

**EMPLOYEE PENSIONS**

# **Nationwide Pension Fund Report & Accounts**

**31 March 2013**

NATIONWIDE PENSION FUND

ANNUAL REPORT

31 MARCH 2013

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## NATIONWIDE PENSION FUND

### TRUSTEE AND ADVISERS

#### Trustee

Nationwide Pension Fund Trustee Limited

#### Trustee Directors

##### Society Appointed

Stuart Bernau (Resigned as Chairman and  
Trustee Director 1 March 2013)  
Peter Wilkin (Chairman, appointed as Trustee  
Director 1 March 2013)  
Tony Alexander (Resigned 1 July 2012)  
Graeme Hughes (Resigned 1 April 2012)  
Graham Pilkington (Appointed 1 July 2012)  
Andy Townsend (Appointed 1 April 2012)  
Philip Whittome (Appointed 1 June 2012)

##### Staff Member Nominated

Arthur Amos  
Rob Goldspink  
Mark Willis

##### Pensioner Member Nominated

Bill Partis

#### Head of Employee Pensions

Kevin Crossland (Louisa Flaviani interim from July 2012)

#### Chief Investment Officer

Mark Hedges

#### Administrator and Secretary

David Cook

#### Accountant

Philip Ilott

#### Actuary

Jeremy Ball, Aon Hewitt Ltd

#### Auditors

Crowe Clark Whitehill LLP

#### Legal Advisers

Sacker & Partners LLP

#### Property Solicitors

Simmons & Simmons LLP

#### Property Valuers

Knight Frank LLP

#### Bankers

National Westminster Bank Plc

#### Investment Consultant

Aon Hewitt Ltd (Towers Watson Ltd prior to 1 April 2013)

#### Investment Advisor

Robert Walther (Resigned 31 December 2012)

NATIONWIDE PENSION FUND

TRUSTEE AND ADVISERS - continued

**Implementation Manager**                      Russell Implementation Services Ltd

**Investment Managers: Nationwide Section**

Alinda Capital Partners LLC  
Arsenal Capital Management LP (appointed January 2013)  
Aviva Investors Jersey Unit Trusts Management Ltd  
Axiom International Investors LLC  
Babson Capital Management LLC (appointed February 2013)  
Dunedin Capital Partners  
Duet Private Equity Ltd  
Edinburgh Partners Ltd  
The Energy and Minerals Group  
Equis Funds Group (appointed December 2012)  
Falcon Bridge Capital II, LLC (appointed December 2012)  
Fidelity Pensions Management  
Fisher Investments  
Goldman Sachs Asset Management International (ceased June 2012)  
Habrok Capital Management LLP  
Highline Capital Management LLP  
Independent Franchise Partners LLP  
Ivory Investment Management LP  
Innisfree Ltd  
Insight Investment Management (Global) Ltd  
L Capital Asia Advisors  
LaSalle Investment Management  
Legal & General Investment Management Ltd  
Macquarie Investment Management (UK) Ltd  
Mount Kellett Capital Partners (Cayman) LP  
NB Alternatives Advisers LLC  
Odey Asset Management LLP  
Platinum Equity Advisors LLC (appointed July 2013)  
RCM Asia Pacific Ltd  
River and Mercantile Asset Management LLP

NATIONWIDE PENSION FUND

**TRUSTEE AND ADVISERS – continued**

Russell Implementation Services Ltd  
Silverpeak Real Estate Partners  
Southeastern Asset Management, Inc  
Star Capital Partners Ltd  
SteelRiver Infrastructure Fund North America LP  
Thompson Street Capital Manager LLC  
Trian Partners, Ltd  
Trilantic Capital Management LLC (appointed June 2012)  
TwentyFour Asset Management LLP  
UBS Global Asset Management Life Ltd  
Vontobel Asset Management Inc

**Investment Managers: C&D Section**

Legal & General Investment Management Ltd

**Custodians**           The Northern Trust Company

**Pension Scheme Tax Reference**   00271477RZ

**Enquiries**           Employee Pensions  
Nationwide Building Society  
Nationwide House  
Pipers Way  
Swindon  
SN38 2GN

Tel: 01793 655131

## NATIONWIDE PENSION FUND

### CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 2013

I am pleased to present the Report & Accounts for the Nationwide Pension Fund ('the Fund') for the financial year ended 31 March 2013.

#### **Overview**

The number of active members of the Fund is now 7,734. The number of pensioners has reached 6,538 and the biggest group of members is the 16,594 deferred members, who comprise more than 50% of the membership.

The value of the Fund's assets are now £3,468 million, up 11% from £3,122 million at the previous year end, which has been achieved without the receipt of any further lump sums from the Society. More commentary about the investments is included in the investment report from Mark Hedges, Chief Investment Officer.

#### **Funding**

Since the last actuarial valuations as at 31 March 2010 lump sums totalling £320m were received under the deficit recovery plan. However, the 2012 interim funding update indicated that due to a reduction in interest rates and a corresponding increase in the valuation of liabilities the Nationwide Section of the Fund remained in deficit (measured on a technical provisions basis), with a small surplus in the C&D Section, and the ongoing 2013 full valuation is expected to confirm that this is still the case.

#### **Communication**

Since the benefit changes effective from 1 April 2011, communication has been a focus for the Trustee Board with roadshows and newsletters for current employees introduced. In the last year the focus has widened to pensioners and deferred members with a new pensions website and biannual newsletter for pensioners. This focus will continue going forward with surveys of members and Additional Contributions roadshows planned.

#### **Trustee Board**

There are a number of committees meeting regularly in addition to the main Board meetings. Improvements are always considered to help ensure that the Fund continues to be run in accordance with the very best practice. Training for the Trustee Board also continues to be a focus with increased time spent on individual training and group training. As well as the efforts of the Trustee Directors, I am also grateful for the support received from our professional advisers and the internal pensions and investment teams.

In the year there have been a number of changes in Trustee Directors, including Philip Whittome as our first professional Trustee Director, and my appointment as an independent chairman to replace Stuart Bernau, who resigned on 1 March 2013. Following Robert Walther's resignation as investment advisor at the end of 2012 Philip has taken over as chairman of the investment sub-committee, bringing his investment expertise to this role. Before taking over the role of Chairman I gained over 30 years' experience in senior positions within PricewaterhouseCoopers, including a number of years as head of their pensions assurance and audit team.

I would like to thank my predecessor Stuart for his significant contribution as chairman of the Trustee Board over the last three years. I would also like to thank Robert for his contribution as an investment advisor and as chairman of the investment sub-committee over the last three years, and before that as chairman of the Trustee Board for seven years.

Peter Wilkin  
Chairman of the Trustee Board

## NATIONWIDE PENSION FUND

### **TRUSTEE REPORT FOR THE YEAR ENDED 31 MARCH 2013**

The Trustee of Nationwide Pension Fund presents its annual report, together with the investment report, actuarial certificates and financial statements for the year ended 31 March 2013. The Fund is a defined benefit scheme providing benefits based on final salary for members who joined prior to 1 January 2002, and on Career Average Re-valued Earnings ('CARE') for members who joined after that date. From 1 April 2011 all future benefits for service after that date have been provided on a CARE basis, whilst the final salary link has been maintained for service before that date.

From 1 June 2007 the CARE section was closed to new employees, who became eligible to join the Nationwide Group Personal Pension ('GPP') arrangement. The GPP arrangement is a defined contribution scheme administered by Friends Life and is not part of the Fund.

Following the merger on 30 June 2010 with the Cheshire Building Society Pension and Life Assurance Scheme ('the Cheshire Scheme'), and the Derbyshire Building Society Staff Pension Scheme ('the Derbyshire Scheme'), the Fund became sectionalised with two separate sections – 'The Nationwide Section' and 'The C&D Section' covering the Derbyshire and Cheshire Schemes. Separate financial disclosures for these two sections are provided in this report.

The Fund is 'contracted out' of the additional components of the State pension.

#### **Management of Nationwide Pension Fund**

On 1 April 2007 Nationwide Pension Fund Trustee Limited, a corporate body, was appointed as Trustee, and all serving Trustees became Trustee Directors.

Nationwide Pension Fund is governed by a definitive trust deed and rules dated 1 April 2012.

The Board of Nationwide Building Society ('the Society') has the power to appoint four Trustee Directors (and change them from time to time). Three Staff Member Trustee Directors are elected for terms of six years and a Pensioner Member Trustee Director is elected for three years. Any Trustee Director may, in exceptional circumstances, be removed from office by the unanimous decision of the other Trustee Directors, provided that in the case of removal of Staff Member Trustee Directors, or a Pensioner Member Trustee Director, approval is first obtained from the appropriate electoral constituency voting in a postal ballot.

The current Trustee Directors are shown on page 2. Seven of them received payment for their services in the scheme year, as set out in Note 7 to the financial statements.

Trustee meetings are normally held six times a year, including four regular quarterly meetings. Decisions are made generally by consensus, but the rules provide for majority voting when a consensus cannot be reached.

There are also a number of sub committees that meet throughout the year, as set out below:

- The Investment Sub-committee meets at least quarterly with further meetings as required.
- The Administration Sub-committee also meets on a quarterly basis.
- The Derivatives Sub-committee meets as required.
- The Permanent Incapacity Early Retirement Sub-committee (PIER) meets as required, usually four to six times a year.
- The Accounts Approval Sub-committee meets at least once a year, to consider the draft accounts.
- The Trustee's Internal Disputes Resolution Sub-committee meets as required.

## NATIONWIDE PENSION FUND

### TRUSTEE REPORT – continued

#### **Review of Financial Development of the Fund**

Aon Hewitt Associates Ltd performed the most recent actuarial valuation as at 31 March 2010. The valuation indicated a deficit of £320m at that date. A deficit recovery plan was subsequently agreed between the Trustee and the Society under which lump sum payments totalling £320m were made into the Fund between March and July 2011. A further £0.9m was also paid up to June 2011 in connection with the former Portman scheme actuarial liabilities. No further deficit funding was scheduled for, or made in, the year to 31 March 2013.

The average employer's contribution rate applicable from 1 April 2011 was 16.7%, decreasing to 16.3% from April 2012 and 16.1% from 1 April 2013. Under the deficit recovery plan the deficit was targeted to be cleared by the next valuation date. The Trustee routinely monitors the Fund's funding position and the next valuation is being carried out as at 31 March 2013. It is expected to show a deficit in the Nationwide Section and a small surplus in the C&D Section.

An actuarial statement of the adequacy of the rates of contributions for the purpose of meeting the statutory funding objective at the time of the last actuarial valuation is on page 19. An actuarial statement certifying the calculation of the valuation's technical provisions is on page 20. An update on the funding position is on page 39.

The contributions and income received for the year ended 31 March 2013 were less than benefits due by £26.4m (2012: surplus of £222.8m). The net effect of returns on investments has been to increase the value of the Fund by £372.0m (2012: £213.2m).

The financial statements have been prepared and audited in compliance with regulations under sections 41(1) and (6) of the Pensions Act 1995. They cover the year to 31 March 2013.

#### **Investment Strategy**

The Trustee strategy is to diversify investments and match investment returns with the Fund's liabilities as they fall due over the long term. Diversification of investment returns requires selection and appointment of specialist asset managers across a range of asset classes. This means the Fund has a wide range of investment managers. The investment performance is considered at the asset allocation level in conjunction with the investment performance of specialist managers. These are targeted and monitored after taking account of fees charged (both ad valorem and performance fees) by managers, acknowledging that specialist manager fees are typically higher than index tracking fund managers. Investment assets are transferred between managers to implement this investment policy, as necessary. Details of asset allocation performance, management fees and movements in investments can be found in the Investment Report and Financial Statements.

A revised Statement of Investment Principles ('SIP') was adopted by the Trustee in September 2012 to reflect the Trustee's decision to reduce exposure to equity and increase exposure to bonds. At 31 March 2013 the Fund was slightly overweight compared to its targets for bond and credit allocations, however this was within the acceptable ranges set under the SIP.

#### **Sponsoring Employer**

The Fund is sponsored by the Nationwide Building Society, whose address is Nationwide House, Pipers Way, Swindon, SN38 1NW.



NATIONWIDE PENSION FUND

TRUSTEE REPORT – continued

**Membership**

The change in the membership of the Fund during the year is given below:

	Note	Nationwide Section	C&D Section	Total
<u>Active Members</u>				
Active members at the beginning of the year		8,425	80	
Adjustments to prior periods		1	-	
New members joining	(a)	7	-	
Refunds of contributions		(2)	-	
Members leaving prior to pensionable age		(648)	(8)	
Members retiring		(116)	-	
Deaths in service		(5)	-	
		<u>7,662</u>	<u>72</u>	<u>7,734</u>
<u>Deferred Members</u>				
Deferred members at the beginning of the year		15,473	857	
Deferred members reinstated		(1)	-	
Deferred members added during the year		648	8	
Deferred members transferring out		(60)	(1)	
Deferred members retiring		(282)	(24)	
Deaths in deferment		(15)	(1)	
Merged records	(b)	(3)	-	
Cessation of pension entitlements		(2)	-	
Pension commencements backdated	(c)	(3)	-	
		<u>15,755</u>	<u>839</u>	<u>16,594</u>
<u>Pensioners</u>				
Pensioners at the beginning of the year		5,675	493	
Active members retiring		116	-	
Deferred members retiring		282	24	
Spouses and dependants		56	3	
Commutations of trivial pensions		(9)	-	
Deaths in retirement		(93)	(5)	
Merged records	(b)	(2)	(1)	
Cessation of pension entitlements		(4)	-	
Pension commencements backdated	(c)	3	-	
	(d)	<u>6,024</u>	<u>514</u>	<u>6,538</u>
<b>TOTAL MEMBERSHIP AT 31 MARCH 2013</b>		<u>29,441</u>	<u>1,425</u>	<u>30,866</u>

- (a) Existing deferred members returning from an employment break have the right to rejoin the Fund through an additional active account.
- (b) Merged records relate to members who previously had two separate periods of membership.
- (c) The pension commencements of three members were backdated to the date of their leaving following Permanent Incapacity Early Retirement (PIER) review by the Trustee.
- (d) The figures for pensioners do not include approximately 40 members whose pension is paid directly to them by an insurance company in respect of an annuity purchased at the time of their retirement.

NATIONWIDE PENSION FUND

**TRUSTEE REPORT** – continued

**Trust Deed and Rule Changes**

A consolidated deed of variation was adopted with effect from 1 April 2012 to incorporate all major deeds and deeds of variation since the previous consolidated deed was adopted with effect from 1 April 2007.

A deed of variation was adopted on 3 June 2012 that revised the limits on trustee liability and a deed of confirmation dated 28 September 2012 was adopted that added the benefit limits applying to ex-Lambeth members that were formerly included in the Portman rules.

There were no other changes during the year to any benefits accrued or to the Rules.

NATIONWIDE PENSION FUND

**STATEMENT OF TRUSTEE RESPONSIBILITIES**

The financial statements are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Fund members, beneficiaries and certain other parties, audited financial statements for each scheme year which:

- show a true and fair view of the financial transactions of the Fund during the scheme year and of the amount and disposition at the end of the scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year, in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes (revised May 2007)'.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

The Trustee is also responsible for making available certain other information about the Fund in the form of an Annual Report.

The Trustee is responsible, under pensions legislation, for ensuring that there is prepared, maintained, and from time to time revised, a Schedule of Contributions showing the rates of contributions payable towards the Fund by or on behalf of the employer and the active members of the Fund and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Fund and for monitoring whether contributions are made to the Fund by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustee is required by law to consider making reports to the Pensions Regulator and the members.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

**Further Information**

Further details of investment performance are included in the Investment Report. Further disclosures required by legislation are included in the Compliance Statement. Enquiries about the Fund or an individual's entitlement should be sent to David Cook, Scheme Administrator, Pensions Department, Nationwide Building Society, Nationwide House, Pipers Way, Swindon, Wiltshire, SN38 2GN.

The Trustee Report was approved by the Trustee on 18 July 2013 and signed on its behalf by:



Trustee Director



Trustee Director

## NATIONWIDE PENSION FUND

### INVESTMENT REPORT FOR THE YEAR ENDED 31 MARCH 2013

#### Overview

The Pension Fund's investment assets as at 31<sup>st</sup> March 2013 were £3.5bn. This is an increase from £3.1bn as at 1<sup>st</sup> April 2012. This growth reflects two primary drivers; the continuing impact of Quantitative Easing (QE) in the UK which continued to depress gilt yields lower and the impact of monetary stimulus upon global equity markets, particularly in the last quarter.

The total Fund return for the scheme year was 13.27%, this compares to a benchmark return of 12.11%. The average Fund return for the 3 years to 31 March 2013 was 8.85% pa, and this compared to the benchmark of 9.18% pa. The benchmarks for both sections of the Fund are composite benchmarks which take into account their strategic asset allocations.

2012 had many similar challenges to 2011 with concerns over the European economy and its banking system persisting as highlighted by Cyprus. Whilst issues around Europe have not gone away it is the US that has been the key stimulus for the improvement in global markets, particularly equities. This is despite concerns around the US fiscal cliff and continued high budget deficits. The signs of improvement in the US housing market and its slow but positive economic growth performance have been factored into the markets.

Asset gains have come from equity growth and from rising gilt values as a result of the stimulus of QE. However QE also increased the value of pension liabilities, as this too is calculated by reference to gilt yields.

The year ahead continues to hold a lot of issues.

The economic situation in Europe is unlikely to be resolved quickly, this will be a slow process and the challenge will be balancing the need for financial austerity against the increasing social concerns caused by unemployment and public disaffection. The UK still has further government spending cuts to come from its austerity measures and only narrowly avoided drifting into a triple dip recession. Growth looks to be muted and with an economy predicated on financial services and the service sector it is less well placed than other economies to benefit from any US recovery or the longer term demand that will result from improving wealth in the developing Asian economies than other economies.

A growing stimulus to global economic growth is the US gas and oil shale revolution which is driving down US energy costs making US industry much more competitive and thus influencing longer term views on the strength of the US.

# NATIONWIDE PENSION FUND

## INVESTMENT REPORT – continued

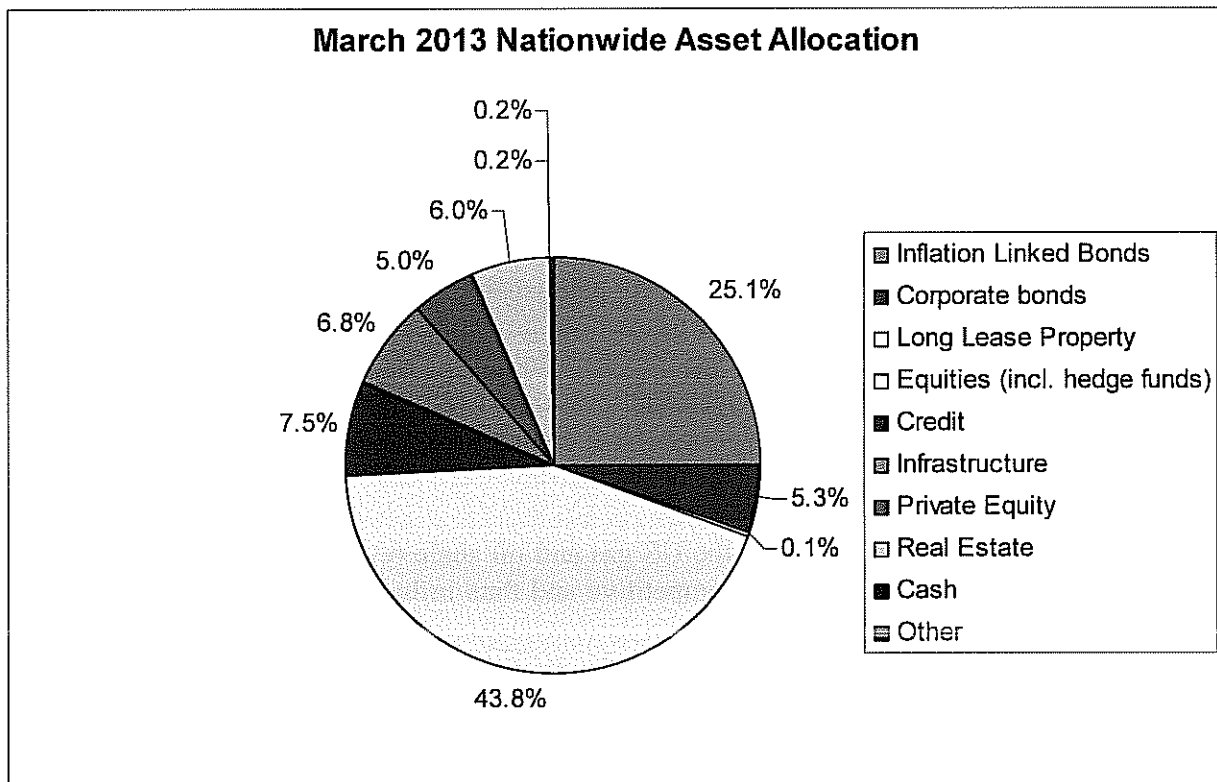
### Nationwide Section

The Trustee is committed to a long term strategy of risk reduction and during 2012-13 focussed on the establishment of a formal process to de-risk the Pension Fund as the funding ratio improves. Over time this should see an increase in gilt holdings and other matching assets and a reduction in equities from the present levels. The Trustee has also been putting in place the necessary legal documentation to facilitate derivative hedging to aid risk reduction and some inflation hedging was undertaken after the end of the financial year.

Diversification continues to play a part in risk reduction whilst seeking to maintain returns and consequently there has been further investment in infrastructure and private equity during the year.

In addition, the Trustee has for the first time entered into sale and repurchase agreements (repos) against a proportion of its gilts as a means of enhancing returns. This extension of activity led to an increase in investment in low risk credit assets.

The following chart highlights the gross asset allocation, including the reinvestment of the repurchase agreement proceeds, of the Fund's investments of £3,343.4m as at 31<sup>st</sup> March 2013.



## NATIONWIDE PENSION FUND

### INVESTMENT REPORT – continued

The values of each asset classes compared to last year were as follows:-

	2013		2012	
	Val (£m)	% of gross assets	Val (£m)	% of gross assets
<b>Matching Assets</b>				
Inflation Linked Bonds	839.1	25.1%	768.4	26.5%
Corporate Bonds	176.7	5.3%	199.6	6.9%
Long Lease Property	4.1	0.1%	4.1	0.1%
<b>Total Matching Assets</b>	<b>1,019.9</b>	<b>30.5%</b>	<b>972.1</b>	<b>33.5%</b>
<b>Return Seeking Assets</b>				
Equities (incl. hedge funds)	1,462.2	43.8%	1,214.3	41.8%
Credit	251.4	7.5%	104.7	3.6%
Infrastructure	227.7	6.8%	197.2	6.8%
Private Equity	167.9	5.0%	145.4	5.0%
Real Estate	201.0	6.0%	193.1	6.6%
Currency	-	0.0%	53.4	1.8%
<b>Total Return Seeking Assets</b>	<b>2,310.2</b>	<b>69.1%</b>	<b>1,908.1</b>	<b>65.6%</b>
Cash	3.9	0.2%	18.3	0.6%
Other	8.0	0.2%	9.3	0.3%
<b>Total Gross</b>	<b>3,344.8</b>	<b>100.0%</b>	<b>2,907.8</b>	<b>100.0%</b>
Repo	110.0		-	
<b>Total Net*</b>	<b>3,234.8</b>		<b>2,907.8</b>	

\* The £3,245.4m investment assets reported in the Nationwide Section's Net Asset Statement (Note 15 to the Financial Statements) is after the inclusion of £10.1m AVCs/Bonus Waivers and £0.5m annuity value.

The reporting of assets has changed from last year to reflect the Trustee's focus on de-risking and matching of liabilities. Consequently assets are split between matching assets that seek to hedge the liability profile and return seeking assets that seek to generate returns that will aid improvement in the funding ratio. The allocation reflects the value of aggregate holdings of the individual managers within individual asset classes. It should be noted that at any particular time a manager may have a holding of cash or derivatives within its portfolio even though the principal activity may, for example, be corporate bonds. For comparison purposes the long/short equity hedge funds are included within the equities allocation. It should be noted however that for performance purposes they have a different performance benchmark to reflect their different approach to equity investing.

In terms of performance the total return for the year for the Nationwide Section was 13.29%, this compares to a benchmark return of 12.08%. The average return for the Nationwide Section for the 3 years to 31 March 2013 was 8.70% pa, and this compared to the benchmark of 8.26% pa.

#### Matching Assets

Matching assets are typically assets with a strong linkage to inflation or have long dated fixed rate characteristics. This is because the liabilities of the Fund are typically linked to inflation or are fixed in nominal terms. Matching these risks with assets that have similar characteristics helps to reduce risk to the Fund and reduce volatility in the funding ratio. Currently three asset classes reside in this allocation; inflation linked bonds, corporate bonds and long lease property.

## NATIONWIDE PENSION FUND

### INVESTMENT REPORT – continued

#### Inflation Linked Bonds

The increase in the value of these bonds over the year reflects the continuing impact of QE which has driven down yields on government bonds and driven real yields into negative returns. This environment may persist for some time as on-going demand for index linked gilts by pension funds is expected to exceed supply. During the year the Fund exchanged £69.9m of government linked gilts for an equivalent amount of Network Rail bonds of a similar maturity. Network Rail benefits from an explicit government guarantee plus an additional margin over the equivalent government gilt. The rest of the holdings are long dated UK index linked gilts.

#### Corporate Bonds

These bonds are long dated fixed rate instruments that give them liability matching characteristics. Over 97% of Nationwide's exposures are UK corporate bonds with an average rating of 'A' and 93% are investment grade. This asset class is thus not without risk and has return seeking characteristics as well as liability matching ones.

The asset class has seen some further spread contraction during the year and consequently the allocation was reduced by £50m during the year to realise some of its value.

#### Long Lease Property

At present this is a very small allocation but the asset class does have long dated inflation matching characteristics as underlying lease arrangements are typically 20 to 25 years with no break clauses and in many cases they have Retail Price Index (RPI) inflation linked rent increases. In addition they have strong underlying tenants, including government and high quality corporate covenants. This allocation is expected to increase as the Trustee considers increasing its matching assets.

#### **Return Seeking Assets**

The return seeking assets are broadly allocated between those that are liquid (equities and credit) and those that are illiquid (private equity, infrastructure and real estate). These assets are held to generate return to help ensure that the Trustee can meet its future liability obligations. Over time exposures will reduce when the scheme is able to de-risk.

#### Equities

2012-13 saw steep declines early in the year as markets reacted to continuing concerns over Europe. However, Europe now appears to be having little impact on equity markets, which have steadily increased following the re-election of President Obama. Despite the 'fiscal cliff' in the US there are signs of a slow US recovery and some improvement in the US housing markets, which have led to a steady improvement in equity values.

The portfolio has an emerging/growth markets bias with c30% of its equity exposure in these markets. This reflects the fact that the markets now account for over 40% of the world's gross domestic product (GDP) and are expected to be the key source of growth for the world economy over the rest of the decade.

The asset allocation remains split into two groups, unconstrained managers who are focussed on achieving returns that exceed benchmarks, and passive managers that track the market. Holdings during the year were split between two passive funds and thirteen unconstrained managers, which includes the Fund's allocation to long/short equity hedge funds. It is notable that those unconstrained managers who focused on defensive stocks outperformed the market whilst it fell early in the year, and the value and growth orientated managers performed poorly in comparison. This situation reversed later in the year when equity markets saw performance in the growth and value managers improve.

**INVESTMENT REPORT – continued**

Overall performance of the equity portfolio was lower than the market. The FTSE All World Index was up 17.1% on the year whilst the Fund’s equity position was up 15.6%. This underperformance was primarily due to the strategic allocation to emerging markets. The FTSE All World Emerging Market Index was up 7.4%, and whilst the Fund outperformed this at 10.0% that was not sufficient to offset the overweight to emerging markets in the portfolio.

Credit

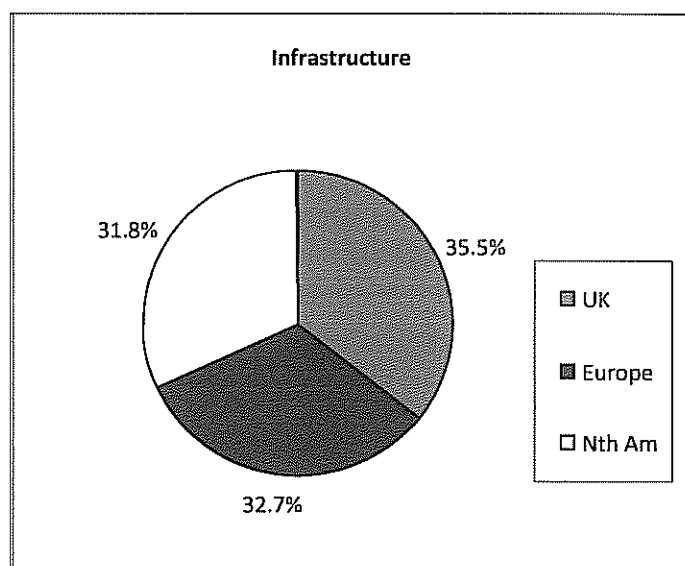
These holdings are primarily focussed on senior asset backed securities split across residential mortgage backed securities (RMBS) and collateralised loan obligations (CLOs). Senior holdings in these instruments exhibit a very low risk of capital loss and have a floating rate, consequently they provide margin enhancement over the costs of Repo. The increase in these assets was funded through a combination of existing cash holdings and cash raised from the repo of index linked gilts. Some of these assets can be source assets to meet commitments made to private equity and infrastructure funds.

Infrastructure

Exposure to infrastructure funds during the year increased through drawdowns of £33.7m. Total exposure of these funds stands at £227.7m. The funds typically have a 3 to 5 year investment period during which they source opportunities; returns from these investments thus take time to come on stream. This year distributions totalled £11.8m.

The Trustee committed, but has not yet drawn down, £43m to a new Asian infrastructure fund during the year to obtain a broader global exposure for the portfolio, as current investments are weighted heavily to the UK and Europe.

The attached table highlights the top five infrastructure sector exposures. Exposures are broadly similar to 2012.



Infrastructure		
Sector	Companies	% by Value
Energy Related	8	24.2%
Residential Services	2	17.2%
Transport	8	15.5%
Telecomms	4	13.5%
Utility	2	10.7%

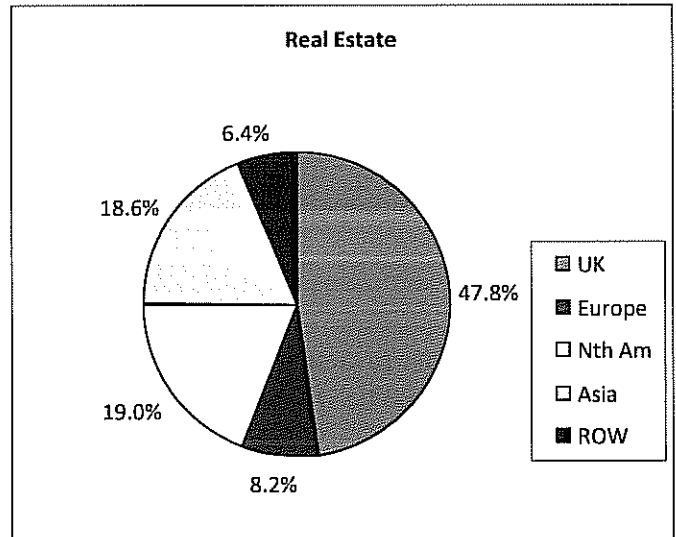


NATIONWIDE PENSION FUND

INVESTMENT REPORT – continued

Real Estate

Real estate, in particular the Global REITS (Real Estate Investment Trusts) investment, had a good year and consequently £21m of this exposure was sold in December. The Global REITS was also restructured to employ a specific emerging markets element to accord to the Trustee’s long term view that these markets should see strong performance in the medium to long term as these predominantly Asian markets continue to grow. The portfolio is overweight to the UK through the directly held property mandate with LaSalle.



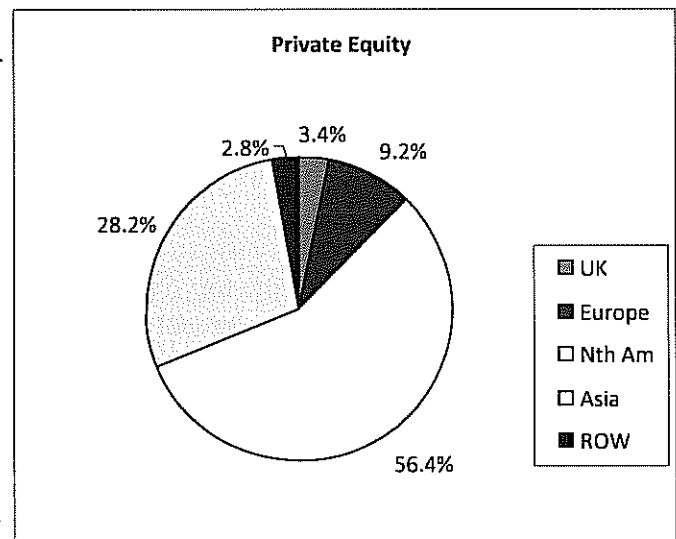
Real Estate	
Sector	% by Value
Consumer Discretionary	35.6%
Health Care	1.0%
Mixed	9.0%
REITS	49.1%
Industrials	5.3%

Private Equity

The private equity portfolio grew from new investments of £27.4m over the year and benefitted from £17.8m of distributions. Three new funds were committed to during the year and these focussed on the US small to mid cap buyout sector that looks well placed to benefit from a slow but on-going US recovery. Total exposure stands at £167.9m.

The portfolio’s exposure to distressed assets through Mount Kellett saw strong distributions returns at the beginning of 2013 and this is expected to continue through 2013-14 and into 2015.

Some new commitments may be considered during 2013-14 and this may seek some increased European exposure to balance the portfolio.



Private Equity		
Sector	Companies*	% by Value
Energy Related	21	22.1%
Real Estate	26	12.2%
Natural Resources	15	9.4%
Retail	9	8.2%
Financial Services	9	8.1%

\* excluding fund of funds investments

## NATIONWIDE PENSION FUND

### INVESTMENT REPORT – continued

#### Currency Fund

The investment in the GSAM currency fund was unwound early in the year as the Trustee felt this was no longer appropriate for the asset portfolio.

#### Foreign Exchange Overlay

Russell Investments currently run a 20% FX hedge against the Fund's major currency (USD/EUR/YEN) equity exposures. In the 12 months to 31 March 2013, the hedge realised a loss of £16.5m. LGIM equity is hedged independently by the manager, whilst Long/Short Equity managers are 100% hedged due to the nature of the mandates.

#### **Cheshire & Derbyshire Section**

Following the merger of the Cheshire and Derbyshire schemes into the Nationwide Pension Fund in 2010 the Trustee agreed to ring fence this portfolio. This portfolio is managed entirely by LGIM and given its strong funding position it has 70.1% in matching assets, i.e. bonds.

The total return for the year for the Section was 12.94%, compared to a benchmark return of 12.85%. The average return from inception to 31 March 2013 was 14.25% pa, compared to the benchmark of 13.37% pa.

The values compared to last year were as follows:-

Asset Allocation	Overall Investment Balances	
	Market Value	Market Value
	31 March 2013	31 March 2012
	£m	£m
Equities	67.4	61.9
Government Bonds	129.9	116.5
Non-Govt Bonds	27.2	25.6
	<u>224.5</u>	<u>204.0</u>

The Trustee has set some de-risking triggers so that as the allocation reaches pre-set funding levels the assets will be redistributed to a larger proportion of index linked gilts and long dated fixed rate gilts. This will reduce risk and lock into long term liability matching. These triggers have not yet been reached.

#### **Valuation and Marketability**

Members are referred to the financial statements for details of the method of valuation of the Fund's assets. The Fund's investments in equities, government bonds and non-government bonds are considered to be readily marketable and the investments in property unit trusts can usually be realised within a three-month notice period. The other property funds, the infrastructure funds and the private equity funds are only usually realisable after the funds are fully invested, and the realisation process is specified in the limited partnership agreement that governs each individual fund.

There are no directly held investments which represent more than 5% of the total assets of the Fund.

## NATIONWIDE PENSION FUND

### INVESTMENT REPORT – continued

#### AVC & Bonus Waiver Investments

The Trustee holds assets invested separately from the main portfolio, which secure benefits from members' Additional Voluntary Contributions ('AVCs') and members' bonus waivers, as follows:

- Aviva (formerly Norwich Union) AVCs
- Equitable Life Assurance Society AVCs and bonus waivers
- Fidelity Pensions Management AVCs and bonus waivers
- Legal and General Assurance Company AVCs
- Prudential Assurance Company AVCs and bonus waivers
- Standard Life Assurance Company AVCs
- Zurich Assurance Limited AVCs

Only the Fidelity and Prudential funds are open to further contributions from members.

#### Custodian Arrangements

Custody services for the underlying assets of the Fund are managed by the Northern Trust Company. Some pooled funds use their own custodian.

#### UK Stewardship Code

The Trustee recognises the UK Stewardship Code (the "Code") as best practice regarding responsible ownership and seeks to adhere to its principles where possible. Although the Code only applies to UK equity investments, the Trustee is supportive of the spirit and principles of the Code and encourages all its managers to adhere to the principles in the UK and other regions where possible.

Mark S S Hedges  
Investment Officer  
Nationwide Pension Fund

**Certification of schedule of contributions**

Nationwide Pension Fund – Nationwide Section of the Nationwide Pension Fund


**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to be met by the end of the period specified in the recovery plan dated 16 June 2011.

**Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 16 June 2011.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature		Date:	16 June 2011
Name:	Jeremy Ball	Qualification:	Fellow of the Institute and Faculty of Actuaries
Address:	Prospect House Abbey View St Albans AL1 2QU	Name of employer:	Aon Hewitt Limited

**Certification of schedule of contributions**

Nationwide Pension Fund – Cheshire and Derbyshire Section of the Nationwide Pension Fund


**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 1 July 2010 to continue to be met for the period for which the schedule is to be in force.

**Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 16 June 2011.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature		Date:	16 June 2011
Name:	Jeremy Ball	Qualification:	Fellow of the Institute and Faculty of Actuaries
Address:	Prospect House Abbey View St Albans AL1 2QU	Name of employer:	Aon Hewitt Limited




Appendix G — Certification of Technical Provisions

**ACTUARIAL CERTIFICATE GIVEN FOR THE PURPOSES OF REGULATION 7(4)(a) OF THE OCCUPATIONAL PENSION SCHEMES (SCHEME FUNDING) REGULATIONS 2005**

**Name of Fund:** *Nationwide Section of the Nationwide Pension Fund*

**Calculation of technical provisions**

I certify that, in my opinion, the calculation of the Nationwide Section's technical provisions as at 31 March 2010 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustees of the Fund and set out in the Statement of Funding Principles dated 16 June 2011.

<b>Signature</b>		<b>Date</b>	16 June 2011
<b>Name</b>	Jeremy Ball	<b>Qualification</b>	Fellow of the Institute and Faculty of Actuaries
<b>Address</b>	Prospect House Abbey View St Albans AL1 2QU	<b>Name of Employer</b>	Aon Hewitt Limited




Appendix K — C&D Section - Certification of Technical Provisions

**ACTUARIAL CERTIFICATE GIVEN FOR THE PURPOSES OF REGULATION 7(4)(a) OF THE OCCUPATIONAL PENSION SCHEMES (SCHEME FUNDING) REGULATIONS 2005**

**Name of Fund:** *Cheshire and Derbyshire Section of the Nationwide Pension Fund*

**Calculation of technical provisions**

I certify that, in my opinion, the calculation of the Cheshire and Derbyshire Section's technical provisions as at 30 June 2010 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustees of the Fund and set out in the Statement of Funding Principles dated 16 June 2011.

<b>Signature</b>		<b>Date</b>	16 June 2011
<b>Name</b>	Jeremy Ball	<b>Qualification</b>	Fellow of the Institute and Faculty of Actuaries
<b>Address</b>	Prospect House Abbey View St Albans AL1 2QU	<b>Name of Employer</b>	Aon Hewitt Limited

## NATIONWIDE PENSION FUND

### INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE NATIONWIDE PENSION FUND

We have audited the financial statements of the Nationwide Pension Fund ('the Fund') for the year ended 31 March 2013, which comprise the Fund Account, the Net Assets Statement and the related Notes set out therein.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Trustee in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Trustee for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Trustee and Auditors

As explained more fully in the Trustee's Responsibilities Statement, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

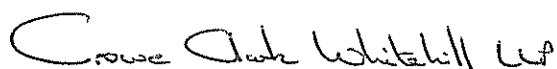
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting made by the Trustee; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report, which comprises the Trustee Report, the Investment Report, the Actuarial Certificates, the Summary Funding Statement Extract and the Compliance Statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Fund for the year ended 31 March 2013, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.



Crowe Clark Whitehill LLP  
Statutory Auditor  
London

9 August 2013

NATIONWIDE PENSION FUND

FINANCIAL STATEMENTS

Fund Account for the year ended 31 March 2013

	Note	2013 £m	2012 £m
<b>Contributions and benefits</b>			
<b>Additions</b>			
Contributions receivable	3	54.8	296.1
Other income	4	0.2	0.3
		<u>55.0</u>	<u>296.4</u>
<b>Withdrawals</b>			
Benefits payable	5	(73.5)	(65.7)
Payments to and on account of leavers	6	(4.9)	(5.2)
Administrative expenses	7	(3.0)	(2.7)
		<u>(81.4)</u>	<u>(73.6)</u>
<b>Net (reductions)/additions from dealings with members</b>		<u>(26.4)</u>	<u>222.8</u>
<b>Returns on investments</b>			
Investment income	8	42.1	37.7
Change in market value of investments	9	350.6	192.1
Investment management expenses	10	(20.7)	(16.6)
<b>Net returns on investments</b>		<u>372.0</u>	<u>213.2</u>
<b>Net increase in the Fund during the year</b>		<b>345.6</b>	<b>436.0</b>
<b>Net assets of the Fund</b>			
At the beginning of the year		<b>3,122.0</b>	<b>2,686.0</b>
<b>At the end of the year</b>		<u><b>3,467.6</b></u>	<u><b>3,122.0</b></u>

The Notes on pages 24 to 38 form part of these financial statements.

NATIONWIDE PENSION FUND

FINANCIAL STATEMENTS

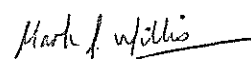
Net Assets Statement as at 31 March 2013

	Note	2013 £m	2012 £m
<b>Investment assets and liabilities</b>			
<b>Assets</b>			
Fixed interest securities		350.0	298.6
Index linked securities		834.6	761.7
Equities		581.3	495.3
Pooled investment vehicles		1,630.4	1,413.5
Derivatives		15.7	9.7
Property		59.3	63.6
Annuity investments		0.5	0.7
Cash deposits		97.4	63.2
Other investment balances		8.8	8.2
AVC & bonus waiver investments		10.2	9.9
		<u>3,588.2</u>	<u>3,124.4</u>
<b>Liabilities</b>			
Derivatives		(0.6)	(0.4)
Securities under repurchase agreements		(110.0)	-
Other investment balances		(7.6)	(1.6)
		<u>(118.2)</u>	<u>(2.0)</u>
	9	<u>3,470.0</u>	<u>3,122.4</u>
<b>Current assets and liabilities</b>			
Current assets	11	8.1	4.4
Current liabilities	11	(10.5)	(4.8)
		<u>(2.4)</u>	<u>(0.4)</u>
<b>Net Assets of the Fund at 31 March 2013</b>		<u>3,467.6</u>	<u>3,122.0</u>

The Notes on pages 24 to 38 form part of these financial statements.

The financial statements summarise the transactions and net assets of the Fund. Liabilities to pay pensions and other benefits that are expected to become payable after the end of the scheme year are not dealt with in the financial statements. The actuarial position of the Fund, which does take account of such liabilities, is dealt with in the Update on the Funding Position on page 38 of this Annual Report, and the statements by the actuary, on pages 19 to 20 of this Annual Report, and these financial statements should be read in conjunction with them.

The financial statements on pages 22 to 38 were approved by the Trustee on 18 July 2013 and signed on its behalf by:



Trustee Director



Trustee Director



**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2013**

**1. Basis of preparation**

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (revised May 2007).

**2. Accounting policies**

The following principal accounting policies have been adopted in the preparation of the financial statements:

(a) Contributions

Normal contributions are accounted for on an accruals basis. Deficit funding costs, redundancy waivers and augmentations are accounted for according to the due dates prescribed by the Schedule of Contributions.

(b) Transfers to and from other schemes

Transfer values are included in the financial statements in accordance with the agreement, which is normally when received and paid. They do not take account of members who have notified the Fund of their intention to transfer.

(c) Income from investments

All income from investments is accounted for on an accruals basis. Dividends from quoted and unquoted investments are accounted for on the date the investment goes 'ex-dividend'.

(d) Expenditure

Benefits payable are accrued from the later of the date of leaving, retirement or death, and the date on which any option is exercised. Management and administration expenses are accounted for when they fall due. Acquisition costs of investments are included in the purchase cost of investments, and disposal costs are deducted from the proceeds of sales of investments.

(e) Valuation of investments

- (i) Listed securities are valued at the bid price at the year end date. Where an up-to-date valuation is not available, the latest market price is used to value the security.
- (ii) Pooled investment vehicles are valued at the bid price quoted by the managers or at a single price if only one price is quoted. Infrastructure and private equity funds are valued by the fund managers or their third party agents, where the underlying investments held within those funds are valued at their fair value.
- (iii) Futures contracts are valued at the exchange price for closing out the contract at the year end date and this represents the unrealised profit or loss of the contract.
- (iv) Swap contracts are stated at fair value, which is calculated using pricing models, where inputs are based on market data at the year end date. Interest is accrued monthly on a basis consistent with the terms of the contract. Net receipts or payments on swap contracts are reported within investment income.

NOTES TO THE FINANCIAL STATEMENTS - continued

2. Accounting Policies - continued

- (v) Forward foreign exchange contracts are stated at fair value, which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.
- (vi) Direct property investments are valued on an open market basis as at 31 December each year, by Knight Frank, an independent firm of Chartered Surveyors, then adjusted for subsequent capital additions and disposals to arrive at a 31 March value.
- (vii) Annuity investments are the value of the insured annuities, calculated using the same actuarial assumptions adopted for ongoing purposes in the triennial valuation of the Fund.
- (viii) Unit-linked AVC assets are valued at the bid price or single price at the end of the accounting period. The with-profits funds held by Equitable Life, Zurich and Standard Life include an element of final bonus which is not guaranteed.

Bonds, mortgage backed securities, property, infrastructure, private equity funds and hedge funds are included at fair values. However, because of the inherent uncertainty associated with the valuation of some of these investments due to the absence of a liquid market, these fair values may differ from their realisable value.

(f) Foreign currencies

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year end and exchange differences arising are included in realised and unrealised investment gains. Income from foreign securities is expressed in sterling at the exchange rate ruling when received.

(g) Securities under repurchase agreements

Securities sold subject to repurchase agreements are included in the financial statements as assets of the Scheme at their year end market value. Amounts payable under repurchase agreements are included under other investment liabilities

3. Contributions receivable

	Note	2013 £m	2012 £m
<b>Employer contributions:</b>			
Normal		34.7	36.8
Smart	(a)	14.5	14.8
Deficit	(b)	-	240.9
Redundancy waivers/augmentations	(c)	3.4	1.2
Bonus waiver (additional benefits)	(d)	0.4	0.3
Bonus waiver (money purchase)	(d)	0.1	0.1
		<hr/> 53.1	<hr/> 294.1
<b>Member contributions:</b>			
Normal		0.4	0.8
AVCs (additional benefits)	(d)	0.9	0.8
AVCs (money purchase)	(d)	0.4	0.4
		<hr/> 1.7	<hr/> 2.0
		<hr/> 54.8	<hr/> 296.1

## NATIONWIDE PENSION FUND

### NOTES TO THE FINANCIAL STATEMENTS - continued

#### 3. Contributions receivable - continued

- (a) 'Smart pensions' relate to a salary sacrifice scheme that enables members to sacrifice part of their salary in return for the Society making a pension contribution for them.
- (b) Deficit contributions are made by the Society to help reduce the funding deficit. None were received during the financial year. Last year £240.9m was received in the Nationwide Section as part of a deficit reduction strategy agreed with the Society, as detailed in the Update on the Funding Position on page 39.
- (c) Redundancy waivers are payments made by the Society to improve the pensions of employees in lieu of a severance payment. Augmentation payments are additional contributions made by the Society to enhance the pensions of and provide life cover for certain employees under the terms of their redundancy agreements with the Society.
- (d) Bonus waivers are payments made by the Society to improve the pensions of employees who have waived all or part of their annual corporate bonus entitlement. Money purchase bonus waivers and AVCs are invested with the companies listed in Note 9. Alternatively, bonus waivers or AVCs can be used to secure additional benefits in the form of added years or pension credits.

#### 4. Other income

	2013 £m	2012 £m
Income from annuities	<u>0.2</u>	<u>0.3</u>

Income from annuities is received from insurance companies in respect of policies purchased on the lives of certain pensioners. The income is used partly to provide pensions for these individuals.

#### 5. Benefits payable

	2013 £m	2012 £m
<b>On or during retirement</b>		
Pensions	57.6	53.3
Commutations	<u>15.2</u>	<u>11.4</u>
	72.8	64.7
<b>Death benefits</b>		
Death in service, deferment & retirement benefits	<u>0.7</u>	<u>1.0</u>
	<u>73.5</u>	<u>65.7</u>

The amounts due for Pensions represent reimbursements to the Society of pensions paid.

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

**6. Payments to and on account of leavers**

	2013	2012
	£m	£m
Individual transfers to other schemes	<u>4.9</u>	<u>5.2</u>

**7. Administrative expenses**

	2013	2012
	£m	£m
Administration & processing costs	1.1	1.1
Actuarial fees	0.3	0.4
Audit fees	0.1	0.1
Pension levies	1.4	0.7
Legal and other professional fees	<u>0.1</u>	<u>0.4</u>
	<u>3.0</u>	<u>2.7</u>

Administration and management services for the Fund are provided by the Society. Fees payable by the Fund to the Society for services rendered are included in the total for administration and processing costs and totalled £0.8m (2012: £0.9m).

Trustee Directors are able to receive remuneration for their services. Trustee fees of £101,750 relating to the scheme year are included in the total for administration and processing costs. No Trustee Director was an employee of the Society during the period to which their fees related.

**8. Investment income**

	2013	2012
	£m	£m
Interest on fixed interest securities	13.1	11.6
Interest on index-linked securities	5.8	6.0
Dividends	12.4	12.1
Income from pooled investment vehicles	5.8	2.5
Interest on swaps	0.9	0.8
Rental income	4.1	4.4
Interest on cash deposits	-	0.3
	<u>42.1</u>	<u>37.7</u>

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

9. Investment assets and liabilities

	2013		2012	
	£m	£m	£m	£m
<b>Investment assets</b>				
<b>Fixed interest securities</b>				
UK public sector quoted	0.7		0.8	
UK asset-backed securities	72.5		90.6	
UK other	77.2		88.3	
Overseas public sector	7.2		6.9	
Overseas asset-backed securities	117.2		26.8	
Overseas other	<u>75.2</u>	350.0	<u>85.2</u>	298.6
<b>UK index linked securities</b>				
UK public sector	754.5		761.7	
UK other	<u>80.1</u>	834.6	<u>-</u>	761.7
<b>Equities</b>				
UK equities	50.3		40.1	
Overseas equities	<u>531.0</u>	581.3	<u>455.2</u>	495.3
<b>Pooled investment vehicles*</b>				
UK life and other managed funds	487.1		290.2	
UK property funds	92.0		114.6	
Global fixed interest funds	157.1		81.1	
Global index-linked funds	-		61.0	
Overseas life and other managed funds	309.4		360.9	
Overseas property funds	52.0		19.4	
Infrastructure funds	227.4		197.1	
Private equity funds	167.5		145.5	
Hedge funds	137.9		90.3	
Currency funds	<u>-</u>	1,630.4	<u>53.4</u>	1,413.5
<b>Derivatives</b>				
Futures	0.2		0.6	
Swaps	7.4		6.1	
Forward foreign exchange contracts	<u>8.1</u>	15.7	<u>3.0</u>	9.7
<b>Property</b>		59.3		63.6
<b>Annuity investments</b>		0.5		0.7
<b>Cash deposits</b>		97.4		63.2
<b>Other investment balances</b>				
Unsettled transactions	0.8		1.1	
Accrued income/tax reclaimable	<u>8.0</u>	8.8	<u>7.1</u>	8.2
<b>AVC &amp; Bonus Waiver investments</b>		10.2		9.9
		<u>3,588.2</u>		<u>3,124.4</u>

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

9. Investments - continued

	2013		2012	
	£m	£m	£m	£m
<b>Investment assets</b>		<u>3,588.2</u>		<u>3,124.4</u>
<b>Investment liabilities</b>				
<b>Derivatives</b>				
Futures	(0.3)		(0.1)	
Swaps	(0.2)		(0.2)	
Forward exchange contracts	<u>(0.1)</u>	(0.6)	<u>(0.1)</u>	(0.4)
<b>Securities under repurchase agreements</b>		(110.0)		-
<b>Other investment balances</b>				
Unsettled transactions		(7.6)		(1.6)
		<u>(118.2)</u>		<u>(2.0)</u>
<b>Total assets and liabilities</b>		<u><b>3,470.0</b></u>		<u><b>3,122.4</b></u>
<b>Derivative assets and liabilities</b>				
Derivative assets		15.7		9.7
Derivative liabilities		<u>(0.6)</u>		<u>(0.4)</u>
		<u>15.1</u>		<u>9.3</u>
<b>Cash deposits and others</b>				
Cash deposits		97.4		63.2
Unsettled assets		0.8		1.1
Unsettled liabilities		(7.6)		(1.6)
Accrued income		8.0		7.1
Securities under repurchase agreements		<u>(110.0)</u>		<u>-</u>
		<u>(11.4)</u>		<u>69.8</u>

\* £90.3m UK and overseas life and managed funds have been reclassified as hedge funds at 31 March 2012 to better reflect the nature of those investments.

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

9. Investments - continued

Movements in total net investments during the year were:

	Value at 31 March 2012	Cost of Purchases/ Derivative Payments	Sales Proceeds/ Derivative Receipts	Change in Market Value	Value at 31 March 2013
	£m	£m	£m	£m	£m
Fixed interest securities	298.6	157.7	(131.7)	25.4	350.0
Index linked securities	761.7	69.5	(69.5)	72.9	834.6
Equities	495.3	262.9	(247.4)	70.5	581.3
Pooled investment vehicles	1,413.5	267.9	(239.4)	188.4	1,630.4
Derivatives	9.3	0.9	16.0	(11.1)	15.1
Property	63.6	0.2	(1.2)	(3.3)	59.3
Annuity investments	0.7	-	-	(0.2)	0.5
AVC/Bonus Waiver Investments	9.9	0.4	(1.0)	0.9	10.2
	<u>3,052.6</u>	<u>759.5</u>	<u>(674.2)</u>	<u>343.5</u>	<u>3,481.4</u>
Cash deposits and other	69.8			7.1	(11.4)
	<u>3,122.4</u>			<u>350.6</u>	<u>3,470.0</u>

*As per Fund Account*

Transaction costs

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions and stamp duty. Transaction costs incurred during the year were £0.6m (2012: £0.8m). In addition to the transaction costs disclosed here, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund.

Transitions

Most of the purchases and sales in the above table are due to tactical management rather than transitions between investment classes. The principal reallocations of investments during the year were:

The Goldman Sachs currency fund was liquidated and £51m was received back into the Fund, recorded as a sale within pooled investment vehicles. The proceeds funded further pooled investments of £35m with UBS and £15m with Legal & General.

A total of £43.7m was transitioned from Legal & General to UBS during the year. £34.6m of this was by in-specie transfer and are shown as purchases and sales of pooled funds.

£69.5m of government index-linked gilts were exchanged for an equivalent holding of Network Rail bonds of a similar maturity. These are shown as purchases and sales of index linked securities.

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 9. Investments - continued

As noted in the Investment Report, the Trustee has entered into new repurchase agreements against a portion of the gilts. £161.2m was raised through the sale of index-linked securities, of which £51.2m was repaid before the year end. Most of the proceeds was allocated to two credit managers, Babson Capital Management (£40m) and Falcon Bridge Capital (£49m). Babson's allocation was further augmented by transitions of £60m from Fidelity. These movements are included in the purchases and sales of fixed interest securities.

Change in market value

The change in the market value of investments comprises all increases and decreases in the market value of investments held at any time during the year. Investment managers have deducted management fees of £10.3m during the year from holdings of pooled investment vehicles. Those fees have been charged as investment management expenses (Note 10) and change in market value has been increased accordingly to remove the loss in value associated with the fees, with a compensating increase in investment sale proceeds.

Pooled investment vehicles

Pooled investments with a value of £569.6m as at 31 March 2013 were operated by companies that were not registered in the UK. All others are registered in the UK.

Derivatives

The Trustee allows Fidelity and Russell to enter into derivative contracts as part of their investment strategy. These derivative contracts enable the managers to better control economic exposure to markets, enhance investment returns and manage risk. Details of contracts open at the year end are disclosed below:

Futures					
Underlying Investment	Expiration	Economic exposure (long) £m	Economic exposure (short) £m	Market value asset £m	Market value liability £m
UK bonds	Less than 1 year	5.9	(0.2)	0.1	(0.2)
Overseas bonds	Less than 1 year	7.6	-	-	(0.1)
	Between 1 and 5 years	-	(17.5)	0.1	-
		13.5	(17.5)	0.1	(0.1)
	At 31 March 2013	13.5	(17.7)	0.2	(0.3)
	At 31 March 2012	0.8	(25.3)	0.6	(0.1)

These are exchange traded derivatives. The economic exposure represents the notional value of stock purchased under the futures contract and therefore the value is subject to market movements.



NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

9. Investments - continued

Swaps Nature	Expiration	Notional principal £m	Market value asset £m	Market value liability £m
Interest rate swaps	Between 10 and 20 years	24.3	7.4	-
	Between 20 and 30 years	3.0	-	-
		<u>27.3</u>	<u>7.4</u>	<u>-</u>
Credit default swaps	Less than 5 years	6.0	-	(0.1)
	Between 5 and 10 years	9.9	-	(0.1)
		<u>15.9</u>	<u>-</u>	<u>(0.2)</u>
	At 31 March 2013	<u>43.2</u>	<u>7.4</u>	<u>(0.2)</u>
	At 31 March 2012	<u>44.0</u>	<u>6.1</u>	<u>(0.2)</u>

The notional principal of the swap is the amount used to determine the value of the swapped interest and credit receipts and payments.

Collateral in place at the year end in respect of swaps was as follows:

Collateral held (pledged by third parties)	£6.5m
Collateral pledged to third parties	£0.3m

Forward Foreign Exchange Contracts

	Currency	Gross sale/(purchase) value at inception £m	Market value asset £m	Market value liability £m
Currency sold	US Dollar	342.1	6.0	-
	Euro	82.2	2.1	-
	Japanese Yen	17.7	-	(0.1)
	At 31 March 2013	<u>442.0</u>	<u>8.1</u>	<u>(0.1)</u>
	At 31 March 2012	<u>249.5</u>	<u>3.0</u>	<u>(0.1)</u>
Currency bought	Euro	(0.5)	-	-
	At 31 March 2013	<u>441.5</u>	<u>-</u>	<u>-</u>
	At 31 March 2012	<u>(0.4)</u>	<u>-</u>	<u>-</u>

All forward foreign exchange contracts held at the year end were contracted to be settled within three months of the year end. Contracts are held as part of a strategy to hedge 20% of the value of the Fund's foreign currency denominated investments against changes in market value arising on their translation.

# NATIONWIDE PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 9. Investments - continued

#### Securities under repurchase agreements

During the year the Fund has entered into repurchase agreements using its UK government index linked gilts as the underlying security. The Fund retains the entitlement to receive income accruing on these securities and has a contractual agreement to repurchase the securities at a specified future date.

The securities are included in the financial statements as assets of the Fund at their market value. At 31 March 2013 the market value of securities sold under repurchase agreements was £113.6m.

Cash received from counterparties in respect of the securities that have been sold has been used by the Fund to increase its fixed interest portfolio. Amounts payable to counterparties under repurchase agreements are disclosed as liabilities in the Fund's financial statements under investment liabilities. At 31 March 2013 this amounted to £110.1m including accrued interest.

At 31 March 2013 there was collateral held of £2.7 against the difference in valuation between the underlying securities and the repurchase agreements.

#### Annuity investments

Annuity investments represent an actuarial valuation of investments providing the annuity income received by the Fund.

#### AVC and Bonus Waiver investments

Aggregate amounts of AVC and Bonus Waiver investments were:

		2013	2012
		£m	£m
<b>AVCs</b>	Aviva	0.1	0.1
	Equitable Life Assurance Society	0.4	0.4
	Fidelity Pensions Management	5.4	4.8
	Legal and General	0.1	0.1
	Prudential Assurance Company	2.5	3.0
	Standard Life Assurance Company	0.2	0.2
	Zurich Assurance Ltd	0.1	0.1
		<hr/>	<hr/>
		8.8	8.7
<b>Bonus Waivers</b>	Fidelity Pensions Management	1.2	1.0
	Prudential Assurance Company	0.2	0.2
		<hr/>	<hr/>
		1.4	1.2
		<hr/>	<hr/>
		10.2	9.9

Small Bonus Waiver balances (less than £0.1m) are also held with Equitable Life Assurance Society and Zurich Assurance Ltd.

The Trustee holds AVC and Bonus Waiver assets invested separately from the main fund in the form of individual building society accounts, insurance policies and other unitised investments securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions, and these assets do not form part of the common pool of assets available for members generally. Members participating in these arrangements each receive annual statements confirming the amounts held to their account and the movements in the year.

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

**10. Investment management expenses**

	2013 £m	2012 £m
Administration, management and custody	19.0	14.8
Investment consultancy fees	1.4	1.5
Treasury support provided by the Society	0.3	0.3
	<u>20.7</u>	<u>16.6</u>

Investment management expenses include fees of £10.3m that have been deducted directly from investment holdings, as described in Note 9.

The significant increase in administration, management and custody is mostly attributable to higher fees from those investment managers fees which are associated with increasing asset values and/or manager performance over the year.

**11. Current assets and liabilities**

	2013 £m	2012 £m
<b>Current assets</b>		
Other debtors	0.1	0.1
Cash balances	8.0	4.3
	<u>8.1</u>	<u>4.4</u>
<b>Current liabilities</b>		
Unpaid benefits	(1.3)	(1.2)
Accrued expenses	(4.3)	(3.2)
Other creditors	(4.9)	(0.4)
	<u>(10.5)</u>	<u>(4.8)</u>

Included in the liabilities for other creditors is £4.9m due to be reimbursed to the Society relating to pensions payments (2012: £0.3m, previously included in 'unpaid benefits').

There were no employer-related investments during the scheme year.

**12. Other liabilities**

Other than in respect of future pension benefits, the Fund had no contingent liabilities as at 31 March 2013.

At that date, the Fund was committed to provide further investment funding totalling approximately £224.0m (2012: £132.1m) if called upon to do so.

## NATIONWIDE PENSION FUND

### NOTES TO THE FINANCIAL STATEMENTS - continued

#### **13. Related party transactions**

Reimbursements to the Society of pensions payments are disclosed in Note 5, and the amount outstanding at the end of the financial year in Note 11.

Included in administrative expenses and investment management expenses are fees charged to the Fund from the Society, as disclosed in Notes 7 and 10 respectively.

Arthur Amos and Bill Partis, Trustee Directors, are in receipt of pensions from the Fund. Details of Trustee Director remuneration are provided in Note 7.

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

**14. Nationwide Section:**

**Fund Account for the year ended 31 March 2013**

	2013 £m	2012 £m
<b>Contributions and benefits</b>		
<b>Additions</b>		
Contributions receivable	54.8	296.1
Other income	0.2	0.3
	<u>55.0</u>	<u>296.4</u>
<b>Withdrawals</b>		
Benefits payable	(69.1)	(61.4)
Payments to and on account of leavers	(4.5)	(4.2)
Administrative expenses	(2.9)	(2.6)
	<u>(76.5)</u>	<u>(68.2)</u>
<b>Net (reductions)/additions from dealings with members</b>	<u>(21.5)</u>	<u>228.2</u>
<b>Returns on investments</b>		
Investment income	42.1	37.7
Change in market value of investments	324.8	165.3
Investment management expenses	(20.5)	(16.4)
<b>Net returns on investments</b>	<u>346.4</u>	<u>186.6</u>
<b>Net increase in the Section during the year</b>	<b>324.9</b>	<b>414.8</b>
<b>Net assets of the Section</b>		
At the beginning of the year	2,918.2	2,503.4
<b>At the end of the year</b>	<u>3,243.1</u>	<u>2,918.2</u>

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

**15. Nationwide Section:**

**Net Assets Statement as at 31 March 2013**

	2013	2012
	£m	£m
<b>Investment assets and liabilities</b>		
<b>Assets</b>		
Fixed interest securities	350.0	298.6
Index linked securities	834.6	761.7
Equities	581.3	495.3
Pooled investment vehicles	1,405.9	1,209.5
Derivatives	15.7	9.7
Property	59.3	63.6
Annuity investments	0.5	0.7
Cash deposits	97.4	63.2
Other investment balances	8.8	8.2
AVC & bonus waiver investments	10.1	9.8
	<u>3,363.6</u>	<u>2,920.3</u>
<b>Liabilities</b>		
Derivatives	(0.6)	(0.4)
Securities under repurchase agreements	(110.0)	-
Other investment balances	(7.6)	(1.6)
	<u>(118.2)</u>	<u>(2.0)</u>
	<u>3,245.4</u>	<u>2,918.3</u>
<b>Current assets and liabilities</b>		
Current assets	7.8	4.2
Current liabilities	(10.1)	(4.3)
	<u>(2.3)</u>	<u>(0.1)</u>
<b>Net Assets of the Section at 31 March 2013</b>	<u>3,243.1</u>	<u>2,918.2</u>

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

**16. C & D Section: Fund Account for the year ended 31 March 2013**

	2013 £m	2012 £m
<b>Contributions and benefits</b>		
<b>Withdrawals</b>		
Benefits payable	(4.4)	(4.3)
Payments to and on account of leavers	(0.4)	(1.0)
Administrative expenses	(0.1)	(0.1)
	<u>(4.9)</u>	<u>(5.4)</u>
<b>Net reductions from dealings with members</b>	<u>(4.9)</u>	<u>(5.4)</u>
<b>Returns on investments</b>		
Change in market value of investments	25.8	26.8
Investment management expenses	(0.2)	(0.2)
<b>Net returns on investments</b>	<u>25.6</u>	<u>26.6</u>
<b>Net increase in the Section during the year</b>	<b>20.7</b>	<b>21.2</b>
<b>Net assets of the Section</b>		
At the beginning of the year	<b>203.8</b>	<b>182.6</b>
<b>At the end of the year</b>	<u><b>224.5</b></u>	<u><b>203.8</b></u>

**17. C & D Section: Net Assets Statement as at 31 March 2013**

	2013 £m	2012 £m
<b>Investment assets</b>		
Pooled investment vehicles	224.5	204.0
AVC investments	0.1	0.1
	<u>224.6</u>	<u>204.1</u>
<b>Current assets and liabilities</b>		
Current assets	0.3	0.2
Current liabilities	(0.4)	(0.5)
	<u>(0.1)</u>	<u>(0.3)</u>
<b>Net Assets of the Section at 31 March 2013</b>	<u><b>224.5</b></u>	<u><b>203.8</b></u>

## NATIONWIDE PENSION FUND

### UPDATE ON THE FUNDING POSITION

The latest formal valuations of the Fund showed that on 31 March 2010 the funding position was as follows:

	<b>Nationwide Section</b>	<b>C&amp;D Section</b>
<b>Assets</b>	£2,266m	£168m
<b>Amount needed to provide benefits</b> (technical provisions)	£2,635m	£160m
<b>Shortfall</b>	£369m	£8m
<b>Funding level</b>	86%	105%

Since the valuation date, the change in statutory deferred pension indexation from RPI to CPI, together with a higher than assumed number of leavers over the following six months, led to an improvement in the funding position of the Nationwide Section of £49m, leaving a residual deficit of £320m. The Society therefore agreed to pay an extra £320 million into the Fund over the period March to July 2011, of which £80m was received in March 2011, £170m in May 2011 and £70m in July 2011. Additional contributions of £291,667 per month were terminated after June 2011.

Society contribution rates on pensionable salaries for the Nationwide Section, previously 20.5% (19.7% for ex-Portman scheme members) were agreed to be changed to 15% from July 2011 (an average of 16.7% over 2011-12), 16.3% from April 2012 and 16.1% from April 2013.

Member contribution rates for the Nationwide Section were agreed to be increased as follows:

Nationwide CARE and ex-Portman: previously 5% to 6% from July 2011, to 6.5% from July 2012 and to 7% from July 2013.

Ex-Portman Staffordshire: from 0% to 2.5% (from July 2011), 5% (July 2012) and 7% (July 2013).

Member rates of 7% for Nationwide Final Salary members were not changed.

As a result of the surplus in the C&D Section, a temporary suspension of Society contributions from 1 April 2011 was agreed. From 1 April 2011 all active members joined the Nationwide Section for future service benefits with effect from that date and member contributions to the C&D Section ceased.

In last year's Annual Review we advised that the 2012 interim funding update revealed a deficit in the Nationwide Section of £691m and a surplus of £10m in the Cheshire & Derbyshire Section.

A full Actuarial Valuation of the Fund as at 31 March 2013 is currently taking place. The Fund's Actuary will review the assumptions made at the last full valuation (31 March 2010) and will show the up-to-date position of the assets and liabilities and how they have changed over the last three years since the last valuation.

The Trustee Board will receive the initial valuation results later this year and are expecting it to reveal a deficit in the Nationwide Section and a small surplus in the C&D Section. The main reason for the expected deficit in the Nationwide Section is the impact of low long term interest rates. Long term interest rates are used by the Actuary to value the Fund's liabilities and the current low rates have more than offset the payment of lump sums totalling £320m paid by the Society following the 2010 full valuation and the returns achieved on investments.



NATIONWIDE PENSION FUND

**INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS**

**under regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustee of the Nationwide Pension Fund.**

We have examined the Summary of Contributions payable to the Nationwide Pension Fund, for the Fund year ended 31 March 2013, which is set out on page 41.

This report is made solely to the Fund's Trustee in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Fund's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund's Trustee for our work, for this report, or for the opinion we have formed.

**Respective responsibilities of Trustee and auditors**

As explained more fully in the Statement of Trustee's Responsibilities, the Fund's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions which sets out the rates and due dates of certain contributions payable towards the Fund by or on behalf of the employer and the active members of the Fund. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Fund and for monitoring whether contributions are made to the Fund by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a Statement about Contributions paid under the Schedule of Contributions and to report our opinion to you.

**Scope of work on Statement of Contributions**

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached Summary of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions and to report our opinion to you.

**Statement about contributions payable under the Schedule of Contributions**

In our opinion contributions for the Fund year ended 31 March 2013 as reported in the Summary of Contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Fund actuary on 20 October 2009 and 16 June 2011 for the Nationwide Section, 30 June 2010 for the C&D Section.

*Crowe Clark Whitehill LLP*

Crowe Clark Whitehill LLP  
Statutory Auditor  
London

*9 August 2013*

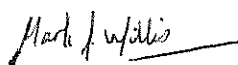
NATIONWIDE PENSION FUND

**SUMMARY OF CONTRIBUTIONS PAYABLE DURING THE SCHEME YEAR ENDED 31 MARCH 2013**

Contributions payable to the scheme by the employer under the schedule of contributions in respect of the year ended 31 March 2013 were as follows:

	£m
Employer normal contributions	34.7
Employer additional contributions	18.4
Employee normal contributions	0.4
<b>Total contributions received in accordance with the schedule</b>	<b>53.5</b>
Additional employee contributions received not covered by the schedule	1.3
<b>Total contributions as per the financial statements on page 22</b>	<b>54.8</b>

Signed on behalf of the Trustee on 18 July 2013 by:



Trustee Director



Trustee Director

## NATIONWIDE PENSION FUND

### COMPLIANCE STATEMENT

The purpose of this compliance statement is to disclose some additional information required by law but which is not considered to be of such significance to Fund members that it requires the more prominent disclosure afforded by inclusion in the Trustee Report.

#### **Tax and Contracting Out Status of the Fund**

Nationwide Pension Fund is a registered pension scheme and the Trustee knows of no reason why such status should be prejudiced or withdrawn. The Fund is contracted out of the State Second Pension as a Contracted-out Salary Related Scheme under a certificate issued by the Contributions Agency.

The Trustee has written agreements with third parties that detail delegated functions and the provision of services. For sub-committees, individual Trustee Directors and officers of the Fund, the details of delegated powers are recorded in the minutes.

#### **Calculation of Transfer Values**

Transfer values paid during the scheme year have been calculated and verified in the manner prescribed by regulations made under Section 97 of the Pension Schemes Act 1993. No transfer values included any discretionary benefits.

The Trustee has directed that no allowance for discretionary benefits should be taken into account in the calculation of the transfer values. A copy of the Actuary's report on allowing for discretionary benefits in transfer value calculations is available on request from the Pensions Department.

#### **Pension Increases on Pensions in Payment**

Pensions are reviewed annually on 1 April and, except where indicated below, were increased by 2.6% on 1 April 2013 (1 April 2012: 5.0%) in line with the retail price index (RPI) for the year ended 30 September 2012.

For members who were in a scheme which has since merged with the Fund, that part of their pension which accrued up to a given date may, depending on their membership details, have increased at one of the following fixed rates:

Lambeth scheme: 8.5% p.a. or 5% p.a.

Portman scheme: 5% p.a.

Nationwide Estate Agents, Anglia, Goldhawk and At.Home schemes: 3% p.a.

#### **Corporate Governance**

The Fund's policy statement in respect of voting and corporate governance is:

'The Trustee fully recognises the fiduciary issues involved with voting rights, not least that their regular exercise demonstrates shareholder responsibility. The Trustee has advised the Fund's investment managers that votes should normally be cast in favour or against a motion; exceptionally a formal abstention may be registered and subsequently reported to the Trustee together with a justification. Regular review meetings are held at which it is possible for voting policy to be discussed. In all other matters, not the subject of voting, we expect our investment managers to promote good standards of corporate governance.'

In March 2012 the Trustee agreed to sign up to the 'Stewardship Code' and confirmation of this position has been published on the websites of the Fund and the FRC.