

Nationwide Pension Fund Report & Accounts

31 March 2023

Nationwide
Pension Fund

NATIONWIDE PENSION FUND

ANNUAL REPORT

31 MARCH 2023

INDEX

	Page
Trustee and Advisers	2
Chair's Statement	6
Trustee Report	9
Auditor's Report	22
Financial Statements	26
Notes to the Financial Statements	28
Auditor's Statement about Contributions	54
Actuarial Certification of Schedule of Contributions	55

NATIONWIDE PENSION FUND

TRUSTEE AND ADVISERS

Trustee

Nationwide Pension Fund Trustee Limited

Trustee Directors

Society Appointed

BESTrustees Ltd (represented by Catherine Redmond)(Chair)

GHG Services Ltd (represented by Mark Hedges)

Heather Tipple

Laura Faulkner

Member Nominated

Arthur Amos (retired 2 January 2023)

John Wriighthouse

Peter Corrie (appointed 18 January 2023)

Rob Goldspink

Sarah Garrett (re-appointed 18 January 2023)

Chief Investment Officer

Christopher Grant

Fund Administrator

Buck Consultants (Administration and Investment) Ltd

Trustee Secretary

Suzanne Smith (appointed 6 March 2023)

Vanessa Roberts (resigned 1 September 2022)

Accountant

Karen Drinkwater

Actuarial Adviser

Keith Poulson, Aon Solutions UK Ltd

**Auditors (External)
(Internal)**

Grant Thornton UK LLP

Deloitte LLP

Legal Adviser

Sacker & Partners LLP

Property Valuer

Knight Frank LLP

Investment Consultant

Aon Solutions UK Ltd

Implementation Manager

Russell Investments Implementation Services Ltd

NATIONWIDE PENSION FUND

TRUSTEE AND ADVISERS - continued

Investment Advisers: Nationwide Section

LaSalle Investment Management
CBRE Indirect Investment Services Limited

Investment Managers: Nationwide Section

Matching Assets Aviva Investors Jersey Unit Trusts Management Ltd
Grasscourt GP Ltd
Honeycourt GP Ltd
Insight Investment Management (Global) Ltd
PfP Capital Limited

Return Seeking Assets

Equities: Legal & General Investment Management Ltd (ceased January 2023)

Russell Investments Implementation Services Ltd

Credit: Aon Advantage Funds LLC (appointed April 2022)

Arbour Lane Capital Management (appointed June 2022)

Arcmont Asset Management LLP

AXA Investment Managers (ceased October 2022)

Barings LLC (ceased November 2022)

Blackstone Group

Christofferson, Robb & Company LLC

CVC Capital Partners

DRC Savills Investment Management LLP

Goldman Sachs & Co.

HPS Investment Partners LLC

JP Morgan Asset Management

Kennedy Lewis Investment Management LLC

Kreos Capital Group

Leadenhall Capital Partners

M&G Alternatives Investment Management Ltd (ceased February 2023)

Oaktree Capital Management (UK) LLP

Robeco Asset Management (ceased October 2022)

York Capital Management LLC

Whitehorse Liquidity Partners

Zais Group LLC

NATIONWIDE PENSION FUND

TRUSTEE AND ADVISERS – continued

Infrastructure: Arcus Infrastructure Partners LLC
 Equis Funds Group Pte Ltd
 IFM Investors Pty Ltd (ceased January 2023)
 Innisfree Ltd
 Macquarie Investment Management (UK) Ltd
 Star Capital Partners Ltd
 Tiger Infrastructure Partners LP

Private Equity: Arsenal Capital Management LP
 Blackstone Group
 BV Investment Partners LP
 Digital Alpha Advisors LLC
 Digitalplus GmbH
 Dunedin Capital Partners LLP
 The Energy and Minerals Group LP
 GreyLion Capital LP
 Hahn & Co
 Investcorp
 Kreos Capital Equity Limited
 L Catterton Asia Advisors
 Mount Kellett Capital Partners (Cayman) LP
 Opengate Capital
 Parcom Capital Management BV
 Permira LP Ltd
 Platinum Equity Advisors LLC
 Thompson Street Capital Manager LLC
 Trilantic Capital Management LLC

Real Estate: Ares European Real Estate Management, LP
 Barings European Core Property Fund
 Blackstone Property Partners
 Genesta Property Nordic AB
 Henderson Park Real Estate Management Ltd
 PAG Holdings Ltd
 Revcap Advisors Ltd

NATIONWIDE PENSION FUND

TRUSTEE AND ADVISERS – continued

Real Estate: Silverpeak Real Estate Partners
Walton Street Capital LLC

Investment Manager: Cheshire & Derbyshire (C&D) Section
Legal & General Investment Management Ltd

Custodian The Northern Trust Company

Pension Scheme Tax Reference 00271477RZ

Enquiries Nationwide Pension Fund
Buck (Bristol)
PO Box 319
Mitcheldean
GL14 9BF
Tel: 0330 123 9677
Email: NPF@buck.com

**CHAIR'S STATEMENT
FOR THE YEAR ENDED 31 MARCH 2023**

I'm pleased to present the Report & Accounts for the Nationwide Pension Fund ('the Fund') for the financial year ended 31 March 2023.

Strategic Plan

The Trustee's Strategic Plan sets out its aims and objectives for the Fund. Following the completion of the Fund's formal valuation as at 31 March 2022, as well as recent economic events, a review of the Strategic Plan is in progress. This will be added to the library section of the Fund website when complete. The Governance Committee monitors the Fund's progress against the Plan.

Funding

The formal valuation as at 31 March 2022 was completed in the year. Looking at the two sections of the Fund, the results of this showed that the Nationwide Section had a Technical Provisions ('TP') funding level of 111% and the Cheshire and Derbyshire Section ('C&D Section') had a TP funding level of 107%. The results of the formal valuation will be shared with members in the Fund's Annual Review, which is due to be issued in Autumn 2023.

The TP funding level of both sections continued to improve in the year to 31 March 2023. As a result of the sharp increase in bond yields, asset values and liability values fell for both sections, however, funding levels improved as return seeking assets outperformed the fall in liability values. More information about the investments is included in the Trustee Report.

Risk Transfer

Following the year end, the Fund entered into a £1.7 billion longevity insurance policy with UK insurer Zurich Assurance Ltd and US reinsurer Prudential Financial Inc (PFI). The policy covers the risk that pensioners and their dependants live longer than expected by transferring the risk to the insurers. It provides the Trustee and the Society with more certainty over future funding costs and improves the security of members' benefits.

Investment

A key responsibility of the Trustee is to invest Fund assets in the best interests of Fund members in order to pay out benefits as they fall due. The Trustee must also weigh returns against risks and consider factors which are financially material to the performance of the investments.

The second half of 2022 saw a period of significant market volatility following the UK Government's 'mini-budget'. This resulted in a sharp increase in gilt yields, which the Fund was largely insulated against due to the high interest rate and inflation protection that had been implemented through the Fund's Liability Driven Investment (LDI). However, as a proportion of the LDI portfolio consists of collateralised hedging contracts, the rapid increase in yields caused a meaningful reduction in the Fund's available LDI collateral.

To replenish this LDI collateral, it was decided to sell return seeking (non-LDI) assets where this could be done efficiently, and two short-term loans totalling £400 million were also provided from the Society to the Fund to cover the period between some sale instructions and the Fund receiving the proceeds.

CHAIR'S STATEMENT – continued

During this period, all hedging contracts were maintained, however, the investment strategy shifted following the sale of the Fund's liquid assets with allocations now concentrated in LDI assets and illiquid assets. More detail can be found in the Investment Objectives and Strategy section of this report.

2023 saw further market turbulence, with the failure of the Silicon Valley Bank and Credit Suisse. The Trustee monitored these events closely and there was very little direct impact on the Fund. The Trustee continues to work closely with its advisers and investment managers to monitor the Fund's investments.

The Trustee has also published its second report incorporating the recommendations set out by the Taskforce for Climate-related Financial Disclosures (TCFD), embedding considerations of climate risks and opportunities within day-to-day management of the Fund's portfolio. This is called the Climate Risk Report and is available in the Library on the Fund's website. The Trustee also ensures that Environmental, Social and Governance (ESG) factors are given careful consideration whenever a new investment is made, as well as undertaking an annual ESG assessment.

Investment – Additional Voluntary Contributions

While there is no defined contribution (DC) section in the Fund, DC Additional Voluntary Contributions (AVCs) were offered while the Fund was open to future accrual. The Investment & Funding Committee ensures that the funds which these AVCs are invested in continue to be appropriate by monitoring performance and confirming investments are in line with their stated objectives.

Operations

Following the decision to move the Fund's administration to a third-party provider, Buck Consultants, in 2022, the Trustee, through its Operations Committee, continues to monitor service levels and member feedback.

The Trustee strongly encourages members to log on to the Member Portal, to take a look at what is available and sign up to digital communications. It's a great way to keep in touch and enables members to keep Expression of Wish and contact details up to date, and to see their benefit information (which is updated every year). During the year, a Benefit Quotation Calculator was introduced on the Portal so members can see what they could receive when planning their retirement.

There are a number of key areas of operational focus for the Trustee, including protecting members against pension scams. In line with pension transfer regulations introduced in November 2021, the Trustee is required to undertake a number of specific checks before allowing a transfer and to stop suspicious transfers.

Another area of focus is in relation to the Pensions Dashboards, which will enable individuals to access their pensions information from all sources online, securely and in one place. This will support better planning for retirement and will provide clear and simple information about an individual's multiple pension savings, including the State Pension. Dashboards will also help individuals reconnect with any lost pension pots.

All pension providers and pension schemes will be required by legislation to connect to Pensions Dashboards. Although the mandatory deadlines for pension schemes to connect to the Dashboards have been delayed by the Government, the Fund and its Administrator continue to make progress towards the Fund's connection to the Dashboards and will keep members updated on progress and the launch date.

The Trustee also continues to focus on inclusion and diversity in the administration of the Fund. The Fund website at nationwidepensionfund.co.uk has been designed to comply with the World Wide Web Consortium's (W3C) Level A guidelines for accessibility. Some of the accessibility features allow visitors to the Fund website to increase the font size, have the content read aloud and change the view to 'dark mode.' Continuous improvement in member communications and member engagement remains a key priority.

NATIONWIDE PENSION FUND

CHAIR'S STATEMENT – continued

Governance

The Trustee continues to maintain a strong focus on governance and in particular ensuring that it has an effective system of governance in place, to meet the anticipated requirements of the Pension Regulator's General Code, which is expected to be issued in final form later in 2023.

More broadly, the Trustee continues to identify, measure, monitor, manage and report on risks to which the Fund is or could be exposed. The Trustee is undertaking a review of its risk management framework to ensure that it remains appropriate and reflects the expected requirements of the General Code.

The Trustee's Internal Auditors undertake an annual programme of reviews and the Trustee takes action to address any areas for improvement identified in these reviews. The Fund's Internal Audit Charter is available on request.

Trustee Board

I am pleased to confirm that following the Member Nominated Trustee Directors election, Peter Corrie was elected and Sarah Garrett was re-elected as Member Nominated Trustee Directors from 18 January 2023.

Arthur Amos stood down as a member of the Board after more than 25 years' service and the Board would like to extend its thanks to him for his dedication to the Fund and its members over all those years.

The Board continues to assess how it operates and its effectiveness. An annual Trustee self-assessment is carried out, where we reflect on our collective and individual performance and areas where further training and development is required. We also seek feedback from key advisers, to make sure we're maintaining a high-level of performance in our duties as Trustee Directors.

Finally, I'd like to acknowledge the efforts of my fellow Trustee Directors and the team at Nationwide Building Society that supports the Fund, as well as the services received from our professional advisers.

Catherine Redmond (representing BESTrustees Limited)
Chair of the Trustee Board

NATIONWIDE PENSION FUND

TRUSTEE REPORT FOR THE YEAR ENDED 31 MARCH 2023

The Trustee of the Fund presents its Annual Report for the year ended 31 March 2023, together with the actuarial certificates and financial statements. The Fund is a defined benefit scheme providing benefits on a range of final salary and CARE bases depending on when the benefits were accrued. The Fund closed to future accrual on 31 March 2021. The Society now offers all employees a Group Personal Pension arrangement administered by Aviva, which is entirely separate from 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 Cheshire and Derbyshire Section ('C&D Section'). Separate financial disclosures for these two sections are provided in this report in Notes 26 to 29. Between 1 April 2011 and 31 March 2021, benefits were accrued in the post-2011 CARE scheme mentioned earlier.

The Fund was 'contracted out' of the additional components of the State Pension until 6 April 2016, when legislation came into effect which ended contracting out.

Management of the 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.

The Fund is governed by a definitive Trust Deed and Rules dated 1 April 2012, together with subsequent amendments.

There are eight Trustee Directors. The Board of Nationwide Building Society ('the Society') has the power to appoint four Trustee Directors (and change them from time to time). There are four Member Nominated Directors ('MNDs'), whose positions are filled from the membership as a whole and have a term of office of five years. Any Trustee Director may, in exceptional circumstances, be removed from office by the unanimous decision of the other Trustee Directors, provided that, for MNDs, approval is first obtained from the membership in a postal ballot.

The current Trustee Directors are shown on page 2. Trustee Directors who are not employees of the Society, received payment for their services in the Fund year, as described in Notes 7 and 22 of the financial statements.

Trustee Board meetings are normally held four times a year, with an additional meeting on strategy and development. Decisions are made generally by consensus, but the rules provide for majority voting when a consensus cannot be reached. This happens very rarely. In the year to 31 March 2023 there were 8 Board meetings including a training, strategy and development session; reflecting another busy year.

NATIONWIDE PENSION FUND

TRUSTEE REPORT – continued

Attendance for all or part of meetings falling in each of the Directors' period of office was as follows:

Arthur Amos	3 of 5	John Wriighthouse	7 of 8
Peter Corrie	3 of 3	Catherine Redmond	8 of 8
Laura Faulkner	5 of 8	(BESTrustees Ltd)	
Sarah Garrett	7 of 8	Mark Hedges	7 of 8
Rob Goldspink	8 of 8	(GHG Services Ltd)	
Heather Tipple	8 of 8		

A number of Committees and working groups also met throughout the year.

Sponsoring Employer

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

Trust Deed and Rule Changes

A Deed of Amendment was executed during the year clarifying the scope of the Trustee's investment powers.

Disputes

If members have a complaint about the Fund, Buck Consulting will help to resolve it. If members are not satisfied with the response they receive, the Trustee has a formal complaints procedure in place for resolving disputes. This is a two-stage process. For details and relevant forms for the Internal Disputes Resolution Procedure (IDRP), concerned members should contact the Scheme Administrator, Buck at:

Nationwide Pension Fund
Buck (Bristol)
PO Box 319
Mitcheldean
GL14 9BF
Tel: 0330 123 9677
Email: NPF@buck.com

The Pensions Ombudsman (TPO)

If members have concerns, they have the right to refer their complaint to TPO, who has legal powers to settle complaints and disputes. The service is free, fair, and impartial. The TPO can be contacted at:

10 South Colonnade, Canary Wharf, London E14 4PU

Tel: 0800 917 4487.

Email: enquiries@pensions-ombudsman.org.uk

Website: www.pensions-ombudsman.org.uk

Compliance Information

Stewardship

The Fund's policy statement in respect of voting and corporate governance is included in section 4 of the Fund's Responsible Investment Policy, which was updated as at 31 March 2023. This highlights the Trustee's expectations that investment managers use their influence to carry out the Trustee's rights and duties as a shareholder including voting and, where appropriate, engaging with underlying companies to promote good corporate governance, accountability, and positive change.

The Investment & Funding Committee reviews the Responsible Investment Policy, adherence to the stewardship principles and investment managers' voting activities annually. Confirmation of compliance has been published on the Fund's website.

The Statements of Investment Principles (SIPs) were also updated, on 7 July 2023 for the C&D section and 8 February 2023 for the Nationwide section. The latter was updated again on 7 July 2023.

Data Protection

The Fund has a data protection policy in place and takes the security of members' information very seriously. You can find our privacy statement on the Fund's website at nationwidepensionfund.co.uk.

Pension Scams

The Trustee is aware of The Pensions Regulator's concerns that pension pots are attractive to potential scammers, who can be very articulate and financially knowledgeable, with credible websites, testimonials and materials that are hard to distinguish as fraudulent. Information on avoiding pension scams can be found on the Member Website at nationwidepensionfund.co.uk where you'll also find a short video to support members and we would encourage members to watch it. If you are contacted unexpectedly or have any concerns, you can obtain additional information at <https://www.moneyhelper.org.uk/en/money-troubles/scams/how-to-spot-a-pension-scam>

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>Deferred Members</u>				
Deferred members at the beginning of the year		18,353	604	
Prior year adjustments	(a)	-	(1)	
Deferred members transferring out		(49)	(1)	
Deferred members retiring		(657)	(25)	
Deferred members retiring with trivial commutations		(15)	-	
Deaths in deferment		(12)	-	
		<u>17,620</u>	<u>577</u>	18,197
<u>Pensioners</u>				
Pensioners at the beginning of the year		9,300	679	
Prior year adjustments	(a)	(1)	(1)	
Deferred members retiring		657	25	
Deferred members with Flexible Retirement		3	-	
Spouses and dependants (new)		92	8	
Spouses and dependants (deceased)		(20)	(5)	
Deaths in retirement		(108)	(14)	
		<u>9,923</u>	<u>692</u>	10,615
TOTAL MEMBERSHIP AT 31 MARCH 2023		<u>27,543</u>	<u>1,269</u>	<u>28,812</u>

(a) The prior year adjustments relate to late notification of changes in the membership.

Included in the above membership there are 680 members (499 deferred and 181 pensioners) with duplicate records for the Nationwide Section and 29 members (12 deferred and 17 pensioners) for the C&D Section. There are also 204 members for the Nationwide Section and 1 member for the C&D Section that have both a deferred and pensioner record.

Nationwide Section pensioners do not include 23 members (2022: 25 members) whose pension is paid directly to them by an insurance company in respect of an annuity purchased at the time of their retirement.

The Cheshire and Derbyshire Section ('C&D') has a buy-in insurance policy with Canada Life for 608 (2022: 627) members. The C&D Section is in receipt of annuity income for these members from Canada Life for the cost of pension benefits.

Investment Objectives and Strategy

The Trustee aims to invest the assets of both sections of the Fund prudently to make sure that the benefits promised to members are provided when they fall due. The Nationwide Section's Statement of Funding Principles sets out a long-term objective ("LTO") that has been agreed with the Society. However, the Trustee's aim (Trustee Funding Target) is to be funded on a more prudent basis than the LTO, and the Trustee believes this is best achieved by having a well-defined journey plan that incorporates an appropriate investment strategy.

The Trustee monitors the funding level of the Fund using three different measures: the Technical Provisions basis which assumes a certain level of investment returns and is required by legislation, the Trustee Funding Target basis which assumes lower investment returns and no support from the Society, and the Buy-out basis which is the cost to transfer the Fund to an insurance company. Although there is a strong link between the funding levels, the Trustee recognises that over time the relationship between the three measurements of liabilities will change. The plan is to steadily de-risk the Fund to protect the funding position on the Trustee Funding Target basis. It is intended that the eventual target of the de-risking process will be a Destination Portfolio which largely matches the Fund's liabilities and allows for a margin to cover risk factors such as benefit caps, collars, and longevity risk. Throughout the de-risking process, the Trustee will consult with the Society.

The parties involved in the monitoring and implementation process are as follows:

- the Investment and Funding Committee ('IFC') on behalf of the Trustee
- the Chief Investment Officer team ('CIO team')
- the Society's Pension Risk team
- the Investment Consultant
- the Actuarial Adviser
- the Implementation Manager

The Trustee has appointed Northern Trust to keep custody of the Fund's investments, other than:

- Pooled investment vehicles, where the manager makes its own arrangements for custody of underlying investments;
- Direct property, where title deeds are held by the Fund's legal advisers; and
- Insurance policies, where the master policy documents are held by the Trustee.

The Fund's investment strategy and strategic asset allocation are reviewed periodically to ensure that they are appropriate for the circumstances and objectives of the Fund.

The Trustee monitors the actual asset allocation versus the target weight and the ranges on a regular basis.

For the Nationwide Section, the permitted ranges allow the Trustee to deviate tactically from the strategic asset allocation within the specified limits to avoid the need for constant rebalancing.

TRUSTEE REPORT – continued

The strategic asset allocation strategy as at 31 March 2023, chosen to meet the objectives of the Nationwide Section, is set out in the table below.

Asset Class	Target Weighting %	Range %	Actual %
Matching Assets	70	50-80	62
Government and Supranational Bonds	60	40-65	52
Alternative Matching Assets (AMA)	10	5-15	10
Return Seeking Assets	30	20-50	38
Equities	0	0-10	0
Credit	10	0-12.5	2
Illiquid portfolio – private markets	20	10-37.5	36
Cash	1	0-2	-

The C&D Section’s strategic asset allocation is:

Asset Class	Target Weighting %	Actual %
Matching Assets	80-90	86
Return Seeking Assets	10-20	14
Cash	0-2	-

Each section has its own Statement of Investment Principles (‘SIP’) which details the respective investment strategy. Copies of the SIPs are available on our website (www.nationwidepensionfund.co.uk). The SIPs meet the requirements of Section 35 of the Pensions Act 1995 and Section 244 of the Pensions Act 2004. As noted earlier, the latest Nationwide Section SIP was approved by the Trustee Board on 8 February 2023 and updated on 7 July 2023. The C&D Section SIP was approved by the Trustee Board on 7 July 2023, taking account of changes agreed over the year and the planned future investment strategies.

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.

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. To set out the Trustee’s beliefs and overarching approach to managing climate risks within the investment portfolio, a Climate Risk Statement has been formally incorporated into the Trustee’s Responsible Investing Policy. Further details can be found in the Implementation Statement which is published at nationwidepensionfund.co.uk/library.

The Trustee has also published its second report incorporating the recommendations set out by the Taskforce for Climate-related Financial Disclosures (TCFD). This is the Climate Risk Report and can be found at nationwidepensionfund.co.uk/library. This report outlines how the Fund is governed and how climate risks and opportunities have been embedded within the Fund’s strategy and ongoing operations.

NATIONWIDE PENSION FUND

TRUSTEE REPORT – continued

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.

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.

For illiquid investments, it is the Trustee's 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.

The Trustee typically adopts a 'fixed fee' approach based on assets under management for its asset managers, as it facilitates a higher degree of transparency and planning on behalf of the Fund.

However, 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.

Ultimately, analysis on behalf of the Trustee is undertaken on a net-of-fees basis and, where structured appropriately, this approach 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.

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 not invest where it judges the fee structure of the asset manager is excessive or does not align interests with the Fund and its beneficiaries.

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. ClearGlass Analytics, on behalf of the Fund, requires relevant asset managers to report annually standardised information to facilitate transparency. This information includes annual management charges, performance fees, portfolio turnover costs (defined as the costs incurred as a result of buying, selling, lending, or borrowing of investments) and operational costs.

The Trustee seeks to maintain an asset allocation in line with the target portfolio set out in the SIPs, which are reviewed annually in conjunction with the Fund's Investment Consultant. Within each asset class, the Fund will seek asset managers which it assesses to be capable of delivering returns in line with their stated mandate (amongst several other factors such as diversification).

During the year, changing market conditions led to a re-balancing of the portfolio where liquid assets were sold to support the Fund's LDI portfolio. This resulted in the Nationwide Section SIP being updated as noted above.

Following the year end, an insurance arrangement was executed on behalf of the Nationwide Section to reduce the Fund's longevity risk. The policy with Zurich and PFI, arranged with the full support of Nationwide Building Society, insures a key risk that pensioners and their dependants live longer than expected. It provides the Trustee and the Society with more certainty over future funding costs and improves the security of members' benefits.

TRUSTEE REPORT – continued

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.

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.

The Trustee is taking the following steps to monitor and assess Environmental, Social and Governance (ESG) related risks and opportunities:

- The Trustee will have periodic training 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 Consultant, 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.

The Trustee has established a Climate Mission Statement which sets out its beliefs with respect to climate-related impacts on the Fund whilst providing an overarching approach to manage climate-related risks as part of the investment framework.

As an investor in ground rents and long leases covering both residential and commercial property, the Trustee, in conjunction with the Fund's advisers and managing agents, has set out clear and transparent investment and management guidelines in its Ethical Landlord Policy. This includes specific responsibilities to leaseholders.

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, and where relevant and appropriate, engaging with underlying investee companies to promote good corporate governance, accountability, and positive change.

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.

The Trustee will engage with its investment managers where necessary for more information, and, where appropriate, influence investment managers to improve existing practices.

The Trustee recognises that Fund members and beneficiaries have views on ethical considerations, social and environmental impacts, and the present and future quality of life of the members and beneficiaries of the Fund (defined as 'non-financial matters' in the Occupational Pension Schemes Regulations 2005, as amended in 2018). However, the complex nature of asset and liability modelling and the requirement for professional expertise in investment management means that the Trustee does not separately take into account non-financial factors in its investment approach. The Trustee sets and implements the Fund's investment strategy in line with the principles set out in the Responsible Investment Policy and the Statement of Investment Principles.

Review of Investment Performance

The Fund's combined investment assets as at 31 March 2023 were £5,254.3m (2022: £7,330.4m).

The Fund is split into two sections and their performance is as follows:

Asset Class	One Year		Three Year ¹	
	Actual %	Benchmark %	Actual % P. A	Benchmark % P. A
Nationwide Section Performance Analysis				
Core Matching Assets ²	(45.7)	(55.7)	(17.7)	(23.1)
Alternative Matching Assets	(12.4)	16.2	0.6	10.3
Equities	0	0	0	0
Credit	(4.5)	7.7	3.6	5.3
Private Markets ³	10.8	18.5	11.6	12.9
Total Return	(25.9)	(31.4)	(4.7)	(7.8)

1 Five-year analysis is not provided as the portfolio and its benchmark were so significantly different that the returns are not comparable.

2 Core Matching Assets comprises bonds, including government bonds, corporate bonds and index linked securities.

3 Private Markets comprises real estate, private equity, infrastructure, and private and real estate debt.

The Nationwide Section delivered a one-year net performance that was 5.5% higher than the benchmark. This performance was due to the performance of the Core Matching Assets which lost less value than their benchmark. It should be noted that these assets are used to off-set gains and losses in the value of the Fund's liabilities, which fell in value by a greater amount. All other asset classes underperformed as these are measured relative to benchmarks which are either inflation or interest rate linked, both of which sharply increased during the year.

Asset Class	One Year		Three Year	
	Actual %	Benchmark %	Actual % P. A	Benchmark % P. A
C&D Section Performance Analysis (excludes Buy-in)				
Core Matching Assets ⁴	(35.1)		(16.5)	
Equities	(6.6)		16.3	
Total Return	(31.1)	(31.1)	(13.4)	(13.4)

4 Core Matching Assets during the year comprised bonds, including government bonds and corporate bonds.

Given the passive nature of the investment strategy, no detailed benchmarking analysis is required.

The benchmarks for both sections of the Fund are composite benchmarks, which take into account their strategic asset allocations.

Report on Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits the members are entitled to, based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statements of Funding Principles for each section, which are available to Fund members on the Fund website at nationwidepensionfund.co.uk/library.

The latest full valuations of the Fund were carried out as at 31 March 2022 and showed the funding position to be as follows:

	Nationwide Section	C&D Section
Value of the Technical Provisions	£6,317m	£295m
Value of the assets at that date	£7,015m	£317m
Surplus	£698m	£22m
Funding level	111%	107%

As both Sections are in surplus no deficit contributions are due from the Society.

The results above include the actuary’s estimate of an appropriate allowance to cover the cost of equalising Guaranteed Minimum Pensions to meet a statutory obligation of £6 million for the Nationwide Section and £3 million for the C&D Section.

Actuarial Method

The actuarial method used in the calculation of the technical provisions is the Projected Unit Method.

The significant actuarial assumptions adopted for the Nationwide section as at 31 March 2022 are set out below:

- Discount rates:
time-based discount rate reducing linearly from gilts +2.25% to gilts plus 0.5% p.a. by 2037
- Rate of RPI price inflation:
Bank of England breakeven RPI curve.
- Rate of Consumer Price Index (‘CPI’) price inflation:
Based on RPI inflation less 0.9% p.a. before 2030 and less 0.1% p.a. thereafter
- Post-retirement mortality:
The SAPS S3 Series ‘all’ table for males and ‘mid’ tables for females with scaling factors of:
 - for pensioners 92% for men (97% for their dependants) and 99% for women (92% for their dependants).
 - for non-pensioners 98% for men (97% for their dependants) and 102% for women (and their dependants).

TRUSTEE REPORT – continued

An allowance for future improvements in line with the CMI 2021 Projections, assuming Sk as 7.0, W2020 as 0%, W2021 as 0%, and an A parameter of 0.35% p.a. and a long-term annual rate of improvement in mortality rates of 1.5% p.a. for men and women.

The C&D Section adopted the same assumptions as above, with the exception of the discount rates and mortality assumptions. The C&D Section adopted lower discount rates to reflect its lower risk investment strategy. The discount rates for the C&D Section were set as fixed interest 'Gilt Price Only' curves plus 0.35% p.a.

The post-retirement mortality assumption for the C&D Section was:

The SAPS S3 Series 'all' table for males and 'mid' table for females with scaling factors of:

- for pensioners 90% for men (and their dependants) and 97% for women (and their dependants).
- for non-pensioners 94% for men (and their dependants) and 102% for women (and their dependants).

An allowance for future improvements in line with the CMI 2021 Core Projections, assuming Sk as 7.0, W2020 as 0%, W2021 as 0%, and an A parameter of 0.5% p.a. and a long-term annual rate of improvement in mortality rates of 1.5% p.a. for men and women.

Compliance Information

Calculation of Transfer Values

Transfer values paid during the Fund 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.

Pension Increases on Pensions in Payment

Pensions are reviewed annually on 1 April and, except where indicated below, were increased by 5.0% on 1 April 2023 (1 April 2022: 4.9%). There were no discretionary increases applied during the year.

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 per annum:

Lambeth scheme: 8.5% or 5%.

Portman scheme: 5%.

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

Derbyshire scheme: 3% (increase is RPI min. 3% max 5%, and applied each 1 July)

Statement of Trustee’s Responsibilities for the year ended 31 March 2023

The financial statements, which are prepared in accordance with applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 ‘The Financial Reporting applicable in the UK and Republic of Ireland’ (United Kingdom Generally Accepted Accounting Practice), are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Fund during the Fund year and of the amount and disposition at the end of the Fund year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year, and
- contain the information specified in Regulations 3 and 3A of 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 relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for the preparation of the accounts on a going concern basis unless it is inappropriate to presume that the Fund will not be wound up.

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

The Trustee also has a general responsibility for making sure that adequate accounting records are kept and will take necessary steps to help safeguard the assets of the Fund, as well as prevent and detect fraud and other irregularities, which includes the maintenance of an appropriate system of internal control.

Under pensions legislation, the Trustee is responsible for preparing, maintaining and from time to time revising 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 adopting risk-based processes to monitor 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 the Pensions Act 1995 and 2004 to consider making reports to the Pensions Regulator and the members.

The Trustee is responsible for the maintenance and integrity of the financial information of the scheme included on the scheme's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

NATIONWIDE PENSION FUND

TRUSTEE REPORT – continued

Further Information

Enquiries about the Fund or an individual's entitlement should be sent to:

Nationwide Pension Fund
Buck (Bristol)
PO Box 319
Mitcheldean
GL14 9BF
Tel: 0330 123 9677
Email: NPF@buck.com

The Trustee Report was approved by the Trustee on

and signed on its behalf by:

Catherine Redmond, BESTrustees Limited

Rob Goldspink

Trustee Director

Trustee Director

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

Opinion

We have audited the financial statements of the Nationwide Pension Fund (the 'Fund') for the year ended 31 March 2023, which comprise the fund account, the statement of net assets (available for benefits) and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2023 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 year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulations 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

In our evaluation of the Trustee's conclusions, we considered the inherent risks associated with the Fund including effects arising from macro-economic uncertainties such as the impact of inflation and rising interest rates, we assessed and challenged the reasonableness of estimates made by the Trustee and the related disclosures and analysed how those risks might affect the Fund's financial resources or ability to continue operations over the going concern period.

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are approved by the Trustee.

INDEPENDENT AUDITOR'S REPORT – continued

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Trustee is responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee for the financial statements

As explained more fully in the Trustee's responsibilities statement, the Trustee is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Fund, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Fund and determined the most significant are the Pensions Act 1995 and 2004 and those that relate to the reporting frameworks (Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 (FRS 102) and the Statement of Recommended Practice "Financial Reports of the Pension Schemes" 2018 ("the SORP"))
- In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations such as, the Pensions Regulator's Codes of Practice and relevant compliance regulations (including the Annual Pensions Bill and tax legislation) under which the Fund operates.

INDEPENDENT AUDITOR'S REPORT – continued

- We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with management, the Trustee, and from inspection of Trustee board minutes and legal and regulatory correspondence. We discussed the policies and procedures regarding compliance with laws and regulations with the Trustee.
- We assessed the susceptibility of the Fund's financial statements to material misstatement due to irregularities including how fraud might occur. We evaluated management's incentives and opportunities for manipulation of the financial statements and determined that the principal risks were in relation to the risk of management override of controls through posting inappropriate journal entries to manipulate results and net assets for the year.

Our audit procedures involved:

- Journal entry testing, with a focus on large manual journals to unusual account codes, including:
 - Manual journals with unusual account combinations such as those between the Fund Accounts and the Statement of Net Assets,
 - Journals posted to suspense accounts, and,
 - Journals with blank description
- Obtaining independent confirmations of material investment valuations and cash balances at the year end
- Including valuation specialists within the audit team to challenge the valuation of property, annuity, and derivative contract valuations in the investments.

In addition, we completed audit procedures to conclude on the compliance of disclosures in the annual report and accounts with applicable financial reporting requirements.

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery, or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- All team members are qualified accountants or working towards that qualification and are considered to have sufficient knowledge and experience of Funds of a similar size and complexity, appropriate to their role within the team. The engagement team are required to complete mandatory pensions sector training on an annual basis, thus ensuring they have sufficient knowledge and understanding of the sector the underlying applicable legislation and related guidance.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Fund's Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit 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 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's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

NATIONWIDE PENSION FUND

FINANCIAL STATEMENTS

Fund Account for the year ended 31 March 2023

	Note	2023 £m	2022 £m
Contributions and benefits			
Employer contributions receivable	4	-	0.1
Member contributions receivable	4	-	-
Total contributions		-	0.1
Benefits payable	5	(140.6)	(125.4)
Payments to and on account of leavers	6	(29.2)	(63.2)
Administrative expenses	7	(5.5)	(5.7)
		(175.3)	(194.3)
Net withdrawals from dealings with members		(175.3)	(194.2)
Returns on investments			
Investment income	8	103.0	54.1
Change in market value of investments	11	(1,973.3)	549.4
Investment management expenses	9	(37.8)	(41.6)
Net (losses) / returns on investments		(1,908.1)	561.9
Net (decrease) / increase in the Fund during the year		(2,083.4)	367.7
Net assets of the Fund			
At the beginning of the year		7,345.0	6,977.3
At the end of the year		5,261.6	7,345.0

The notes on pages 27 to 50 form part of these financial statements.

NATIONWIDE PENSION FUND

FINANCIAL STATEMENTS

Statement of Net Assets (Available for Benefits) as at 31 March 2023

	Note	2023 £m	2022 £m
Investments	10,11,20		
Assets			
Fixed interest securities		1,463.9	1,788.5
Index linked securities		1,813.3	2,963.1
Pooled investment vehicles	13	2,521.7	3,688.1
Derivatives	14	187.5	174.8
Property	15	153.8	198.3
Annuity investments	16	123.9	159.9
Cash deposits	17	8.9	-
Other investment balances	17	1.7	5.6
AVC & Bonus Saver investments	18	10.6	12.3
		6,285.3	8,990.6
Liabilities			
Derivatives	14	(231.7)	(98.3)
Cash deposits	17	(20.1)	(4.5)
Amounts due under repurchase agreements	17,19	(775.3)	(1,555.2)
Other investment balances	17	(3.9)	(2.2)
		(1,031.0)	(1,660.2)
Total net investments		5,254.3	7,330.4
Current assets and liabilities			
Current assets	21	11.4	18.1
Current liabilities	21	(4.1)	(3.5)
		7.3	14.6
Net Assets of the Fund at 31 March		5,261.6	7,345.0

The Notes on pages 27 to 50 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 Fund 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 Report on Actuarial Liabilities on pages 18 and 19 of this Annual Report, and these financial statements should be read in conjunction with this report.

The financial statements on pages 25 to 50 were approved by the Trustee on _____ and signed on its behalf by:

Catherine Redmond, BESTrustee Limited, Trustee Director

Rob Goldspink, Trustee Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

1. Basis of preparation

The financial statements have been prepared on a going concern basis and in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council (“FRS 102”) and the guidance set out in the Statement of Recommended Practice “Financial Reports of Pension Schemes” (2018) (“the SORP”).

The Trustees have performed a going concern assessment. Amongst other things, their assessment took into account the Scheme funding position, availability of liquid cashflows and the employer and insurer covenant. They also noted that there has been no decision made to wind up the Scheme. On this basis the Trustees consider the going concern basis appropriate.

Some pooled investment vehicles are held through limited partnerships in which the Fund is the only partner. In accordance with the SORP no consolidated accounts have been prepared as the statutory framework for pension schemes financial reporting does not require consolidation and the pooled investment vehicles are included within the Statement of Net Assets on the basis referred to in accounting policy 3(d)(ii) below. A summary of the limited partnerships’ net assets is disclosed in the pooled investment vehicle note in the financial statements.

The functional and presentation currency of these accounts is pounds sterling.

2. Identification of financial statements

The Fund is established as a trust under English law. The address for enquires to the Fund is included in the Trustee Report.

3. Accounting policies

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

(a) Transfers to other schemes

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the Scheme. They are accounted for on an accruals basis on the date the trustees of the receiving scheme accept the liability. In the case of individual transfers, this is normally when the payment of the transfer value is made.

(b) Income from investments

All income from investments is accounted for on an accruals basis. Income from fixed interest and index linked securities includes income bought and sold on purchases and sales of such investments. Rental income is accounted for in accordance with the terms of the lease. Income from pooled investment vehicles is accounted for when declared by the fund manager. In the case of accumulation pooled investment vehicles, income and expenses are retained within the unit price. Receipts from annuity policies are accounted for as investment income on an accruals basis.

Investment income arising from repurchase agreements (including reverse repurchase agreements) is accounted for on an accruals basis and it relates to the interest paid on repurchase agreements, net of the interest received on the government bonds used as security against those agreements.

(c) Expenditure

Pensions in payment, including pensions paid from annuities, are accounted for in the period to which they relate.

NOTES TO THE FINANCIAL STATEMENTS – continued

Benefits payable are accrued from the later of the date of leaving, retirement or death, and the date on which any option is exercised. Tax settled by the Fund on behalf of a member is recognised in the accounts separately within benefits under taxation where lifetime or annual allowance exceeded.

Investment management and administration expenses are accounted for on an accruals basis.

Acquisition costs of investments are included in the purchase cost of investments and disposal costs are deducted from the proceeds of sales of investments.

(d) Valuation of investments

- i. Fixed interest securities and index-linked securities are stated at their clean price, where applicable including the indexation element which is payable on maturity. Accrued interest is excluded from the market value of fixed income securities and is included in investment income receivable.
- ii. Pooled investment vehicles are valued at the bid price provided by the managers or at a single price if only one price is provided. 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. Where year-end valuations have not become available, as may be the case with some level 3 funds, fair value is estimated using the latest available valuation, amended for cash movements to the year end. Definition of the levels can be found in Note 10 on page 31. Property limited partnerships are valued at the Fund's share of net assets, with the underlying property valued in accordance with accounting policy 3(d)(vi).
- 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.
- 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 were 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 March each year by Knight Frank, an independent firm of Chartered Surveyors.
- vii. Annuity investments are the value of the insured annuities, calculated by Aon Solutions, the Fund's actuarial advisers, 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 Zurich and Standard Life include an element of final bonus which is not guaranteed.

Bonds, mortgage-backed securities, property, infrastructure, annuities, 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.

(e) Foreign currencies

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange prevailing 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 prevailing when received.

NOTES TO THE FINANCIAL STATEMENTS - continued**(f) Repurchase agreements**

- i. Repurchase agreements – the Fund continues to recognise and value the securities that are delivered under the terms of the contract and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable amount.
- ii. Reverse repurchase agreements – the Fund does not recognise the securities received under the terms of the contract in its financial statements. The Fund does recognise the cash delivered to the counterparty as a receivable in the financial statements.

4. Contributions receivable

	Note	2023 £m	2022 £m
Employer contributions:			
Redundancy waivers/augmentations	(a)	-	0.1
		<u>-</u>	<u>0.1</u>

- (a) Redundancy waivers were 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 certain employees under the terms of their redundancy or other agreements with the Society.

5. Benefits payable

	2023 £m	2022 £m
On or during retirement		
Pensions	108.0	98.1
Commutations	31.3	26.1
Taxation where lifetime or annual allowance exceeded	0.9	0.6
	<u>140.2</u>	<u>124.8</u>
Death benefits		
Death in service, deferment & retirement benefits	0.4	0.6
	<u>140.6</u>	<u>125.4</u>

The 2022 pensions figure included a reimbursement to the Society of £91.0m, as they processed the Pensioner Payroll before this was outsourced to Buck Consultants. There was no such payment in 2023.

NOTES TO THE FINANCIAL STATEMENTS - continued

6. Payments to and on account of leavers

	2023	2022
	£m	£m
Individual transfers to other schemes	29.2	63.2

7. Administrative expenses

	2023	2022
	£m	£m
Administration and processing costs	3.9	4.6
Actuarial fees	0.5	0.3
Audit fees	0.3	0.2
Pension levies	0.3	0.2
Legal and other professional fees	0.5	0.4
	<u>5.5</u>	<u>5.7</u>

Fees payable by the Fund to the Society for services rendered are included in the total for administration and processing costs and totalled £0.03m (2022: £0.02m). Audit fees include both external (Grant Thornton UK LLP) £0.1m (2022: £0.1m) and internal (Deloitte LLP) £0.2m (2022: £0.1m) audit services.

Trustee directors who are not employees of the Society are able to receive remuneration for their services. Trustee fees of £0.3m (2022: £0.2m) relating to the Fund year are included in the total for administration and processing costs.

8. Investment income

	2023	2022
	£m	£m
Interest on fixed interest securities	41.4	36.5
Interest on index-linked securities	8.1	7.6
Income from pooled investment vehicles	56.3	48.0
Interest on swaps	5.5	4.3
Net rental income	8.6	10.6
Income from annuities	6.7	0.6
Net income on cash deposits	(3.7)	0.3
Loss on settlement of an Option	-	(50.3)
Net interest on repurchase agreements	(19.9)	(3.5)
	<u>103.0</u>	<u>54.1</u>

Net income on cash deposits in 2023 includes debit interest of £3.7m in respect of the short-term Nationwide Building Society Loan.

The 2022 figures include a £50.3m debit due to loss on settlement of an over the counter (OTC) Options contract and the corresponding collateral movement. There was no such debit in 2023.

NOTES TO THE FINANCIAL STATEMENTS - continued

The increase in interest expense in 2023 is due to the underlying increase in the Bank of England base interest rate.

Income from annuities is received from insurance companies in respect of policies purchased for certain pensioners. The income is used to provide part of the pensions for these individuals. The income from the C&D buy-in insurance policy has increased this year as only one payment was received in the prior year due to the policy being implemented in February 2022.

9. Investment management expenses

	2023	2022
	£m	£m
Administration, management, and custody	35.8	40.0
Investment consultancy fees	1.0	0.8
Investment services provided by the Society	1.0	0.8
	<u>37.8</u>	<u>41.6</u>

Investment management expenses include fees of £32.2m (2022: £33.6m) that have been deducted directly from investment holdings, as described in Note 11.

10. Fair value determination

The investments have been analysed according to the following valuation hierarchy:

Level 1	The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date. Cash and government bonds fall in this level.
Level 2	Inputs other than quoted prices included within Level 1 that are observable (i.e., developed using market data) for the asset or liability, either directly or indirectly. This applies to pooled funds, which are open ended, priced frequently and have no significant redemption restriction under normal business conditions, and bonds which are valued on an average of broker quotes.
Level 3	Inputs are unobservable (i.e., for which market data is unavailable) for the asset or liability. This applies to closed ended pooled arrangements, for example the private market investments.

NOTES TO THE FINANCIAL STATEMENTS – continued

The Fund's investments have been analysed using the above hierarchy levels as follows:

	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
At 31 March 2023				
Fixed interest securities	1,463.8	0.1	-	1,463.9
Index linked securities	1,813.3	-	-	1,813.3
Pooled investment vehicles	-	325.9	2,195.8	2,521.7
Derivatives	-	(44.2)	-	(44.2)
Property	-	-	153.8	153.8
Annuity investments	-	-	123.9	123.9
AVC/Bonus Saver investments	-	-	10.6	10.6
Cash	(11.2)	-	-	(11.2)
Repurchase and reverse repurchase agreements	-	(775.3)	-	(775.3)
Other investment balances	0.4	(0.3)	(2.3)	(2.2)
	<u>3,266.3</u>	<u>(493.8)</u>	<u>2,481.8</u>	<u>5,254.3</u>
At 31 March 2022				
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Fixed interest securities	1,788.4	0.1	-	1,788.5
Index linked securities	2,963.1	-	-	2,963.1
Pooled investment vehicles	-	1,728.2	1,959.9	3,688.1
Derivatives	8.7	67.8	-	76.5
Property	-	-	198.3	198.3
Annuity investments	-	-	159.9	159.9
AVC/Bonus Saver investments	-	-	12.3	12.3
Cash	(4.5)	-	-	(4.5)
Repurchase and reverse repurchase agreements	-	(1,555.2)	-	(1,555.2)
Other investment balances	0.1	5.3	(2.0)	3.4
	<u>4,755.8</u>	<u>246.2</u>	<u>2,328.4</u>	<u>7,330.4</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

11. Change in market value of investments

Movements in total net investments during the year were:

	Value at 31 March 2022	Cost of purchases and derivative payments	Sales proceeds and derivative receipts	Change in Market Value	Value at 31 March 2023
	£m	£m	£m	£m	£m
Fixed interest securities	1,788.5	300.2	(81.3)	(543.5)	1,463.9
Index linked securities	2,963.1	303.8	(319.9)	(1,133.7)	1,813.3
Pooled investment vehicles	3,688.1	3,621.7	(4,673.0)	(115.1)	2,521.7
Derivatives	76.5	95.7	(100.2)	(116.2)	(44.2)
Property	198.3	-	(16.8)	(27.7)	153.8
Annuity investments	159.9	-	-	(36.0)	123.9
AVC/Bonus Saver investments	12.3	0.2	(1.3)	(0.6)	10.6
	<u>8,886.7</u>	<u>4,330.5</u>	<u>(5,201.4)</u>	<u>(1,972.8)</u>	<u>6,043.0</u>
Cash and other investment balances	(1,556.3)			(0.5)	(788.7)
	<u>7,330.4</u>			<u>(1,973.3)</u>	<u>5,254.3</u>

Transitions

Most of the purchases and sales reflect a focus on improving the matching risk throughout the year and maintaining sufficient liquidity to meet short term cashflow requirements. This has been achieved by the net increase of £219m in fixed interest securities and the decrease in the repurchase agreement liability of £620m (included in 'cash and other investment balances'). Within pooled investment vehicles, a net total of £1,051m has been disinvested, which has funded the matching assets mentioned above and cashflow requirements.

During Q4 2022, two short-term loans totalling £400m were provided from the Society to the Fund. This was held by the LDI manager to provide an increased collateral pool whilst gilt yields were rising steeply. The existing collateral proved sufficient and market volatility subsequently eased. These loans were repaid in full in November 2022 and January 2023 along with interest of £3.7m.

The figures for pooled investment vehicles above in the purchases and sales columns include switches of £4.6m.

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 £32.2m during the year (2022: £33.6m) from holdings of pooled investment vehicles. Those fees have been charged as investment management expenses (Note 9) and the 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.

NOTES TO THE FINANCIAL STATEMENTS - continuedCapital commitments

As at 31 March 2023 the Fund was committed to providing further investment funding totalling £968m (2022: £1,039m) if called upon to do so.

12. Transaction costs

Transaction costs are included in the cost of purchases and sale proceeds. They include costs charged directly to the Fund such as fees, commissions, and stamp duty.

Transaction costs analysed by main asset class and type of cost are as follows:

	Commission £m	Levies, stamp duty and taxes £m	Total £m
2023			
Property	1.7	-	1.7
2022			
Property	2.5	-	2.5

In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Fund Managers to provide the information for the Trustee to quantify such indirect transaction costs.

13. Pooled investment vehicles

At the year-end, the Fund's investments in pooled investment vehicles comprised:

	2023 £m	2022 £m
Bond funds	177.3	756.5
Equity funds	15.0	653.8
Property funds	555.2	601.2
Private market funds	1,640.6	1,495.6
Liquidity funds	133.6	181.0
	<u>2,521.7</u>	<u>3,688.1</u>

Of the above investments, £2,416.8m (2022: £3,532.9m) was held in the Nationwide Section and £104.9m (2022: £155.2m) in the C&D Section.

NATIONWIDE PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS - continued

Qualifying Investment Fund

Until January 2023, the Fund was the sole investor in a Legal & General Synthetic Equity Fund that is included in the equity funds in the table above. This is a Qualifying Investment Fund ('QIF') which is a particular type of investment fund regulated by the Central Bank of Ireland.

The underlying assets of the QIF were:

	2023 £m	2022 £m
Fixed interest securities	-	96.9
Total return swap assets	-	15.2
Foreign exchange contracts assets	-	467.0
Foreign exchange contracts liabilities	-	(470.4)
Cash and cash equivalents	-	87.6
	<u>-</u>	<u>196.3</u>

The Fund is no longer invested in the QIF.

Total return swaps held in the QIF at the year-end were as follows:

	Nominal amount £m	Market value asset £m	Market value liability £m
At 31 March 2023	-	-	-
At 31 March 2022	245.1	15.2	-

All of these contracts expired prior to 31 March 2023. Collateral in the form of cash in place at the year-end in respect of the swaps was as follows:

	2023 £m	2022 £m
Collateral held (pledged from third parties)	-	16.6
Collateral pledged to third parties	-	(1.4)

The forward foreign exchange contracts held in the QIF at the year-end were as follows:

Currency	Net sale/(purchase) value at inception £m	Market value asset £m	Market value liability £m
EUR	-	-	-
GBP	-	-	-
JPY	-	-	-
USD	-	-	-
At 31 March 2023	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2022	<u>(3.5)</u>	<u>467.0</u>	<u>(470.4)</u>

NOTES TO THE FINANCIAL STATEMENTS - continued**Limited partnerships**

The Fund owns two limited partnerships which hold a proportion of the Fund's property investments. The limited partnerships are not consolidated into the Fund financial statements as the statutory framework for pension scheme financial reporting does not require consolidation. The limited partnerships are accounted for at fair value and the Fund's 100% share of the partnerships is included in the property pooled investment vehicles in the table above.

A summary of the aggregate net assets of the limited partnerships has been provided below:

	2023 £m	2022 £m
Investment property	176.9	201.0
Debtors: amounts falling due within one year	1.6	1.9
Cash at bank	3.5	2.2
Creditors: amounts falling due within one year	<u>(1.9)</u>	<u>(1.8)</u>
Net assets of limited partnerships	<u>180.1</u>	<u>203.3</u>

14. Derivatives

The Trustee has authorised the use of derivatives by its investment managers in line with the terms of their specific investment mandate and as part of the investment strategy of the Fund. Such use of derivatives can cover a range of instruments and purposes and includes, but is not limited to, the three following examples of derivative use and purpose:-

Futures: the Trustee did not want cash held to be 'out of the market' and therefore bought exchange traded index-based futures contracts which had an underlying economic value broadly equivalent to cash held.

Swaps: the Trustee's aim is to match as far as possible the Liability Driven Investment ('LDI') portfolio and the Fund's long-term liabilities, in particular in relation to their sensitivities to interest rate movements. Due to the lack of available long-dated bonds the Trustee has entered over the counter ('OTC') interest rate swaps during the year that extend the duration of the fixed income portfolio to better match the long-term liabilities of the Fund.

Forward foreign exchange: in order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns, a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in GBP, a currency hedging programme using forward exchange contracts has been put in place to reduce the currency exposure of these overseas investments to the targeted level.

NOTES TO THE FINANCIAL STATEMENTS – continued

	Assets £m	2023 Liabilities £m	Assets £m	2022 Liabilities £m
Futures	-	-	8.7	-
Swaps	186.8	(231.7)	166.0	(95.7)
Forward foreign exchange	0.7	-	0.1	(2.6)
	<u>187.5</u>	<u>(231.7)</u>	<u>174.8</u>	<u>(98.3)</u>

Futures

Underlying Investment	Expiration	Economic exposure (long) £m	Economic exposure (short) £m	Market value asset £m	Market value liability £m
UK equities	Less than 1 year	-	-	-	-
Overseas equities	Less than 1 year	-	-	-	-
	At 31 March 2023	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	At 31 March 2022	<u>167.3</u>	<u>-</u>	<u>8.7</u>	<u>-</u>

Futures are exchange-traded derivatives and are used to obtain better exposure to underlying investments, enhance investment returns and manage risk. The economic exposure represents the notional value of stock purchased under the futures contract and therefore the value is subject to market movements.

Swaps

Nature	Expiration	Notional principal £m	Market value asset £m	Market value liability £m
Interest rate swaps	Less than 1 year	260.0	-	(2.4)
	Between 1 and 5 years	372.8	-	(28.5)
	Between 5 and 10 years	471.4	1.8	(89.5)
	Between 10 and 20 years	189.5	3.6	(54.6)
	Between 20 and 30 years	58.6	-	(22.5)
	Between 30 and 40 years	43.1	-	(19.5)
	Between 40 and 50 years	26.2	-	(13.7)
		<u>1,421.7</u>	<u>5.4</u>	<u>(230.7)</u>

NOTES TO THE FINANCIAL STATEMENTS – continued

Swaps (continued)

Nature	Expiration	Notional principal £m	Market value asset £m	Market value liability £m
Inflation rate swaps	Less than 1 year	15.8	7.0	(0.3)
	Between 1 and 5 years	194.6	35.1	(0.7)
	Between 5 and 10 years	310.7	58.3	-
	Between 10 and 20 years	432.3	63.3	-
	Between 20 and 30 years	11.2	1.4	-
	Between 30 and 40 years	5.5	1.0	-
	Between 40 and 50 years	2.3	0.7	-
		<u>972.4</u>	<u>166.8</u>	<u>(1.0)</u>
Total return swaps	Between 30 to 40 years	126.4	14.6	-
	At 31 March 2023	<u>(322.9)</u>	<u>186.8</u>	<u>(231.7)</u>
	At 31 March 2022	<u>2,822.6</u>	<u>166.0</u>	<u>(95.7)</u>

Inflation swaps, interest rate swaps and total return swaps are used to manage risk and match the Fund's long-term liabilities, especially in relation to their sensitivities to movements in inflation. The notional principal of the swap is the amount used to determine the value of the swapped receipts and payments.

Collateral, in the form of government bonds and cash, in place at the year end in respect of swaps was as follows:

	2023 £m	2022 £m
Collateral pledged to third parties	136.7	43.8
Collateral held from third parties	<u>78.4</u>	<u>85.1</u>

Forward Foreign Exchange Contracts

	Currency	Gross sale/(purchase) value at inception £m	Market value asset £m	Market value liability £m
Currency bought	US Dollar	(2.9)	-	-
Currency sold	US Dollar	328.6	0.7	-
	Euro	-	-	-
	Other	-	-	-
	At 31 March 2023	<u>325.7</u>	<u>0.7</u>	<u>-</u>
	At 31 March 2022	<u>125.8</u>	<u>0.1</u>	<u>(2.6)</u>

All forward foreign exchange contracts held at the year-end were OTC contracts to be settled within three months of the year end. Further details have been provided in Note 20.

NOTES TO THE FINANCIAL STATEMENTS - continued

15. Property

	2023	2022
	£m	£m
Freehold property	<u>153.8</u>	<u>198.3</u>

The Fund holds a number of interests in UK properties. The properties are illiquid as they would take between three and twelve months to find a suitable buyer.

All commercial leaseholders are responsible for repairs and maintenance and dilapidations. For residential flat leaseholders there is a service charge to cover repairs and maintenance to the building. The Fund manages its properties in line with its Ethical Landlord policy.

The Trustee appointed Knight Frank as an independent expert to independently value investment property. Assets included above are at fair value as at 31 March 2023. The Trustee has used the independent expert's report to determine the fair value of investment property as at the year end.

16. Annuity investments

Annuity investments represent an actuarial valuation of investments providing the annuity income received by the Fund to cover pensions paid to certain members.

	2023	2022
	£m	£m
Buy-in policy – Canada Life	123.5	159.4
Annuities investments	0.4	0.5
	<u>123.9</u>	<u>159.9</u>

17. Cash and other investment balances

	2023	2022
Assets	£m	£m
Cash	8.9	-
Accrued income	0.9	5.6
Pending sales	0.8	-
	<u>10.6</u>	<u>5.6</u>
Liabilities		
Cash	(20.1)	(4.5)
Accrued income	(3.0)	-
Accrued expenses	(0.9)	(2.2)
Amounts due under repurchase agreements	<u>(775.3)</u>	<u>(1,555.2)</u>
	<u>(799.3)</u>	<u>(1,561.9)</u>
Net cash and other investment balances	<u>(788.7)</u>	<u>(1,556.3)</u>

The cash liabilities at the year-end above represent the overdrawn investment cash accounts. Net cash was negative as at 31 March 2023 £11.2m (2022: £4.5m) due to cash of £17.5m (2022: £23.0m) being deposited with Goldman Sachs Central Counterparty Clearing House within the Insight LDI Fund.

NOTES TO THE FINANCIAL STATEMENTS – continued

18. AVC and Bonus Saver investments

Aggregate amounts of AVC and Bonus Saver investments were:

		2023 £m	2022 £m
AVCs	Aviva	0.1	0.1
	Fidelity Pensions Management	7.6	8.8
	Prudential Assurance Company	1.2	1.3
		<u>8.9</u>	<u>10.2</u>
Bonus Savers	Fidelity Pensions Management	1.7	2.0
	Prudential Assurance Company	-	0.1
		<u>1.7</u>	<u>2.1</u>
		<u>10.6</u>	<u>12.3</u>

Small balances (less than £0.1m) are held with Zurich Assurance Ltd (in respect of AVCs and Bonus Savers).

The Trustee holds AVC and Bonus Saver 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.

19. Repurchase and reverse repurchase agreements

The Fund has entered into repurchase agreements using its UK government bonds 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 2023, the market value of securities sold under repurchase agreements was £662.7m (2022: £1,483.9m).

Cash received from counterparties in respect of the securities that have been sold has been used by the Fund to increase its matching assets portfolio, although the repurchase arrangements are fungible and are not linked to specific assets. Amounts payable to counterparties under repurchase agreements are disclosed as liabilities in the Fund's financial statements under investment liabilities. At 31 March 2023 this amounted to £786.4m (2022: £1,557.5m) including £11.1m (2022: £2.2m) accrued interest.

At 31 March 2023 there was collateral pledged and held in the form of index-linked bonds of £121.5m (2022: £210.7m) and £0.7m (2022: £nil) respectively against the difference in valuation between the underlying securities and the repurchase agreements.

NOTES TO THE FINANCIAL STATEMENTS - continued

20. Investment risks

Credit risk is the risk of loss as a result of a counterparty failing to meet their financial obligations.

Market risk includes currency risk, interest rate risk and other price risk, as explained below:

- Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
- Interest risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
- Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines its investment strategy after taking advice from the investment consultant. The Fund has exposure to these risks because of the investments it makes in executing its investment strategy. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Fund's investment objectives, and by taking collateral. These investment objectives and risk limits are implemented through the investment management agreements in place with the Fund's investment managers, reviewed by the Chief Investment Officer ('CIO') and monitored by the Investment Funding Committee ('IFC') via regular reviews of the investment portfolio.

Further information on the Trustee's approach to risk management, credit and market risk is set out below. This does not include AVC or Bonus Saver investments as these are not considered significant in relation to the overall investments of the Fund.

The investment objective of both sections of the Fund is set out under Investment Objectives and Strategy on page 13.

The Nationwide Section

For the Nationwide Section investment strategy, 50%-80% of net investments are to be made in matching assets that will broadly move in line with the long-term liabilities of the Section. These comprise UK government and corporate bonds, inflation and interest rate swaps, long lease property and ground rents.

The purpose of holding these assets is to maintain a hedge against the impact of interest rate and inflation movements of up to 100% of the Fund's assets. In the long-term the aim is to move towards hedging 100% of the Trustee Funding Target, as the funding level converges with this target.

NOTES TO THE FINANCIAL STATEMENTS - continued

In addition, 20-50% of the net investments are to be invested in return-seeking investments comprising global equities, equity futures, investment property, credit, and debt investments, private equity, and infrastructure investments. Both matching and return-seeking assets, which total £5,687.0m (2022: £8,425.6m), are supported by using repurchase agreements to provide cash that can acquire additional matching assets, which along with other cash and derivatives decrease net assets to £5,015.2m (2022: £7,003.6m).

The Trustee considers the asset classes and investment risks in line with matching and return-seeking terms. The investment strategy and its attendant risks are best explained in this context.

An analysis of the investments held in the Nationwide Section by the different strategies is provided below:

Asset Class	Segregated £m	Pooled £m	2023 Total £m	2022 Total £m
Matching Assets				
Government and Supranational Bonds ¹	3,277.1	-	3,277.1	4,751.5
Alternative Matching Assets:				
Long Lease Property	140.1	176.8	316.9	348.9
LP Property	-	180.1	180.1	203.3
Cash	(17.4)	30.1	12.7	(7.8)
Derivatives	(44.9)	-	(44.9)	70.3
Other assets/liabilities	(2.6)	-	(2.6)	4.5
Total Matching Assets	3,352.3	387.0	3,739.3	5,370.7
Return Seeking Assets				
Equities	-	-	-	642.5
Corporate Bonds	0.1	88.4	88.5	613.7
Private Markets				
Infrastructure	-	226.6	226.6	304.2
Property	13.7	198.4	212.1	247.2
Private & Property Debt	-	616.9	616.9	472.2
Private Equity	-	797.0	797.0	719.2
Cash	6.2	-	6.2	47.8
Derivatives	-	-	-	8.6
Other assets/liabilities	0.4	-	0.4	(0.5)
Total Return Seeking Assets	20.4	1,927.3	1,947.7	3,054.9
Cash and Leverage/Derivatives				
Cash		102.4	102.4	135.6
Other Derivatives	0.7	-	0.7	(2.4)
Other	0.4	-	0.4	-
Net Repurchase Agreements	(775.3)	-	(775.3)	(1,555.2)
Total Other Assets and Liabilities	(774.2)	102.4	(671.8)	(1,422.0)
Total Net Assets (excluding AVCs)	2,598.5	2,416.7	5,015.2	7,003.6

¹ The value of bonds in Matching Assets has decreased since last year due to increasing inflation causing global interest rates to rise and hence the value of fixed rate assets, such as gilts, to fall.

NOTES TO THE FINANCIAL STATEMENTS - continued

Matching Assets

The Trustee has set an allocation target for total investment in matching assets of between 50%-80% of the total investment portfolio as part of the matching asset investment strategy. As at 31 March 2023 the matching asset portfolio of £3,739.3m (2022: £5,370.1m) represented 75% of the total net investment portfolio (2022: 77%). Adjusting for repurchase agreements means the matching asset portfolio nets down to 57% which is within the ranges set for the portfolio, but it will vary depending on normal market/interest rate movements.

Interest Rate Risk

The Nationwide Section is subject to interest rate risk through its investments in bonds, long lease property, ground rents, interest rate swaps and cash, either as segregated investments or as pooled funds and derivative contracts, as set out in the table above. However, these assets are held as part of the matching assets strategy to mitigate liability risk because of their sensitivity to interest rates, so if interest rates fall the value of the matching assets will rise to help match the resulting increase in actuarial liabilities. Similarly, if interest rates rise the matching asset investments will fall in value as will the actuarial liabilities.

The Trustee has a strategy to maintain an interest rate hedge of up to 100% of assets. At 31 March 2023, the interest rate hedge ratio was 100% (2022: 100%).

Inflation Risk

The Nationwide Section is subject to inflation risk through its investments in the segregated index-linked securities (as per Note 10), long lease property and ground rents, either as segregated investments or as pooled funds, as shown in the table above, and inflation swaps (as per Note 14). The long lease property assets and ground rent investments are only partial hedges for inflation as the income streams they generate are uplifted at set periods and not annually. However, these assets are held as part of the matching assets strategy to mitigate liability risk because of their sensitivity to inflation. If inflation rises the value of the matching assets will rise to help match the increase in actuarial liabilities. Similarly, if inflation falls the matching asset investments will also fall in value as will the actuarial liabilities. The Trustee has a strategy to maintain an inflation hedge of up to 100% of assets. At 31 March 2023, the inflation rate hedge was 100% (2022: 100%).

Return Seeking Assets

The year-end allocation to return seeking assets of £1,947.7m (2022: £3,054.9m) was 39% (2022: 43%), within the range set under the strategic asset allocation. The allocation will vary depending on normal market movements and the SIP allows for the Trustee to make short term allocations that move beyond these ranges.

Interest Rate Risk

In the Return Seeking Assets, the segregated bonds and cash and a proportion of the private and property debt, and private equity funds, as shown in the table above are also exposed to interest rate risk. The investment managers will consider the risk and expected reward when determining which investments to invest in.

All Nationwide Section Assets

Currency Risk

The Nationwide Section operates a global investment strategy and therefore is subject to currency risk across a broad range of investments. The Trustee manages this in a variety of ways.

- Non-UK bonds included in the return seeking assets are hedged 100% for currency purposes through investment in sterling share classes where the fund manager hedges the position.
- Generally, limited currency hedging is undertaken for overseas private equity, infrastructure, and property investments as the cost can be expensive due to the timing and quantity of the realisation of these very illiquid investments being unknown.

NOTES TO THE FINANCIAL STATEMENTS – continued

Other Price Risk

The Nationwide Section is subject to other price risk principally in relation to its return-seeking portfolio which includes equity and private market funds, as shown in the table above, and futures (Note 14). The derivatives holdings include exposure to a synthetic equity pooled fund that uses total return swaps to obtain equity exposure.

Other price risk varies depending on the particular market. In addition, the Trustee uses repurchase arrangements as part of its investment strategy, which has some re-pricing risk.

The Trustee manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets it accesses.

Credit Risk

The Nationwide Section is subject to credit risk because it directly invests in bonds and over the counter ('OTC') derivatives, has cash balances and enters into repurchase agreements. It also invests in pooled investment vehicles, in which it is directly exposed to credit risk, and is indirectly exposed to credit risks arising on the financial instruments held by the private debt and property debt funds.

Credit risk arising on bonds and loans held directly is mitigated by investing in government and supranational bonds where the credit risk is minimal. Credit risk arising on bonds or loans held indirectly through segregated or pooled accounts is mitigated by:

- bonds which are rated at least investment grade, and
- investment mandates that specify the type of bonds that can be held; these mandates have been subject to due diligence of the fund manager before any investment was made to ensure that the expected return of the investments was commensurate with their expected credit risk, and
- investment in unrated loans that are secured either on commercial real estate or on the assets of a business; the expected return from these loans is commensurate with the expected credit risk.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Section is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements (see Note 14). Credit risk also arises on forward foreign currency contracts which are collateralised with cash for margin calls. Where collateral is not posted all counterparties are required to be at least investment grade.

Cash is held within financial institutions which are at least investment grade credit rated.

Credit risk on repurchase and reverse repurchase agreements is mitigated through the use of a range of collateral arrangements as disclosed in Note 19.

Pooled Funds

Pooled funds are generally unrated due to the nature of the investment. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of the pooled manager.

Pooled investment arrangements used by the Fund comprise £599.4m (2022: £1,862.2m) unit-linked insurance contracts and £1,817.3m (2022: £1,670.7m) limited partnership arrangements.

NOTES TO THE FINANCIAL STATEMENTS – continued

Indirect credit risk arises in relation to underlying investments held in pooled investment vehicles. This includes bonds, secured loan arrangements and the Qualifying Investment Funds. The investment managers will consider the risk and expected reward when determining which investments to invest in. This was the case at the current and preceding year end.

C&D Section

For the C&D Section the investment strategy currently seeks to invest: -

- 90%-95% of its investments into Matching Assets, which comprise a bulk annuity, UK government and corporate bonds, that will broadly move in line with the long-term liabilities of the Section. The purpose of holding these assets is to hedge against the impact of interest rate and inflation movements on long-term liabilities, as well as hedge some of the Section's longevity risk through the bulk annuity. As at 31 March 2023 the bond funds represented 39% (2022: 87%) of the total investment portfolio based on the fair value of the investments, the material change reflects the purchase of the bulk annuity with Canada Life which represents 54% of Section assets.
- In addition, the Section has set a target asset allocation of 5%-10% of investments being held in return seeking assets. As at the year end this allocation was 7% which will vary depending on normal market/interest rate movements.

Asset Class	2023 Total £m	2022 Total £m
Matching Assets		
Bond funds	90.0	135.3
Insurance policy	123.5	159.4
Return Seeking Assets		
World equity fund	14.9	19.9
Total Net Assets (excluding AVCs)	228.4	314.6

Credit Risk and Pooled Funds

The C&D Section is subject to credit risk because it invests in pooled investment vehicles, in which it is directly exposed to credit risk, and is indirectly exposed to credit risk arising on the financial instruments held by the vehicles.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee monitors any changes to the operating environment of Legal & General (the investment manager for the Section) on an ongoing basis, with the assistance of its investment advisers.

Pooled investment arrangements used by the Section comprise unit-linked insurance contracts in the current and previous year.

There is also direct credit risk associated with the Fund's insured bulk annuity policy as it is exposed to the solvency of the insurer, which the Trustee considered before the policy was taken out. This risk is mitigated by the regulatory environment in which the insurer operates and the diversification of the policy's underlying assets.

NOTES TO THE FINANCIAL STATEMENTS – continued

Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicles as shown in the table above. This is mitigated by only investing in bonds that are at least investment grade. This was the position at the current and preceding year end.

Currency Risk

The C&D Section is only exposed to currency risk through the world equity fund exposure, as shown in the table above. However, this is mitigated by investment in a sterling share class where the fund manager hedges the underlying currency risk.

Interest and Inflation Rate Risk

The C&D Section is subject to interest and inflation rate risk because of its investments in bonds, through pooled bond funds, as shown above. However, these assets are held because of their sensitivity to interest and inflation rates in order to mitigate liability risk.

Longevity Risk

The C&D Section is subject to longevity risk because the value of pension liabilities could increase if UK life expectancy were to rise. To reduce this risk, the Trustee has purchased a bulk annuity contract which hedges the risks, including longevity risk, that are associated with some of the retired members of the section.

Other Price Risk

For the C&D Section, other price risk arises principally in relation to the world equity fund, as shown above.

21. Current assets and liabilities

	2023	2022
	£m	£m
Current assets		
Cash balances	10.5	18.1
Prepaid benefits	0.8	-
Due from C&D Section	0.1	-
	<u>11.4</u>	<u>18.1</u>
Current liabilities		
Unpaid benefits	(1.7)	(1.0)
Accrued expenses	(1.9)	(1.5)
Amounts outstanding with the Society	(0.4)	(1.0)
Due to NW Section	(0.1)	-
	<u>(4.1)</u>	<u>(3.5)</u>

NOTES TO THE FINANCIAL STATEMENTS – continued

22. Related party transactions

There were no reimbursements to the Society of pensions payments in the year ended March 2023; details of such payments in the year ended March 2022 are disclosed in Note 5.

Included in administrative expenses and investment management expenses are fees charged to the Fund from the Society, as disclosed in Notes 7 and 9, respectively.

Of these, accrued expenses at the end of the financial year included £nil (2022: £0.8m) in respect of administrative expenses and £0.4m (2022: £0.7m) in respect of investment management expenses.

During Q4 2022, two short-term loans totalling £400m were provided from the Society to the Fund. This money was held by the LDI manager to provide an increased collateral pool whilst gilt yields were rising steeply. Existing collateral proved sufficient and market volatility subsequently eased. The loans were repaid in two tranches, first £110m in November 2022 with interest of £0.3m and remaining loan of £290m was repaid in January 2023 with interest of £3.4m. Interest and other loan terms were provided on an arms-length basis.

Trustee Directors Arthur Amos, John Wriighthouse, Pete Corrie, and Mark Hedges are in receipt of pension benefits from the Fund. As Member Nominated Directors not employed by the Society, Arthur Amos, John Wriighthouse, Pete Corrie, and Rob Goldspink are remunerated for their services from the Fund. Independent Trustees' BESTrustees Ltd represented by Catherine Redmond and GHG Services Ltd represented by Mark Hedges are also remunerated for their services. Details of aggregate Trustee Director remuneration is provided in Note 7. Related party accrued fees and expenses were less than £0.1m (2022: less than £0.1m).

There were no employer-related investments during the Fund year, either directly or in pooled funds.

23. Subsequent Events

Following the year end, insurance policies were executed on behalf of the Nationwide Section to reduce the Fund's longevity risk. The policies, which were arranged with the full support of the Nationwide Building Society, insure the Fund against the risk that current pensioners and their dependants live longer than expected. This provides the Trustee with greater certainty over future funding costs and improves the security of members benefits.

24. Concentration of Investments

There have been no individual investments greater than 5% of the Fund net assets (other than UK Government Securities).

25. Contingent Liabilities

The Virgin Media Ltd v NTL Pension Trustees II decision, handed down by the High Court on 16 June 2023, considered the implications of section 37 of the Pension Schemes Act 1993. We do not know at this stage whether the case will be appealed but as matters stand, the case has the potential to cause significant issues in the pensions industry. The Trustees will investigate the possible implications with their advisers, but it is not possible at present to estimate the potential impact, if any, on the Fund.

NOTES TO THE FINANCIAL STATEMENTS – continued

**26. Nationwide Section:
Fund Account for the year ended 31 March 2023**

	2023 £m	2022 £m
Contributions and benefits		
Employer contributions receivable	-	0.1
Member contributions receivable	-	-
	<u>-</u>	<u>0.1</u>
Benefits payable	(133.1)	(118.3)
Payments to and on account of leavers	(28.8)	(58.5)
Administrative expenses	(5.1)	(5.0)
	<u>(167.0)</u>	<u>(181.8)</u>
Net withdrawals from dealings with members	<u>(167.0)</u>	<u>(181.7)</u>
Returns on investments		
Investment income	96.4	53.6
Change in market value of investments	(1,889.8)	557.6
Investment management expenses	(37.7)	(41.3)
Net (losses) / returns on investments	<u>(1,831.1)</u>	<u>569.9</u>
Net (decrease) / increase in the Section during the year	<u>(1,998.1)</u>	<u>388.2</u>
Net assets of the Section		
At the beginning of the year	7,026.7	6,638.5
At the end of the year	<u>5,028.6</u>	<u>7,026.7</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

27. Nationwide Section:

Statement of Net Assets (Available for Benefits) as at 31 March 2023

	2023 £m	2022 £m
Investment assets and liabilities		
Assets		
Fixed interest securities	1,463.9	1,788.5
Index linked securities	1,813.3	2,963.1
Pooled investment vehicles	2,416.8	3,532.9
Derivatives	187.5	174.8
Property	153.8	198.3
Annuity investments	0.4	0.5
Cash	8.9	-
Other investment balances	1.7	5.6
AVC & Bonus Saver investments	10.5	12.2
	6,056.8	8,675.9
Liabilities		
Derivatives	(231.7)	(98.3)
Cash	(20.1)	(4.5)
Amounts due under repurchase agreements	(775.3)	(1,555.2)
Other investment balances	(3.9)	(2.1)
	(1,031.0)	(1,660.1)
Total net investments	5,025.8	7,015.8
Current assets and liabilities		
Current assets	6.7	13.7
Current liabilities	(3.9)	(2.8)
	2.8	10.9
Net Assets of the Section at 31 March	5,028.6	7,026.7

NOTES TO THE FINANCIAL STATEMENTS – continued

28. C&D Section: Fund Account for the year ended 31 March 2023

	2023 £m	2022 £m
Contributions and benefits		
Benefits payable	(7.5)	(7.1)
Payments to and on account of leavers	(0.4)	(4.7)
Administrative expenses	(0.4)	(0.7)
	<u>(8.3)</u>	<u>(12.5)</u>
Net withdrawals from dealings with members	<u>(8.3)</u>	<u>(12.5)</u>
Returns on investments		
Investment income	6.6	0.5
Change in market value of investments	(83.5)	(8.2)
Investment management expenses	(0.1)	(0.3)
Net losses on investments	<u>(77.0)</u>	<u>(8.0)</u>
Net decrease in the Section during the year	(85.3)	(20.5)
Net assets of the Section		
At the beginning of the year	318.3	338.8
At the end of the year	<u>233.0</u>	<u>318.3</u>

29. C&D Section: Statement of Net Assets (Available for Benefits) as at 31 March 2023

	2023 £m	2022 £m
Investment assets and liabilities		
Assets		
Insurance policies	123.5	159.4
Pooled investment vehicles	104.9	155.2
AVC investments	0.1	0.1
	<u>228.5</u>	<u>314.7</u>
Liabilities		
Other investment balances	<u>-</u>	<u>(0.1)</u>
Total net investments	<u>228.5</u>	<u>314.6</u>
Current assets and liabilities		
Current assets	4.7	4.4
Current liabilities	(0.2)	(0.7)
	<u>4.5</u>	<u>3.7</u>
Net Assets of the Section at 31 March	<u>233.0</u>	<u>318.3</u>

NATIONWIDE PENSION FUND

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF THE NATIONWIDE PENSION FUND

We have examined the summary of contributions to the Nationwide Pension Fund (the 'Fund') for the Fund year ended 31 March 2023 which is set out on the following page.

In our opinion, contributions for the Fund year ended 31 March 2023 as reported in the Summary of Contributions and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the fund actuary on 9 September 2020 and 22 March 2023 for the Nationwide section and 23 January 2020 and 22 March 2023 for the C&D Section.

Scope of work on statement about 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 Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Fund and the timing of those payments under the Schedule of Contributions.

Respective responsibilities of Trustee and the auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 20, the Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, Schedules of Contributions and for monitoring whether contributions are made to the fund by the employer in accordance with the Schedules of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedules of Contributions and to report our opinion to you.

Use of our statement

This statement is made solely to the Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Trustee those matters we are required to state to them 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 Trustee as a body, for our work, for this statement, or for the opinions we have formed.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

NATIONWIDE PENSION FUND

SUMMARY OF CONTRIBUTIONS PAYABLE DURING THE FUND YEAR ENDED 31 MARCH 2023

There were no contributions payable to the Fund by the employer under the Schedules of Contributions in respect of the year ended 31 March 2023.

Signed on behalf of the Trustee on

by:

Catherine Redmond, BESTrustee Limited
Trustee Director

Rob Goldspink
Trustee Director

Certification of schedule of contributions

Nationwide Pension Fund – Nationwide Section

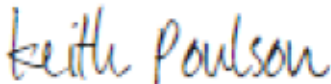
Adequacy of rates of contributions

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 31 March 2022 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 20 March 2023.

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: 22 March 2023

Name: Keith Poulson

Qualification: Fellow of the Institute and Faculty of Actuaries

Address: Verulam Point
Station Road
St Albans
AL1 5HE

Name of employer: Aon Solutions UK Limited

Certification of schedule of contributions

Nationwide Pension Fund – Cheshire & Derbyshire Section

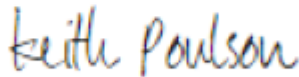
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Signature:

Date:

22 March 2023

Name:

Keith Poulson

Qualification:

Fellow of the Institute and
Faculty of Actuaries

Address:

Verulam Point
Station Road
St Albans
AL1 5HE

Name of employer: Aon Solutions UK Limited