

Nationwide Pension Fund Annual Implementation Statement

31 March 2021

Nationwide
Pension Fund

The Nationwide Pension Fund (the “Fund”) Annual Implementation Statement

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations (“the Regulations”). The Regulations amongst other things require that the Trustee outlines how it has ensured that the policies and objectives relating to voting and engagement policies set out in its Statement of Investment Principles (“SIP”) have been adhered to over the course of the year.

This is the first implementation statement the Trustee has prepared and covers the year ending 31 March 2021.

This statement sets out the actions undertaken by the Trustee, the service providers and investment managers, to implement the policies as set out in the SIP and includes voting and engagement information provided by the managers. The Trustee is only required to report whether, in its opinion, its policies on voting and engagement have been met in the period. However, the Trustee has chosen to report more generally on compliance with the SIP given the importance of this aspect of the Fund’s governance.

The Trustee must include the Implementation Statement in the Trustee’s Report & Accounts and publish this on a publicly available website. Both the latest version of the SIP, which includes the voting and engagement policies, the Responsible Investing Policy and Implementation Statement can be found here:

<https://nationwidepensionfund.co.uk/library>

Changes to the SIP

In October 2019, new Government regulation specified that the SIP must take account of financially material risks related to Environmental, Social and Governance (“ESG”) factors, non-financial matters, and stewardship policies. In response to these requirements, the Trustee opted to create an aspirational Responsible Investing (“RI”) policy to act as a supporting document that underpins the SIP.

The Trustee received recommendations from its Investment Consultant (“IC”) and incorporated views using an RI survey to ensure an effective policy was created that reflected the Trustee’s aims and responsibilities.

Both the SIP and RI policy have been amended over time as ESG considerations have evolved, in order to guide the Trustee’s approach to ESG throughout the investment process.

The SIP and the RI policy were reviewed and updated on 23 April 2020 to take account of new regulations which came into effect from October 2020. The main changes set out:

- How asset managers are incentivised to align their investment strategy with the Trustee’s investment policies.
- How asset managers are incentivised to achieve the Trustee’s long-term objectives.
- Trustee policies on cost transparency.
- Trustee policies on voting and stewardship.

The Trustee consulted with the Society, as the Fund’s sponsoring employer when making these changes and obtained written advice from its IC. The version of the SIP which applied for most of the year ending 31 March 2021 was signed on 23 April 2020.

However, the SIP and RI policy were reviewed and revised on 24 March 2021 by the Investment and Funding Committee (“IFC”) and were approved by the Trustee Board on 29 April 2021 to incorporate the Trustee’s Climate Risk Mission Statement into the RI policy.

Fund activity

The Trustee outlines in its SIP several key objectives and policies. The actions below provide an explanation of how these objectives have been met and policies adhered to over the course of the year.

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Investment strategy review

The Trustee's aim is to invest assets so that members receive the benefits they were promised. To deliver this, the Trustee aspires to achieve full funding on a Low Dependency basis by 2031 which will be achieved by implementing its investment strategy alongside a de-risking plan.

The IFC has been delegated responsibility for monitoring and implementing the investment strategy on behalf of the Trustee in conjunction with the following parties:

- The Chief Investment Officer team ("CIO team")- provides investment due diligence, analysis and administration.
- The IC - provides investment recommendations and performance analysis.
- The Actuarial Adviser – provides actuarial analysis of liabilities.
- The sponsor's Pension Risk Management Team ("PRM team") – provides insight and challenge.
- The Transition Manager and The Liability-Driven Investment Manager – provide professional services.

To implement the investment strategy, the IFC meets quarterly where investment matters are reported and discussed. The IFC is also responsible for approving new investments.

Quarterly IFC meetings

The IFC consists of four trustee members and meetings are also attended by representatives of the IC, the CIO team, the PRM team and the Pension Fund Secretary.

The following items are reviewed, and proposals approved as appropriate:

- General investment administration.
- Investment strategy including adherence to the SIP.
- Investment performance including quarterly monitoring and fees.
- Risk management.

Appointing new managers

When the IFC considers a new investment, the CIO team provides due diligence covering the investment strategy, management team and track record of the proposed investment, the risk profile and how it will sit in the broader investment portfolio and ESG considerations.

The IC provides an investment summary including investment merits and items to consider.

Both reports reference meetings with the potential manager which are held to investigate the opportunity in more detail.

The IC also provides formal advice to the Trustee that the investment meets the following criteria:

- The best interests of the members and beneficiaries.
- Security.
- Quality.
- Liquidity.
- Profitability.
- Nature and duration of liabilities.
- Tradability in regulated markets.
- Diversification.
- Use of derivatives.

Following an investment, the CIO team then carries out ongoing investment monitoring which includes regular update meetings with managers.

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Stewardship

The RI Policy includes the Fund's approach to stewardship whereby the Trustee seeks to maintain the highest standards of governance in the underlying companies in which it invests while ensuring that this contributes to protecting the financial interests of the Fund and its beneficiaries.

In particular, the Trustee encourages its investment managers to adhere to the principles of the UK Stewardship Code (or an equivalent set of standards in the investment manager's main jurisdiction) and asks managers to:

- Publish a Stewardship Code statement setting out the extent to which, and how, they implement with the Code, explaining areas of non-compliance.
- Take into account ESG considerations in the selection, retention and realisation of investments where these might have an impact on company and investment performance.
- Exercise shareholder rights (including proxy voting and engagement) on the Fund's behalf in such a manner so as to protect the interests of beneficiaries.
- Each year report voting and engagement activity to the Trustee.

The Trustee engages with managers on an annual basis to review evidence of compliance with the Stewardship Code or equivalent.

In addition, a manager's ESG credentials, including policies regarding shareholder rights, are assessed prior to investment. As well as being a factor in the decision to invest, ESG credentials are monitored on an ongoing basis by the Trustee and are taken into account in decisions to retain arrangements with the Trustee's managers.

Voting & Engagement - Equity Investment (Public/Listed)

The Fund invests in the following listed equity funds both of which are managed by Legal & General Investment Managers ("LGIM"):

Equity Fund	Manager
World Equity Index	LGIM
World Emerging Markets Equity Index	LGIM

In response to the Trustee's evolving ESG agenda, decision has been made to re-allocate one third of the World Equity Index fund investment into the Future World Index. This fund is LGIM's flagship ESG offering within its responsible investing index products, which tilts investment towards companies with a higher ESG score based on 28 metrics.

The Fund's equity investments are held through pooled vehicles and the Trustee does not directly exercise voting rights. However, we consider LGIM an industry leader for using their influence to achieve positive change. LGIM has built a reputation for playing an active role in the companies it invests in, from exercising shareholder voting rights to directly engaging with companies at board level, with the aim to increase value to investors whilst shaping the future and sustainability of financial markets.

LGIM's voting policy is driven by ESG professionals and they aim to achieve the best outcome for all clients. Any decisions made are in accordance with their Corporate Governance and Responsible Investment policies and are all made by their Investment Stewardship team. Each member of the team is allocated a sector to allow for continuous engagement and appropriate stewardship.

LGIM uses ISS's "ProxyExchange" electronic voting platform to electronically vote on behalf of clients. All decisions are made by LGIM and the use of this tool is to augment their own research and ESG assessment tools. They also use research reports from the Institutional Voting Information Services to aid their decision making when making specific votes.

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A custom voting policy is used to ensure the proxy provider votes in accordance with LGIMs position on ESG. All policies are updated annually.

The Fund's largest exposure to an LGIM fund recorded the following voting statistics:

- 99.81% of all eligible resolutions were voted on
- LGIM voted with management on 80.84% of resolutions
- LGIM voted against management for 19.00% of resolutions
- LGIM abstained on 0.16% of resolutions

LGIM engages with investee companies regularly and follows its policies to influence and reduce ESG risks. The examples found in Appendix 1. demonstrate their ability to engage and an awareness of ESG risks and relate to the most significant votes. Given the pooled nature of the Trustee's equity holdings, the Trustee has interpreted "most significant" to mean those votes which LGIM has determined are "most significant" based on its internal processes. The Trustee takes particular note of abstentions and reviews the rationale for such decisions.

Investment (Private/non-listed equity)

Private equity and credit investments are managed by fund managers who make investment decisions in line with a stated investment strategy and other terms and conditions. However, as an investor, the Fund is often granted voting rights by its membership of Limited Partner Advisory Committees. These voting rights apply to activities outside the normal course of business and are typically governance related.

All voting activity is carried out by the CIO team on behalf of the Trustee and a record of all relevant votes is maintained and presented to the IFC quarterly and is summarised below for the year:

Formal Decisions	Consented	Declined	MFN Election*
27	21	2	4

**MFN stands for Most Favoured Nation and is to receive the same benefits or rights offered to other investors*

Other Investments (Public Credit/LDI)

Voting activities for Public Credit and LDI managers do not form material parts of their business as the products they invest in do not allow for proxy voting opportunities. To the extent that they do, the Trustee is comfortable that managers would engage with the Trustee and vote in alignment with the Fund's interests.

In Summary

This Statement demonstrates that the Trustee has adhered to the investment principles and policies regarding voting and stewardship, including ESG factors, as set out in the Fund's SIP and RI Policy. The Trustee is comfortable that from the information observed, the majority of asset managers are operating in accordance with expectations as set out in the Fund's RI Policy and are implementing stewardship suitably in line with their respective investment processes.