

Responsible Investing Policy — in support of the Statement of Investment Principles ("SIP")

As at 7 July 2023

Nationwide
Pension Fund

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For the avoidance of doubt defined terms in this document have the same meaning as defined in the Glossary of Defined Terms included in the Statement of Investment Principles.

1. Responsible Investing

- 1.1. In setting the Fund's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Fund and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. The Trustee believes that to fulfil this commitment and to protect and enhance the value of the Fund's investments, it must act as a responsible steward of the assets in which the Fund invests. This policy covers both sections of the Nationwide Pension Fund (NPF), the Nationwide section and the Cheshire & Derbyshire section, unless stated otherwise.

2. Aligning Asset Managers' Interests

- 2.1. As an overarching principle, the Trustee adopts a long-term approach to investment and will look through short-term volatility to assess the performance and return profile of an asset manager over the longer term.
- 2.2. For liquid investments the Trustee's policy is to appoint managers with an open-ended mandate, and ordinarily to review performance every three to five years absent any significant changes to the investment strategy. This will typically be completed by assessing returns relative to the investment benchmark (as set at the outset) and comparing returns to peer group investments. The Cheshire & Derbyshire section contains only liquid investments, held with one manager.
- 2.3. For illiquid investments, it is the Trustee policy to commit to the full term of the fund (although secondary trades are not ruled out if these are optimal for the portfolio), and therefore the asset manager is incentivised to make decisions based on the medium- and long-term prospects of its underlying investments, rather than achieving short-term returns.
- 2.4. The Trustee is typically aligned with a 'fixed fee' remuneration approach for its asset managers, as it facilitates a higher degree of transparency and planning on behalf of the Fund.
- 2.5. The Trustee acknowledges that a variable, performance fee structure (in addition to a base fixed fee) is the market standard for illiquid, private market funds. The Trustee therefore accepts that investment in the best performing private market funds will incur performance fee arrangements.
- 2.6. Ultimately, analysis on behalf of the Trustee is undertaken on a net-of-fees basis and where structured appropriately, this aligns the interests of the Fund with those of the asset manager and the individuals managing the investments for the asset manager.
- 2.7. Performance reviews typically incorporate market testing of fixed fees and the Trustee will always seek to negotiate and reduce fees where possible. The Trustee will preclude investment where it judges the fee structure (including performance fees) of the asset manager is excessive or does not align interests with the Fund and its beneficiaries.
- 2.8. The Trustee, with support from the Investment Consultant, actively engages with asset managers to obtain better visibility of costs and charges incurred through the management of the portfolio by its asset managers, this includes portfolio turnover costs incurred by the asset manager.
- 2.9. The Trustee seeks to maintain an asset allocation in line with the target portfolio set out in the respective SIP documents for each section of NPF. These are reviewed annually in conjunction with the Fund's Investment Consultant. Within each asset class, the Fund will seek asset managers which it assesses to be capable of delivering

returns in line with their stated mandate (amongst several other factors such as diversification).

- 2.10. For illiquid asset managers, the duration of the investment, or arrangement, is a significant period of time, with several years not untypical. Liquid asset managers provide a degree of flexibility to react to a range of factors, and arrangements may be shorter in length albeit passive holdings are often long term. For passive mandates, periodic market benchmarking is undertaken to ensure the arrangement provides ongoing value and remains competitively priced.
- 2.11. The Trustee does not explicitly monitor nor require its asset managers to target any non-financial criteria, although the Trustee accepts it has a duty as an institutional investor to act in a responsible manner and will question managers on rationale for holding position in assets and/or portfolio companies that could be deemed to contribute negatively to society.
- 2.12. Detail of how the Trustee seeks to engage with the underlying issuers of debt and equity is referenced in section 4.

3. Environmental, Social and Governance Considerations

- 3.1. The Trustee considers that an understanding of financially material considerations including environmental, social and corporate governance (ESG) factors (such as climate change) and risks related to these factors can contribute to the identification of investment opportunities and financially material risks. These are predominantly considered over the long-term, but the Trustee also attempts best estimate modelling in the short and medium-term as a part of climate risk reporting.
- 3.2. As part of its delegated responsibilities, the Trustee expects the Fund's investment managers to take account of corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns such as climate change risks) in the selection, retention and realisation of investments. Any decision should not apply personal ethical or moral judgments to these issues but should consider the sustainability of business models that are influenced by them.
- 3.3. The Trustee is taking the following steps to monitor and assess ESG related risks and opportunities:
 - The Trustee will have periodic training on responsible investment to understand how ESG factors, including climate change and biodiversity loss, could impact the Fund's assets and liabilities.
 - As part of ongoing monitoring of the Fund's investment managers, the Trustee will use ESG ratings information provided by its Investment Advisor, where relevant and available, to monitor the level of the Fund's investment managers' integration of ESG on a quarterly basis.
 - On an annual basis, the Trustee will request all the Fund's investment managers to provide their responsible investment policy and details of how they integrate ESG into their firms and their investment decision making processes. Amongst other things, this includes asking how investment managers act against modern slavery and mitigate risks of it occurring, details of corporate governance policies and procedures, carbon emissions data, and diversity and inclusion policies. Should the Fund look to appoint a new manager, the Trustee will request this information as part of the selection process and assess the

credentials of the manager. All responses will be reviewed and monitored with input from the Investment Consultant as required/appropriate.

- 3.4. The Trustee has established a Climate Mission Statement which sets out its beliefs with respect to climate-related impacts on the Fund whilst providing an overarching approach to manage climate-related risks as part of the investment framework. The full statement is provided in Appendix 1.
- 3.5. As an investor in ground rents and long leases covering both residential and commercial property, the Trustee, in conjunction with the Fund's advisers and managing agents, has set out clear and transparent investment and management guidelines in its Ethical Landlord Policy. This includes stated responsibilities to leaseholders. This is only applicable to the Nationwide section, as the Cheshire and Derbyshire section has no such investments.
- 3.6. The Trustee published the Fund's first TCFD report as of 31st March 2022, in-line with the recommendations set out by the Taskforce for Climate-related Financial Disclosures. This will be updated on an annual basis to show how the Trustee monitors and manages climate risk in the portfolio.
- 3.7. The Trustee is aware that all factors within ESG are of equal importance and this growing area of considerations are subject to change. The Trustee will stay up to date with all required disclosures in order to continue acting as responsible stewards.

4. Stewardship – Voting and Engagement

- 4.1. The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance in the underlying companies in which its investments reside. The Trustee recognises that ultimately this protects the financial interests of the Fund and its beneficiaries.
- 4.2. The Trustee has a firm expectation that the Fund's investment managers and other appropriate intermediaries use their influence as major institutional investors to carry out the Trustee's rights and duties as a shareholder including voting, along with – where relevant and appropriate – engaging with underlying investee companies to promote good corporate governance, accountability, and positive change.
- 4.3. The Trustee expects that its investment managers will provide details of their stewardship policy and activities on an annual basis and will monitor this with input from the Investment Consultant as required/appropriate.
- 4.4. Specifically, the Trustee encourages its investment managers to adhere to the principles of the UK Stewardship Code, UN Principles for Responsible Investment, or UN Sustainable Development Goals (or an equivalent set of standards). The Trustee asks managers to:
 - Publish a policy or statement setting out the extent to which, and how, they implement responsible investment standards, explaining areas of non-compliance.
 - Take into account ESG considerations in the selection, retention and realisation of investments where these might have an impact on company and investment performance.
 - Exercise shareholder rights (including proxy voting and engagement) on the Fund's behalf in such a manner so as to protect the interests of beneficiaries.
 - Each year report voting and engagement activity to the Trustee (where such activity takes place).

- Provide Scope 1, 2 and 3 carbon emissions data, and other environmental metrics, as far as is feasibly possible.
 - Demonstrate policies/processes that are in place to identify, assess and address risks in relation to modern slavery, human rights and labour standards.
- 4.5. The Trustee will engage with its investment managers where necessary for more information, and where appropriate, influence investment managers to improve existing practices.

5. Members' Views and Non-Financial Factors

- 5.1. The Trustee recognises that Fund members and beneficiaries have views on ethical considerations, social and environmental impacts, and the present and future quality of life of the members and beneficiaries of the Fund (defined as 'non-financial factors' in the Occupation Pension Schemes Regulations 2018). However, the complex nature of asset liability modelling and the requirement for professional expertise in investment management means that the Trustee does not separately take into account non-financial factors in its investment approach. The Trustee sets and implements the Fund's investment strategy in line with the principles set out in the Statement of Investment Principles and this Responsible Investing Policy.

Appendix 1 – Climate Mission Statement

The Trustee believes that climate change is one of the most significant global challenges of this century. The Trustee does not believe that markets are adequately pricing in the risks associated with climate change, nor that companies which are exposed to the risk of stranded assets are equipped to find other means to replace the potential revenue loss from a transition to a low-carbon economy.

The risks associated with climate change may therefore materially impact on the Fund's investment returns within the timeframe that the Trustee is concerned about – which the Trustee defines as the next 20 years – and, as such, the Trustee seeks to integrate assessments of climate change risk into its investment decisions. In assessing the Fund's climate change risk exposure, the Trustee considers these risks over the short (1-3 years), medium (4-10 years) and long (11-20 years) term.

The Trustee believes that the Fund's investment portfolio should reflect its commitment to a low carbon future, focusing on lower carbon investment products. As such, when assessing the impact of climate change on the Fund, the Trustee will seek to identify investment opportunities that are aligned with the transition to a low carbon economy. This may include investments in green technologies and infrastructure, low-carbon/ESG-tilted investments or through an impact investing approach.

The Trustee believes that it can practically prepare for the risks associated with climate change and that it has a duty to help drive positive change and action on climate change through its investments. The Trustee will seek to support the United Kingdom's and the world's transition to a low carbon economy through a programme of responsible investment combined with active engagement on climate change issues, including through membership of industry groups and networks of like-minded investors. Where possible and appropriate, the Trustee will work with the sponsoring employer to address these issues.

The Trustee board has overall responsibility for setting the Fund's climate change risk management framework. As a first step, the Trustee will formalise its climate change risk management framework, which will set out the Trustee's processes for identifying and managing climate change-related risks. The Trustee will review its climate change risk framework annually and will monitor progress against its objectives at least bi-annually and more frequently if required. The Trustee board has delegated day-to-day implementation of its climate risk management framework to the CIOT and investment consultant.