

Nationwide Pension Fund

2015/2016 ANNUAL REVIEW



Message from the Chairman

Welcome to the new look Annual Review which contains an update on the Fund's financial position as well as the latest pensions news.

A more detailed and interactive version will be available on our new pensions website which launches at the end of October.

An overview of the new site, can be found on page 2. It details how we are looking to improve the member experience, reduce paper usage and help deliver cost efficiencies.

The triennial Valuation as at 31 March 2016 is underway. Whilst the figures are not yet available, our expectation is that the deficit in the Nationwide Section will have grown in absolute terms although as a percentage of liabilities it is likely to be of a similar level to the level identified in the previous Valuation. The C&D Section is likely to have remained in surplus. You can find details of the last annual funding position in the Funding update on page 9.

Our investment strategy will mitigate some of the risks to the assets, however further interest rate falls will adversely hit the liabilities and the funding level. The Trustee is taking positive steps to reduce risk

and improve liability hedging; you can read about this on page 6. We also continue to be reassured by the strong financial position of the Society and its covenant.

I'm pleased to welcome John Wrighthouse who joined the Board in January 2016 when Mark Willis stood down. I also pass on our congratulations to both the Employee Pensions team and the Investment team who have picked up further awards this year - you can read more about this on page 11. I would like to thank both teams for their hard work and it's great to see this recognised by, not just the Trustee, but by the wider pensions industry. I do hope that you enjoy the new Annual Review.

Finally, can I please encourage you to **register your contact details** with us (see page 2) so that we can deliver communications more effectively?

Pete Wilkin
Chairman of the Nationwide Pension Fund
Trustee Board



Smart device users can scan here for a direct link to the website using an appropriate QR reader app



www.nationwidepensionfund.co.uk

A website refresh

Our website is changing - because the way in which we all access and consume information is changing too. The Trustee also has to consider the different audiences that make up our membership and that means ensuring that the right people get the right messages, at the right time.

So what's changing?

- Our new site can now be accessed from a tablet or smartphone.
- An icon based navigation system helps you find what you are looking for more quickly and conveniently.
- As for content, the new site will also allow you (in certain areas) to choose your level of preferred detail by using simple 'expand' and 'minimise' buttons.
- The new site is also constantly refreshed by a stream of news articles that relate to either the Fund or pensions generally.

What's coming?

We will also be looking to update what the website actually does, for example a new 'Surveys' function will be added next year as will Member Direct Access – an online functionality that allows members to see an updated value of their benefits on specific dates.

We are also adding a new Questions & Answers section which will be regularly updated with the most common questions you ask.

Digital communications and you ...

Following changes to the disclosure of information regulations that affect pension schemes, we are now able to provide certain information to you electronically. This means that we are able to embrace digital delivery, which will help the environment by saving on paper, and will also reduce our postage costs.

For example, accessing this Annual Review online means you are able to review it at any time and print information from it, should you wish to. You will also be able to access newsletters from previous years.

Going forward we plan to provide more information electronically. Should you want to continue to receive the Annual Review by post, please write to the Employee Pensions team (see page 11) and include your full name, employee number (if you have this) and home address.



Register me!

To help us to contact you with important information please go to the website and click on the 'Sign up to eComms' button. You will be asked to register your name, email address and mobile phone number. This information will be stored securely and confidentially and we **guarantee** that your details will **not** be passed on to any third parties. Thank you.



Managing the Fund

The Nationwide Pension Fund (the Fund) is managed by a trustee company (the Trustee). The Trustee is responsible for ensuring the Fund is run in line with the rules of the Fund, legislation and best practice requirements.

Employer Nominated Directors



Pete Wilkin

Chairman of the Board and Independent Trustee, member of the Investment & Funding and the Governance Committees.



Andy Townsend

Chair of the Governance Committee and member of the Investment & Funding Committee.



Philip Whittome

Chair of the Investment & Funding Committee.



Ann Brown

Member of the Operations Committee (Resigned 30 September 2016).

Member Nominated Directors



Arthur Amos

Deputy Chairman of the Board and member of the Investment & Funding Committee.



Rob Goldspink

Chair of the Operations Committee and member of the Governance Committee.



Bill Partis

Member of the Operations Committee.



John Wriighthouse

Member of the Operations Committee.

The team & our advisers

The Trustee Directors are responsible for the efficient running of the Fund. Some of their day to day responsibilities are delegated, and where necessary the Trustee takes advice from independent professional advisers.



Mark Hedges

Mark and his team are responsible for the monitoring and management of the Fund's investments.



Vanessa Roberts

Vanessa supports the Fund's governance, strategy and structure.



Legal advisers

Sacker & Partners LLP.



Investment Consultant

Aon Hewitt Ltd.

A full list of the Fund's Investment Managers can be found in the interactive version of the Annual Review.

How we work

The Board meets on a quarterly basis. In addition to these meetings there are three Committees made up of Trustee Directors from the Board who have delegated responsibility for the day to day operations.

Investment & Funding Committee (IFC) – meets quarterly to:

- Monitor and implement investment decisions that reflect the strategic investment objectives of the Fund.
- Monitor the investment managers.
- Monitor the funding position of the Fund.
- Monitor the performance of the Fund against the flight plan and consider the actions required in accordance with the agreed de-risking protocol.
- Negotiate with the Society on the triennial Valuation, and any associated deficit recovery plan and the exposure of the Fund to the Covenant.
- Monitor all investment and funding risks recommending any necessary controls.

Operations Committee - meets quarterly to:

- Monitor administration performance and compliance against the service standards.
- Benchmark Administrator performance.
- Monitor all operational risks recommending any necessary controls.

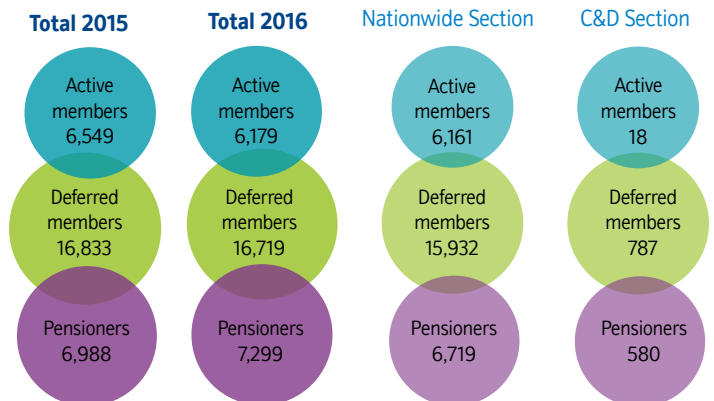
- Oversee member communications.
- Monitor the annual budget.
- Monitor and consider the Permanent Incapacity Early Retirement (PIER) processes.

Governance Committee – meets twice a year to:

- Monitor and review the Trustee Governance structure and the Terms of Reference for all the Committees.
- Monitor the Strategic Plan and the Trustee business plan.
- Review the Trustee Knowledge and Understanding requirements.
- Review and agree the yearly audit plan and draft the Annual Report and Accounts.
- Monitor and review all delegations under the Fund's delegations register.
- Have oversight of the Trustee risk process and undertake an annual review of the risk framework.
- Monitor and review all Trustee policies, agreements and protocols.

Our members

Although the Fund may be closed to new members, the Trustee remains responsible for over 30,000 members.



Scheme finances

Each year the Trustee produces a report and a set of accounts for the period from 1 April to 31 March. A full copy of the latest accounts can be found on our website www.nationwidepensionfund.co.uk and a summary of the money paid in and out of the Fund is shown below.

Nationwide Section	£m	Cheshire & Derbyshire Section	£m
Total assets 1 April 2015	4098.5	Total assets 1 April 2015	276.7
Money paid in	+	Money paid in	+
Employer contributions	104.9	Employer contributions	0.0
Member contributions*	0.3	Member contributions	0.0
Member additional contributions	1.6	Member additional contributions	0.0
Return on investments	96.0	Return on investments	10.7
Total income	202.8	Total income	10.7
Money paid out	-	Money paid out	-
Pension payments	64.3	Pension payments	4.8
Lump sums on retirement	18.0	Lump sums on retirement	1.4
Lump sum death benefits	0.8	Lump sum death benefits	0.0
Leavers	10.6	Leavers	0.8
Administration & investment expenses	22.8	Administration & investment expenses	0.4
Total outgoings	116.5	Total outgoings	7.4
Total assets at 31 March 2016	4184.8	Total assets at 31 March 2016	280.0

*Excludes salary sacrifice contributions of 12.7m (included in employer contributions).

“Scheme net assets between March 2015 and March 2016 **increased** from **£4,375.2m** to **£4,464.8m**”.

Investment & Funding Summary

Investment objectives and strategy

The Trustee aims to invest the assets of the Fund prudently to ensure that the benefits promised to members are provided. The Trustee believes that this is best achieved by having both an investment strategy and a journey (or de-risking) plan that progressively reduces risk and increases hedging.

The focus through the year has been on continued risk reduction, diversification and increased hedging of the liabilities of the Nationwide Section of the Fund. There was a move out of public equity funds into gilts and alternative matching assets, with £46m invested in long lease property, £44m in ground rent property interests and £80m invested in fixed interest securities.

The deficit funding of £49m received in July 2015 was also used to fund the Pension Fund's increased holdings of alternative matching assets.

Additional investments of £190m were made into private equity funds, infrastructure funds and illiquid real estate funds. These were largely funded by capital distributions of £81m realised from those categories of funds, with the remainder coming from the equity funds. In addition there were purchases and sales in the cash funds through the year totalling £120m and £132m respectively.



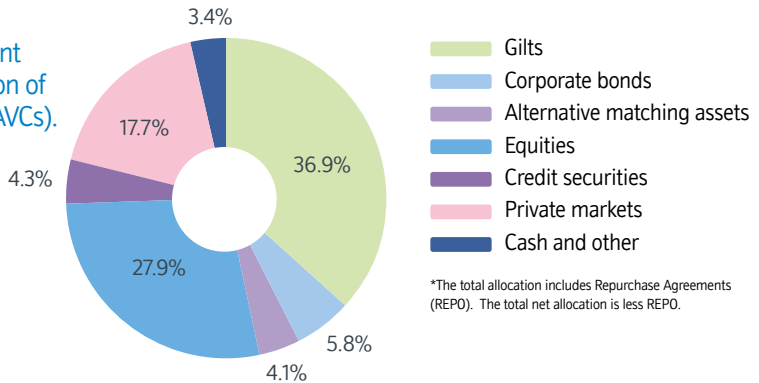
For an explanation of the terms used in this article please go to the 'Glossary' section of the website.



Investment allocation

Nationwide Section

The following chart highlights the current total gross* allocation of £4.5bn (excluding AVCs).



*The total allocation includes Repurchase Agreements (REPO). The total net allocation is less REPO.

Actual asset returns are measured quarterly against the market return. A summary of the actual returns, compared to benchmark for one and three years, is as follows:

Nationwide Section performance analysis				
Asset class	One year		Three year	
	Actual %	Benchmark %	Actual %	Benchmark %
Core matching assets*	5.3	1.3	n/a	n/a
Alternative matching assets	4.3	4.5	n/a	n/a
Equities	(5.5)	(5.5)	4.5	5.2
Return on investments	3.3	3.2	n/a	n/a
Private markets~	12.3	6.6	10.5	6.7
Total return	1.2	0.0	7.5	6.6

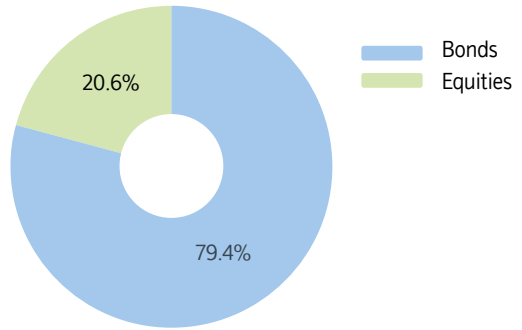
*Core matching assets are comprised of bonds, including government bonds, corporate bonds and index linked gilts.
 ~Private markets are comprised of real estate, private equity, infrastructure and private and property debt.

“Overall actual **performance has exceeded the benchmark**. This has primarily been due to the core matching assets and the private markets portfolio, the latter of which has received a steady flow of income as well as **capital appreciation**”.

Investment allocation

Cheshire & Derbyshire Section

This portfolio is entirely placed within funds managed by Legal and General. Given its strong funding position, it has 79.4% (excluding AVCs) of its investments in matching assets, which are predominantly UK government bonds or AAA rated corporate bonds.



“The Cheshire & Derbyshire Section has **out-performed the benchmark** over the period of review”.



Funding update

One of the main responsibilities of the Trustee Board is to monitor the finances of the Fund to ensure that there is enough money to pay all of the benefits promised to members, both now and many years into the future.

This is achieved through a review of the funding position. A comprehensive review (known as a full Actuarial Valuation) is completed every three years by a qualified and independent Actuary. The 31 March 2016 review is currently being undertaken and the results will be communicated once completed.

In between these full Valuations, annual interim funding reviews are carried out. The last annual update was produced as at 31 March 2015 and the results are set out below for both the Nationwide and Cheshire & Derbyshire Sections.

Interim funding position as at 31 March 2015

	Nationwide Section £m	C&D Section £m
Assets	4,088m	276.5m
Liabilities	4,757m	247.5m
Deficit	669m	n/a
Surplus	n/a	29.0m
Funding level	86%	112%

Please note that the interim funding position is not a formal Valuation; it is an estimate of the financial health of the Fund using the 2013 Valuation assumptions, updated for changes in market conditions between 31 March 2013 and 31 March 2015. The funding level of both Sections will vary over time and the Trustee will continue to regularly monitor the funding positions.

The funding position is a “snapshot” of the Fund on one day. However, in practice the liabilities are not all due to be paid out that day but instead need to be met as they fall due. For many members this will be in 30 or 40 years’ time. Several factors can affect the funding position, including life expectancy, investment performance, interest rates and inflation levels (both

actual and expected). Assets are invested over the long term and therefore a variation in funding levels is to be expected.

The funding position shown above is calculated on an ongoing basis. This assumes that Nationwide will continue to support the Fund. This does not show the cost of securing each member’s benefits with an insurance company which would be necessary without Nationwide’s support.

What is being done about the deficit in the Nationwide Section?

Following negotiations between Nationwide and the Trustee, a plan has been agreed to clear the deficit revealed at the 31 March 2013 Valuation. This involves Nationwide

paying additional lump sum contributions as follows:

- £60m paid in March 2014.
- £90m paid in July 2014.
- £49m paid each July between July 2015 and July 2020 inclusive.

The contributions payable in 2017 and beyond will be reviewed as part of the 31 March 2016 Valuation.



Why is the Nationwide Section in deficit and the Cheshire & Derbyshire Section in surplus?

This has been the case since the Cheshire & Derbyshire Section was first created in 2010, following the merger of the

previous Cheshire & Derbyshire pension schemes. Additional contributions are being paid in to the Nationwide Section in order to help close the gap, as described above.

What contributions need to be paid to cover the cost of providing future benefits?

As part of a full Actuarial Valuation the Actuary estimates how much money needs to be paid into the Fund to meet the cost of future benefits being built up by Active members. This cost is expressed as a percentage of Active members' Pensionable Salaries.

Following the 2013 Valuation, the Society increased its ongoing contribution rate from 15.9% to

22.1% of Pensionable Salaries with effect from 1 July 2014. Active members continue to contribute at 7%. Again these contributions are being reviewed as part of the 31 March 2016 Valuation.

What will the 31 March 2016 Actuarial Valuation look at?

The aim of the Valuation is to assess the funding position of the Fund. To do this the Actuary has to determine how much money each Section needs to cover the benefits members have built up.



If the Fund has more invested money (assets) than money needed to pay promised benefits (liabilities) it has a "surplus". If the Fund has more liabilities than assets it has a "shortfall". Where a shortfall exists at a full Valuation it is up to the Trustee and Nationwide to agree how this will be cleared and over what timescale.

The level of contributions required to cover the cost of providing future benefits are also considered. Nationwide's contributions are worked out by deducting the contributions made by Active members from the estimated amount needed to pay the future benefits promised.

Could you be a Trustee?

The diverse Fund membership has a variety of skills to draw upon, do you think that you can bring something to the table?

We're seeking nominations across the whole membership for two upcoming Trustee vacancies. Two briefing sessions were held with the aim of providing members who were interested in applying with an overview of what being a Trustee involves and the level of responsibility required to perform the role effectively. This was the first time that we held these sessions and feedback has been positive. We are therefore pleased to announce that we will be holding a further session in November whilst the nomination period is open.

You'll have recently received a communication setting out the nomination process. Details can also be found at www.ersvotes.com/nationwidepensions. This year, if you wish to be nominated you'll require a member to propose you and another to second your application.

Although the Selection Panel will be reviewing all the nominations and carrying out interviews, there will be a ballot in March/April 2017 concerning those that have clearly demonstrated the relevant skill and attributes.

We will contact you regarding the ballot, so please vote!

Your State Pension Age

Find out when you are currently expected to reach your State Pension Age by visiting www.gov.uk/calculate-state-pension. You can also find out when you will qualify for Pension Credit and be eligible for free bus travel!



The success continues...

Last year we told you about two award wins and we are really pleased to be able to celebrate further success this year.

The Investment team were once again recognised by the Portfolio Institutional Awards, this time for Best Pension Scheme (over £1bn). The award honours investors who are exemplary and forward thinking in how they manage their investment or a particular investment type or area. Each award category is judged by specially selected category juries and supervised by an academic panel.

The Employee Pensions team have had a tremendous year, having won the Pension Scheme Communication award at the Pension Age awards. This category recognises the pension schemes that have used innovation and flair to get their member communication proposition to the best it can be.

Whilst not directly impacting the Fund, the Employee Pensions team picked up the award for Best Defined Contribution (DC) Communications Strategy at the Professional Pensions awards.



These awards celebrate excellence within UK workplace pension funds and aims to recognise the country's best schemes and managers. In this category the judges look in part at the ways companies helped to educate members and raise their financial awareness.

And finally, the Employee Pensions team, in a joint submission with Internal Communications, won "**Team of the Year**" in Nationwide's Annual PRIDE Awards. As current or former employees of Nationwide, you'll appreciate the importance of this prestigious award. **The award recognises groups of people who truly demonstrate the power of the collective.**


Employee Pensions team

The Employee Pensions team are responsible for the day to day administration of the Fund; such as dealing with queries from members, providing quotes and processing pensions for payment.

You can contact them by:

 pensions.team@nationwide.co.uk

 **01793 655131**

 **Employee Pensions
Nationwide Building Society
Nationwide House
Pipers Way
Swindon
SN38 2GN**

Contact the Payroll team

If you are a Pensioner and have a query on the payment of your pension, you can telephone **ASK HR** on **01793 556808** and select 'option 1'.

