

# Annual Implementation Statement

As at 31 March 2023

**Nationwide**  
Pension Fund

# Nationwide Pension Fund

## Annual Implementation Statement

Nationwide Pension Fund Trustee Ltd.

### Introduction

This statement is the Annual Implementation Statement (“IS”) of the Nationwide Pension Fund (“NPF”) covering the scheme year from 1<sup>st</sup> of April 2022 to 31<sup>st</sup> of March 2023. The IS is valid for both the Nationwide Section of the NPF and the Cheshire and Derbyshire Section (“C&D”) of the NPF. The IS should be reviewed in conjunction with the NPF’s Climate Risk Report (“CRR”), The Nationwide Section’s Statement of Investment Principles (“SIP”), the C&D Section’s SIP and the NPF’s Responsible Investing (“RI”) policy. These documents are available on the [Nationwide Pension Fund’s Library](#).

The purpose of this statement is to advise how responsible stewardship has been carried out by the Nationwide Pension Fund Trustee Ltd (“The Trustee”). This is achieved through:

- Advising of any changes within the scheme year to either the Nationwide or the C&D SIPs or the NPF’s RI policy.
- Informing of how both the Nationwide and the C&D SIPs and the NPF’s RI policy have been adhered to throughout the scheme year.
- Describing how the Trustee has engaged with its stewardship requirements through utilising its voting power inherent in those investments held by the NPF throughout the scheme year.

This statement is intended to meet the requirements under the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, which were introduced on 1 October 2020.

### Executive summary

The Trustee is led by the requirement to pay members’ pensions, on time and in full, but also recognises the duty to invest responsibly, taking into consideration the risks and opportunities linked to Environmental, Social and Governance (“ESG”) factors.

To direct the investing, voting and engagement, and governance of the NPF the Trustee applies the SIP of each Section within the NPF and the overarching RI policy. The Trustee confirms that the policies set out within the Nationwide and C&D SIPs as well as the NPF RI policy have been appropriately followed throughout the scheme year to 31<sup>st</sup> of March 2023.

During the period covered by this IS the Trustee approved an updated version of the Nationwide Section SIP and has engaged in drafting updated versions of the C&D Section’s SIP and the RI policy, with these expected to be implemented within the 2023/24 scheme year. The updates within the Nationwide Section SIP for the current scheme year have been deemed necessary following changes in strategy for the Section.

Additionally, throughout the scheme year the strategic asset allocation of the NPF has fundamentally changed due to external factors. As a consequence, the Trustee has fully divested of public equities within the Nationwide Section and only holds a small proportion within the C&D Section (£14.1m, 5.6% of all assets as of 31<sup>st</sup> March 2023). Accordingly, the Trustee has limited voting power within the public equity asset class. The Trustee can exercise voting power through its holdings of private market assets, but this power is limited in scope. A summary of the Trustee’s voting engagement has been supplied under the Voting heading of this statement with a list of those key votes that the Trustee believes require highlighting.

## Reviews and updates of the SIPs and RI policy within the year

The Nationwide and C&D SIPs, alongside the RI policy, explain the way in which each Section invests its assets to ensure that the fiduciary duty of the Trustee is met. The Trustee regularly reviews the SIPs and RI policy to ensure that these documents align to the current economic climate, the current positioning of both Sections, and the future economic outlook. Based on these reviews the Trustee determines if any updates are required to either the SIPs or the RI policy to permit the Trustee to discharge its fiduciary duty.

During the current scheme year, it was determined by the Trustee that the Nationwide Section's SIP required updating following a material increase in funding level. As a result, the Trustee implemented the following key changes to the Nationwide Section's SIP, which the Trustee sees as necessary to enable the Section to journey towards its endgame with an appropriate level of risk:

- The defining of a Trustee Funding Target within the glossary and where relevant, inclusion of this target within the body of the SIP.
- Update of the strategic asset allocation to enable the Section to achieve the funding required, at the level of risk deemed appropriate to reach the Trustee Funding Target.
- The inclusion of Longevity Risk as a risk that has the potential to cause a deterioration within the Section's funding levels.

As part of these updates, financial advice was sought from NPF's Investment Consultant ("IC") to confirm that the changes were in line with progression to the Trustee Funding Target. Additionally, the sponsor (Nationwide Building Society ("NBS")) was consulted on these updates. Following these engagements, these updates were approved by the Trustee and implemented in February 2023.

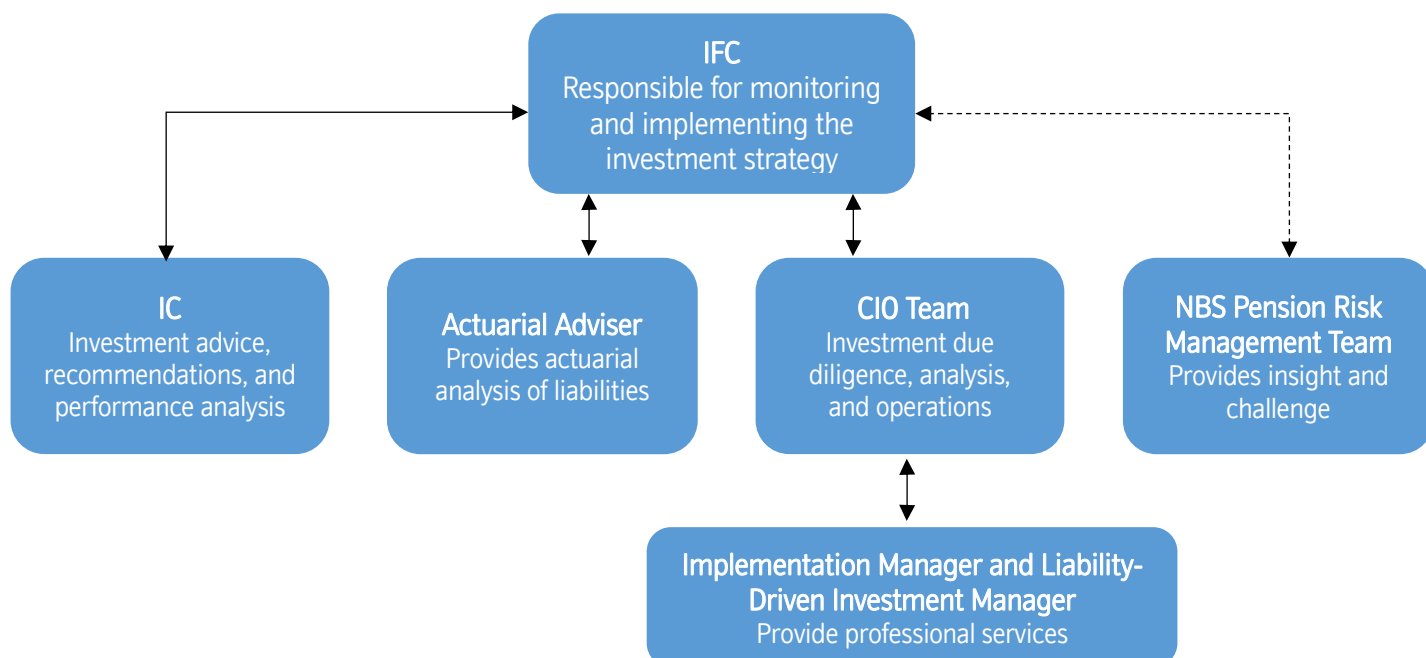
The Trustee is also aware of a need for updates to occur within the C&D SIP and the RI policy following the 2022/23 scheme year. The Trustee anticipates the updates to these documents to come into force in July of 2023 and will report on these changes within the IS of the applicable scheme year.

## Adherence to the SIPs and RI policy throughout the scheme year

In its opinion the Trustee has adhered to the Nationwide and C&D SIPs within the year as well as the NPF RI policy. The below sections of this statement provide detail on what processes and controls have been implemented throughout the year to ensure this adherence has occurred.

### Governance

The Trustee ensures that only those people with the skills and experience necessary are involved in the investment and funding decisions of the NPF. As a result, the Trustee utilises an Investment and Funding Committee ("IFC") which monitors and oversees the investment strategy on behalf of the Trustee. Decision-making is led by the four Trustee Directors of the IFC with the support of the Chief Investment Officer (CIO) Team. The CIO Team will perform investment administration, investment performance analysis and risk management analysis with relevant strategies proposed to the IFC for consideration, reviewal and approval. The diagram below outlines how the IFC works in conjunction with its advisors and the Fund's sponsor:



## Investment activity

The IFC invests the assets of the Fund prudently with the aim that members receive the benefits to which they are entitled. To guide this investment, the Trustee has implemented a Trustee Funding Target for the Nationwide Section with this explained further within the relevant SIP. Additionally, the Trustee works towards the C&D Section's long-term objective of maintaining full funding on a Low Dependency basis.

The IFC is aware of the need to appoint only those managers whose professional competence aligns with the requirements of the NPF. The CIO Team is responsible for the provisions of due diligence to the IFC, but the IFC makes the ultimate decision on which fund managers are appointed. The due diligence provided by the CIO Team covered:

- Investment strategy
- The management teams
- History of investing under the proposed strategy
- Internal portfolio alignment
- ESG considerations

The CIO Team prepared this due diligence with input from the IC. Additionally, the IC also prepared key documentation that provided formal advice to the Trustee that the investments meet set criteria.

## Strategic asset allocation

The Trustee makes use of strategic asset allocations to optimise performance of both Sections whilst reducing risk to an acceptable level. These strategic asset allocations are located within the relevant SIPs.

The Trustee, in conjunction with its IC, monitors the actual asset allocation of each Section against the strategic asset allocation at least annually, but generally more frequently. If the Trustee determines that the actual asset allocation breaches either the upper or lower bound of the strategic allocation the Trustee will analyse the reasons for this change. Where the Trustee deems that a rebalance of the assets is required, the Trustee will engage in this rebalance. If the Trustee deems that the strategic asset allocation is no longer the most efficient use of the Section's resources, then the strategic asset allocation will be updated. Any updated strategic asset allocation will be documented within the relevant SIP.

During the most recent scheme year the strategic asset allocation was deemed to be inappropriate for the Nationwide Section due to changes in the funding level and asset values. Therefore, the Trustee reassessed the relevant strategic asset allocation and determined a new asset allocation, as below. This new allocation was documented within the SIP that was published in February 2023.

<b>NATIONWIDE SECTION STRATEGIC ASSET ALLOCATION AS AT 8 FEBRUARY 2023 (on a net asset basis)</b>				
<b>Asset Class</b>	<b>Prior Target Weighting %</b>	<b>Current Target Weighting %</b>	<b>Prior Operational Range %</b>	<b>Current Operational Range %</b>
<b>Matching Assets</b>	<b>57.5</b>	<b>70</b>	<b>50-65</b>	<b>50-80</b>
Government and Supranational Bonds	47.5-50	60	40-60	40-65
Alternative Matching Assets (AMA)	7.5-10	10	5-10	5-15
<b>Return Seeking Assets</b>	<b>42.5</b>	<b>30</b>	<b>35-50</b>	<b>20-50</b>
Equities	10	0	7.5-12.5	0-10
Credit	10	10	7.5-12.5	0-12.5
Illiquid portfolio	22.5	20	17.5-27.5	10-37.5
<b>Cash</b>	<b>1</b>	<b>1</b>	<b>0-2</b>	<b>0-2</b>
<b>LDI Leverage</b>			<b>2.5x</b>	<b>2.5x</b>
<b>Repo and TRS</b>			<b>&lt;£1.8bn</b>	<b>&lt;£1.8bn</b>

## Stewardship assessment

The Trustee outlines in its RI Policy its approach to stewardship and the expectations of managers. As part of these expectations the Trustee requires managers to outline

- Their stewardship practices and policies
- How ESG considerations are incorporated into the practices and policies
- How they exercise shareholder rights on behalf of the NPF to protect members' interests

The Trustee requires managers to report on these points annually. If the Trustee feels that more can be done by a manager on any of these points, then the Trustee will engage with these managers to exert its influence.

The Trustee has observed a general improvement in ESG policies used by managers. Several managers have refreshed their ESG policies in recent years reflecting the increased attention such issues are receiving. Many investment strategies are now also embedding ESG considerations in products. For example, the NPF holds an investment in a fund which rewards borrowers who improve ESG credentials.

In addition to the usual request, the Trustee has asked managers for carbon emissions data so that it can be tracked on an annual basis. This is included within the NPF's CRR report.

## Climate Risk Report

As part of the Trustee's fiduciary duty, the Trustee is responsible for ensuring that any financially material risks and opportunities, including climate related risks and opportunities, are considered. Therefore, the Trustee produced its first Taskforce for Climate-related Financial Disclosures report in 2022 with the second edition of this report renamed to the Climate Risk Report, which is published alongside this statement.

CRR reporting has allowed the Trustee to take a closer look at the overall environmental impact of the NPF. This includes looking at the first order emissions of the NPF (Scope 1 and 2 emissions) as well as the value chain emissions within the NPF (Scope 3 emissions). Additionally, the CRR has allowed the Trustee to quantify some of the risks associated with climate change on the NPF. Finally, the CRR has helped drive further engagement with asset managers in the context of environmental risks and opportunities.

The Trustee is aware that the impact of a changing climate on the NPF is an ongoing concern. Therefore, the Trustee will continue to report annually through submission of the CRR. The Trustee will utilise the strategies, objectives and targets outlined in the CRR to leverage greater engagement by its asset managers with the climate emergency. In addition to emissions data, the Trustee is also gathering data on net-zero targets within portfolio investments.

## Voting by the Trustee

The Trustee is aware that as part of its stewardship requirements it must engage with asset managers and direct their voting power, inherent within the assets they hold, to drive the Trustee's strategy and considerations. This voting power is intrinsic to not only the NPF's listed equity portfolios but also the NPF's private market assets. Therefore, the Trustee sets out expectations of managers within the relevant SIPs and the RI Policy to drive awareness of the Trustee's requirements. The Trustee also regularly reviews the voting of NPF's asset managers to ensure these are in line with the Trustee's mandate.

Within the scheme year the Trustee has fully divested the Nationwide Section of any listed equity holdings (with the last disposal of equities occurring in early September 2022). The listed equity holdings within the C&D Section total £14.9m as at the end of the scheme year. Therefore, the total holdings of the NPF in listed equities is of such low value that overall voting power within these assets is negligible and the Trustee does not expect this situation to change in the coming years.

Within private markets, the NPF is often granted voting rights through membership of Limited Partner Advisory Committees ("LPACs"). The Trustee delegates voting responsibilities to the CIO Team who work with sector specialists from the IC to support in some voting decisions, but generally these are governance related and apply to activities outside the normal course of business. A record of votes is maintained and presented to the IFC each quarter.

## Listed equities

Currently the NPF has no exposure to listed equities within the Nationwide Section of the fund and limited exposure within the C&D Section. The listed equities held within the C&D Section are of negligible value on a total scheme perspective. Within the Nationwide Section no listed equities have been held since early September 2022 when £117m of equities were sold. Therefore, the influence that the Trustee can exert through voting and engagement within the listed equities space has been significantly curtailed within the scheme year. Additionally, the Trustee does not expect this to change in future scheme years and therefore is aware that voting and engagement within the listed equities space will be of minimal impact.

Prior to September, the Nationwide Section's listed equities were held with Legal and General Investment Management ("LGIM") within LGIM's flagship solution, the Future World Fund as well as their Emerging Markets Equity Index Fund. Within the Future World Fund, investments are tilted towards companies that are graded higher from an ESG perspective. Additionally, the currently held listed equities within the C&D Section are also held with LGIM, within LGIM's World Equity Index Fund.

The equity investments held with LGIM are held within pooled vehicles and, as such, the Trustee does not directly exercise any voting rights, rather these are delegated to LGIM. The Trustee is aware that by delegating its voting rights that the Trustee is then beholden to the stewardship beliefs held by the fund manager. Therefore, the Trustee has chosen LGIM due to the industry leading approach that LGIM takes to exert its influence to achieve positive change. 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 the Corporate Governance and Responsible Investment policies which are created by their Investment Stewardship team. Each member of the team is allocated a sector, so voting is undertaken by the same individuals who engage with the relevant companies, creating a consistent approach to the voting process.

The individuals within this team also use a proxy voting adviser, Institutional Shareholder Services (ISS). This service carefully reviews issues that LGIM can vote on and makes recommendations on which way to vote. It is purely used to augment LGIM's own research and ESG assessment tools and quarterly due diligence meetings are held with ISS to ensure regular monitoring of the service. LGIM's stewardship team also use Institutional Voting Information Services (IVIS) to supplement the research reports received from ISS for UK companies.

Below is a breakdown of how LGIM voted across the Future World and Emerging Markets Index Funds whilst the NPF was invested within these funds as well as the World Equity Index Fund, which the C&D Section is still invested in.

### Voting Statistics by LGIM on Behalf of the NPF

	World Equity Index Fund	Future World Fund <sup>1</sup>	Emerging Markets Index Fund <sup>1</sup>
Meetings voted at	1,739	498	4,178
Issues voted on	23,814 of 23,876	7,372 of 7,372	35,288 of 35,299
Of which LGIM voted for	77.38%	94.38%	78.74%
Of which LGIM voted against	22.44%	5.62%	18.94%
Of which LGIM abstained	0.18%	0.00%	2.32%
% Of meetings at which LGIM voted against management at least once	82.86%	36.35%	53.06%

<sup>1</sup> Both the Future World and Emerging Markets Index Fund's voting records are until the 31st of September 2022. The Nationwide Section divested of the Future World Fund on the 1st of September 2022 and the Emerging Markets Index Fund on the 31st of August 2022 so some voting activity will not be relevant to the NPF.

## Significant votes made on behalf of the NPF

Below are details of significant votes made on behalf of the NPF. The voting details included are an example of the significant votes made on the NPF's behalf and demonstrate how the Trustee would expect LGIM to vote. Additionally, the Trustee would expect LGIM to continue voting in line with its publicly communicated voting instructions as the Trustee has determined these align with the NPF's priorities. The Trustee will continue to monitor the voting engagement of LGIM through the annual refresh of this statement. The Trustee will also assess LGIM within its annual due diligence of asset managers and may consider next steps if LGIM deviate away from their stated ESG aims.

LGIM Voted against Rio Tinto's Climate Action Plan due to a lack of quantifiable targets	
	Rationale for voting decision
<p><b>Company:</b> Rio Tinto Plc</p> <p><b>Date:</b> April 2022</p> <p><b>Size of funds holding:</b> 4.98%</p> <p><b>Topic:</b> Resolution 17 - Approve Climate Action Plan</p> <p><b>How they voted:</b> Against</p> <p><b>Voting intent communicated pre meeting:</b> No</p> <p><b>Outcome of vote:</b> Resolution passed - 84.3% For</p>	<p>Climate change: We recognise the considerable progress the company has made in strengthening its operational emissions reduction targets by 2030, together with the commitment for substantial capital allocation linked to the company's decarbonisation efforts. However, while we acknowledge the challenges around the accountability of scope 3 emissions and respective target setting process for this sector, we remain concerned with the absence of quantifiable targets for such a material component of the company's overall emissions profile, as well as the lack of commitment to an annual vote which would allow shareholders to monitor progress in a timely manner.</p>
<p><b>Reason the Trustee regards this vote as significant</b></p>	<p>The Trustee believes that climate change is one of the most significant global challenges of this century. In the Trustee's opinion, markets are not adequately pricing in the risks associated with climate change and companies which are exposed to the risk of stranded assets are not equipped to find other means to replace the potential revenue loss from a transition to a low-carbon economy. Therefore, the Trustee believes that investments in companies who are not addressing the risks of climate change threaten the fiduciary duty of the Trustee and would expect its asset managers to utilise their voting rights to push for greater engagement with climate change risk management, including climate change reporting.</p>
<p><b>Implications of the outcome</b></p>	<p>LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.</p>

LGIM Voted for Alphabet Inc to report on physical risks of climate change	
	Rationale for voting decision
<p><b>Company:</b> Alphabet Inc.</p> <p><b>Date:</b> June 2022</p> <p><b>Size of funds holding:</b> 0.96%</p> <p><b>Topic:</b> Resolution 7 - Report on Physical Risks of Climate Change</p> <p><b>How they voted:</b> For</p> <p><b>Voting intent communicated pre meeting:</b> No</p> <p><b>Outcome of vote:</b> Resolution defeated - 17.7% For</p>	<p>Shareholder Resolution - Climate change: A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.</p>
<p><b>Reason the Trustee regards this vote as significant</b></p>	<p>The Trustee believes that climate change is one of the most significant global challenges of this century. In the Trustee's opinion, markets are not adequately pricing in the risks associated with climate change and companies which are exposed to the risk of stranded assets are not equipped to find other means to replace the potential revenue loss from a transition to a low-carbon economy. Therefore, the Trustee believes that investments in companies who are not addressing the risks of climate change threaten the fiduciary duty of the Trustee and would expect its asset managers to utilise their voting rights to push for greater engagement with climate change risk management, including climate change reporting.</p>
<p><b>Implications of the outcome</b></p>	<p>LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.</p>



LGIM Voted against the re-election of a director of a Chinese company	
	Rationale for voting decision
<p><b>Company:</b> Meituan</p> <p><b>Date:</b> May 2022</p> <p><b>Size of funds holding:</b> 1.32%</p> <p><b>Topic:</b> Resolution 2 - Elect Wang Xing as Director</p> <p><b>How they voted:</b> Against</p> <p><b>Voting intent communicated pre meeting:</b> No</p> <p><b>Outcome of vote:</b> Resolution passed - 91.8% For</p>	<p>Diversity: A vote against is applied as LGIM expects a company to have at least one female on the board. Joint Chair/CEO: A vote against is applied as LGIM expects the roles of Chair and CEO to be separate. These two roles are substantially different, and a division of responsibilities ensures there is a proper balance of authority and responsibility on the board. A vote AGAINST the election of Xing Wang and Rongjun Mu is warranted given that their failure to ensure the company's compliance with relevant rules and regulations raise serious concerns on their ability to fulfil fiduciary duties in the company.</p>
<p><b>Reason the Trustee regards this vote as significant</b></p>	<p>The Trustee is committed to diversity and inclusion as part of its stewardship priorities and believes that a diverse workforce can drive financial gains. Therefore, the Trustee would expect its asset managers to utilise their voting rights to push for greater diversity and inclusion where possible.</p>
<p><b>Implications of the outcome</b></p>	<p>LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.</p>

## Private markets

The Trustee invests a proportion of the Nationwide Section's assets in private market funds as part of its strategic asset allocation. These funds are administered by a fund manager which determines how the capital held within these funds is to be invested. As part of participating in these private market assets the Trustee can influence certain fund choices through private market decisions such as those decisions made by LPACs. As described above these are generally administrative in fashion with little relevance to stewardship. Below is listed a summary of the private market decisions made within the scheme year. The Trustee is committed to voting on all matters where possible, therefore it should be noted that the one abstention was due to the decision reaching the required number of responses for approval whilst the Trustee was awaiting further information from the General Partner. This technically meant that the NPF abstained from this vote.

Formal Decisions	Consented	Declined	Abstained
23	20	2	1

## Engagement by the Trustee

The Trustee is aware that, through its investments, it has some ability to affect the decisions of asset managers and drive good governance. The Trustee is also aware that although it may hold some sway over the way asset managers interact with ESG principles, these asset managers have differing levels of initial engagement with ESG principles as well as differing levels of power to influence underlying portfolio companies' interactions with ESG principles. This engagement and ability to influence by asset managers will vary across asset classes, geographies, and manager sizes. For example, asset managers who take equity stakes are likely to have a greater influence over portfolio companies than those providing debt funding. Therefore, the Trustee proactively engages with asset managers to drive good governance with the understanding that this engagement is going to have differing impacts.

The Trustee proactively engages with asset managers in several different ways with the main levers of engagement listed below.

### Trustee training

The Trustee is aware that to fully understand ESG risk and how this will affect the assets and liabilities of the NPF the Trustee must firstly understand what ESG is and how ESG risk can be minimised. Therefore, the Trustee undertakes periodic training to ensure that ESG risks are understood, and mitigated, as effectively as possible.

### ESG assessments

The Trustee, through the CIO Team, assesses all potential new investments on their ESG commitment. This results in new investments being allocated an ESG score and this score creating part of the basis for choosing an investment. If the Trustee determines that an asset manager's ESG priorities do not align with those of the Trustee, then the Trustee may decide to not make an investment in their funds.

ESG assessments also form part of key strategic activities undertaken by the Trustee. When the Trustee considers working with third parties then their ESG credentials are assessed as a part of the market review exercise. For example, as a part of a market tender exercise for the Trustee's IC, an ESG assessment was 10% of the overall score.

### Asset manager due diligence

The Trustee requests asset managers to provide their responsible investment policy, details of how ESG is integrated within their decision-making process, and details of outstanding ESG issues within portfolios on an annual basis. The Trustee will then score asset managers on their ESG engagement. This scoring, whilst somewhat subjective, will consider the size of the asset manager, the geographical location of the asset manager and the applicable rules and regulations in this location (such as stewardship disclosure regulations) and the asset class which the manager is invested in. Based on the results of these requests the Trustee may further engage with asset managers. This may be through formally writing to asset managers to request further clarity around how ESG is being incorporated into asset manager decision making or through more informal communications.

This engagement was evident following completion of the due diligence process at the end of the 2022/23 scheme year. It was determined through this process that 2 asset managers did not align to the minimum thresholds that the Trustee would expect. This has resulted in these managers receiving a formal request from the Trustee for more information on the highlighted ESG points. The Trustee is hopeful that through raising this issue the Trustee will drive greater awareness by the asset manager of the importance of ESG principles to the Trustee.