

Nationwide Pension Fund

Responsible Investing Policy –
in support of the Statement of Investment
Principles (“SIP”)

As at 31 March 2020

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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.

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.
- 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 (and its beneficiaries) 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 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. The ClearGlass platform requires relevant asset managers to complete standardised templates and will be reported annually to facilitate transparency.
- 2.9. The Trustee seeks to maintain an asset allocation in line with the target portfolio construct set out in the SIP, which is 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 further acknowledges 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.
- 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 including 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, 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.
 - The Trustee will request all of the Fund's investment managers to provide their responsible investment policy and details of how they integrate ESG into their investment decision making process on an annual basis. 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.
- 3.4. 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 a clear and transparent investment and management guidelines in its Ethical Landlord Policy. This includes stated responsibilities to leaseholders.

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.
- 4.4. Specifically, the Trustee encourages its investment managers to adhere to the principles of the UK Stewardship Code (or an equivalent set of standards in the investment manager's main jurisdiction) and asks managers to:
 - Publish a Stewardship Code statement setting out the extent to which, and how, they implement with the Code, 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.
- 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 impact, 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). The Trustee will review its policy on how to reflect these views in the investment strategy on an annual basis.