

NEST's Financial Reporting Council Stewardship Code statement



Introduction

NEST has supported the Financial Reporting Council's (FRC's) UK Stewardship Code since it began. We've contributed to the Stewardship's Code ongoing development through written submissions and meetings with the FRC. NEST welcomes the ongoing development of the Stewardship Code and we've updated our own statement to reflect the most recent changes.

We firmly believe investing responsibly supports long-term value, reduces risk and contributes towards better member outcomes. Being a prudent and active asset owner and incorporating environmental social and governance (ESG) factors has a positive effect on members' pension pots in the long term. Sound corporate governance and companies that are mindful of their impact on society and the environment in which they operate have a better chance of sustaining long-term economic success.

The Stewardship Code outlines seven good practice principles.

How NEST addresses the Stewardship Code principles

Principle one - Institutional investors should publicly disclose their policy on how they'll discharge their stewardship responsibilities.

We're committed to being a responsible and vigilant asset owner and market participant. We've set this out in the Responsible investment section of our [Statement of investment principles](#).

At NEST, we take our responsibilities as an asset owner seriously. Appointing the right people to invest and manage our members' money is an important part of our responsible investment approach. Currently we invest through pooled funds managed by external managers. As clients, we work closely with our responsible investment partners and fund managers to support good corporate practice on our members' behalf.

When exercising stewardship, we expect our fund managers to do so in accordance with their own documented policies. We also expect them to be mindful of their clients' beliefs and expectations.

While we don't currently exercise our voting rights directly, we have our own [voting policy](#) which enables us to document our viewpoints and expectations to our fund managers. This supports good corporate behaviour.

We use our voting policy to hold our fund managers to account on the decisions they make. It helps us to identify differences between how they vote and how we might vote on a particular issue. This allows us to have an informed debate with our managers. It also allows us to participate fully in the wider dialogue on corporate governance, environmental and social matters.

As our assets under management grow, we'll exercise greater influence over how our ownership rights are used. In the meantime, we're committed to monitoring and holding our fund managers to account on how they exercise stewardship on our members' behalf.

As a relatively young scheme, we recognise that we can't engage with all companies on all issues. We need to prioritise our engagement activities. Through our targeted programme of corporate engagement, we aim to positively influence whole industries and not just individual companies.

Where there are few players in an industry, we have a greater chance of our resource positively influencing an industry. Our fund managers also regularly carry out corporate engagements on behalf of all of their clients in the pooled funds. Each quarter, we publish updates on how our engagement activity is progressing in our communications.

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

At NEST, we always seek to act in the interests of all our members. Our policies are designed to support our efforts to be a good steward. They guide us on how we vote and engage with the companies we invest in. We implement our activities in accordance with these policies. Our responsible investment partner and our fund managers work with us to help implement these policies and have their own policies that they apply on our members' behalf.

We recognise there are occasions where our policies and decisions might conflict with, or might be seen by others to conflict with, business elsewhere within NEST. If a conflict of interest arises, we continue to adhere to our policies and strategic direction as usual. We also expect our fund managers and our responsible investment partner to carry on business as usual and carry out their policies as normal. This should significantly reduce the chances of a conflict of interest becoming a problem in regard to how we discharge our voting rights and correspondence with the companies we invest in. From time to time, a conflict of interest may arise that warrants our attention. We aim to identify and manage any conflicts objectively.

Principle 3 - Institutional investors should monitor their investee companies.

Through our funds, NEST invests in thousands of companies around the world. It wouldn't be practical or relevant for us to monitor or communicate with every company we invest in.

We expect our fund managers to regularly monitor and engage with companies on our behalf where they consider it to be important to the quality and value of our investments. We expect them to report to us periodically on their engagement activities.

We use ESG data from third party providers and responsible investment networks to help us determine whether the companies in which we invest are operating to a standard that meets our members' expectations. This research keeps us up to date with current ESG concerns and informs our conversations with fund managers, responsible ownership partner and the companies in which we engage directly.

We engage directly with companies either individually or with other investors on themes or issues we particularly want to improve across whole industries. These have included audit, bribery and corruption, climate change, fair pay practices, banking culture and conduct.

Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities.

The objective of our engagement is to access information, further understanding, develop key relations and seek to influence and create change. We'll always look to conduct dialogue in an amicable and constructive way. We believe building and maintaining the right relationships with our investee companies can be key to being able to convert engagement into successful outcomes.

Where we feel we're not making progress with a company board, we can involve our peers and engage collaboratively. We'd do this with other pension funds, our fund managers and our responsible ownership partner. We may also raise the issue with regulators who may be able to take a different approach on addressing the issue. If we can't reach a successful outcome, we may try to influence the way fund managers vote at that company's Annual General Meeting. We also look to feed back good practice of other companies in the same sector to encourage change and action.

Before we communicate with a company, we'll set out clearly what it is we're trying to achieve. We'll set out our reasons for getting in touch, and our expectations concerning what successful dialogue might look like.

We don't expect to achieve profound change straightaway. We'll follow up several times with the company. We'll request to meet different board or management representatives to see what progress has been made and how our comments and concerns have been considered.

Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.

Companies receive a wide range of often contradictory opinions and views from diverse groups of shareholders and interest groups. We think shareholders and interest groups can influence companies more successfully if they speak with one voice and to a single objective. So where investor views are aligned, collective engagement has the potential to improve the chances of achieving positive change.

If we're asked to collaborate in this way and the issue in question is clearly in our members' best interests, we're likely to do so. On a more strategic level, we may also seek to enlist others if it helps strengthen our case. We'll firstly talk to our fund managers and responsible investment partners to determine their interest in taking the matter forward with us.

Some of our engagement has involved talking to standard setters to encourage change of some kind. This reflects our position as an institutional owner whose interests are broad due to our investments being spread around the world. We don't look to impose prescriptive demands. Our aim is to be persuasive and pragmatic so we achieve change consistent with our responsible investment objectives. We may also ask our fund managers and our responsible investment partner to broaden their engagement and help promote appropriate guidelines and regulation on corporate governance throughout the world.

We're part of a UK roundtable of pension fund providers that meets regularly to discuss ESG initiatives. This group frequently considers joint approaches to companies on matters of public policy. We're also signatories to many initiatives and networks that facilitate collective engagement.

Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.

We judge the companies we invest in largely against regional and global Corporate Governance Codes and other good practice guidance on environmental and social issues. On some voting issues, we go beyond good practice and set out higher standards of behaviour that we expect companies in certain jurisdictions like the UK to meet.

We've created a bespoke **voting policy** in line with our **responsible investment objectives and principles**.

We expect our fund managers to vote thoughtfully rather than automatically with management. We appreciate that a fund manager may be involved in correspondence with a company. This might mean that they wish to vote in a different way to how we would vote if we had the right to. We expect them to have their own publicly documented voting policy and not solely rely on third party recommendations.

We can also override a select number of votes cast by our global equity fund manager. As a pooled fund investor, being able to directly exert our influence on investee companies on matters we feel strongly about is an exciting development. Our fund managers need to understand our values and our obligation to members. They also need to provide us with the tools and support to be able to monitor their responsible investment activities effectively and meet our own stewardship responsibilities.

We publish our fund managers' voting records on our website and we expect our fund managers and responsible investment partner to do the same.

Securities lending can be a significant source of revenue for institutional investors. Before we appoint our equity fund managers, we ask about their policy on stock lending and whether stock is recalled in order to cast votes on those shares. We encourage our fund managers to recall stock where appropriate. Not all of our fund managers carry out stock lending. However, where they do so, it is

monitored by NEST to ensure they act within the pre-defined guidelines and risk parameters set out in the contract.

Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.

In line with our commitment to transparency, we report to our stakeholders on our responsible investment activities. We do this by our quarterly investment reports, our annual report and accounts, and through the quarterly publication of voting activity for our equity investments. We put this on our website. We also publish a report each year that includes information on the stewardship policies we have in place and how we've been implementing them across our investment approach.

We hold our fund managers to account by asking them to send us periodic updates on their stewardship activities. This includes voting, engagement and how they embed ESG factors into their investment processes. It's up to us to ensure that our members have confidence in our fund managers' processes and practices for good stewardship.

We keep our **fund managers voting records on our website.**

Our annual **responsible investment report is available on our website.**