investment roles at RPMI Railpen and Aberdeen Standard Investments. Katharina is focussed on environmental issues and is primarily responsible 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.

Chloe Horne

Chloe Horne is a Responsible Investment Manager, with 6 years of experience in the sustainable finance sector. Chloe's previous roles include working at the Principles for Responsible Investment as a Senior Investment Stewardship Specialist, and the Financial Conduct Authority on corporate responsibility, with an academic background in economics, business ethics and corporate governance. Chloe joined Nest in January 2024, with a primary focus on social issues.

Tom Sanders

Tom Sanders is a Senior ESG Analyst. 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, leads Nest's voting, and engages on social issues with some of Nest's member industry initiatives.



Christophe Christiaen

Christophe Christiaen is an ESG Research Associate, currently on a secondment from the University of Oxford. Christophe has 11 years working experience across private, public and non-profit sectors and has been working on sustainable finance research over the last five years. He has a background in geospatial data and analytics with a focus on climate and nature risk applications.

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 committee workshops:** We've established a programme for our investment committee 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 members of the Board on physical climate risks, and nature and biodiversity. The session went well with engagement and interest from Board members. The discussion provided guidance for the responsible investment team to update the climate change policy.
- **Quarterly investment review:** Each quarter, Nest's CIO provides a quarterly investment update to the wider organisation. The presentation routinely consists of a responsible investment update which includes key developments on our research, ESG integration and stewardship work. These updates are helpful to share knowledge and to help keep other senior leaders at Nest updated on our work so that internal and external messaging are aligned.
- **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 2023, we hosted presentations on the role of investors in tackling modern slavery by the Investor Alliance for Human Rights (IAHR), the impact of extreme weather events on today's businesses by the Oxford University Sustainable Finance group, and photos and presentation about environmental degradation from an award-winning underwater photographer.

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.

Principle 1

Our purpose

It's been ten years since we entered the pensions market and changed the shape of the industry. On the back of that milestone, we've spent a considerable amount of time reflecting on our purpose.

We went on an iterative and collaborative journey to define the reason Nest exists. Members, employers and Nest staff were all consulted, as well as independent experts and other stakeholders. Throughout our discussions, we returned to our concern for members – both during their time with us and for their lives after they stop working.

A corporate purpose should serve as a guiding light for a business' strategy, vision and goals. We're a purpose-driven organisation that aims to work positively for people and the planet, which is why our new purpose fits well with our achievement over the last decade and with our ambition for the future.

Nest's new purpose:
Building financial peace of mind for all

Our strategic direction

As a purpose-driven organisation, our strategic direction flows from our purpose and our desire to be a customer-first organisation.

Our ambition is to be a best-in-class pension provider delivering the best possible financial outcomes for our members to and through retirement.

We will achieve this through our world class investment activity, our personalised member experiences, supported by solutions, services and thought leadership that help members and the broader market with wider financial resilience.

Principle 2

How we're run

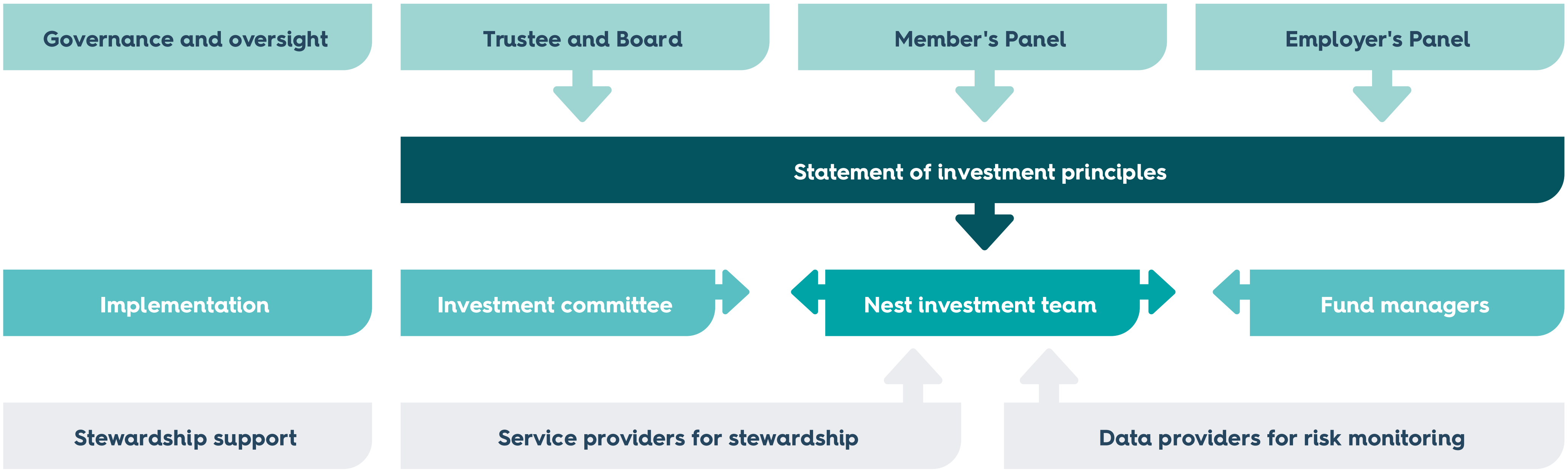
Nest was established by the UK government in 2010 to support the introduction of auto enrolment into workplace pensions.

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.

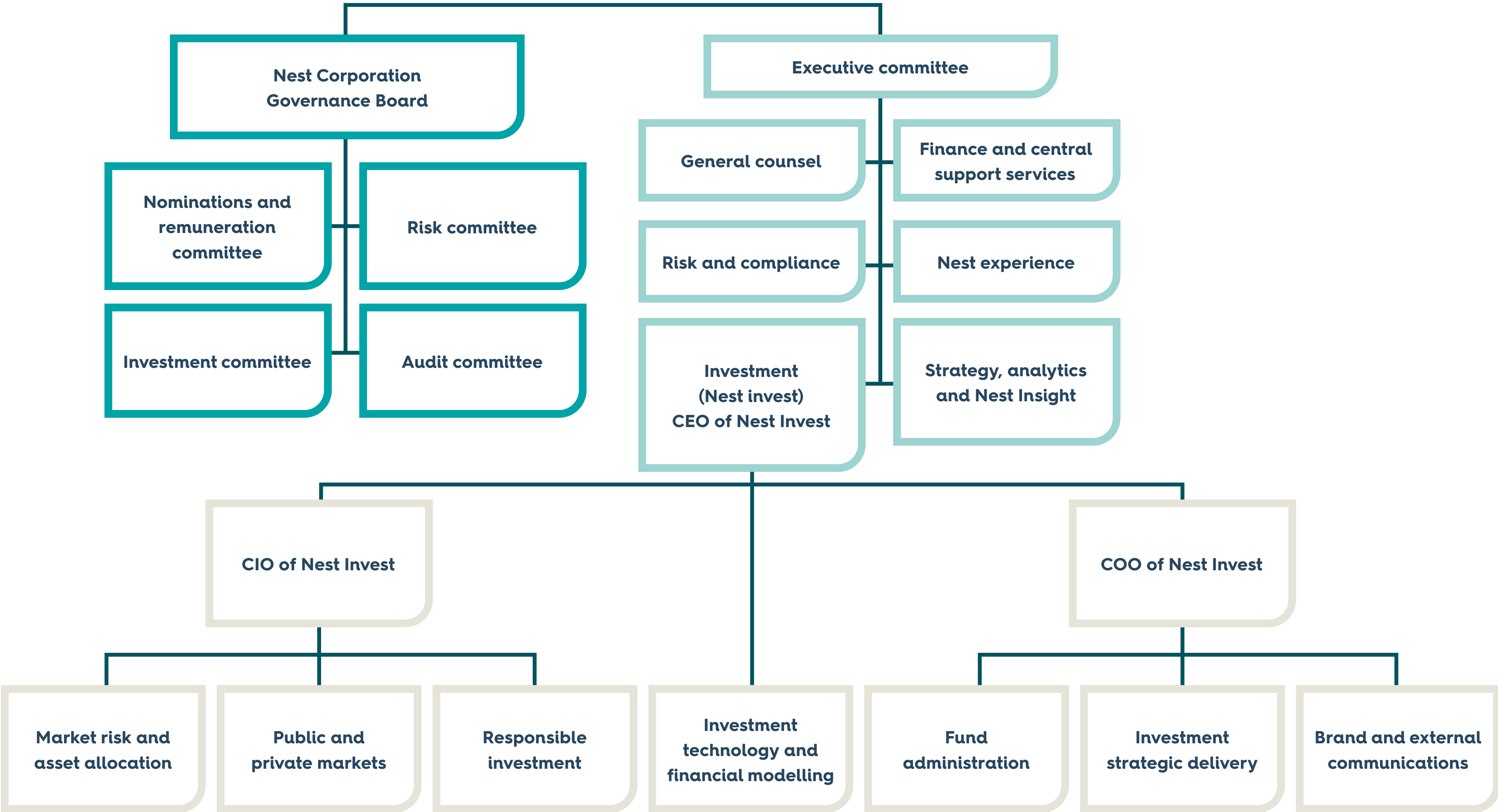
From December 2019, Nest's investment and investment operations teams were seconded into Nest Invest Ltd., the investment subsidiary of Nest Corporation, which is authorised and regulated by the FCA. The responsible investment team sits within Nest Invest.

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. Please see the end of this chapter for further details on our organisational structure.

Governance at Nest



Organisation chart



Role: Trustee and Board members

Responsibility

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.

Role: Fund managers

Responsibility

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**.

Role: Members' Panel and Employers' Panel

Responsibility

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.

Role: Nest Invest Ltd (In house investment team)

Responsibility

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.

Role: Investment committee

Responsibility

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.

Case study

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

1. 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.

2. 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.

3. 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 our Investment committee to approve our new beliefs so we could update important parts of the Statement of Investment Principles (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 Investment committee and they recommended that Nest Corporation Governing Body (NCGB or Board) 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.

4. 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

Nest was established by the UK government in 2010 to support the introduction of auto enrolment into workplace pensions.

Awards

IPE European Pension Fund Awards 2023

Carbon and Net Zero Strategies

IPE European Pension Fund Awards 2023

Private Markets

IPE European Pension Fund Awards 2023

Multi-Employer Pension Fund

European Pension Awards 2023

Best Investment Strategy

Awarded for implementing an investment strategy that sets the standards for the industry to follow.

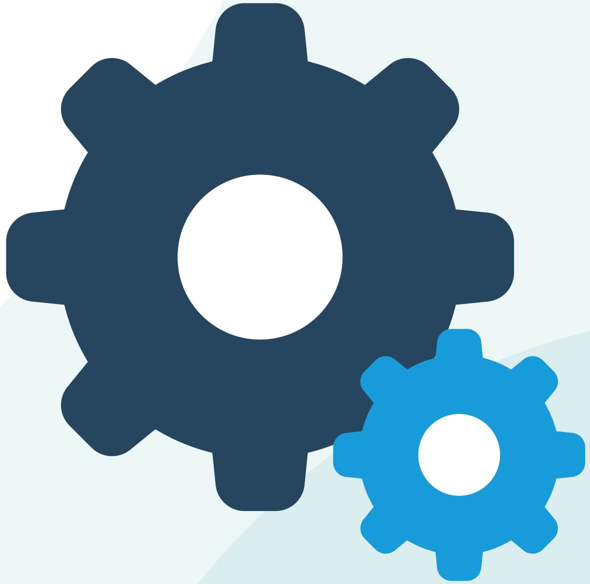
IPE Transition Awards

Highly Commended in the Leadership in Energy Transition & Net Zero category

Chapter 7

Meeting the Financial Reporting Council's Stewardship Code

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



Meeting the FRC's Stewardship Code

Stewardship Code Principle		Page number
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.	10, 78
Principle 2	Signatories' governance, resources, and incentives support stewardship.	66, 76, 80
Principle 3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	72
Principle 4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	15, 52, 56, 62
Principle 5	Signatories review their policies, assure their processes, and assess the effectiveness of their activities.	68
Principle 6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	4, 7, 11, 74
Principle 7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	14, 46
Principle 8	Signatories monitor and hold to account managers and/or service providers.	22, 50, 55, 57
Principle 9	Signatories engage with issuers to maintain or enhance the value of assets.	14, 56
Principle 10	Signatories, where necessary, participate in collaborative engagement to influence issuers.	15, 65
Principle 11	Signatories, where necessary, escalate stewardship activities to influence issuers.	24, 69
Principle 12	Signatories actively exercise their rights and responsibilities.	14, 46, 50, 56, 68

Contact us

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

nestpensions.org.uk