

Nationwide Pension Fund

2020 ANNUAL REVIEW



Message from the Chair

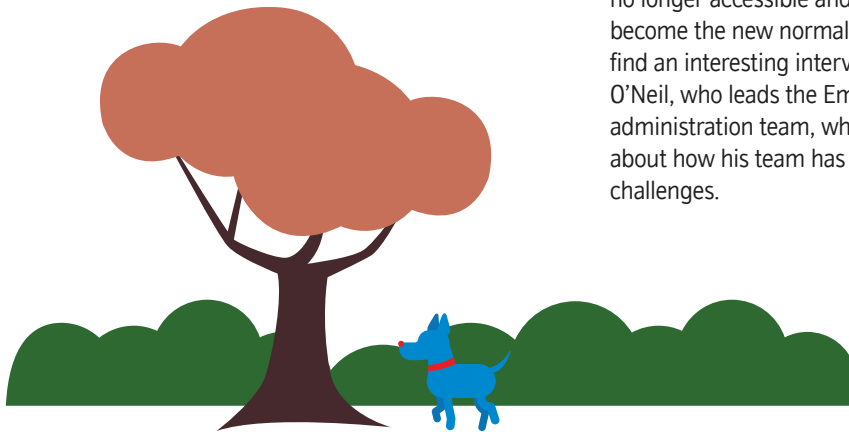
Welcome to our Annual Review for 2020.

After what will be eight years as Chair, I'll be stepping down from the Board at the end of March 2021, meaning that this will be my final Annual Review. I'd like to start by thanking all the Trustee Directors, both past and present, along with the Employee Pensions team and our various professional advisers for the support and guidance they've provided to me.

As the impact of COVID-19 continues to be felt across the UK, I want to reassure members that looking after their pension is the Trustee's top priority. We've implemented the Fund's business continuity plans and continue to monitor the situation closely. I'm pleased to report normal service has been maintained but like many other schemes, we've had to implement practical solutions as offices are no longer accessible and home working has become the new normal. On page 3 you'll find an interesting interview with Darren O'Neil, who leads the Employee Pensions administration team, where he talks about how his team has adapted to these challenges.

There had been a steady improvement in our funding level through the year. However, the spread of the COVID-19 virus and the impact this had on financial markets in February and March 2020 led to a significant fall in our funding level. The investment portfolio remains well diversified, reducing specific sector or asset risks. However, clearly this does not prevent falls in asset values in an environment where there's a global market downturn, like the one that was experienced in the last six weeks or so of the financial year.

Governance has been a key focus for us during the year. We commissioned Aon to undertake an external review and I'm pleased to let you know that this has shown the Fund to be well-run and with an effective Board. We continue to have a clear focus on risk management, with the Board and its Committees monitoring the Fund's identified risks, as well as considering the potential for emerging ones.



1 www.nationwidepensionfund.co.uk

It's positive that registration for the Member Portal has increased over the year, with well over 40% of members signed up. The Member Portal has proven helpful to the administration team. If you haven't had an opportunity to log onto the Member Portal, I'd encourage you to do so.

We continue to meet with our advisers on a regular basis, at both Committee and main Board meetings. Since March 2020 the Trustee has chosen to hold these meetings via video conference. This may continue, at least in part, when life returns to normal and we can once again meet face-to-face.

I hope you enjoy reading this edition of Annual Review. If you have any comments or suggestions regarding what could be included in future editions please email pensions.team@nationwide.co.uk

Pete Wilkin

Chair — Nationwide Pension Fund Trustee Board



See more online

Pete shares his views on what were the key challenges, and successes, over his time as Chair of the Trustee.

To read this interview go to: [newsletter.nationwidepensionfund.co.uk](https://www.nationwidepensionfund.co.uk/newsletter)



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Working through a pandemic

The COVID-19 pandemic has had a significant impact on our lives and specifically how we work. Darren O’Neil shared how the Employee Pensions administration team has adapted to the challenges they faced.



Darren, can you provide some insight into how your team has needed to adapt because of COVID-19?

The biggest challenge for the team as the pandemic started to impact the UK, was trying to keep pace with the changes as we moved closer to full lockdown. Initially, we worked on the premise that we could continue to operate from Nationwide House, with a skeleton team on a rotation basis and with the rest working from home. We also considered allowing the team to work in the office in the evenings, to keep numbers in the office to a minimum. Then, just as we had the plans in place everything changed, we moved into a full lockdown

with all of the team needing to work from home.

In recent years, the Society has invested significantly in IT. As a result, every member of the team uses a laptop computer, making the move to home working much simpler — they could literally pick up their computer, go home and log back into our network. This meant we were better placed than some others in the pensions administration industry, who also had the additional burden of equipping their teams with the technology to deal with home working.

You mention technology, what else has helped or hindered your team's transition?

The team was used to seeing each other face-to-face. Our procedures require peer reviewing as pension calculations can be complex, and historically this was easily achieved working alongside each other and using paper checklists handed from person to person. Now this is all achieved digitally. Good teamwork also requires a lot of personal interaction. Our team is only 15 people strong so getting everyone together was relatively simple whilst we were all in Nationwide House. Now we're all home-based it's even more important to make sure we maintain interaction. It's

important for productivity but more importantly, from a wellbeing perspective as working from home can feel isolating. We use Microsoft Teams which allows us to video call each other to achieve this.

We've also started a 'Chat roulette' where every two weeks each team member is buddied up with a colleague who they would speak to rarely because of the nature of the work. They talk about anything other than work — it's normally about what they're watching on the TV, or just to hear about their plans for the weekend.

Does any team member still come into the office?

Yes, whilst we're encouraging members to communicate with us by email, we still receive post, and, where the member cannot receive a response by email, letters need to be printed and issued. Therefore, one member of the team goes into Nationwide House once a week to open and scan the post so it can be distributed to the relevant team member by email. They also print and issue any letters that have been produced over the week by the team. This often falls to me to do, which in some ways takes me back full circle to when I started work with Nationwide. It was more than 30 years ago, when I worked in the Post Room.

“ Receiving requests or responses by post can cause delays as it requires someone to go into Nationwide House. It would be a great help if members could email the team at pensions.team@nationwide.co.uk rather than sending a letter. ”

Working through a pandemic *continued...*

Is there anything members can do to help the team?

Definitely. We have lots of information available for members online. We have the Fund website which can answer many of the questions often asked by members. There's also the Member Portal where members can access information about their benefits and complete tasks such as changing their address or updating their Expression of Wish form without the need to contact the team.

As I've already mentioned, we do receive post but requests can be dealt with more efficiently if the member has registered on the Member Portal and can send us an email rather than a letter.

For some processes, such as setting up pension payments or transferring benefits, we do require members to send in proof of identity.

Rather than post their original documents to us, they can visit their local Nationwide branch where copies can be taken, certified and then emailed directly to the team. Using this method also means the member isn't waiting to receive their documents back from us.

What are the plans for the future?

The team won't be back working in the office until the new year at the earliest, and home working will continue. I therefore expect a more flexible approach may be taken in future with the team if they prefer to split their working week between the office and home.

Darren, thank you for your time.





Don't become a victim of a pension scam

Pension scams are still on the rise and in light of the COVID-19 pandemic, it's more important than ever to be aware of scammers trying to con you.

To help you spot the signs and protect yourself from a scam, the Financial Conduct Authority (FCA) and The Pensions Regulator (TPR) suggest following four simple steps.

1

Reject unexpected offers

If you're contacted out of the blue about a pension opportunity, chances are it's a scam. Pension cold calling is illegal, and you should be very wary. An offer of a free pension review, from a firm you've not dealt with before, is possibly a scam.

2

Check who you're dealing with

Search 'ScamSmart' and check the FCA's register to make sure anyone offering you advice is authorised. If they are, check they're permitted to give pension advice by calling the FCA Consumer Helpline on **0800 111 6768**.

If you don't use an FCA authorised firm, you won't be covered by the Financial Ombudsman service, or the Financial Services Compensation Scheme, if things go wrong.

3

Don't be rushed or pressured

Take your time to make all the checks you need — even if this means turning down what seems to be an 'amazing deal'.

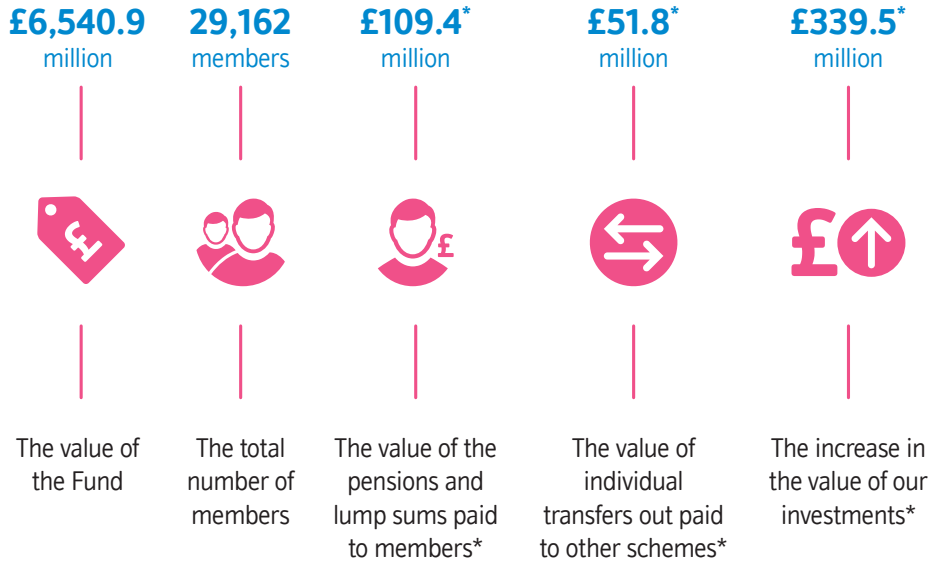
4

Get impartial information or advice

You should seriously consider seeking financial advice before changing your pension arrangements. In some cases, for example where you are wanting to transfer more than £30,000 from a defined benefit scheme, like the Nationwide Pension Fund, you must obtain this advice.

TPR recently announced that savers looking to transfer from a defined benefit to a defined contribution pension during the coronavirus crisis will be warned it's unlikely to be in their best long-term interests.

A snapshot of our accounts



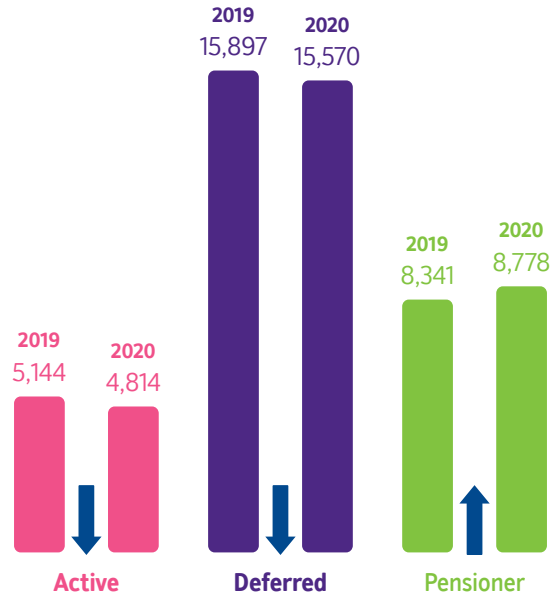
* Figures shown are for the period 1 April 2019 to 31 March 2020.

Each year the Trustee produces a report along with an audited set of accounts. The latest accounts are for the period from 1 April 2019 to 31 March 2020. Payments to members, either as pension payments or as lump sums at retirement, increased this year to £109.4 million. A £6 million increase on the previous year. Similarly, transfer value payments (where a member decides to transfer their benefits from the Fund to another approved pension arrangement) were also higher in the 12 months to 31 March 2020 (£51.8 million) compared to the previous 12 months (£31 million). We'd encourage any member who is considering transferring to read the article on pension scams on page 6.

The total return on our investments (before any allowance for investment management expenses) was £339.5 million, which contributed to an overall increase in the value of the Fund's assets of £269.4 million to £6,540.9 million.

How our membership has changed

A summary of how our membership has changed over the year to 31 March 2020 is shown below. Although the Fund is closed to new members, the Trustee remains responsible for the benefits of almost 30,000 members.



Fund accounts

Between April 2019 and March 2020, Fund assets increased from £6,271.5 million to £6,540.9 million. A summary of the payments in and out of the Fund over the year to 31 March 2020 is shown below:

Money paid in	+	Money paid out	-
Employer contributions	£125.7m	Pension payments	£88.4m
Member contributions*	£0.2m	Lump sums on retirement	£21.0m
Other income	£0.0m	Lump sum death benefits	£0.8m
Member additional contributions	£1.6m	Leavers	£51.8m
Return on investments	£339.5m	Administration & investment expenses	£35.6m
Total income	£467.0m	Total outgoings	£197.6m

*Excludes salary sacrifice contributions of £11.3 million (included in employer contributions).

You can find more detail about the Fund's finances online at:
newsletter.nationwidepensionfund.co.uk



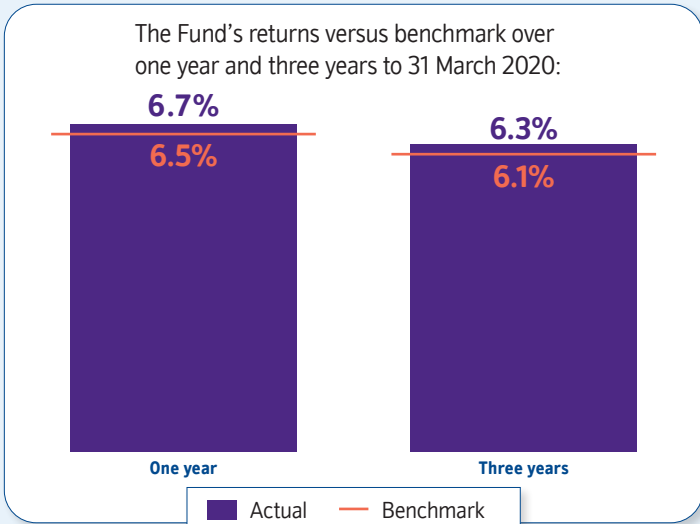
Investment update

The Fund's investments are there to meet the cost of providing benefits for all the Fund's members. This means that the performance of our investments is really important.

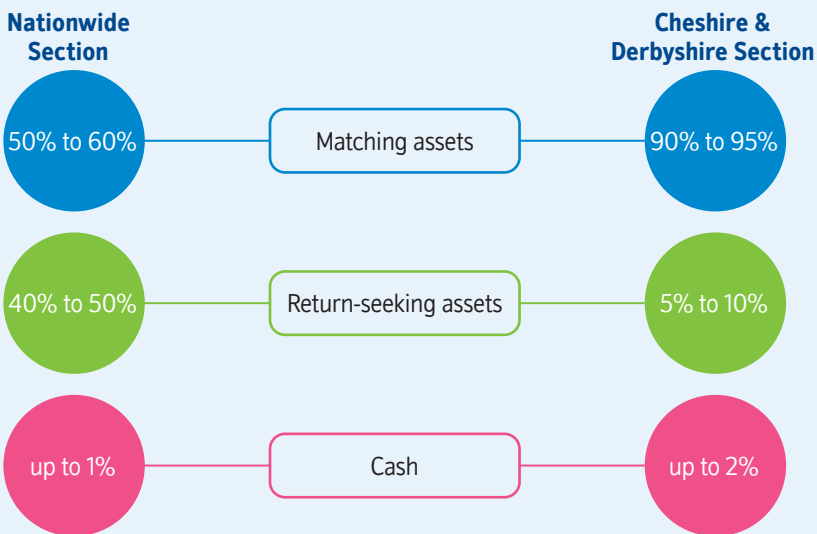
Over the year to 31 March 2020, the Fund's investment returns were 0.2% higher than the benchmark. The main reason for this was the significant performance of the private markets portfolio which has been the primary driver of returns for a number of years, reflecting the benefits of a diversified investment strategy. Core matching asset performance matched the benchmark. Public equities and credit both underperformed the benchmark over the year.

Both the Nationwide and the Cheshire & Derbyshire Sections are well funded (see page 11 for more details). As a result, the majority of the Fund's assets are invested in matching assets, which are expected to broadly track the changes in the value of the Fund's liabilities (the cost of paying members' pensions — both those already in payment and those still to commence). Both Sections also have smaller allocations to return-seeking assets designed to further improve the funding position to a point where the Fund doesn't need to rely on the financial support of the Society. The investment strategy also allows for a small proportion of the overall assets to be held as cash. We hold cash primarily to ensure monies can be made available to pay members' pensions and other Fund expenses.

The Trustee will continue to monitor the Fund's investment performance and make any appropriate changes to the Fund's investment objectives and strategy, in conjunction with the Fund's Investment Consultants and the Investment Team.



To allow a degree of flexibility the strategy sets a percentage range for each asset class as opposed to a fixed percentage. The chart below shows the current percentage ranges (for both the Nationwide and Cheshire & Derbyshire Sections) in respect of matching assets, return-seeking assets and cash.



A more detailed Investment update can be found in the online version of the Annual Review at: newsletter.nationwidepensionfund.co.uk



See more online

Mark Hedges, our Chief Investment Officer, sheds some light on how he and his team support the Trustee and the Fund. To read this interview go to: newsletter.nationwidepensionfund.co.uk



£ Summary Funding update

One of the main responsibilities of the Trustee is to monitor the finances of the Fund to make sure there's enough money to pay all of the benefits promised to members, both now and for many years into the future.

In part, this is achieved through a review of the funding position. A comprehensive review, known as an Actuarial Valuation (Valuation), is completed every three years by a qualified and independent Actuary. The most recent Valuation of the Fund was carried out at 31 March 2019.

What does the 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's up to the Trustee and the Society to agree how this will be cleared and over what timescale.
- **What contributions need to be paid to cover the cost of providing future benefits?** The Society's contributions are worked out by deducting contributions made by Active members from the estimated amount needed to pay future benefits promised. These contributions are then paid until the next full Valuation is carried out.

How is the funding position calculated?

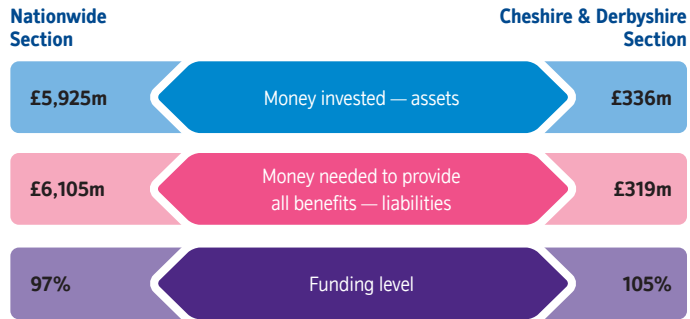
The funding position is calculated on an ongoing basis and on a solvency basis:

- **The ongoing basis** assumes that the Society will continue to support the Fund if necessary. Certain assumptions are made by the Actuary about future economic and financial conditions and the Fund's membership. While the assumptions cannot be guaranteed, they are agreed by the Trustee and the Society as being suitable.
- **The solvency basis** assumes that the Fund is ended (wound up) on the Valuation date and looks at whether there is enough money in each Section of the Fund to buy individual pensions for every member.

The funding position is a 'snapshot' of the Fund on a single day. However, in practice the liabilities are paid over a very long period of time. In fact, some of the liabilities may not be paid for another 30 or 40 years. Several factors can affect the funding position, including life expectancy, investment performance, interest rates and inflation levels. The Fund's assets are invested over the long-term, and therefore, fluctuations in funding levels are to be expected.

What were the results of the 31 March 2019 Valuation?

The formal Valuation results at 31 March 2019 are shown below. You'll see that the Nationwide Section had a shortfall of £180 million and the Cheshire & Derbyshire Section had a surplus of £17 million at 31 March 2019.

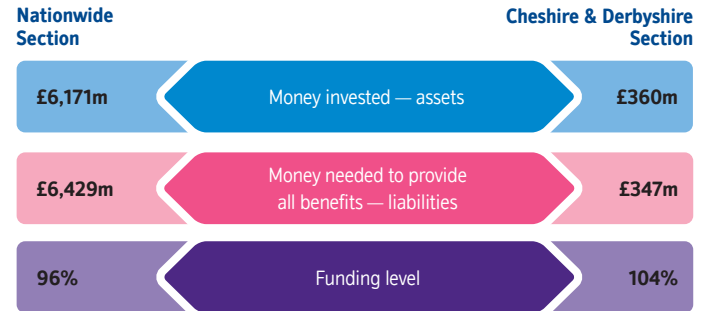


As the Valuation is only undertaken every three years, at 31 March each intervening year the Actuary undertakes further estimates of the financial health of the Fund (an interim funding position). These use the 2019 Valuation assumptions, and then updates them to allow for the changes in market conditions.

What was the interim funding position at 31 March 2020?

The Nationwide Section's shortfall increased from £180 million at 31 March 2019 to £258 million at 31 March 2020. The main reason was because the returns on the assets were much lower than expected in the first quarter of 2020 as a result of the pandemic.

The Cheshire & Derbyshire Section's surplus dropped from £17 million at 31 March 2019 to £13 million at 31 March 2020, also as a result of the asset returns being lower than assumed.



You should be aware that the funding level of both Sections will vary over time and the Trustee will continue to regularly monitor the funding positions.

£ **Summary Funding update** *continued...*

Why does the Nationwide Section have a shortfall and the Cheshire & Derbyshire Section have a surplus?

The Cheshire & Derbyshire Section was created in 2010, following the merger of the Nationwide Pension Fund with the previous Cheshire and Derbyshire pension schemes. The Cheshire and Derbyshire pension schemes had a more positive funding position than the Nationwide Pension Fund prior to the merger and this position has been safeguarded post-merger.

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

Following negotiations between the Society and the Trustee, a plan was agreed to clear the shortfall revealed at the 31 March 2019 Valuation, by the Society paying additional lump sum contributions of:

- £61 million paid in July 2019;
- £61 million to be paid in November 2020; and
- £61 million to be paid in July 2021.

The Society and the Trustee are considering putting in place a contingent asset to provide increased security for members' benefits. Should an appropriate contingent asset be put in place, the contributions payable in November 2020 and July 2021 will not be

due. In addition, £25 million of the contribution due in July 2021 will only be paid if the Nationwide Section still has a funding shortfall in early 2021.

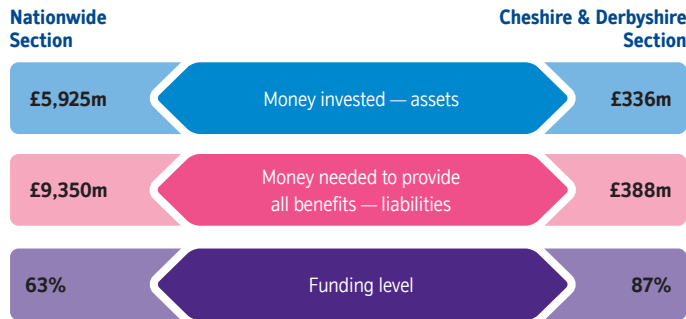
What contributions need to be paid to cover the cost of providing future benefits?

As part of the full 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 2019 Valuation, the Society and Trustee agreed to maintain the Society's ongoing contribution rate of 31.5% of pensionable salaries. Active members continue to contribute 7% of their pensionable salary.

How will my pension be paid if the Fund is wound up?

As part of the full Valuation, the Actuary works out what would have happened if the Fund had been wound up on the Valuation date. This is known as a solvency Valuation where the Actuary estimates if there's enough money to buy individual insurance policies to provide full pensions for every member. The table on page 14 shows the solvency positions of both Sections at 31 March 2019. The combined

shortfall for both Sections of £3,477 million represents the amount of money that would be required from the Society were the Fund to be wound up at this date.



The funding level on a solvency basis is always lower than on the ongoing basis as the cost of providing all members’ benefits straight away through insurance policies (pension annuities) is much higher than paying for them over the future life of the Fund. Also, insurance companies are required by law to take a very cautious approach to pricing pension annuities, which includes setting aside extra capital and reserves. In addition, their prices will include their costs and a profit margin.

In the unlikely event that the Fund is wound up and the Society is unable to meet any shortfall (for example because it became insolvent) additional security is provided through the Pension Protection Fund (PPF), which has been set up by the Government to assist schemes in such circumstances. The PPF would normally take over the Fund and pay compensation to members. More information is available on their website at www.ppf.co.uk

Why do we include information about the Fund winding up?

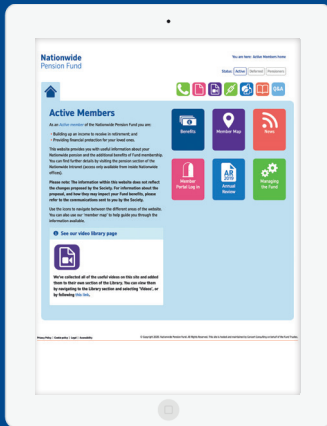
This is a legal requirement. It doesn’t mean the Society is thinking of winding up the Fund, or that the Trustee has any reasons to expect the Society to become insolvent.

Other information required by legislation

Legislation requires the Trustee to say whether any surplus funds have been paid to the Society from the Fund in the period since the last Summary Funding update was issued. The Trustee can confirm that there has not been any such payment over the period. The Trustee can also confirm that the Fund has not been modified by the Pensions Regulator, or had any directions or Schedule of Contributions imposed by it.

i Where to find more information

The Fund website is full of useful information so please check to see if it has the answer to your question before contacting the Employee Pensions administration team.



The website contains a wealth of information about how the Fund works and the benefits payable to its members. It also has some short videos covering topics such as funding and investments, a news section which is updated regularly and a helpful Q&A section.

The Member Portal, is the secure area of the Fund website where you can log in to see information about your benefits, the contact details

we hold for you, and your current Expression of Wish details (which you can update directly if necessary).


If you haven't yet registered you'll need your unique registration code. If you can't find it, just contact the Employee Pensions administration team for a reminder.

Need more help?

If you can't find the answers you're looking for on the website, you can contact the Employee Pensions administration team. If you can email in the first instance it really helps.

 pensions.team@nationwide.co.uk

If you don't have access to email, you can either telephone or write to the team but it may take a little longer than normal to answer your call or respond to your letter.

 **01793 655131** (9am to 5pm, Monday to Friday)

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

If you're a Pensioner and have a query on your pension, you can telephone 'AskHR' on **01793 556808** and select 'option 1' (9am to 5pm, Monday to Friday).

If you're a Nationwide employee and have a query, you can create a case via 'AskHR' on the intranet and select 'Pensions' in the category search.