

# Annual Implementation Statement

As at 31 March 2024

**Nationwide**  
Pension Fund

# Nationwide Pension Fund

## Annual Implementation Statement Nationwide Pension Fund Trustee Ltd.

### Introduction

The annual Implementation Statement (IS) for the Nationwide Pension Fund (NPF) advises members on how the Nationwide Pension Fund Trustee Ltd (the Trustee) has demonstrated responsible stewardship of the Fund's assets. The IS covers both the Nationwide and Cheshire & Derbyshire (C&D) Sections, across the scheme year running from the 1<sup>st</sup> of April 2023 to 31<sup>st</sup> of March 2024. 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 online in the [Nationwide Pension Fund's Library](#).

This statement:

- Advises of any changes to either the Nationwide or the C&D SIP, or to the NPF's RI policy.
- Informs of how both the Nationwide and C&D SIPs, and the NPF's RI policy have been adhered to.
- Describes how the Trustee has utilised the voting power granted by any equity investments.

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

### Executive Summary

The Trustee's primary objective is to deliver member benefits as they fall due, and investment risks and rewards must be balanced to fulfil this fiduciary duty. To achieve this the Trustee must invest responsibly, taking into consideration the risks and opportunities linked to Environmental, Social and Governance (ESG) factors.

To direct the investment strategy, voting & engagement activity, and overall 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 the 31<sup>st</sup> March 2024.

The Nationwide Section SIP was last updated by the Trustee in February 2023, and so no changes have occurred during the scheme year. During the period covered by this IS the Trustee approved an updated version of the RI policy, and the C&D Section's SIP.

Additionally, due to strong improvements in funding levels across previous years, the Trustee has fully divested from public equities within the Nationwide Section and only holds a small proportion within the C&D Section (£10.3m / 10.0% as of 31<sup>st</sup> March 2024, excluding assets transferred as part of the Buy-In transaction previously undertaken). 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.

### Policy Updates

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, the RI policy was updated, resulting in the following key changes:

- References to biodiversity were incorporated into the policy, to reflect the growing understanding that the Fund may have an impact on biodiversity, and that changing ecosystems may impact the Fund.
- Explanation of the role that the Fund's Investment Consultant (IC) Aon may play in the selection and review of Investment Managers (IM), in the context of an IM's approach to responsible investment.
- An expansion of the sustainability initiatives that the Trustee encourages its IMs to adhere to.

The C&D Section SIP was also updated, resulting in the following key changes:

- The strategic asset allocation was updated to reflect the current strategy.
- Expanded the commentary around the hedging strategy.
- Expanded the risk monitoring section to cover regulatory risk and the allocation to synthetic credit.

As part of these updates advice was sought from the IC to confirm that the changes were in line with progressing towards 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 May 2023.

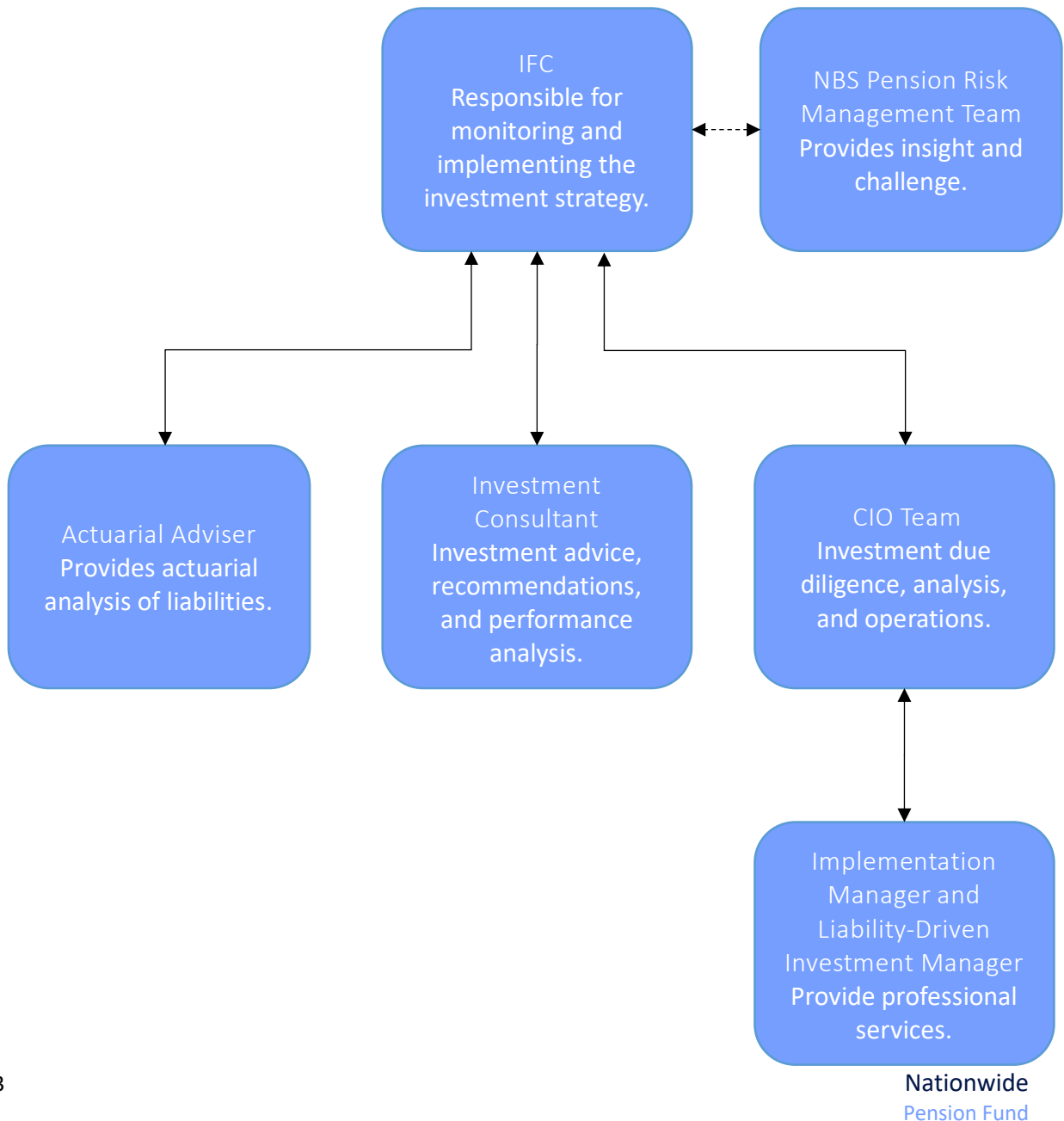
The Trustee is also aware of the need for further updates to occur within all the policies following the 2023/24 scheme year. The Trustee anticipates the updates to these documents will come into force in May 2024, and the changes will be reported on in the next IS.

### Adherence

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, and provides extra context around the strategic asset allocation.

**Governance**

The Trustee aims to ensure 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 who sit on 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. Relevant changes to the strategy are proposed to the IFC for consideration, review, and approval. The diagram below outlines how the IFC works in conjunction with its advisors, the CIO Team, 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 Solvency basis.

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

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

The CIO Team prepares this due diligence with input from the IC. Additionally, the IC also prepares key documentation that provides 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.

The Nationwide Section SIP has not been updated during the most recent scheme year, and so the strategic asset allocation is as documented within the SIP that was published in February 2023.

Strategic Asset Allocation		
Asset Class	Target Weighting (%)	Operational Range (%)
<b>Matching Assets</b>	<b>70%</b>	<b>50 - 80%</b>
Government and Supranational Bonds	60%	40 - 65%
Alternative Matching Assets	10%	5 - 15%
<b>Return Seeking Assets</b>	<b>30%</b>	<b>20 - 50%</b>
Equities	0%	0 - 10%
Public Credit	10%	0 - 12.5%
Private Market Assets	20%	10 - 37.5%
<b>Cash</b>	<b>1%</b>	<b>0 - 2%</b>
<b>LDI Leverage</b>		<b>2.5x</b>
<b>Repo and TRS</b>		<b>&lt;£1.8bn</b>

The portfolio composition of the Nationwide Section has not met the strategic target allocations throughout the year, with private market assets accounting for 40%+ of net assets. This is due to a combination of increasing asset valuations and falling gilt values since the 2022 UK Gilt Crisis. However, overall return seeking assets have remained within the 20-50% operational range.

The C&D Section SIP was updated in July 2023, and the strategic asset allocation was amended to allow for a greater allocation to return seeking assets. This change was made to allow for allocation to fixed income assets and an increase in returns generated by the Section should it be needed.

Asset Class	Target Weighting (%)
Matching Assets	<b>90-95%</b>
Return Seeking Assets	<b>5-10%</b>
Cash	<b>0-2%</b>

The portfolio composition of the C&D Section (excluding Buy-In assets) has operated within these target weightings throughout the year, and the mandate with LGIM allows for rebalancing to be undertaken automatically as needed to maintain this composition.

### 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. The second edition of this report was renamed to the Climate Risk Report and published in 2023, and the third iteration will be 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 IMs 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.

The Nationwide Section has no listed equity holdings (with the last disposal of equities occurring in early September 2022). The listed equity holdings within the C&D Section total £10.3m 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 limited exposure to listed equities 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. 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.

The currently held listed equities within the C&D Section are held with Legal and General Investment Management (LGIM), within LGIM’s World Equity Index Fund.

The equity investments held with LGIM are 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 World Equity Index Fund:

	World Equity Index Fund
Meetings voted at	1,563
Issues voted on	22,382 of 22,429
Of which LGIM voted for	76.69%
Of which LGIM voted against	23.15%
Of which LGIM abstained	0.16%
% Of meetings at which LGIM voted against management at least once	83.74%

### Significant Votes 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 these broadly align with the Trustee’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 IMs and may consider next steps if LGIM deviate away from their stated ESG aims.



Company	Microsoft Corporation
Date of Vote	07 <sup>th</sup> December 2023
Portion of Portfolio	4.48%
Summary of Resolution	Elect Director – Satya Nadella
How LGIM Voted	Against
Reason for Voting	Position of Chair and CEO should be segregated for risk management and oversight reasons.
Was Company Informed of Vote Intention	LGIM publicly communicated its voting intention on its website, but did not engage directly.
Outcome of Vote	Re-elected

Company	Amazon.com Inc
Date of Vote	24 <sup>th</sup> May 2023
Portion of Portfolio	1.74%
Summary of Resolution	Report on Median and Adjusted Gender/Racial Pay Gaps
How LGIM Voted	For
Reason for Voting	Disclosing meaningful information of this kind is important for assessing the progress a company makes towards diversity and inclusion.
Was Company Informed of Vote Intention	LGIM covered this on a blog, and a communication was sent to the company ahead of the meeting.
Outcome of Vote	Rejected

Company	NVIDIA Corporation
Date of Vote	22 <sup>nd</sup> June 2023
Portion of Portfolio	1.73%
Summary of Resolution	Elect Director – Stephen C. Neal
How LGIM Voted	Against
Reason for Voting	The Board should comprise at least 1/3 <sup>rd</sup> women, and a Board should be regularly refreshed to maintain independence and effectiveness.
Was Company Informed of Vote Intention	LGIM publicly communicated its voting intention on its website, but did not engage directly.
Outcome of Vote	Re-elected

## 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. The Trustee is committed to voting on all matters where possible, but 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:

Formal Decisions	Consented	Declined	Abstained
24	22	2	0

## 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.

Routine 'horizon scanning' presentations are also presented to the IFC, distilling potential regulatory and market developments into summaries of their intent and potential impact on NPF.

## Engagement by the Trustee

The Trustee is aware that, through its investments, it has some ability to affect the decisions of IMs and drive good governance. The Trustee is also aware that although it may hold some sway over the way IMs interact with ESG principles, these IMs 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 IMs will vary across asset classes, geographies, and manager sizes. For example, IMs 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 IMs to drive good governance with the understanding that this engagement is going to have differing impacts.

The Trustee proactively engages with IMs in several different ways with the main activities of engagement listed below.

## 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 IM'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 in 2023, an ESG assessment was 10% of the overall score.

## Investment Manager Due Diligence

The Trustee requests that IMs 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 then scores IMs on their ESG engagement. This scoring, whilst somewhat subjective, will consider the size of the IM, the geographical location of the IM, the applicable rules and regulations in this location (such as stewardship disclosure regulations), and the asset class which the IM is invested in. Based on the results of these requests the Trustee may further engage with IMs. This may be through formally writing to IMs 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 it will drive greater awareness by the IM of the importance of ESG principles to the Trustee.

## Review of ESG Materials

The CIO Team reviews any ESG materials distributed by IMs in relation to the IMs organisation or the underlying investments. These may vary from annual 'ESG Reports' through to snapshots of commentary within monthly asset updates. The CIO Team will assess what progress is being made on ESG concerns, how the reporting compares with that produced by other IMs, and whether the reporting aids the Trustee to deliver on its own reporting requirements (e.g., carbon emission data). Feedback is provided as frequently as needed, but at least annually, and face-to-face meetings are requested to discuss any material observations.