Nationwide Pension Fund Report & Accounts

31 March 2022

Nationwide
Pension Fund

NATIONWIDE PENSION FUND

ANNUAL REPORT

31 MARCH 2022

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	53
Actuarial Certification of Schedule of Contributions	55
Appendices	
Implementation Statement	57
Task Force on Climate-related Financial Disclosures (TCFD) 2021	61

TRUSTEE AND ADVISERS

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
	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 (appointed April 2021)
	Barings LLC
	Blackstone Group
	Christofferson, Robb & Company LLC
	CVC Capital Partners (appointed September 2021)
	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
	Oaktree Capital Management (UK) LLP
	Robeco Asset Management (appointed December 2021)
	York Capital Management LLC
	Whitehorse Liquidity Partners (appointed December 2021)
	Zais Group LLC

TRUSTEE AND ADVISERS – continued

Infrastructure:	Arcus Infrastructure Partners LLC
	Equis Funds Group Pte Ltd
	IFM Investors Pty Ltd
	Innisfree Ltd
	Macquarie Investment Management (UK) Ltd
	Star Capital Partners Ltd
	SteelRiver Infrastructure Partners LP (ceased November 2021)
	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
	NB Alternatives Advisers LLC (ceased March 2022)
	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 (appointed December 2021)
	Blackstone Property Partners (appointed September 2021)
	Genesta Property Nordic AB
	Henderson Park Real Estate Management Ltd
	PAG Holdings Ltd
	Revcap Advisors Ltd

TRUSTEE AND ADVISERS – continued

Real Estate: Silverpeak Real Estate Partners
Walton Street Capital LLC

Investment Manager: C&D Section
Legal & General Investment Management Ltd

Custodian The Northern Trust Company

Pension Scheme Tax Reference 00271477RZ

Enquiries
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 2022

I'm pleased to present the Report & Accounts for the Nationwide Pension Fund ('the Fund') for the financial year ended 31 March 2022.

Strategic Plan

The Trustee updated its Strategic Plan during the year, which sets out its aims and objectives for the Fund. A copy can be found in the library section of the Fund website. The Governance Committee monitors the Fund's progress against the Plan.

The revised plan takes account of the membership profile of the Fund following its closure to future accrual on 31 March 2021. The number of deferred members is now 18,957 or 65% of the Fund, and the number of pensioners is 9,979.

Funding

There's been a steady improvement in the funding level through the year, although market price volatility has increased as inflation and interest rate expectations have pushed sharply higher. At the end of March 2022, the value of the Fund's assets was £7,345 million, up 5% from £6,977 million at the previous year end. Return-seeking asset values increased in response to a strong performance in public and private equities. Hedge ratios for interest rates and inflation have been maintained at c.100% of the asset value and liabilities fell due to increasing interest rates. More information about the investments is included in the Trustee Report.

The results of the last formal valuation carried out as at 31 March 2019, showed that the Nationwide Section had a shortfall of £180 million and the Cheshire and Derbyshire Section a surplus of £17 million at 31 March 2019. The interim valuation as at 31 March 2021 showed that the Nationwide Section had moved into a surplus position of £228 million, with the Cheshire and Derbyshire Section surplus also increasing to £22 million. These results were due to better-than-expected asset returns.

The next actuarial valuation as at 31 March 2022 is currently underway. The results will be shared once the process has been concluded.

Investment

The core responsibility of the Trustee is to invest scheme assets in the best interests of scheme members in order to pay out benefits as committed. The Trustee must also weigh returns against risks and consider factors which are financially material to the performance of the investments.

The Trustee has prepared its first Taskforce on Climate-related Financial Disclosures (TCFD) report, embedding considerations of climate risks and opportunities within day-to-day management of the Fund's portfolio, which will be published as an appendix with this Annual Report. 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.

The Trustee is closely monitoring the conflict in Ukraine and any potential impacts on the Fund. The Fund's direct exposure is very limited. The Trustee continues to work closely with its advisers and investment managers to monitor the Fund's investments.

Investment

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 monitors the performance of the funds in which these AVCs are invested in line with their objectives to make sure that they remain appropriate.

Operations

The Trustee is increasing focus on inclusion and diversity in operating the Fund, both in respect of Trustee matters and for Fund members. In April 2021, the Nationwide Pension Fund website at nationwidepensionfund.co.uk was given a new look, designed to comply with the World Wide Web Consortium's (W3C) Level A guidelines for accessibility. The new functions available allow visitors to the website to increase the font size, have it read aloud and change it to 'dark mode' and to keep it continuously improving, this will be checked against industry standards annually.

In October 2021 we advised that after an extensive review the decision had been made to move the Fund's administration to a specialist provider, Buck Consulting, to ensure that the administration was fit for the future. This was a considerable piece of work and one of the larger projects that a pension scheme would carry out in its lifetime. I would like to acknowledge the considerable work and efforts of all those involved in facilitating this change.

The Fund has a new Member Portal and the Trustee Directors strongly encourage our members to log on to the 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 2022 Buck has started to release the functionality to get retirement quotations online.

The Trustee, through its Operations Committee, has continued to monitor service levels and resource. Despite the additional pressures of processing a large number of leavers due to the Fund closure to future accrual, and the transition to Buck, the Nationwide Administration Team maintained a conscientious and quality service to our members until the migration to Buck was complete. I would like to formally acknowledge Ian Baines, Darren O'Neil, Jeanne Palmer and all of the Employee Pensions Team for their hard work in achieving this.

Governance

The Trustee continued to maintain a strong focus on governance during the year. There was a particular emphasis on a robust process for the transition to Buck Consulting, ensuring clear delineation of responsibilities and that controls and risks were managed effectively.

More broadly, the Board and its Committees consider the potential for emerging risks, as well as monitoring the Fund's identified risks through a formal register. The Board is currently reviewing its risk framework to ensure that it remains appropriate and reflects the requirement of the new Pension Regulator code that is due to be issued in final form later in 2022.

The Trustee also works with Internal Auditors to identify other areas that could be improved and the Internal Audit Charter is available on request.

CHAIR'S STATEMENT – continued

Trustee Board

I am pleased to confirm that following the Member Nominated Trustee Directors election, John Wrighthouse and Rob Goldspink were re-elected as Member Nominated Trustee Directors from 1 October 2021.

There will be two further vacancies during 2022 for terms that were due to end in April 2022. In consideration of the transition to Buck Consulting in February 2022, the Trustee Board decided to postpone nominations for the next election process to Summer 2022, extending the terms for the current Trustee Directors Sarah Garrett and Arthur Amos, who have been providing the Fund with continuity during a period of significant change.

The Board continues to assess how it structures its meetings and works together, whilst meeting regularly with its advisers, both in person and virtually, at Committee and main Board meetings.

An annual Trustee self-assessment is carried out, where we reflect on our collective and individual performance, as well as receiving feedback from key advisers, to make sure we're maintaining a high-level of performance in our duties as Trustee Directors. The focus remains on sustaining and developing knowledge and understanding, through strategy and training sessions which have been conducted virtually throughout the year.

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

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

TRUSTEE REPORT
FOR THE YEAR ENDED 31 MARCH 2022

The Trustee of the Fund presents its Annual Report for the year ended 31 March 2022, together with the actuarial certificates and financial statements. The Fund is a defined benefit scheme providing all benefits based on Career Average Revalued Earnings ('CARE') from 1 April 2011. Prior to this date benefits were based on final salary for members who joined prior to 1 January 2002, and on CARE for members who joined after that date. Between 1 April 2011 and 31 March 2021, the final salary link was maintained, where appropriate, for service before 1 April 2011. On 31 March 2021 the Fund closed to future accrual.

From 1 June 2007, the Fund was closed to new Nationwide employees, who instead are eligible to join the Nationwide Group Personal Pension ('GPP') arrangement, as are those members of the Fund who were employed by Nationwide on 1 April 2021 after the Fund closed to future accrual. The GPP arrangement is a defined contribution scheme administered by Aviva and is not part of 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 24 to 27.

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 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.

The Board of Nationwide Building Society ('the Society') has the power to appoint four Trustee Directors (and change them from time to time). All four Member Nominated Directors ('MND') 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 approval is first obtained from the membership in a postal ballot (for Member Nominated Directors).

The current Trustee Directors are shown on page 2. Five of them, none of whom were 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 meetings are normally held four times a year, with an additional strategy & development day. 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 2022 there were nine Board meetings including a training and strategy & development session; reflecting a very busy year. Attendance for all or part of meetings falling in each of the Directors' period of office was as follows:

TRUSTEE REPORT – continued

Arthur Amos	9 of 9	Laura Faulkner	6 of 9
Sarah Garrett	8 of 9	Heather Tipple	9 of 9
Rob Goldspink	9 of 9	Mark Hedges	9 of 9
John Wrighthouse	9 of 9		
Catherine Redmond (BESTrustees Ltd)	9 of 9		

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

No changes were made to the Trust Deed and Rules during the year.

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 Secretary to the Trustee.

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

Corporate Governance

The Fund's policy statement in respect of voting and corporate governance is included in section 3 of the Fund's Responsible Investment Policy, which was updated along with the Statements of Investment Principles (SIPs) for the two sections on 10 May 2022. 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.

Data Protection

The Fund has a robust 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 this can therefore be found on the Trustee Website at nationwidepensionfund.co.uk where you'll 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/how-to-spot-a-pension-scam

Membership

The change in the membership of the Fund during the year is given below:

	Note	Nationwide Section	C&D Section	Total
Deferred Members				
Deferred members at the beginning of the year		19,132	636	
Prior year adjustments	(a)	(8)	-	
Deferred members transferring out		(97)	(10)	
Deferred members retiring		(630)	(22)	
Deferred members retiring with trivial commutations		(1)	-	
Deaths in deferment		(16)	-	
Merged records	(c)	(27)	-	
		18,353	604	18,957
Pensioners				
Pensioners at the beginning of the year		8,500	663	
Prior year adjustments	(a)	-	3	
Adjustment to opening balance	(b)	293	-	
Deferred members retiring		630	22	
Deferred members with Flexible Retirement		99	-	
Spouses and dependants		64	4	
Commutations of trivial pensions		(4)	(1)	
Deaths in retirement		(157)	(12)	
Merged records	(c)	(125)	-	
		9,300	679	9,979
TOTAL MEMBERSHIP AT 31 MARCH 2022		27,653	1,283	28,936

(a) The prior year adjustments relate to late notification of changes in the membership.
(b) The adjustment to opening balance is to include the Flexible Retirement members.
(c) Merged records relate to members who previously had two separate periods of membership.

Nationwide Section pensioners do not include 25 members (2021: approx. 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.

With effect from February 2022, the Cheshire and Derbyshire Section purchased a buy-in insurance policy with Canada Life for £172.2m which covered 627 members. The C&D Section is in receipt of an 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 the Fund prudently to make sure that the benefits promised to members are provided when they fall due. The Fund's Statement of Funding Principles sets out a long-term objective ("LTO") that has been agreed with the Society. However, the Trustee's aim is to be funded at LTO, (referred to later as Low Dependency) by 2031. The Trustee believes this is best achieved by having both an investment strategy and a journey (or de-risking) plan.

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, the Low Dependency basis which assumes lower investment returns and no support from the Society, and the Buy-out basis which is the cost to transfer the scheme to an insurance company. There is a strong link between the funding levels although the Trustee recognises that over time the relationship between these three measurements of liabilities will change. The plan is to steadily de-risk the Fund to protect the funding position on the Low Dependency 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 expected to be 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. The current strategic asset allocation strategy as at 31 March 2022, chosen to meet the objectives of the Nationwide Section, is set out in the table below.

Asset Class	Target Weighting %	Range %	Actual %
Matching Assets	**57.5**	**50-65**	**57**
Government and Supranational Bonds	47.5-50	40-60	49
Alternative Matching Assets (AMA)	7.5-10	5-10	8
Long Lease Property	-	0-5	2
Ground Rent Property	-	0-5	3
Other AMAs	-	0-3	3
Return Seeking Assets	**42.5**	**35-50**	**43**
Equities	10	7.5-12.5	10
Physical	7	5-9	6
Synthetic	3	1-5	3
Credit	10	7.5-12.5	9
Illiquid portfolio – private markets	22.5	17.5-27.5	24
Capital Appreciation	-	2.5-12.5	13*
Equity Cashflow	-	*2.5-10*	4
Credit Cashflow	-	*5-14*	7
Opportunities	-	*0-2.5*	-
Cash	**1**	**0-2**	**-**

**Capital Appreciation is outside its operational range, as allowed by the SIP, due to increasing interest rates causing other assets to fall in value*

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

Asset Class	Target Weighting %	Actual %
Global equities	5-10	13**
Matching Portfolio	90-95	87**
Cash	0-2	-

*** C&D Actual diverged from Target, as allowed by the SIP, due to rising interest rates causing the value of the Matching Portfolio to fall*

Each section has its own Statement of Investment Principles ('SIP') which details the respective investment strategy. Copies of the SIP 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. The latest Nationwide Section SIP and C&D Section SIP were approved by the Trustee Board on 10 May 2022 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. 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. Further details can be found in the Implementation Statement in the Appendix (see page 57) which forms part of this Trustee Report.

TRUSTEE REPORT – continued

The Trustee has also published its inaugural Taskforce for Climate Related Disclosures (TCFD) report (see page 61) which outlines how the Fund is governed and how climate risks and opportunities have been embedded within the Fund's strategy and ongoing operations.

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.

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

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 annually report 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 SIP, which is reviewed annually in conjunction with the Fund's Investment Consultant. Within each asset class, the Fund will seek asset managers which it assesses to be capable of delivering returns in line with their stated mandate (amongst several other factors such as diversification).

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.

TRUSTEE REPORT – continued

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 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 stated 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). The Trustee will review its policy on how to best reflect these views in the investment strategy on an annual basis.

Review of Investment Performance

The Fund's combined investment assets as at 31 March 2022 were £7,330.4m (2021: £6,969.9m).

The annualised total returns for the Fund were as follows:

Asset Class	One Year		Three Year[1]	
	Actual %	Benchmark %	Actual %	Benchmark %
Nationwide Pension Fund Performance				
Total Return	**9.4**	**7.8**	**7.6**	**6.8**

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

Asset Class	One Year		Three Year[1]	
	Actual %	Benchmark %	Actual %	Benchmark %
Nationwide Section Performance Analysis				
Core Matching Assets[2]	5.0	4.7	3.9	4.0
Alternative Matching Assets	15.6	11.6	6.6	6.9
Equities	14.2	8.3	16.2	11.9
Credit	1.5	4.4	3.6	4.2
Private Markets[3]	23.2	14.0	13.7	9.3
Total Return	**9.4**	**7.8**	**7.6**	**6.8**

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 1.6% higher than the benchmark. This performance was primarily due to the performance of Equities and the Private Markets portfolio, reflecting the benefits of a diversified investment strategy. Core Matching Assets and Alternative Matching Assets outperformed the benchmark whilst Credit underperformed.

C&D Section Performance Analysis				
Core Matching Assets[4]	(5.0)		0.3	
Equities	12.1		14.5	
Total Return	**(3.5)**	**(3.5)**	**1.4**	**1.4**

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.

TRUSTEE REPORT – continued

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 2019 and showed the funding position to be as follows:

	Nationwide Section	C&D Section
Value of the Technical Provisions	£6,105m	£319m
Value of the assets at that date	£5,925m	£336m
(Shortfall)/Surplus	(£180m)	£17m
Funding level	97%	105%

Update on the Funding Position

The information noted above relates to the last triennial valuation of the liabilities which was undertaken as at 31 March 2019. The funding position for both Sections has improved with both Sections now in surplus. The latest formal update, as at 31 March 2021, shows a surplus of £228m for the Nationwide Section and £22m for the C&D Section. The Trustee is currently undertaking the 31 March 2022 triennial valuation. This is expected to continue to show a surplus for both Sections.

Following the agreement of an appropriate contingent asset no further deficit recovery plan lump sums are currently scheduled to be made.

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 £6m for the Nationwide Section and £3m 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 2019 are set out below:

- Discount rates:
  Pre-retirement: fixed interest gilt yield curve plus 1.25% p.a.
  Post-retirement: fixed interest gilt yield curve plus 1% p.a.

- Rate of pay increases:
  In line with the Retail Price Index ('RPI') inflation.

TRUSTEE REPORT – continued

- Rate of RPI price inflation:
  Bank of England breakeven RPI curve.

- Rate of Consumer Price Index ('CPI') price inflation:
  RPI inflation less 0.9% p.a.

- Post-retirement mortality:
  The SAPS S3 Series 'all' table for males and 'mid' tables for females with scaling factors of:
  - for pensioners 93% for men (and their dependants) and 95% for women (and their dependants).
  - for non-pensioners 98% for men (and their dependants) and 102% for women (and their dependants).

  An allowance for future improvements in line with the CMI 2018 Core Projections, assuming 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 yield curve 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 96% for women (and their dependants).
- for non-pensioners 95% for men (and their dependants) and 101% for women (and their dependants).

An allowance for future improvements in line with the CMI 2018 Core Projections, assuming 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 4.9% on 1 April 2022 (1 April 2021: 1.1%) in line with the RPI for the year ended 30 September 2021. 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 provided each 1 July)

Statement of Trustee's Responsibilities for the year ended 31 March 2022

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.

Further Information

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

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

The Trustee Report which includes the Annual Implementation Statement and TCFD Report (on pages 57 and 61 respectively) was approved by the Trustee on 12/09/2022 and signed on its behalf by:

Catherine Redmond, BESTrustees Limited

Trustee Director

Rob Goldspink

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 2022, 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 2022 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 Brexit and Covid-19, 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.

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

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.

The responsibilities of the Trustee with respect to going concern are described in the 'Responsibilities of trustee for the financial statements' section of this report.

Other information

The Trustee is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 or a material misstatement of the other information. 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.

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.

INDEPENDENT AUDITOR'S REPORT – continued

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

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 that 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 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.
- 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 Account 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.

INDEPENDENT AUDITOR'S REPORT – continued

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from 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.

Use of our report

This report is made solely to the 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 Trustee those matters we are required to state to them 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 Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

FINANCIAL STATEMENTS

Fund Account for the year ended 31 March 2022

	Note	2022 £m	2021 £m
Contributions and benefits			
Employer contributions receivable	4	0.1	64.1
Member contributions receivable	4	-	10.6
Total contributions		**0.1**	**74.7**
Benefits payable	5	(125.4)	(118.9)
Payments to and on account of leavers	6	(63.2)	(45.9)
Administrative expenses	7	(5.7)	(6.5)
		(194.3)	**(171.3)**
Net withdrawals from dealings with members		**(194.2)**	**(96.6)**
Returns on investments			
Investment income	8	54.1	86.6
Change in market value of investments	11	549.4	481.7
Investment management expenses	9	(41.6)	(35.3)
Net returns on investments		**561.9**	**533.0**
Net increase in the Fund during the year		**367.7**	**436.4**
Net assets of the Fund			
At the beginning of the year		**6,977.3**	**6,540.9**
At the end of the year		**7,345.0**	**6,977.3**

The notes on pages 28 to 52 form part of these financial statements.

NATIONWIDE PENSION FUND

FINANCIAL STATEMENTS

Statement of Net Assets (Available for Benefits) as at 31 March 2022

	Note	2022 £m	2021 £m
Investments	10,11,20		
Assets			
Fixed interest securities		1,788.5	1,594.3
Index linked securities		2,963.1	2,859.5
Pooled investment vehicles	13	3,688.1	3,624.8
Derivatives	14	174.8	52.1
Property	15	198.3	227.5
Annuity investments	16	159.9	0.6
Cash deposits	17	-	50.0
Other investment balances	17	5.6	31.9
AVC & Bonus Saver investments	18	12.3	12.2
Amounts receivable under reverse repurchase agreements	17,19	-	262.2
		8,990.6	**8,715.1**
Liabilities			
Derivatives	14	(98.3)	(71.0)
Cash deposits	17	(4.5)	-
Amounts due under repurchase agreements	17,19	(1,555.2)	(1,673.0)
Other investment balances	17	(2.2)	(1.2)
		(1,660.2)	**(1,745.2)**
Total net investments		**7,330.4**	**6,969.9**
Current assets and liabilities			
Current assets	21	18.1	15.0
Current liabilities	21	(3.5)	(7.6)
		14.6	**7.4**
Net Assets of the Fund at 31 March		**7,345.0**	**6,977.3**

The Notes on pages 28 to 52 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 26 to 52 were approved by the Trustee on 12/09/2022 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 2022

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(e)(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) Contributions

Deficit funding costs, redundancy waivers and augmentations are accounted for according to the due dates prescribed by the Schedule of Contributions or on the date of receipt if earlier.

(b) Transfers to other schemes

Transfer values are included in the financial statements in accordance with the agreement, which is normally when paid. They do not take account of members who have notified the Fund of their intention to transfer.

(c) 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.

(d) Expenditure

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

Benefits payables 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.

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.

(e) 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. Property limited partnerships are valued at the Fund's share of net assets, with the underlying property valued in accordance with accounting policy 3(e)(vii).
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. Option 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.
vii. 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.
viii. 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.
ix. 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.

(f) 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

(g) 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	2022 £m	2021 £m
Employer contributions:			
Normal		-	49.6
Smart	(a)	-	10.7
Redundancy waivers/augmentations	(b)	0.1	3.6
Bonus Saver (additional benefits)	(c)	-	0.1
Bonus Saver (money purchase)	(c)		0.1
		0.1	64.1
Member contributions:			
Normal		-	0.2
AVCs (additional benefits)	(c)	-	9.1
AVCs (money purchase)	(c)	-	1.3
		-	10.6
		0.1	74.7

(a) ‘Smart’ relates to a salary sacrifice scheme that enables members to sacrifice part of their salary in return for the Society making a pension contribution for them.

(b) 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.

(c) Bonus Savers were payments made by the Society to improve the pensions of employees who have waived all or part of their annual entitlement. Money purchase Bonus Savers and AVCs are invested with the companies listed in Note 18. Alternatively, Bonus Savers or AVCs can be used to secure additional benefits in the form of pension credits.

5. Benefits payable

	2022	2021
	£m	£m
On or during retirement		
Pensions *	98.1	93.4
Commutations	26.1	23.7
Taxation where lifetime or annual allowance exceeded	0.6	1.1
	124.8	118.2
Death benefits		
Death in service, deferment & retirement benefits	0.6	0.7
	125.4	118.9

*The pensions balance represents reimbursement of £91.0m (2021: 93.4m) to the Society during the year, until 1 March 2022, when £7.1m pension benefits were paid to members by the Fund Administrator.

6. Payments to and on account of leavers

	2022	2021
	£m	£m
Individual transfers to other schemes	63.2	45.9

7. Administrative expenses

	2022	2021
	£m	£m
Administration and processing costs	4.6	2.5
Actuarial fees	0.3	0.5
Audit fees	0.2	0.2
Pension levies	0.2	2.2
Legal and other professional fees	0.4	1.1
	5.7	6.5

Administration and management services for the Fund were provided solely by the Society until 21 February 2022, when administration was migrated to Buck. Fees payable by the Fund to the Society for services rendered are included in the total for administration and processing costs and totalled £0.02m (2021: £0.02m). Audit fees include both external (Grant Thornton UK LLP) £0.1m (2021: £0.1m) and internal (Deloitte LLP) £0.1m (2021: £0.1m) audit services.

Trustee directors who are not employees of the Society are able to receive remuneration for their services. Trustee fees of £0.2m (2021: £0.3m) relating to the Fund year are included in the total for administration and processing costs.

8. Investment income

	2022 £m	2021 £m
Interest on fixed interest securities	36.5	37.0
Interest on index-linked securities	7.6	7.3
Income from pooled investment vehicles	48.0	32.0
Interest on swaps	4.3	5.6
Net rental income	10.6	11.3
Income from annuities	0.6	0.1
Net interest on cash deposits	0.3	0.7
Loss on settlement of an Option	(50.3)	-
Net interest on repurchase agreements	(3.5)	(7.4)
	54.1	86.6

The above £50.3m debit income is due to loss on settlement of the OTC (over the counter) Options contract and the corresponding collateral movement.

Net Interest on repurchase agreements (including reverse repurchase agreements) relates to the interest paid on repurchase agreements, net of the interest received on the government bonds used as security against those agreements.

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 policies will increase next year as only one payment was received during this reporting period.

9. Investment management expenses

	2022 £m	2021 £m
Administration, management and custody	40.0	33.5
Investment consultancy fees	0.8	0.9
Investment services provided by the Society	0.8	0.9
	41.6	35.3

Investment management expenses include fees of £33.6m (2021: £27.9m) 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.

NOTES TO THE FINANCIAL STATEMENTS – continued

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.

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 2022				
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
ABC/Bonus Saver investments	-	-	12.3	12.3
Cash deposits	(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
	4,755.8	246.2	2,328.4	7,330.4

At 31 March 2021	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Fixed interest securities	1,594.1	0.2	-	1,594.3
Index linked securities	2,859.5	-	-	2,859.5
Pooled investment vehicles	-	2,243.0	1,381.8	3,624.8
Derivatives	3.1	(22.0)	-	(18.9)
Property	-	-	227.5	227.5
Annuity investments	-	-	0.6	0.6
AVC/Bonus Saver investments	-	-	12.2	12.2
Cash deposits	50.0	-	-	50.0
Repurchase and reverse repurchase agreements	-	(1,410.8)	-	(1,410.8)
Other investment balances	22.7	7.8	0.2	30.7
	4,529.4	818.2	1,622.3	6,969.9

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 2021	Cost of purchases and derivative payments	Sales proceeds and derivative receipts	Change in Market Value	Value at 31 March 2022
	£m	£m	£m	£m	£m
Fixed interest securities	1,594.3	536.8	(143.8)	(198.8)	1,788.5
Index linked securities	2,859.5	67.0	(76.2)	112.8	2,963.1
Pooled investment vehicles	3,624.8	3,898.8	(4,248.5)	413.0	3,688.1
Derivatives	(18.9)	26.3	(116.4)	185.5	76.5
Property	227.5	2.0	(79.8)	48.6	198.3
Annuity investments	0.6	172.2	-	(12.9)	159.9
AVC/Bonus Saver investments	12.2	0.4	(1.5)	1.2	12.3
	8,300.0	4,703.5	(4,666.2)	549.4	8,886.7
Cash deposits and other investment balances	(1,330.1)			-	(1,556.3)
	6,969.9			549.4	7,330.4

Transitions

Most of the purchases and sales reflect a focus on improving the matching risk throughout the year. This has been achieved by the net increase of £384m in fixed interest and index linked securities and the decrease in the repurchase agreement liability of £90m (included in ‘cash deposits and other investment balances’).

Within pooled investment vehicles, a net total of £350m has been disinvested, which has funded the matching assets mentioned above.

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 £33.6m during the year (2021: £27.9m) 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.

Capital commitments

As at 31 March 2022 the Fund was committed to providing further investment funding totalling £1,039m (2021: £923m) 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	Levies, stamp duty and taxes	Total
	£m	£m	£m
2022			
Property	2.5	-	2.5
2021			
Property	1.6	-	1.6

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 Trustee to quantify such indirect transaction costs due to the information not being available from the Fund managers.

13. Pooled investment vehicles

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

	2022	2021
	£m	£m
Bond funds	756.5	937.6
Equity funds	653.8	1,036.7
Property funds	601.2	458.6
Private market funds	1,495.6	1,043.4
Cash funds	181.0	148.5
	3,688.1	3,624.8

Of the above investments, £3,532.9m (2021: £3,286.7m) was held in the Nationwide Section and £155.2m (2021: £338.1m) in the C&D Section.

NOTES TO THE FINANCIAL STATEMENTS - continued

Qualifying Investment Fund

The Fund is 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 are:

	2022 £m	2021 £m
Fixed interest securities	96.9	101.8
Total return swap assets	15.2	31.6
Foreign exchange contracts assets	467.0	381.5
Foreign exchange contracts liabilities	(470.4)	(377.6)
Cash and cash equivalents	87.6	32.8
	196.3	170.1

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 2022	245.1	15.2	-
At 31 March 2021	193.2	31.6	-

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

	2022 £m	2021 £m
Collateral held (pledged from third parties)	16.6	35.2
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	(15.8)	16.9	(32.7)
GBP	150.8	309.0	(158.2)
JPY	(11.3)	11.3	(22.6)
USD	(127.2)	129.8	(257.0)
At 31 March 2022	(3.5)	467.0	(470.5)
At 31 March 2021	3.9	381.5	(377.6)

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:

	2022 £m	2021 £m
Investment property	201.0	159.5
Debtors: amounts falling due within one year	1.9	1.4
Cash at bank	2.2	3.2
Creditors: amounts falling due within one year	(1.8)	(1.5)
Net assets of limited partnerships	203.3	162.6

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 four 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.

Options: Option contracts have been entered into in order to allow the Scheme to benefit from potentially greater returns whilst minimising the risk of loss due to adverse market movements.

NOTES TO THE FINANCIAL STATEMENTS – continued

	2022 Assets £m	2022 Liabilities £m	2021 Assets £m	2021 Liabilities £m
Futures	8.7	-	3.0	-
Swaps	166.0	(95.7)	48.1	(47.2)
Forward foreign exchange	0.1	(2.6)	1.0	(1.5)
Options	-	-	-	(22.3)
	174.8	(98.3)	52.1	(71.0)

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	7.6	-	0.3	-
Overseas equities	Less than 1 year	159.7	-	8.4	-
	At 31 March 2022	167.3	-	8.7	-
	At 31 March 2021	270.2	-	3.0	-

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	477.0	-	(1.5)
	Between 1 and 5 years	251.8	0.1	(16.4)
	Between 5 and 10 years	488.2	-	(43.8)
	Between 10 and 20 years	191.3	1.1	(20.2)
	Between 20 and 30 years	58.4	-	(5.7)
	Between 30 and 40 years	42.7	-	(4.5)
	Between 40 and 50 years	26.2	-	(3.6)
		1,535.6	1.2	(95.7)

Nature	Expiration	Notional principal £m	Market value asset £m	Market value liability £m
Inflation rate swaps	Less than 1 year	103.0	0.7	-
	Between 1 and 5 years	366.5	36.0	-
	Between 5 and 10 years	319.1	53.8	-
	Between 10 and 20 years	435.4	69.9	-
	Between 40 and 50 years	4.3	2.6	-
		1,228.3	163.0	-
Total return swaps	Less than 40 years	58.7	1.8	-
	At 31 March 2022	2,822.6	166.0	(95.7)
	At 31 March 2021	2,646.9	48.1	(47.2)

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:

	2022 £m	2021 £m
Collateral pledged to third parties	43.8	10.4
Collateral held from third parties	85.1	-

Forward Foreign Exchange Contracts

	Currency	Gross sale/(purchase) value at inception £m	Market value asset £m	Market value liability £m
Currency sold	US Dollar	111.5	-	(2.4)
	Euro	5.6	0.1	-
	Other	8.7	-	(0.2)
	At 31 March 2022	125.8	0.1	(2.6)
	At 31 March 2021	134.3	1.0	(1.5)

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

Options

The Fund had the following open OTC option contracts at 31 March 2022:

Nature	Economic exposure £m	Expires	Asset value £m	Liability value £m
Total 2022	-		-	-
Total 2021	366.3		-	(22.3)

15. Property

	2022 £m	2021 £m
Freehold property	198.3	227.5

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 2022. 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. With effect from February 2022, the Cheshire and Derbyshire Section purchased a buy-in insurance policy with Canada Life for £172.2m which covered 627 members. Reference income commenced from 1 March 2022 and data validation will continue until January 2024, so there is potential for the premium to be amended in the future.

NOTES TO THE FINANCIAL STATEMENTS – continued

17. Cash deposits and other investment balances

	2022 £m	2021 £m
Cash deposits	-	50.0
Accrued income	5.6	31.9
Amounts receivable under reverse repurchase agreement	-	262.2
	5.6	344.1
Cash deposits	(4.5)	-
Accrued expenses	(2.2)	(1.2)
Amounts due under repurchase agreements	(1,555.2)	(1,673.0)
	(1,561.9)	(1,674.2)
Net cash deposits and other	(1,556.3)	(1,330.1)

Cash deposits were negative as 31 March 2022 (£4.5m) due to cash being deposited with Goldman Sachs Central Counterparty Clearing House (£23m) within the Insight Liquidity Fund.

18. AVC and Bonus Saver investments

Aggregate amounts of AVC and Bonus Saver investments were:

		2022 £m	2021 £m
AVCs	Aviva	0.1	0.1
	Fidelity Pensions Management	8.8	8.6
	Legal and General	-	0.1
	Prudential Assurance Company	1.3	1.4
	Standard Life Assurance Company	-	0.1
		10.2	10.3
Bonus Savers	Fidelity Pensions Management	2.0	1.8
	Prudential Assurance Company	0.1	0.1
		2.1	1.9
		12.3	12.2

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 2022 the market value of securities sold under repurchase agreements was £1,483.9m (2021: £1,588.1m).

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 2022 this amounted to £1,557.5m (2021: £1,674.4m) including £2.2m (2021: £1.4m) accrued interest.

At 31 March 2022 there was collateral held in the form of index-linked bonds of £210.7m (2021: £169.1m) against the difference in valuation between the underlying securities and the repurchase agreements

20. Investment risks

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

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%-65% 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 between 97% and 100% of the Fund's assets. In the long-term the aim is to move towards hedging 100% of Low Dependency measure of liabilities, as the funding level convergence with Low Dependency.

NOTES TO THE FINANCIAL STATEMENTS - continued

In addition, 35-50% 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 £8,425.6m (2021: £7,974.3m), 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 £7,003.6m (2021: £6,619.7m).

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	2022 Total £m	2021 Total £m
Matching Assets				
Government and Supranational Bonds[1]	4,751.5	-	4,751.5	4,453.6
Alternative Matching Assets:				
Long Lease Property	164.0	184.9	348.9	287.6
LP Property	-	203.3	203.3	162.6
Cash	(12.9)	5.1	(7.8)	81.7
Derivatives	70.3	-	70.3	0.9
Other assets/liabilities	4.5	-	4.5	6.4
Total Matching Assets	4,977.4	393.3	5,370.7	4,992.8
Return Seeking Assets				
Equities	-	642.5	642.5	1,020.9
Corporate Bonds	0.1	613.6	613.7	619.9
Private Markets				
Infrastructure	-	304.2	304.2	231.9
Property	34.3	212.9	247.2	235.9
Private & Property Debt	-	472.2	472.2	294.0
Private Equity	-	719.2	719.2	517.5
Cash	8.3	39.5	47.8	81.8
Derivatives	8.6	-	8.6	(20.6)
Other assets/liabilities	(0.5)	-	(0.5)	0.2
Total Return Seeking Assets	50.8	3,004.1	3,054.9	2,981.5
Cash and Leverage/Derivatives				
Cash	0.1	135.5	135.6	30.6
Other Derivatives	(2.4)	-	(2.4)	0.8
Other	-	-	-	24.8
Net Repurchase Agreements	(1,555.2)	-	(1,555.2)	(1,410.8)
Total Other Assets and Liabilities	(1,557.5)	135.5	(1,422.0)	(1,354.6)
Total Net Assets (excluding AVCs)	3,470.7	3,532.9	7,003.6	6,619.7

[1] The value of bonds in Matching Assets has decreased and this is principally due to decreases in repurchase agreements used to progress the de-risking strategy.

NOTES TO THE FINANCIAL STATEMENTS - continued

Matching Assets

The Trustee has set an allocation target for total investment in matching assets of between 50%-65% of the total investment portfolio as part of the matching asset investment strategy. As at 31 March 2022 the matching asset portfolio of £5,370.1m (2021: £4,992.8m) represented 77% of the total net investment portfolio (2021: 76%). 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 97%-100% of assets. At 31 March 2022 the interest rate hedge ratio was 100% (2021: 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 97%-100% of assets. At 31 March 2022 the inflation rate hedge was 100% (2021: 100%).

Return Seeking Assets

The year-end allocation to return seeking assets of £3,054.9m (2021: £2,981.6m) was 43% (2021: 45%), within the range set under the strategic asset allocation. This reflects the accounting treatment of synthetic equity exposure rather than the economic risk. The Fund considers its risk exposure in economic terms rather than the accounting treatment. This means that asset allocation limits are set with regard to the economic risk rather than the accounting treatment. This is highlighted by the following table. The allocation will also vary depending on normal market movements and the SIP allows for the Trustee to make short term allocations that move beyond these ranges. The Fund is within the SIP ranges on both an accounting and economic basis.

Manager/Fund	Accounting Exposure (£m)	Economic Exposure (£m)
Developed Equity	522.9	692.5
LGIM Passive	280.1	280.1
Russell Futures	46.6	167.3
LGIM TRS	196.2	245.1
Emerging Market Equity	157.4	157.4
LGIM EM	157.4	157.4
Total	680.3	849.9

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.

- Developed market equity investments are held in pooled funds and included derivative-held exposure through total return swaps and futures; they have a target currency hedge of 70%, with a range of 65%-75%. This is provided by holding the hedged element in a sterling share class with the fund manager hedging the position. Hedging beyond this level is considered to be inefficient with the costs of hedging outweighing the benefits. This was the case at the current and preceding year end.
- Exposure to emerging markets equities, representing 19% (2021: 20%) of the economic risk exposure to equity as shown in the table above, whilst held in a sterling denominated fund, is not hedged as return from these investments is derived from both equity and currency performance.
- 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, currency hedging is not undertaken for overseas private equity, infrastructure, and property investments as the cost would be prohibitive due to the timing and quantity of the realisation of these very illiquid investments being unknown.

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.

NOTES TO THE FINANCIAL STATEMENTS – continued

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. Investments in this category include two multi-asset credit funds (which hold a range of different bonds and loans across a variety of credit classes and a range of credit ratings), 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 £1,862.2m (2021: £2,113.1m) unit-linked insurance contracts and £1,670.7m (2021: £1,173.6m) limited partnership arrangements.

Indirect credit risk arises in relation to underlying investments held in pooled investment vehicles. This includes bonds, secured loan arrangements and the QIF. 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.

NOTES TO THE FINANCIAL STATEMENTS – continued

C&D Section

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

- 90%-95% of its investments into Matching Assets that will broadly move in line with the long-term liabilities of the Section. These comprise UK government and corporate bonds. The purpose of holding these assets is to hedge against the impact of interest rate and inflation movements on long-term liabilities. As at 31 March 2022 the bond funds represented 87% (2021: 92%) of the total investment portfolio based on the fair value of the investments. This variance from the target asset allocation is due to the recent purchase of a bulk annuity contract and will vary depending on normal market/interest rate movements.
- In addition, the Section has set a target asset allocation of 5%-10% of investments being held in global equities. As at the year end the allocation to return seeking assets was 13% which is similarly outside the target allocation and will vary depending on normal market/interest rate movements.

Asset Class	**2022 Total £m**	**2021 Total £m**
Matching Assets		
Bond funds	135.3	310.0
Insurance policy	159.4	-
Return Seeking Assets		
World equity fund	19.9	28.1
Total Net Assets (excluding AVCs)	**314.6**	**338.1**

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.

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.

NOTES TO THE FINANCIAL STATEMENTS – continued

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 was 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 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

	2022	2021
	£m	£m
Current assets		
Cash balances	18.1	15.0
	18.1	15.0
Current liabilities		
Unpaid benefits	(1.0)	(5.6)
Accrued expenses	(1.5)	(1.1)
Amounts outstanding with the Society	(1.0)	(0.9)
	(3.5)	(7.6)

22. Related party transactions

Reimbursements to the Society of pensions payments 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 £0.8m (2021: £0.3m) in respect of administrative expenses and £0.7m (2021: £0.9m) in respect of investment management expenses.

Trustee Directors Arthur Amos, John Wrighthouse and Mark Hedges are in receipt of pension benefits from the Fund. As Member Nominated Directors not employed by the Society, Arthur Amos, John Wrighthouse 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 (2021: less than £0.1m).

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

NOTES TO THE FINANCIAL STATEMENTS – continued

23. Concentration of Investments

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

24. Nationwide Section: Fund Account for the year ended 31 March 2022

	2022 £m	2021 £m
Contributions and benefits		
Employer contributions receivable	0.1	64.1
Member contributions receivable	-	10.6
	0.1	**74.7**
Benefits payable	(118.3)	(112.1)
Payments to and on account of leavers	(58.5)	(39.7)
Administrative expenses	(5.0)	(6.3)
	(181.8)	**(158.1)**
Net withdrawals from dealings with members	**(181.7)**	**(83.4)**
Returns on investments		
Investment income	53.6	86.6
Change in market value of investments	557.6	489.4
Investment management expenses	(41.3)	(35.0)
Net returns on investments	**569.9**	**541.0**
Net increase in the Section during the year	**388.2**	**457.6**
Net assets of the Section		
At the beginning of the year	**6,638.5**	**6,180.9**
At the end of the year	**7,026.7**	**6,638.5**

NOTES TO THE FINANCIAL STATEMENTS - continued

25. Nationwide Section:
Statement of Net Assets (Available for Benefits) as at 31 March 2022

	2022 £m	2021 £m
Investment assets and liabilities		
Assets		
Fixed interest securities	1,788.5	1,594.3
Index linked securities	2,963.1	2,859.5
Pooled investment vehicles	3,532.9	3,286.7
Derivatives	174.8	52.1
Property	198.3	227.5
Annuity investments	0.5	0.6
Cash deposits	-	50.0
Other investment balances	5.6	31.9
AVC & Bonus Saver investments	12.2	12.0
Amounts receivable under reserve repurchase agreement	-	262.2
	8,675.9	**8,376.8**
Liabilities		
Derivatives	(98.3)	(71.0)
Cash Deposits	(4.5)	-
Amounts due under repurchase agreements	(1,555.2)	(1,673.0)
Other investment balances	(2.1)	(1.1)
	(1,660.1)	**(1,745.1)**
Total net investments	**7,015.8**	**6,631.7**
Current assets and liabilities		
Current assets	13.7	14.2
Current liabilities	(2.8)	(7.4)
	10.9	**6.8**
Net Assets of the Section at 31 March	**7,026.7**	**6,638.5**

NOTES TO THE FINANCIAL STATEMENTS - continued

26. C&D Section: Fund Account for the year ended 31 March 2022

	2022	2021
	£m	£m
Contributions and benefits		
Benefits payable	(7.1)	(6.8)
Payments to and on account of leavers	(4.7)	(6.2)
Administrative expenses	(0.7)	(0.2)
	(12.5)	**(13.2)**
Net withdrawals from dealings with members	**(12.5)**	**(13.2)**
Returns on investments		
Investment income	0.5	-
Change in market value of investments	(8.2)	(7.7)
Investment management expenses	(0.3)	(0.3)
Net returns on investments	**(8.0)**	**(8.0)**
Net (decrease) in the Section during the year	**(20.5)**	**(21.2)**
Net assets of the Section		
At the beginning of the year	**338.8**	**360.0**
At the end of the year	**318.3**	**338.8**

NOTES TO THE FINANCIAL STATEMENTS - continued

27. C&D Section: Statement of Net Assets (Available for Benefits) as at 31 March 2022

Investment assets and liabilities	2022 £m	2021 £m
Assets		
Insurance policies	159.4	-
Pooled investment vehicles	155.2	338.1
AVC investments	0.1	0.2
	314.7	**338.3**
Liabilities		
Other investment balances	**(0.1)**	**(0.1)**
Total net investments	**314.6**	**338.2**
Current assets and liabilities		
Current assets	4.4	0.8
Current liabilities	(0.7)	(0.2)
	3.7	**0.6**
Net Assets of the Section at 31 March	**318.3**	**338.8**

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

We have examined the summary of contributions payable to the Nationwide Pension Fund, for the Fund year ended 31 March 2022, which is set out on page 54.

In our opinion contributions for the Fund year ended 31 March 2022 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Fund Actuary on 9 September 2020 for the Nationwide Section and the Schedule of Contributions certified by the Fund Actuary on 23 January 2020 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 Schedule 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 Fund's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a Schedule of Contributions and for monitoring whether contributions are made to the Fund by the employer in accordance with the Schedule of Contributions.

Use of our statement

This statement is made solely to the Fund's Trustee, as a body, in accordance with the Pensions Act 1995 and the Regulations made thereunder. Our work has been undertaken so that we might state to the Fund's 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 Fund's 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

SUMMARY OF CONTRIBUTIONS PAYABLE DURING THE FUND YEAR ENDED 31 MARCH 2022

Contributions payable to the Fund by the employer under the Schedule of Contributions in respect of the year ended 31 March 2022 were as follows:

	£m
Employer normal contributions	
Employee normal contributions	
Redundancy waivers/augmentation payments	0.1
Total contributions received in accordance with the Schedule	**0.1**
Additional employer contributions received not covered by the Schedule	-
Additional employee contributions received not covered by the Schedule	-
Total contributions as per the financial statements on page 30	**0.1**

Signed on behalf of the Trustee on 12/09/2022 by:

Catherine Redmond, BESTrustee Limited
Trustee Director

Rob Goldspink
Trustee Director

Certificate 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 2019 to be met by the end of the period specified in the Recovery Plan titled "Nationwide Pension Fund – Nationwide Section , Recovery Plan" signed by the Trustee on 8 September 2020 and by the Society on 9 September 2020.

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 titled "Nationwide Pension Fund – The Nationwide Section, Statement of Funding Principles (SFP)" signed by the Trustee on 8 September 2020 and by the Society on 9 September 2020.

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: 9 September 2020	
Name: Keith Poulson		Qualification:	Fellow of the Institute and Faculty of Actuaries
Address:	Verulam Point, Station Way, St Albans, AL1 5HE	Name of employer:	Aon Solutions UK Limited

Certification of schedule of contributions

Nationwide Pension Fund – Cheshire & Derbyshire 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 2019 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 23 January 2020.

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:	23 January 2020
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 Hewitt Limited

Nationwide Pension Fund
Annual Implementation Statement
Nationwide Pension Fund Trustee Ltd.

The Trustee follows a Statement of Investment Principles ("SIP") and Responsible Investing ("RI") policy which guides how the Nationwide Pension Fund (NPF) invests, its voting and engagement policies, and how the Fund is governed. The Trustee is guided by the requirement to pay the pensions of our members but importantly we recognise our duty to invest responsibly, taking into consideration the risks and opportunities linked to environmental, social and governance factors.

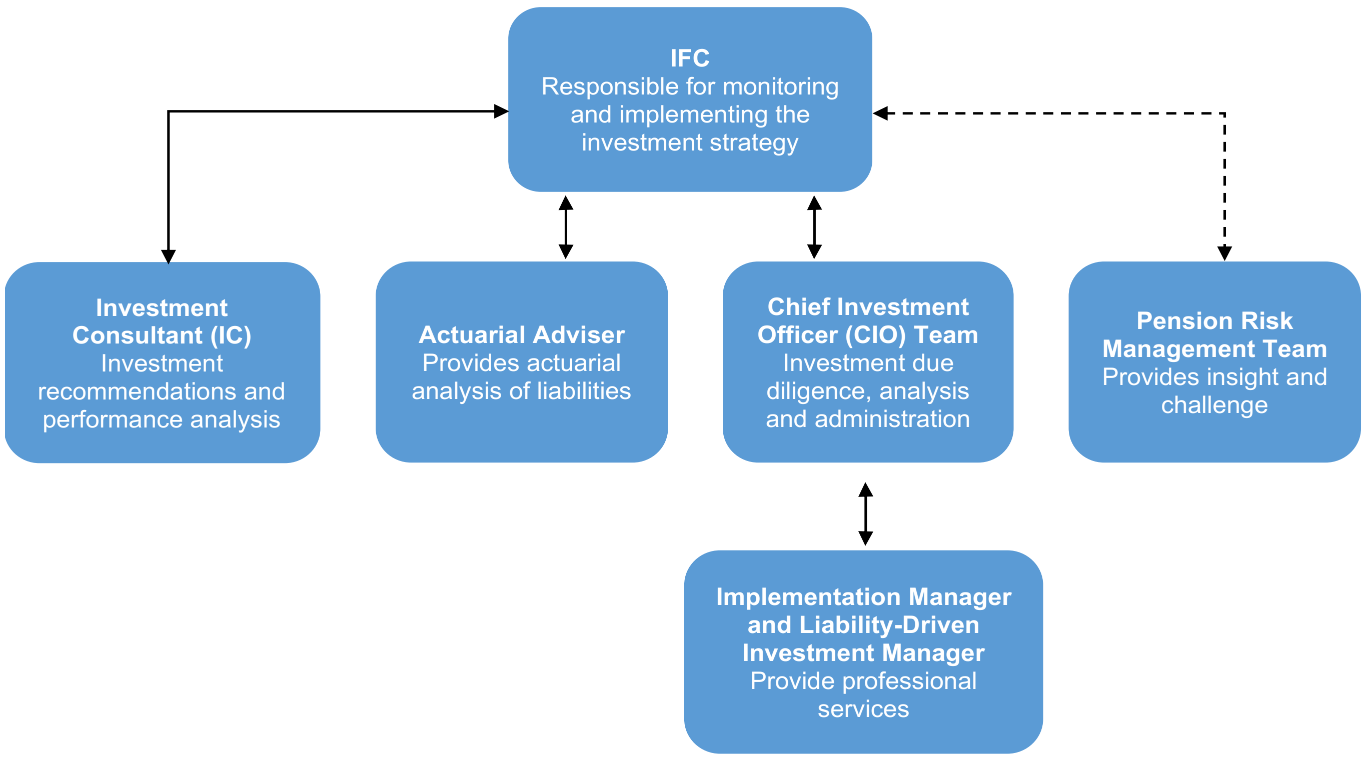
This statement sets out the actions undertaken by the Trustee of the NPF for the year ending 31 March 2022 and describes how the NPF has been governed, how it has voted and how we have followed the policies set out in the SIP and RI policy.

This statement will be updated every year and published in the Nationwide Pension Fund's Library.

How We Are Governed

The Trustee outlines in the SIP how we take responsibility for our investment strategy and how a decision-making structure has been established. The Trustee's aim is to invest assets so that members receive the benefits they were promised. To achieve this, we are aiming to achieve full funding on a Low Dependency basis by 2031 which will be achieved by implementing our investment strategy alongside a de-risking plan.

An Investment and Funding Committee ("IFC") is used to monitor and implement the investment strategy on behalf of the Trustee. Decision-making is led by four trustee members and items such as strategy considerations, investment administration, investment performance and risk management are reviewed, proposed or approved. The diagram below outlines how the IFC works in conjunction with a number of parties:



What we did in 2021/22

Changes to our SIP

Our SIP, alongside our RI policy, explains the way in which we invest. Both of these documents were updated in May 2022.

The SIP was updated to better reflect the steps taken by the fund to reduce longevity risk, previously all of the risk posed by longevity was tolerated but a strategy is now in place to reduce this.

The Fund also changed the strategic asset allocation outlined in the SIP as a result of de-risking from higher returning assets following good performance in 2021.

Stewardship Assessment

The Trustee outlines in the RI Policy our approach to stewardship and the expectations we have of our managers to maintain good governance and stewardship. Every year we reach out to investment managers and ask them to outline

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

The policies for each manager are reviewed by the CIO Team and they provide the Trustee with a review of managers practices. If we believe they could do more, the Trustee will aim to influence as far as we are able.

The Trustee has observed a general improvement of the ESG policies being used by managers across the pension fund. A number of managers have refreshed ESG policies in recent years which reflects the increased attention ESG issues are getting in all markets. Many investment strategies are now also embedding ESG considerations in to products. For example, we hold an investment in a fund that 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 in our TCFD report.

TCFD Reporting

The Taskforce for Climate-related Financial Disclosures was developed in 2015 to develop consistent climate-related financial risk disclosures for use by companies, banks and investors in providing information to stakeholders. In 2022, the Nationwide Pension Fund became in scope to complete our inaugural TCFD report, which has been published alongside the Implementation Statement.

The report outlines how the Fund is governed by the Trustee and how we have embedded climate risks and opportunities within our strategy and ongoing operations. There have been a number of changes to the Fund's operations, and some in depth analysis, in order to better understand the risks posed by climate change.

The Trustee will issue a TCFD report every year going forward, and we will be tracking a variety of metrics. The Trustee is also hoping to influence investment managers and has set a target to receive a better standard of climate data across the portfolio.

Investment Activity

The IFC is responsible for appointing new managers and they are guided by the in-house CIO Team. The CIO Team provides due diligence that covers: investment strategy, the management team, track record of investing under the proposed strategy, internal portfolio alignment, and environmental, social and governance ("ESG") considerations.

The CIO Team prepares this due diligence alongside the IC, and the managers are researched and analysed through various documentation and conversations with key personnel.

The IC also prepares key documentation that provides formal advice to the Trustee that the investment meets set criteria.

Across the year the Trustee has reviewed and approved a number of investment proposals for the NPF across public and private markets, including an ESG equity index and a debt fund that economically incentivises borrowers to improve their ESG credentials

Voting and Engagement

Voting that occurs on behalf of the NPF is driven largely by our exposure to listed equity funds but also through our private markets portfolio, in which managers vote on company resolutions on our behalf. The Trustee sets out expectations of managers within the SIP and RI Policy, and actions are monitored through the annual stewardship assessment.

Within private markets, the Fund is often granted voting rights through membership of Limited Partner Advisory Committees (LPACs). The Trustee delegates voting responsibilities to the CIO Team. The CIO Team will 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.

For the Trustee's listed equity positions, voting responsibilities are delegated to LGIM. The majority of the Fund's listed equities are held in the Future World Index, LGIM's flagship solution within their responsible investing products. Within this index, investments are tilted towards companies that are graded higher from an ESG perspective. We also invest in LGIM's World Equity Index and Emerging Markets Equity Index.

These investments are in pooled vehicles and, as such, we do not directly exercise any voting rights, but we consider LGIM an industry leader in using their influence to achieve positive change. Some examples of how they have exercised their rights for the better are demonstrated on the next page of this statement.

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 funds we are invested in, a record of formal decisions from within the private markets portfolio, and further detail on some of the significant votes made by LGIM:

Voting Statistics by LGIM on Behalf of the NPF

	Future World	World Equities	Emerging Markets
Meetings voted at	1,834	1,570	3,627
Issues voted on	24,084 of 24,107	20,467 of 20,490	31,303 of 31,369
Of which LGIM voted for	82.12%	79.49%	81.82%
Of which LGIM voted against	17.74%	20.34%	16.29%
Of which LGIM abstained	0.14%	0.17%	1.89%
% of meetings at which LGIM voted against at least once	71.27%	81.08%	49.17%

LPAC and Private Market Decisions-NPF

Formal Decisions	Consented	Declined
21	18	3

Significant Votes Made on Behalf of the NPF

The following are examples of significant votes made on behalf of the NPF which include the reasoning for the voting. There were also a number of similar examples in which LGIM used their position to vote in accordance with their policies to try and effect meaningful change which have not been listed here.

LGIM Voted against the re-election of a director of a UK Construction company	
Company: Balfour Beatty Plc **Date**: May 2021 **Topic**: Re-elect a Director **How they voted**: Against	LGIM views gender diversity as a financially material issue for their clients, with implications for the assets they manage on our behalf. For 10 years, they have been using their position to engage with companies on this issue. As part of their efforts to influence investee companies on having greater gender balance, they apply voting sanctions to those FTSE 350 companies that do not have a minimum of 30% women on the board. They also apply voting sanctions to the FTSE 100 companies that do not have 30% women on their executive committee. For smaller companies they expect at least one woman at board level.

LGIM Voted against the re-election of a director of an E-commerce company	
Company: Alibaba Group **Date**: September 2021 **Topic**: Re-elect a Director **How they voted**: Against	LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair as the two roles are substantially different and require distinct skills/experiences. Since 2020 they have voted against all combined board chair/CEO roles and as part of their escalation activity, they will look to vote against management where the issue remains unresolved. This is an example of such a vote and LGIM recorded many votes like this across the financial year.

LGIM Voted against an executive officer's compensation at a Telecommunications Company	
Company: AT & T **Date**: April 2021 **Topic**: Re-elect a Director **How they voted**: Against	LGIM voted against a proposal to ratify a named executive officer's compensation. The team identified serious issues within the structure and quantum of their executive renumeration. The company were planning to pay $48m in equity as a sign-on award to the incoming CEO of one of their divisions, and a $9m retention grant to the General Counsel. LGIM believed these payments did not demonstrate a fair and balanced renumeration in respect to their magnitude and lack of performance criteria required.

APPENDIX 2- Task Force on Climate-related Financial Disclosures (TCFD) 2021

Nationwide
Pension Fund

Task Force on Climate-related Financial Disclosures (TCFD) – Summary

For the Year Ending 31st December 2021

The Trustee of the Nationwide Pension Fund (NPF) recognises the threat of climate change and the impact it could have on the economic, social, and geopolitical stability of the world. This report provides an overview of how the Trustee is considering climate risks and opportunities across NPF in line with the TCFD recommendations.

Governance

The Trustee has established a climate change risk management framework and established roles and responsibilities for each level of governance of NPF.
The Trustee Board is ultimately responsible for all strategic matters related to NPF. This includes a Responsible Investing Policy which has been updated to include a Climate Risk Mission Statement.
This statement acknowledges the risk of climate change and outlines the Trustee's commitment to monitor climate change risk and consider low carbon investments.
The Investment & Funding Committee (IFC) of NPF is a sub-committee of the Trustee Board and it is responsible for governance matters relating to climate risks and opportunities. The IFC also monitors and reviews the Fund's climate change risk management framework.
Day-to-day implementation of the climate change risk management framework is delegated to the Chief Investment Officer's Team (CIO Team).
Each level of the climate change risk management framework is supported by the Trustee's investment consultant, Aon.

Strategy

The Trustee has identified risks and opportunities related to climate risk across three time horizons (short, medium and long-term).
Across the current portfolio, a qualitative assessment of risks has been undertaken for each asset class that uses a RAG rating to provide a high-level overview of the physical and transition risks that NPF is exposed to.
A broad set of opportunities has also been identified that the Trustee may explore. The Trustee invested in one such opportunity in 2021 by moving public equity investments to a low-carbon aligned portfolio.
The Trustee has also considered the impact of climate change on NPF under three different scenarios. Modelling conducted indicated a high degree of resilience to climate change.

Risk Management

The Trustee has outlined the processes for identifying, assessing, and monitoring climate-related risks and opportunities.
For NPF, this is considered through the qualitative assessment of risks and the scenario analyses described in the Strategy section.
On an ongoing basis, the Trustee uses an annual assessment of its investment managers to monitor how climate-related risks and opportunities are considered within their funds. Ratings of all managers are reviewed and discussed by the IFC.
For new investment opportunities the Trustee has developed a questionnaire to be filled out by prospective managers that highlights environmental, social and governance issues. The CIO Team also assesses each manager and evaluates their efforts as a part of initial due diligence.
The Trustee has also incorporated climate risk within the risk management framework that is reviewed on a quarterly basis by the IFC.

Metrics and Targets

The Trustee has established quantitative metrics that will be tracked on an ongoing basis. This will help the Trustee to better understand NPF's climate impact and how it might be improved.
Where possible within this report, the Trustee is sharing the absolute emissions and carbon footprint generated by the portfolio. To gather this data, the Trustee has written to all investment managers and requested a breakdown of emissions data.
As a third metric, the Trustee has agreed to measure the proportion of the portfolio that was able to provide high quality data.
The Trustee has set a target to increase responses from managers in order to improve the quality of data that is reported by NPF.

Governance

1.A - Describe the board's oversight of climate-related risks and opportunities

Role of the Trustee Board

The Trustee Board is ultimately collectively responsible for oversight of all strategic matters related to the Fund. This includes approval of governance and framework matters relating to Environmental, Social and Governance (ESG) considerations and climate-related risks and opportunities.

The Trustee maintains a Responsible Investing Policy which is available on the Nationwide Pension Fund (NPF) website: Nationwidepensionfund.co.uk - Library - Responsible Investing Policy 2022. The Policy details the Fund's overarching approach to managing ESG considerations with asset managers. It is reviewed and (re)approved annually by the Board.

In April 2021, the Trustee set out its inaugural Climate Risk Mission Statement (CRMS) within the Responsible Investing Policy (available on the Fund website). The Statement outlines:

- that climate change presents significant challenges to society and risks are not adequately priced into assets by markets
- that the risks from climate change may materially impact Fund investment performance
- a commitment to focus on low carbon investments and assets aligned with a transition to a low carbon economy
- that the Trustee Board has overall responsibility for setting the Fund's climate change risk management framework and that it will be reviewed annually with progress monitored against objectives at least bi-annually
- that day-to-day implementation of the climate risk framework is delegated to the Chief Investment Officer's Team (CIO Team) and investment consultant

The Trustee Board receives regular training - at least on an annual basis but more frequently if required – on climate-related issues to ensure that it has the appropriate degree of knowledge and understanding on these issues to support good decision-making.

Role of the Investment & Funding Committee (IFC)

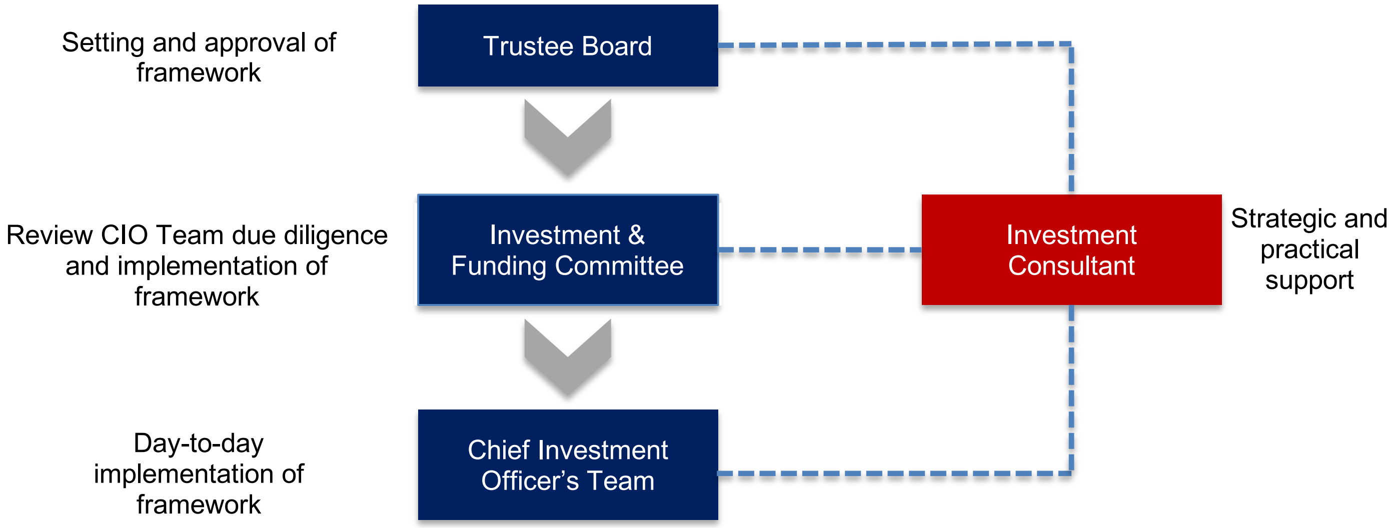
Note that investment, funding and covenant responsibilities are delegated to the **IFC**, which is a sub-Committee of the Trustee Board. One of its key remits is to review investment performance and consider new investment proposals. Prior to exercising its mandate of approving/declining, the IFC seeks to ensure any investment decisions appropriately consider climate-related risks and opportunities within the context of the Fund's portfolio and gives due consideration to the CRMS. Where appropriate, the Trustee Board may delegate responsibility to the IFC for approval of governance and framework matters relating to ESG and climate risk and opportunities.
The IFC monitors and reviews progress against the Fund's climate change risk management framework on an annual basis.

1.B - Describe management's role in assessing and managing climate related risks and opportunities

Role of the CIO Team

Management of the Fund's investment portfolio is the responsibility of the Chief Investment Officer's Team (CIO Team)
As set out in the CRMS, the Trustee Board has delegated the day-to-day implementation of its climate risk framework to the CIO Team. Implementation is detailed later in this report, but key activities include:

- seeking investment opportunities that are aligned to a low carbon economy and the transition thereto
- ensuring investment proposals explicitly consider the impact of climate risks and opportunities when presented to the IFC
- engaging with existing investment managers to understand how climate risks are considered in their investment approach
- working with investment managers to disclose relevant climate-related metrics as set out in the TCFD recommendations
- the Fund's **investment consultant**, Aon, provides strategic and practical support to both the Trustee and CIO Team in addressing climate-related risks and opportunities and ensuring compliance with the recommendations set out by the TCFD



Strategy

2A: Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

The Trustee has identified and provided analysis for climate related risks and opportunities over the short term (1-3 years), medium term (4-10 years) and long term (11-20 years). The Trustee has determined which risks and opportunities can have a material impact on the Fund by undertaking a qualitative risk assessment at the asset class level and through scenario analysis.

The risks identified have been categorised into either physical or transitional.

- **Physical risks** are the risks associated with the physical impacts of climate change on companies' operations. Physical risks have been spilt into acute and chronic. Acute hazards represent severe and extreme events (i.e., floods, storms, wildfires, etc). Chronic represents the background incremental changes (i.e., rising temperature, precipitation, etc).
- **Transitional risks** are the those associated with the transition towards a low-carbon economy. For example, shifts in policy, technology or supply and demand in certain sectors.

The Fund has a portfolio that is diversified across a range of different asset classes. The allocation spilt can be located in the Fund's Statement of Investment Principles. As a result of the diversification within the Fund, the Trustee has completed a best endeavours exercise to provide analysis on the risk and opportunities associated within each asset class.

Risk Assessment

A RAG rating has been utilised for the analysis where

- **Red** denotes a high level of financial exposure to the risk under consideration.
- Amber denotes a medium level of financial exposure to the risk under consideration.
- Green denotes a low level of financial exposure to the risk under consideration.

These ratings are intended to provide a high-level, at-a-glance overview of the climate-related risks in the Fund's portfolio and used as a supplement to the climate scenario analysis which is detailed in section 2C. The judgements below are provided by experts within the Fund's investment consultant and are subject to change as the portfolio changes. An assessment of matching assets has been provided but as these are predominantly government bonds, which are less affected by climate risk, it is relatively brief.

Global Equities

	Physical risks		Transition risks			
Time horizon	Acute	Chronic	Policy and legal	Technology	Market	Reputation
Short						
Medium						
Long						

Analysis indicates that transition risks dominate the climate-related risks associated with global equities, over the short, medium and long term. Market factors (i.e., increased raw material costs, changing consumer behaviour, etc) and policy and legal changes (i.e., carbon taxes, increased compliance costs , etc) present some of the more prominent risks that could negatively impact global equities over the short to medium term. Technology steadily becomes an increasingly more significant risk to equities, and they may be affected in the medium-term as the pace of transition to a low-carbon environment quickens (i.e., inability to transition to products and services that have lower carbon emissions, or unsuccessful investment in new technologies to facilitate a transition to a low carbon economy).

Private Markets: Property and Infrastructure

	Physical risks		Transition risks			
Time horizon	Acute	Chronic	Policy and legal	Technology	Market	Reputation
Short						
Medium						
Long						

Physical risks are the most prominent climate-related risks for property and infrastructure assets. In particular, as the intensity of weather events continues to bring a greater risk of increased damage, the risks to geographically vulnerable areas become particularly acute.
Extreme weather events also pose both acute and chronic physical risks to infrastructure investments: in the worst case, an extreme weather event may cause damage that results in catastrophic failure and a dramatic reduction in the lifespan of infrastructure assets.

Private Markets: Private Equity and Direct Lending

	Physical risks		Transition risks			
Time horizon	Acute	Chronic	Policy and legal	Technology	Market	Reputation
Short						
Medium						
Long						

The climate risk profile of private equity is similar to that of the Fund's global equities, with the benefit of the illiquidity and long-term structures reducing the short-term fluctuations seen in listed equities. In addition, the active mandates traditionally involved in private equity and direct lending serve to reduce the overall climate risk within these assets, provided managers give due consideration to climate risk. The Fund is cognisant of the role that manager selection plays in managing these risks and analyses opportunities in great detail through its due diligence process.

Multi Asset Credit

	Physical risks		Transition risks			
Time horizon	Acute	Chronic	Policy and legal	Technology	Market	Reputation
Short						
Medium						
Long						

The most severe cases generate notable concerns for the credit portfolio, where climate change has resulted in significant amounts of government issued debt, lower interest rates and higher inflation. This would be due to central banks keeping interest rates low to relieve the fiscal burden. In the short-term, the diversity of credit products within the MAC strategy does provide a form of mitigation.

Government Bonds

	Physical risks		Transition risks			
Time horizon	Acute	Chronic	Policy and legal	Technology	Market	Reputation
Short						
Medium						
Long						

Climate risk exposure for government bonds is aligned to government bodies, for NPF this is predominantly through UK Gilts (conventional and inflation-linked) which are c.48% of the portfolio. For the UK, the impacts of physical and transition risks are expected to be less severe than for other G7 countries. UK emissions are predicted to decline consistently over the next 30 years towards its net zero target in 2050. In keeping with this the UK Carbon budget is set to be consistent with keeping temperature rises below 2°C. The UK has also been ranked relatively highly in tackling climate change. The Trustee is cognisant that future policies could change the UK's ability to meet its net zero target, and this will need to be a dynamic assessment.

Opportunities Assessment.

In addition, the Trustee has identified a number of climate-related opportunities that could be pursued by NPF in the future. Current work into climate related opportunities is outlined in this report and the table below outlines opportunities that the Trustee may consider if they are appropriate for the Fund's strategic objectives.

Cleaner Energy			
Power Generation ➢ Solar ➢ Wind ➢ Other clean power ➢ Increased efficiency ➢ Fuel Switch: gas, biomass	Clean Technology Innovation ➢ Carbon Capture ➢ Infrastructure management ➢ Supply chain management	Transport ➢ Emissions reduction ➢ Propulsion systems ➢ Battery technology	Sustainable Biofuels ➢ Biodiesel ➢ Ethanol

➢ Nuclear			

Environmental Resources		
Water ➢ Desalination/purification ➢ Wastewater treatment ➢ Distribution and management	Agriculture ➢ Irrigation innovation ➢ Clean pesticides ➢ Consumer food purity ➢ Seeds and breeding technology	Waste Management ➢ Recycling ➢ Toxin management ➢ Waste to energy ➢ Land remediation

Energy and Material Efficiency		
Advanced Materials ➢ Advanced coatings ➢ Lightweight substitutes ➢ Solvents and biodegradables	Building Efficiency ➢ Building management ➢ Green data centre ➢ Heating and cooling systems ➢ Light systems ➢ Insulation and materials ➢ Micro generation	Power grid Efficiency ➢ Transmission ➢ Distribution ➢ Storage (e.g., batteries, pump storage) ➢ Infrastructure ➢ Energy management systems

Environmental Services	
Environmental Protection ➢ Land conversation ➢ Environmental restoration ➢ Timberland ➢ Forestry ➢ Sea defences	Business Services ➢ Insurance ➢ Logistics ➢ Green focuses banking ➢ Microfinance ➢ Consultancy/ advisory ➢ Intellectual property

2.B Describe the impact of climate related risks and opportunities on the organisation's business, strategy, and financial planning.

The Trustee recognises the importance of climate change and the significant risk it poses to NPF. Consequently, climate change risk continues to be assessed on a quarterly basis as part of its larger risk assessment exercise. The Trustee categorises climate change as a risk that could materially impact the value of the Fund's assets.

As a result, in April 2021 the Trustee published its inaugural Climate Risk Mission Statement (CRMS). This statement as noted in section 1A outlines how the Trustee now considers climate change in the Fund's operations and investments. The CRMS will also be used to influence how the Trustee embeds climate-related risks, and more broadly ESG risks, into the Fund's investment strategy. For example:

- In April 2021 the Trustee agreed to the transition of c.£200m of the Fund's public equity exposure (1/3 of total exposure) to an ESG tilted index. This index not only provided a compelling financial investment opportunity, but also allowed the Trustee to invest in an opportunity that supports the transition to a low-carbon economy, whilst accounting for other ESG factors. This index will seek to achieve this by tilting capital towards companies that have higher ESG scores, and then engaging with the laggards in order to improve their ESG attributes. The fund manager operating this on behalf of the Trustee has a proven and significant track record of active and effective engagement with portfolio companies.

The Trustee, as part of the investment terms, has delegated voting and engagement responsibilities to its appointed investment managers, and as such, NPF will look to influence managers decision making to align to the Trustee's principles and fiduciary responsibilities where appropriate; however, investment managers' are not obliged to follow NPF's policies. The Trustee receives annual reporting from investment managers, who predominantly hold publicly listed assets, which outlines the voting and engagement that has taken place during the year.

During the due diligence of investment opportunities, the Trustee assesses how the investment manager incorporates ESG within their investment processes and ensures that the approach taken is appropriate for the asset class in question. Additionally, the CIO Team engages with managers on an annual basis to formally review their practices via the Fund's stewardship review; this is then presented to the IFC.

The Trustee has recently developed an ESG questionnaire, which in conjunction with assessing the manager's broader approach to ESG, also looks at how the manager identifies and mitigates climate-related risks and opportunities. This questionnaire serves as a tool to negatively screen managers with inadequate practices and challenges.

The Trustee also continues to explore climate-related opportunities within the private markets portfolio.

2.C Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2 degree or lower scenario.

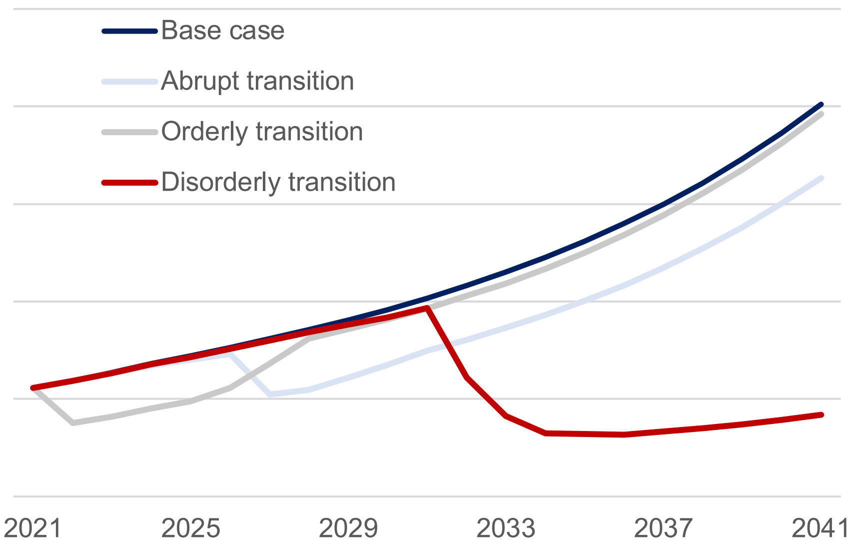
The Trustee recognises the importance of assessing the Fund's resilience against climate-related stress that has the potential to occur over the short, medium and long-term. As such, the Trustee has undertaken scenario analysis on the Fund's portfolio. This analysis has been conducted using three different climate change scenarios: disorderly, abrupt and orderly transitions. The Trustee has chosen these scenarios because it believes they provide a reasonable range of plausible climate change pathways over the time horizons that the Trustee is concerned about.

To begin with, the Trustee established a "**base case**" scenario, which reflects long-term return assumptions that are currently priced into the market. Under this scenario, emission reductions start now and continue in a measured way in line with the objectives of the Paris Agreement and the UK government's legally binding commitment to reduce emissions in the UK to net zero by 2050. Current pricing suggests that the market does not expect a bad climate change outcome and the effects are not as damaging as first thought.

Disorderly transition: In this scenario the world economy remains orientated towards improving near-term economic growth. As a result, no significant actions are taken in the short & medium-term to mitigate the effects of climate change. Actions are taken later in the scenario; however, the late timing means the actions are less effective and more costly to implement. Corporate spreads begin to widen in the later stages of the scenario, leading to growing costs and weaker economic growth. Adverse effects progressively become worse, dragging down the returns on risk assets. Towards the late stage of the scenario market participants begin to grasp the effect of climate change, however market values price in high levels of economic damage and irreversible loss.

Abrupt transition: No action is taken in the short-term. Extreme weather events in the first five years of the scenario result in widespread public concern over climate change. This leads to significant policies being implemented to rapidly drive a reduction in greenhouse gas. Economic damages due to delayed activity restrict the ability of central banks to hike interest rates despite higher inflation and lower economic growth concerns. Delayed action creates a higher cost, as the global economy is forced to move rapidly towards renewables.

Orderly transition: Immediate, coordinated global action is taken to aggressively tackle climate change as public awareness forces governments to intervene. Global greenhouse gas tax and carbon caps are introduced, with green policies and high levels of investment in renewable infrastructure and technologies speeds up adoption. The rapid transition leads to higher inflation in the short-term, dragging returns down; however higher growth prospects boost returns over the longer-term.



The impacts on funding levels under these scenarios (from 2021 positions) is illustrated in the graph on the right.

Of the above scenarios the Trustee currently believes that an abrupt transition is the most likely. This scenario has been used to form the basis of the Fund's TCFD Strategy and Risk Management outlined in sections 2 & 3. This decision will be reviewed as appropriate.

The table below shows how the Fund's portfolio performs against the base case in each scenario over the short, medium, and long-term. The change in Technical Provisions (TP) surplus is the change in value of the Fund against its liabilities:

	Base case	Disorderly transition	Abrupt transition	Orderly transition
Short term return (% p.a.)	3.3	3.6	4.5	(1.4)
Medium term return (% p.a.)	3.6	6.0	3.9	5.2
Long term return (% p.a.)	3.4	(0.6)	2.6	4.0
20-year return (% p.a.)	3.5	2.3	3.3	3.6
Change in TP surplus relative to base case over 20 years (£m)	-	(3,504)	(583)	(161)*

* Deficit in the "Orderly transition" TP surplus is a result of the initial economic shock in the scenario, and hence whilst returns are higher in the 20-year period, the initial shock results in the TP surplus being worse off. This is demonstrated in the above chart.

Of all the scenarios modelled, the portfolio's listed equity exposure proved to be the most volatile, seeing particularly large falls in value in the disorderly transition scenario. It should be noted that the Trustee has already taken steps to protect the Fund's equity portfolio from negative climate-related events through its investment in an ESG tilted index. The Trustee, supported by the CIO Team, will continue to monitor the risks and opportunities, and take steps to protect the Fund where appropriate.

Overall, the Fund exhibits a high degree of climate resilience under all scenarios, driven by the high level of diversification within the portfolio, and the 100% hedge the Fund has implemented against changes in interest rates and inflation expectation.

Risk Management

3.A Describe the organisation's processes for identifying and assessing climate-related risks.

The Trustee's approach to the identification and assessment of climate-related risks and opportunities comprises two elements. The first element is a qualitative assessment of climate-related risks and opportunities which is prepared by the Trustee's investment consultant and the CIO Team, and reviewed by the Trustee. The second element is quantitative in nature and is delivered through climate change scenario analysis, which is provided by the Trustee's investment consultant with input from the CIO Team. Both elements complement each other and taken together give the Trustee a clear picture of the climate-related risks that the Fund is exposed to. Where appropriate, the Trustee distinguishes between transition and physical risks and all risks and opportunities are assessed with reference to the time horizons that the Trustee has identified. In addition, the Trustee assesses the materiality of climate-related risks relative to the impact and likelihood of other material risks to the Fund, in order to prioritise the management of risks that pose the most significant potential for loss. Due to the subjective nature of some of these risks, both of these assessments are performed on individual asset classes.

3.B Describe the organisation's processes for managing climate-related risks

The Trustee manages climate-related risks in a number of ways and is guided by the Fund's Responsible Investing policy. As part of the Fund's investment strategy, the Trustee acknowledges the long-term risks posed by climate change, and as such takes the following steps to manage these risks:

- The Trustee completes periodic training on responsible investment to understand how ESG factors, including climate change, could impact the Fund's assets and liabilities.
- As part of ongoing monitoring of the Fund's investment managers, the Trustee will use ESG ratings, where information is available, to monitor the level of ESG integration within asset managers.
- On an annual basis, the Trustee will request that all appointed investment managers provide their responsible investment policy; details of how ESG is integrated within their decision-making process; and details of outstanding ESG issues within portfolios. A RAG status is then applied to each investment manager, which is subsequently discussed and reviewed at the Investment and Funding Committee (IFC). In circumstances where investment managers' activities are deemed insufficient, the Trustee considers strategies to influence their ongoing improvement.

3.C Describe how processes for identifying, assessing, and manging climate-related risks are integrated into the organisation's overall risk management.

The Trustee has adopted a number of practices that have allowed the implementation of strategies to mitigate against climate-related risks within NPF's broader risk management framework. These practices are:

- Climate change risk is explicitly stated as a risk for the Fund on the Trustee's Risk Register, which is overseen and reviewed by the Fund's IFC and Operations Committee on a quarterly basis. The Trustee recognises the risk climate change can pose to investment returns, through both the physical impacts and the transition risks associated with moving to a low-carbon economy. The assessment of climate change risk is considered by the CIO Team and Trustee on a quarterly basis
- The Trustee has developed and adopted a new ESG evaluation that will be utilised during the initial due diligence of potential investment managers. This assessment focuses on all elements of ESG, with "E" including a specific assessment of climate change risks. The CIO Team are responsible for ensuring investment managers are assessed on their ESG merits, with all appointed investment managers receiving a score.
- Where feasible, the Trustee has already undertaken exercises to mitigate both the transition and physical climate-related risks associated with the portfolio. (e.g., investment in an ESG tilted equity index).

Metrics and Targets

4.A Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process

The Trustees has adopted both quantitative and qualitative measures to help NPF understand and track the exposure it has to climate-related risks. The table below outlines the three measures that are currently being used:

Metric	Definition
Total Carbon Emissions	The total greenhouse gas ("GHG") emissions associated with the portfolio. It is an absolute measure of carbon output from NPF's investments
Carbon Footprint	Carbon footprint is an intensity measure of emissions that takes the total GHG emissions and weights it to take account of the size of the investment made.
No. of Investment Managers That Have Reported on Climate Data	A measure of the proportion of the portfolio that was able to provide high quality data. The Trustee agreed that investment managers will only be considered to have provided high quality data if they were able to report data on 60% or more of their portfolio.

4.B Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks

The table below outlines the current, reported emissions from each asset class in the NPF portfolio. It should be noted that for the majority of asset classes, only a small proportion of managers reported emissions data (detailed in 4.C). The definitions of Scope 1, 2 & 3 emissions and Carbon Footprint are provided in appendix 1.

	Proportion of the NPF (%)	Carbon Footprint (tCO2e/£m)	Scope 1 Emissions	Scope 2 Emissions	Scope 3 Emissions	Total Emissions[2]	Proportion of the NPF Reporting (%)
LDI	47.0%	146.20	483,483	N/A	N/A	483,483	47.0%
Public Equities[1]	12.8%	63.06	N/A	N/A	N/A	N/A	N/A
Public Credit	9.9%	147.50	191,770	2,578	40,466	234,814	6.3%
Matching Assets	9.8%	37.68	89	50	11,576	11,715	4.6%
Private Equity	8.6%	15.79	394	961	921	2,276	1.0%
Private Credit	5.7%	N/A	N/A	N/A	N/A	N/A	N/A
Private Infrastructure	3.5%	382.54	72,991	163	15,796	88,950	1.7%
Private Real Estate	2.7%	2.51	62	434	3,507	4,003	1.0%
			748,789	4,186	72,266	825,241	61.6%

[1]The NPF Public Equity manager currently does not have granular emissions data and is unable to disclose aggregate positions. This will be included when available.

[2]This is an incomplete data set due to a number of managers not being able to provide data, it is expected that this position will increase as more managers report carbon data in future years.

The emissions and carbon footprint calculated for the LDI portfolio are based on UK government emissions data as well as UK GDP. A number of assumptions have been made by the NPF LDI manager due to lack of granular data. This is expected to improve as data quality improves.

Public Credit and Private Infrastructure assets are currently the largest contributors to the portfolio's emissions output, this is partly due to data being more readily available, but also due to some specific assets which contribute more emissions by nature of the investments, such as aviation services.

The Fund has a small exposure to Network Rail bonds (2.2% of the portfolio) within Matching assets which contributes c.2,924 tCO_2e. The methodology of calculation for this is materially different and uses different assumptions due to data availability. As such this holding has not been included in the above table.

The Trustee has chosen to present and assess data quality on the proportion of NPF's investment managers instead of the data available for the nominal value of assets (this has been included in the above table for awareness). As the fund matures and de-risks, more assets will be moved into the LDI portfolio and data availability would naturally increase. The Trustee considers that reporting on the proportion of investment managers is more meaningful and demonstrates the level of influence NPF has been able to have on individual investment managers.

4.C Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Given this was the first year in which NPF required investment managers to complete emissions-based reporting, the level of data provided when compared to the number of investment managers was notably low. Of the 58 investment managers contacted, 14 were able to provide emissions data. The table below breaks this down further:

	% of Managers Providing Scope 1,2 & 3 Emissions Data	% of Managers Providing Scope 1 & 2 Emissions Data	% of Managers Providing No Emissions Data
LDI	0%	100%	0%
Public Equities	0%	0%	100%
Public Credit	25.0%	25.0%	50.0%
Matching Assets	33.3%	33.3%	33.3%
Private Equity	9.5%	4.8%	85.7%
Private Credit	0%	0%	100%
Private Infrastructure	16.7%	16.7%	66.7%
Private Real Estate	16.7%	16.7%	66.7%
Total NPF Portfolio	**12%**	**12%**	**76%**

As displayed above the portion of investment managers that were able to meaningfully provide data was limited. As a result, it should be noted that the total emissions and carbon footprint data currently reported is not representative of NPF's entire portfolio, particularly in the private markets portfolio. Therefore, it is sensibly assumed that the metrics reported are considerably lower than the actual portfolio's emissions exposure.

As a result of this, the Trustee has decided that NPF's primary target moving forward is to ensure the improvement in data quality reported. It is the view of the Trustee that through engagement with its investment managers, and the wider adoption of ESG across the financial markets, there will be a significant improvement in data reporting. The Trustee views this as one of the key steps in assisting with the progression of the assessment of climate-related risks, as without meaningful reporting of data it becomes very difficult for asset owners to implement strategic plans to reduce exposure to climate-related risks.

The Trustee has been informed by a number of managers that they are working to provide emissions data and carbon metrics in 2022 (see table on the right). As such the Trustee is targeting a 40% response rate from managers for next year's reporting cycle (prudently allowing for some difficulties in gathering data).

Manager Responses in the NPF (%)	Managers Hoping to Respond in 2022 (%)
26%	44%

Appendix 1 - Definition of Scope 1, 2 and 3 GHG Emissions

Scope 1	All direct emissions from the activities of an organisation which are under their control; these typically include emissions from their own buildings, facilities and vehicles
Scope 2	These are the indirect emissions from the generation of electricity purchased and used by an organisation
Scope 3	All other indirect emissions linked to the wider supply chain and activities of the organisation from outside its own operations – from the goods it purchases to the disposal of the products it sells
Carbon Footprint	An intensity measure of emissions that takes the total GHG emissions and weights it to take account of the size of the investment made