

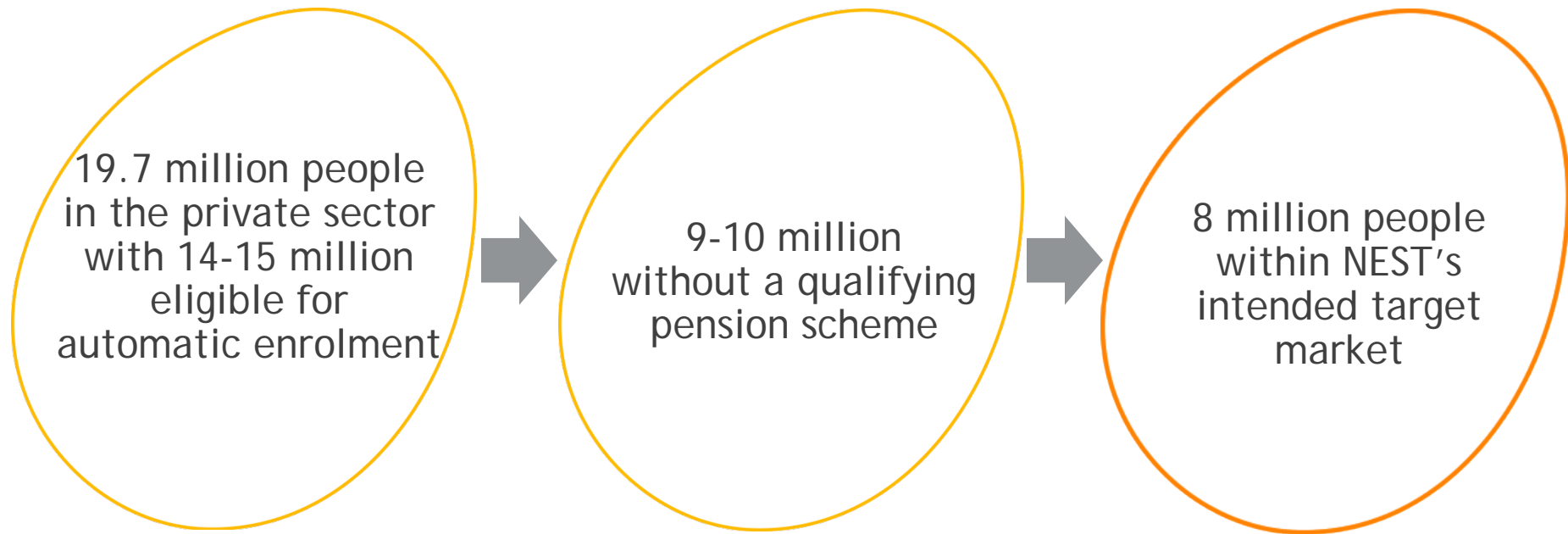


Taking ESG into account in investment decisions

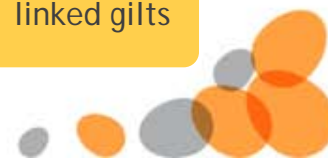
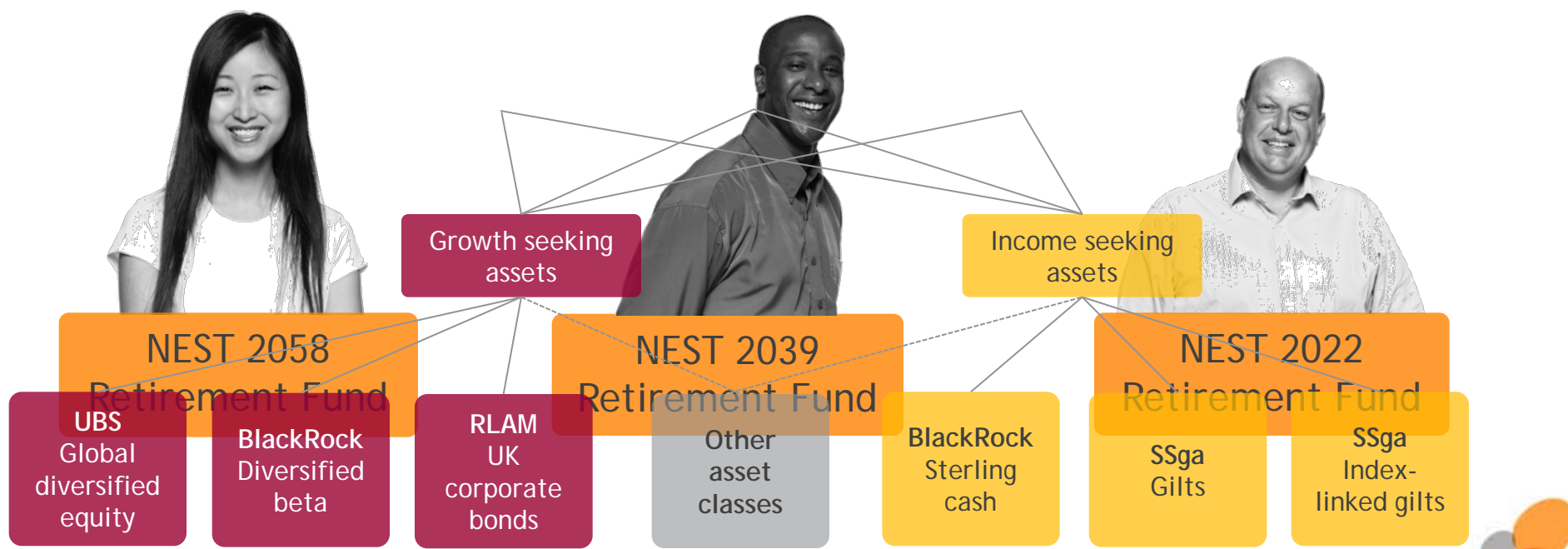
Paul Todd - head of investment policy



A new market of people new to saving



NEST Retirement Date Funds - unique single year target date funds



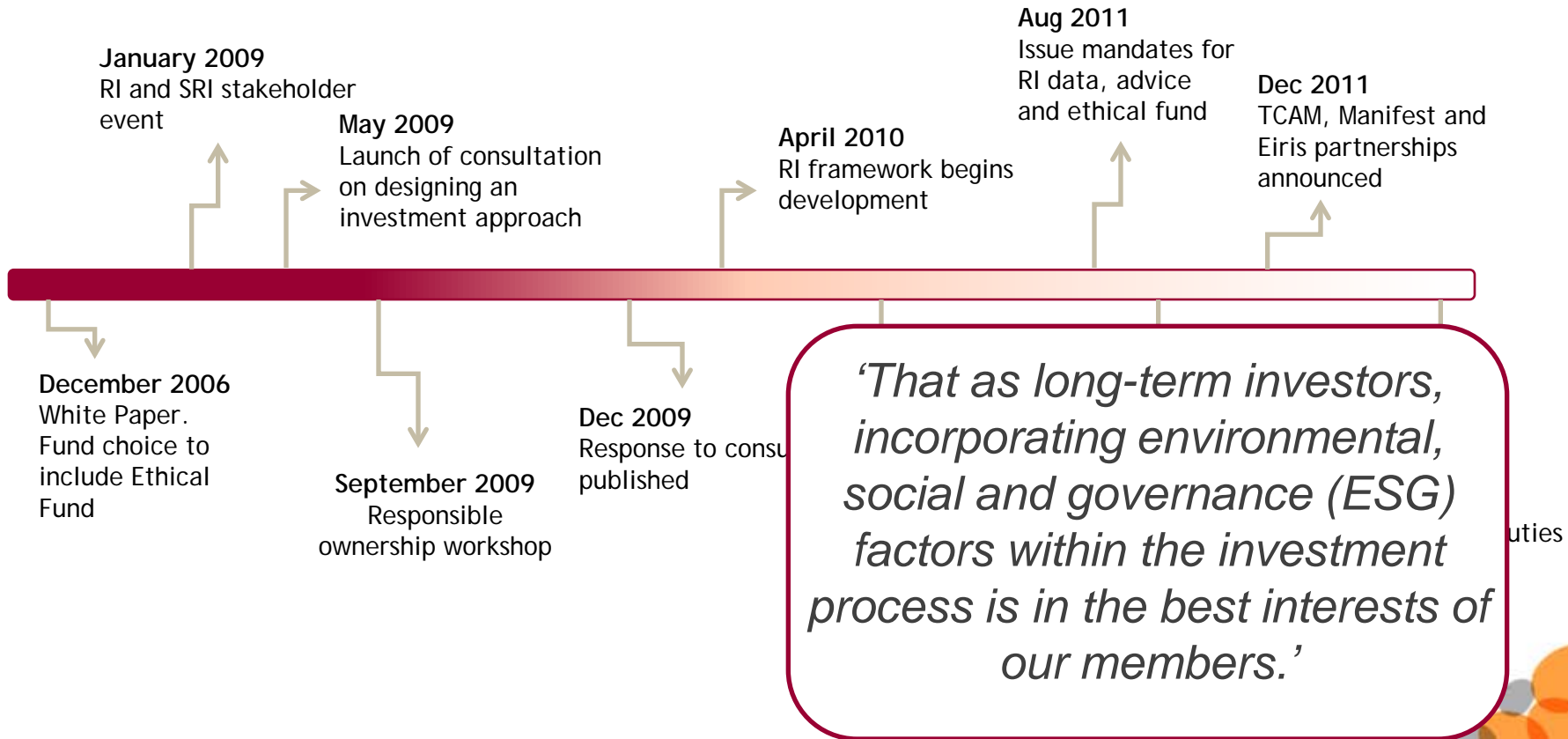
ESG, RI, SRI, sustainability, ownership.....time to leave?

Chairman of top fund management firm has lashed out at shareholders like The Co-operative Asset Management who complain about uncapped bonuses and demand “platitudes” on environmental commitments and other such “tosh”.
Financial Times

“Socially Responsible Investing? That’s just for teenage girls.” CEO of FTSE 100 listed company



NEST's journey

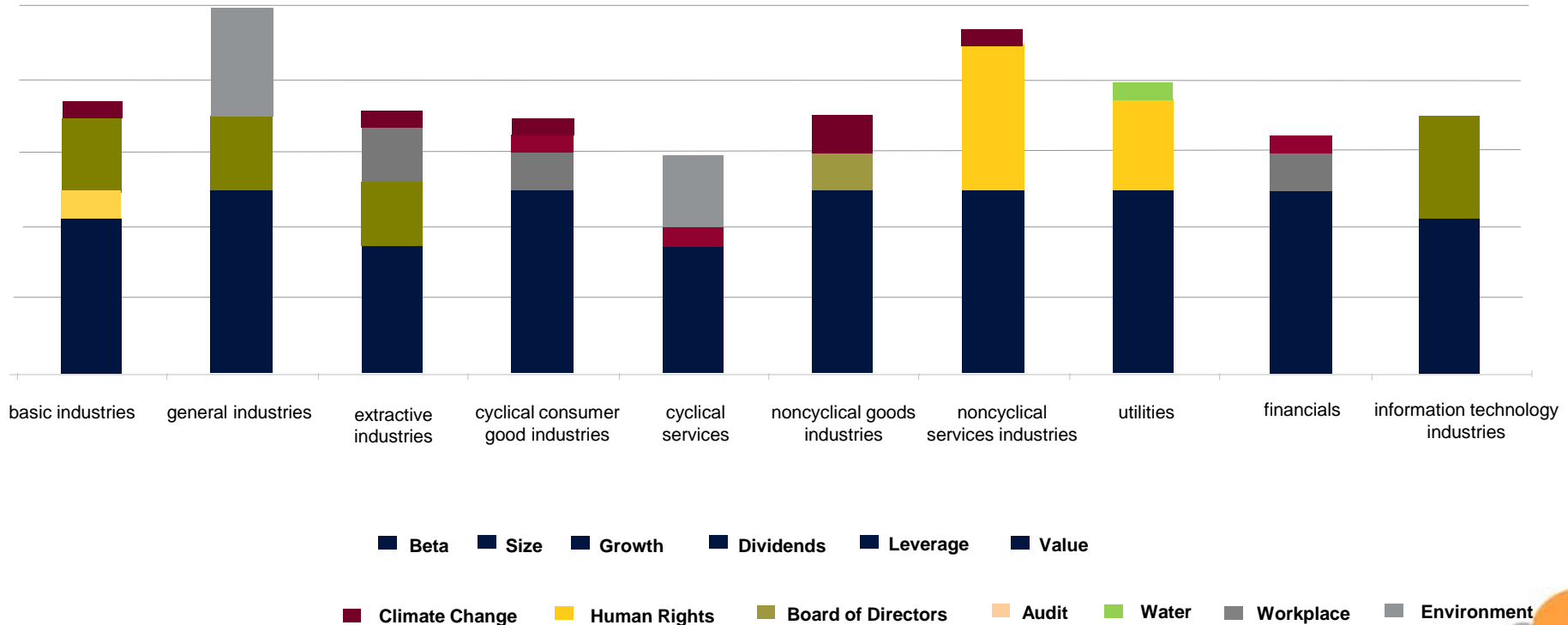


Why take these factors into account?

- target an improvement in environmental, social and governance performance where there is evidence that doing so can **lower risk per unit of return**
- target **improvements in how markets operate** and are regulated in jurisdictions where we invest
- encourage companies we are long-term holders of to deliver **sustainable and stable performance**
- reduce the **risk to NEST's reputation** resulting from the behaviour and attributes of companies and other assets we invest in



Risk management



Universal ownership - market improvements

- Ignore poor governance, health & safety and environmental legislation at your peril
- Population, climate, food, water, energy and immigration stresses are biting - issues that ESG specialists have been forecasting for years.



House of Commons
Culture, Media and Sport
Committee

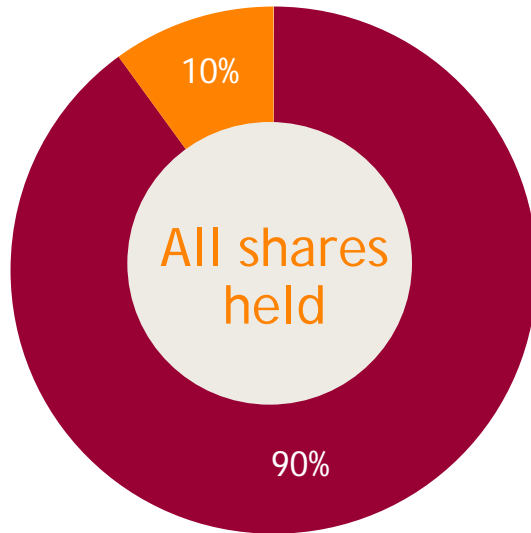
News International and Phone-hacking

Eleventh Report of Session 2010-12



How do we translate this into action?

- Fund manager selection
- Voting
- Engagement



Votes checked
■ against policy after
they have been cast

■ Discussion with fund
managers prior to
voting



Gender imbalance in corporate boards in the EU

A response to the European Commission's public consultation

Summary

The NEST pension scheme is forecast to have significant investments in companies across Europe. We have a strong interest in ensuring that the corporations we invest in, on our members' behalf are managed effectively, and that the regulatory regime within which they operate is effective and proportionate.

We agree with the Commission's analysis that greater board diversity – particularly more gender diversity – leads to better financial performance. This could be explained by:

- diversity of thought, reduction of group think, and increased innovation
- decisions that better reflect and respond to client and customer bases
- utilisation of the entire corporate talent pool
- improved corporate governance and corporate ethics.

It is our view that the data on the number of women on the boards of EU corporations suggests that self regulation has been largely ineffective to date. However, since the financial crisis of 2008 there appears to have been a shift in the attitudes of shareholders, governments and corporations themselves which shows no signs of losing momentum.

In general we support a flexible system of corporate governance that puts the onus on company boards to explain how they have evolved a high standard of governance in the long-term interests of their shareholders. Initially we would therefore like to see efforts of the European institutions concentrated on improving reporting and transparency of corporate boards across the EU.

We believe that the evidence for the benefits of greater gender diversity on boards is overwhelming. While we're mindful of the limitations of some methodologies employed we cannot ignore the plain fact that report after report consistently shows improved performance by companies with more women on their boards in terms of return on sales, return on capital and return on equity.

Compelling evidence and analysis from behavioural finance and psychology suggests that a 30 per cent level of representation on boards is where the contributions of a 'minority' group become valued in their own right as representatives of that group. We therefore think this is a suitable level for boards to aim for when seeking more diversity.

We believe that 30 per cent should initially be a target rather than a binding quota. Boards should clearly set out how they intend to meet this figure and the timescales involved.

We are primarily interested in improving performance in large listed companies as we're predominantly a global index investor. However, there is no reason why these principles shouldn't apply to other companies.

We believe that if shareholders are performing their functions correctly and if disclosure is improved the market will provide the ultimate sanction. Companies that don't meet diversity objectives will suffer poorer performance, lower investment and regular shareholder challenges at annual general meetings.

What else will we be doing?

- ESG factors impact our risk attribution and asset allocation
- ESG beyond equity
- ESG as specific return seeking elements

For institutional and professional investors only

NEST 2055 Retirement Fund

As at September 2011 – This fund is in NEST's Foundation phase

Fund facts

Name: NEST 2055 Retirement Fund
Launch date: July 2011
Total size of underlying funds: £24bn
Fund size: Less than £1m
Contribution charge: 1.8%
Annual management charge/Total expense ratio: 0.3%

Key points

47% return seeking assets

Commentary

Mark Rowett
Chief Investment Officer

Once again, the gyrations of world financial markets have moved from the business pages of newspapers to the front pages: the budget crises of European nations such as Greece and Italy, fears of slowing growth in the Western world and the price of gold are impacting the behaviour of investors. Stock, bond, currency and commodity markets are all being influenced with the volatility of share prices, in particular, returning to high levels.

Against this background, it is important to focus on the long-term objectives of the NEST retirement funds while still ensuring that our asset allocation reflects current realities. The NEST 2055 Retirement Fund's asset allocation reflects our risk-driven approach. In order to achieve our long-term performance benchmark for the foundation phase of matching inflation after all charges, we have considerable exposure to return-seeking assets such as global developed and emerging market equities, corporate bonds and emerging market debt.

However reflecting the uncertain economic and market outlook and our desire to control portfolio volatility, we also have allocations to UK and other high-quality government bonds, inflation-linked bonds and highly rated money market investments. The risk profile of this fund is currently below our reference glide path but well within our risk budget, reflecting in part the high volatility prevailing in a number of asset classes.

Over the longer term, we believe that structural changes and hard decisions on taxation and spending are likely to be required by many governments in order to return economic growth, fiscal deficits and interest rates in developed economies to more normal and sustainable levels.

Fund objectives

Foundation phase

- preserve capital invested whilst seeking sufficient return to match inflation and cover all scheme charges*
- significantly reduce the likelihood of extreme investment shocks
- take appropriate risk at appropriate times – factoring in current economic and market conditions

Fund objectives in this phase reflect research NEST has conducted into its members' characteristics, attitudes and behaviour. The evidence collected points to many of our younger members desiring to establish a savings habit without being exposed to unacceptable levels of volatility or significant chances of capital loss, whilst still providing growth that at least matches inflation after all scheme charges. The Foundation phase lasts between three to seven years. Most newly created Retirement Date Funds will spend on average five years in Foundation.

*The inflation benchmark we are using is the Consumer Price Index

Risk measures

Foundation phase

Risk Measure	Target
Target long-term volatility average	7%
Estimated Value-at-Risk	7%

Taking the appropriate amount of risk for NEST members is fundamental to all of NEST's strategic and dynamic investment decisions. For this fund NEST has determined a risk budget, which relates to the amount of risk that the fund will be managed to when meeting the fund's return objectives and based on research into member risk capacity, need and appetite.

Volatility Volatility is a measure of the amount of volatility across the expected return of a given asset or group of assets. It is a measure of the potential problem or regression that may arise from the expected return. The volatility figure above is an expectation that most of the time* the returns for this fund will be within this percent of the expected return.

Val (Eyr) Value at Risk is an estimate of the probability of losses for a portfolio over a given holding period (in this case one year).

*Based on the time – 40 per cent (one standard deviation)

Asset allocation

Total allocation may be impacted by rounding

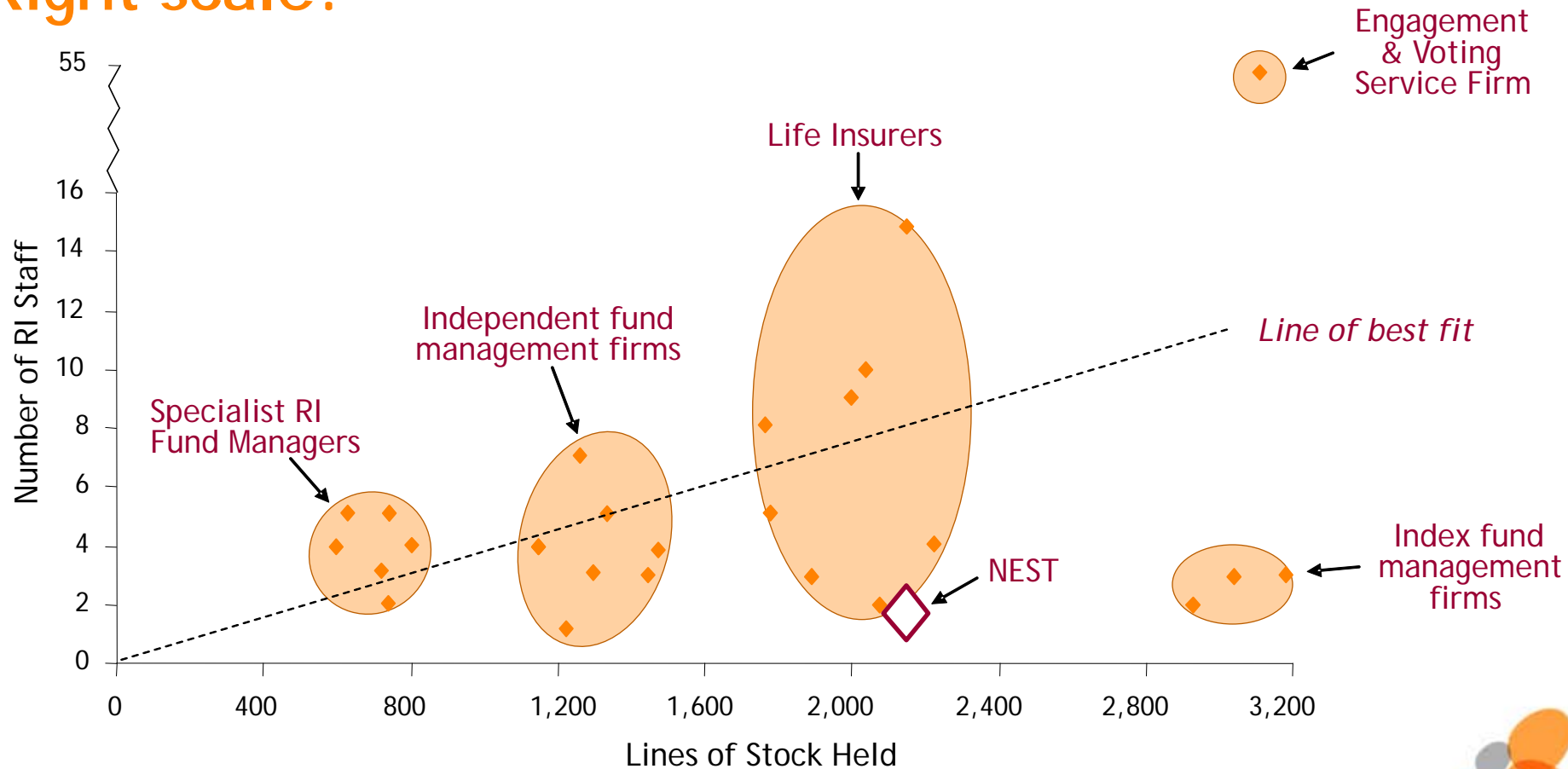
Global breakdown of equity

Developed and Emerging Market Equity makes up 23.7 per cent of this NEST retirement fund's asset allocation

Total allocation may be impacted by rounding

For more information please contact us on 0300 303 1949 or visit our website www.nestfunds.co.uk

Right scale?



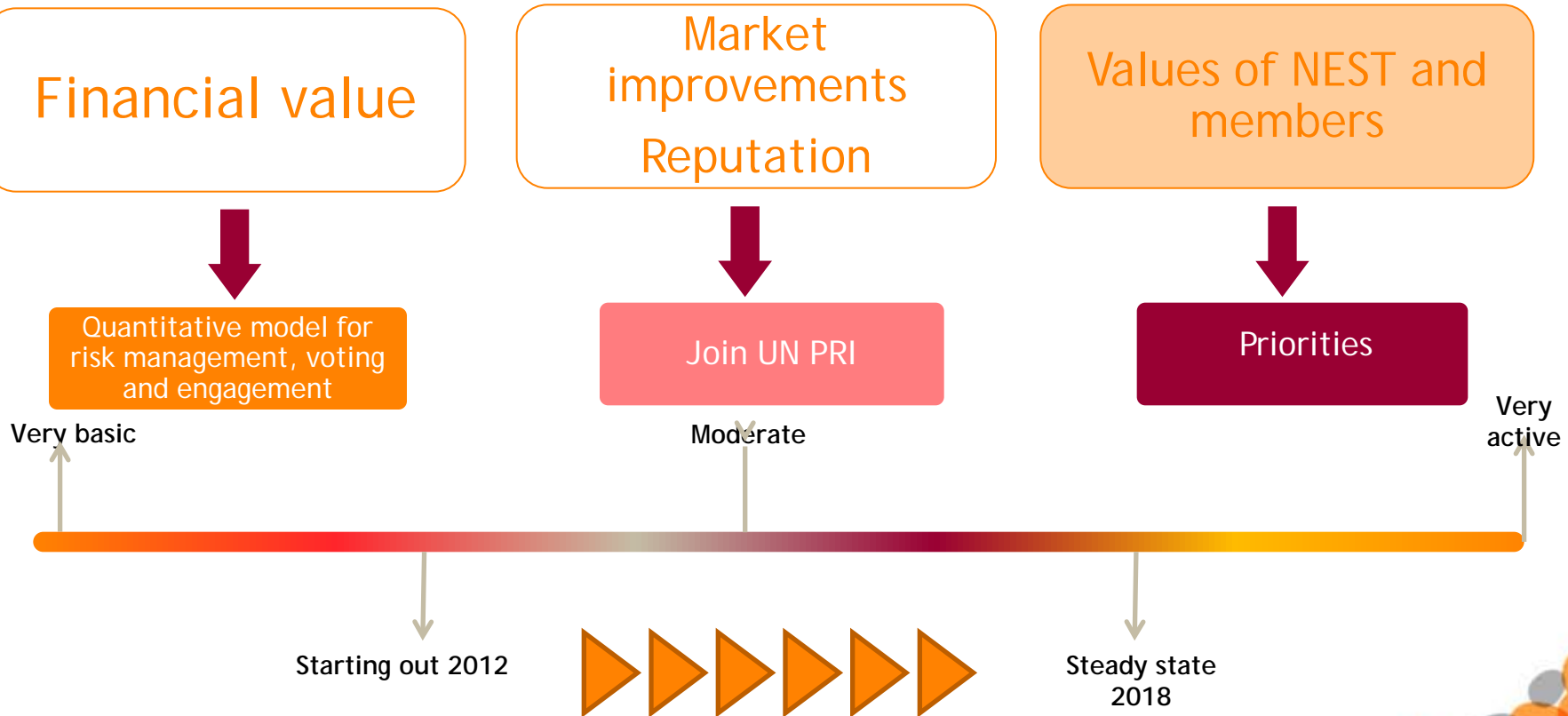
Delivering on objectives

The **co-operative**
asset management

manifest
the proxy voting agency








Pay attention, prioritise and be pragmatic



annex



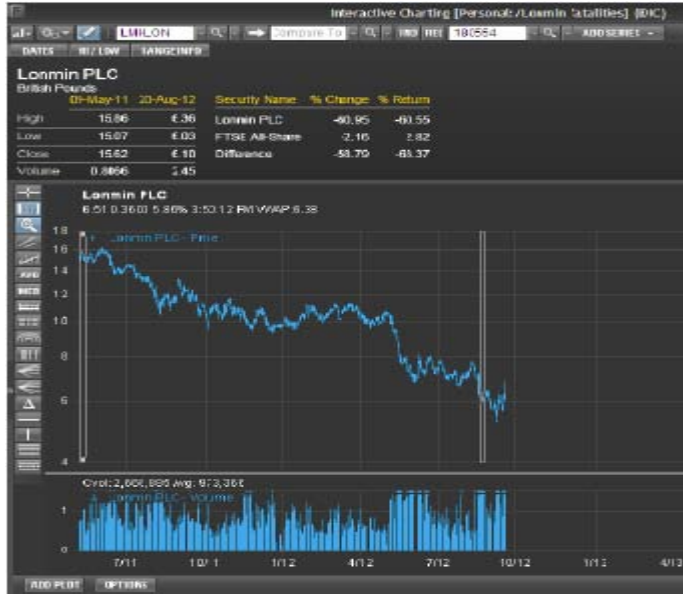
Sustainability and sovereign debt

Country sustainability Sample of our key indicators	Themes					
Mine Ban Treaty Non-Proliferation Treaty Ban on Cluster Bombs Freedom House Index corruption (max 10: not corrupt)	Arms Human Rights Corruption	SIGNED SIGNED SIGNED free 9.2	SIGNED SIGNED SIGNED free 7.9	SIGNED SIGNED SIGNED free 6.0	SIGNED SIGNED NOT SIG. free 3.5	NOT SIG. SIGNED NOT SIG. free 7.1
Ratification of Kyoto Protocol	Environmental treaties	Yes	Yes	Yes	Yes	No
Gini coefficient – (0=equal, 100=unequal)	Income equality	24	27	38	34	46
Public expenditure on health care as % of GDP	Health	7.4%	8.0%	7.1%	5.8%	7.1%
Carbon dioxide emissions per capita trend 1999 - 2006	CO ₂ - emissions	-7%	-20%	+30%	+21%	0%.
Patents granted to residents (per mio people)	Innovation	276	582	24	69	800

Source: LGT Capital Management

Some caveats

Workplace fatalities at Lonmin and Apple. Ostensibly the same ESG issue: material for one, not for the other. *Why?*



Totally different circumstances. You need to understand the particulars of a company.

Statistical correlations are just that. The relationship is not mechanistic between ESG and performance.

ESG only gives an edge if you're getting other parts of the investment case right!



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