

Nationwide Pension Fund

Responsible Investing Policy –
in support of the Statement of Investment
Principles (“SIP”)

13th of February 2025

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For the avoidance of doubt defined terms in this document have the same meaning as defined in the Glossary of Defined Terms included in the Statement of Investment Principles.

1. Policy purpose

- 1.1. This Policy sets out the framework governing Nationwide Pension Fund's (the Fund) responsible investment approach. It describes the structure of the Fund's responsible investment process and the ways in which the Trustee reflects Environmental, Social, and Governance (ESG) opportunities and risks in its investment processes.
- 1.2. This Policy covers both Sections of the Fund, the Nationwide Section and the Cheshire & Derbyshire Section, and all assets within these Sections unless stated otherwise. Note that certain provisions within the Policy are not applicable to risk settlement insurance assets (the bulk annuity policy for the Cheshire & Derbyshire Section and the longevity hedging for the Nationwide Section). The Trustee recognises that it is unable to divest these assets due to their specific nature; however, the ESG credentials of all potential counterparties to these contracts was assessed by the Trustee prior to execution.
- 1.3. This Policy has been approved by the Trustee of the Fund.

2. Responsible investing

- 2.1. 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.
- 2.2. The Trustee believes ESG considerations can affect the performance of investment portfolios, both from an opportunity and a risk standpoint. Some examples of this include:
 - New and profitable markets may arise, driven by sustainable practices.
 - Efficiencies may be realised by asset managers through incorporation of sustainability into operations.
 - Good governance may enhance assets, driving increased value.
 - Assets may become stranded where governmental or consumer consent for products is withdrawn.
 - Extreme weather events may damage or destroy assets with these events becoming more prolific in a warming climate.
 - Global political unrest may be fueled by competition for natural resources, such as fresh water, as these resources potentially become scarcer in regions affected by rising temperatures.
 - A lack of diversity may lead to 'groupthink,' resulting in missed opportunities that may have been identified through the inclusion of more diverse perspectives and experiences.
- 2.3. Therefore, to fulfil the Trustee's commitment, to act as a responsible steward of the assets held by the Fund and to protect and enhance the value of the Fund's investments, the Trustee considers ESG opportunities and risks .

3. Accountability

- 3.1. The Trustee is accountable for consideration of ESG factors in investment decisions and for the ongoing monitoring of ESG progress by asset managers.
- 3.2. As a sub-committee of the Trustee board, the Investment and Funding Committee (IFC) monitors the integration of ESG factors into the strategy and operations of the Fund and reports to the Trustee board on any substantial changes.

3.3. The day-to-day implementation of ESG considerations into the investment strategy and the ongoing monitoring and interaction with asset managers is conducted by the Fund's Chief Investment Officer's Team (CIO Team), which reports to the IFC.

4. Aligning asset managers' interests

4.1. 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.

4.2. 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.

4.3. 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 where these are optimal for the portfolio, or if required due to the overall aims of the Fund. This long-term view of investing ensures that asset managers are incentivised to make decisions based on the medium- and long-term prospects of its underlying investments, rather than achieving short-term returns.

4.4. The Trustee prefers a 'fixed fee' remuneration approach for its asset managers but 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 acknowledges that investing in top-performing private market funds typically involves fee structures that provide greater rewards for superior performance.

4.5. 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 with those of the asset manager and the individuals managing the investments for the asset manager.

4.6. Performance reviews typically incorporate market testing of fixed fees, and the Trustee will always seek to negotiate and reduce fees where possible, while ensuring the continued performance of asset managers through adequate remuneration. The Trustee will preclude investments where it judges the fee structure (including performance fees) of the asset manager is excessive or does not align interests with the Fund and its beneficiaries.

4.7. The Trustee, with support from the Investment Consultant (IC), actively engages with asset managers to obtain better visibility of costs and charges incurred from the management of the portfolio, including portfolio turnover costs.

4.8. The Trustee seeks to maintain an asset allocation in line with the operational ranges set out in the respective Statement of Investment Principles documents for each Section of the Fund. These are reviewed annually in conjunction with the Fund's IC. Within each asset class, the Fund will seek asset managers which it assesses as capable of delivering returns in line with their stated mandate (amongst several other factors such as diversification).

4.9. For illiquid asset managers, the duration of the investment, or arrangement, is typically multiple years in length.

4.10. Liquid asset managers provide a degree of flexibility to react to a range of factors, and arrangements may be shorter in length than those of illiquid asset managers, albeit passive holdings are often longer term. For passive mandates, periodic market

benchmarking is undertaken to ensure the arrangement provides ongoing value and remains competitively priced.

- 4.11. The CIO Team regularly engages with managers and will question managers on the rationale for holding positions in assets and/or portfolio companies. This questioning may include the rationale around holding of these investments based on Environmental, Social and Governance (ESG) factors.
- 4.12. Details of how the Trustee seeks to engage with the underlying issuers of debt and equity is referenced in section 6.

5. Environmental, social and governance considerations

- 5.1. The Trustee believes that an understanding of financially material considerations, including ESG factors, can contribute to the identification of investment opportunities and financially material risks. These are predominantly considered over the long-term, but the Trustee also attempts best estimate modelling in the short- and medium-term as part of climate risk reporting.
- 5.2. As part of its delegated responsibilities, the Trustee expects the Fund's investment managers to take account of ESG considerations (including long-term risks posed by sustainability concerns such as 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.
- 5.3. The Trustee is taking the following steps to monitor and assess ESG related risks and opportunities:
 - The Trustee undertakes training on responsible investment to understand how ESG factors can impact the Fund's assets and liabilities.
 - On an annual basis, the Trustee conducts a due diligence exercise to determine the extent of integration of ESG factors into its asset managers' investment decisions and ongoing operations. This exercise covers a range of ESG factors including modern slavery, corporate governance, carbon emissions and abatement, equity, diversity and inclusion, and cybersecurity.
 - The CIO Team interacts regularly with asset managers through review of ESG reports, providing feedback and suggestions on these reports to drive best practice across all its asset managers.
 - The Trustee has undertaken carbon emissions modelling of its private markets portfolio to estimate the Fund's greenhouse gas emissions. The Trustee will use the results of this modelling to further drive engagement with its asset managers.
 - The Trustee has set stewardship priorities to focus engagement with asset managers, these are detailed in point 6.7.
- 5.4. 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. The full statement is provided in Appendix 1.
- 5.5. The Trustee has also concluded that aligning the Fund with the aims of the Paris Agreement (2015) and reducing the greenhouse gas emissions financed by investments, will help to mitigate the risks and capitalize on potential opportunities posed by climate

change. To this end, existing and future investment and engagement activity will follow the approach detailed in the Fund's Net Zero Transition Plan, a summary of which is available on the NPF website, if it does not prevent sufficient returns being maintained to meet the funding objectives.

- 5.6. The Trustee is currently invested in ground rents and long leases for both residential and commercial properties. To maintain transparency and consistency, the Trustee, in collaboration with its fund advisers and managing agents, has established clear investment and management practices for these assets:

Investment restrictions

- The Trustee does not anticipate investing in any new ground rents or commercial leases in the future. If this expectation changes, the Trustee will update this document accordingly.

Enfranchisement

- The Trustee will cooperate with potential enfranchisement processes and will value leases at the fair value of future cash flows, considering the costs incurred by the Fund.

Responsibilities to leaseholders

- The Trustee ensures fair management of ground rents, appointing suitable property managers and addressing any issues where they arise.
 - Fair and timely responses are provided to alteration requests from residential leaseholders, with consideration given to preserving property value to protect members' interests.
 - Management companies are appointed based on agreed service levels, which include providing appropriate and competitive insurance and block management services.
 - Compliance with health and safety regulations is sought through regular monitoring, risk assessment, and implementation of recommendations.
 - Flexible cooperation with commercial leaseholders aims to ensure that lease terms align with market standards without compromising the Fund's portfolio performance.
- 5.7. The Trustee published the Fund's annual Climate Risk Report (CRR) as of 31st March 2024, in-line with the recommendations set out by the Taskforce for Climate-related Financial Disclosures. This will be updated on an annual basis to show how the Trustee monitors and manages climate risk in the portfolio.
- 5.8. The Trustee is committed to addressing any modern slavery issues within its investments. Therefore, the Trustee conducts due diligence on both new and existing investments to monitor the modern slavery risks, giving due regard to industry guidance such as that from the Taskforce on Social Factors as appropriate. When concerns arise, the CIO Team will engage with asset managers to address these issues. If an asset manager does not take the necessary actions in the agreed timeframe, the Trustee will not invest with that manager or, if already invested, the Trustee will actively consider divestment where that is possible.
- 5.9. The Trustee is aware that all factors within ESG are important and this growing area of considerations is subject to change. The Trustee will stay up to date with all required disclosures to continue acting as responsible stewards.

6. Stewardship – voting and engagement

- 6.1. The Trustee understands the importance of its role as a steward of capital and the need to ensure the highest standards of governance in the underlying companies in which its investments reside. The Trustee recognises that this helps to protect the financial interests of the Fund and its beneficiaries.
- 6.2. 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, along with, where relevant and appropriate, engaging with underlying investee companies to promote good corporate governance, accountability, and positive change.
- 6.3. The Trustee expects that its investment managers will provide details of their stewardship policy and activities when requested and will monitor this with input from the IC as required/appropriate.
- 6.4. Specifically, the Trustee encourages its investment managers to adhere to the principles of the UK Stewardship Code, UN Principles for Responsible Investment, or UN Sustainable Development Goals (or an equivalent set of standards). The Trustee asks managers to:
 - Detail the extent to which, and how, they implement responsible investment standards.
 - Take account of ESG considerations in the selection, retention and realisation of investments where these might have an impact on company and investment performance.
 - Exercise shareholder rights (including proxy voting and engagement) on the Fund's behalf in such a manner to protect the interests of beneficiaries.
 - Each year, report voting and engagement activity to the Trustee (where such activity takes place).
 - Provide Scope 1, 2 and 3 carbon emissions data, and other environmental metrics, as far as is feasibly possible.
 - Demonstrate policies and processes that are in place to identify, assess and address risks in relation to modern slavery, human rights and labour standards.
- 6.5. The Trustee will engage with its investment managers where necessary for more information, and where appropriate, influence investment managers to improve existing practices.
- 6.6. Each year the Trustee undertakes a due diligence process that assesses the approach asset managers take towards identifying, assessing, and managing ESG factors. Responses are compared against peers, and against the reporting obligations of the Trustee. The Trustee communicates the findings of this to each of its asset managers, and highlights where any managers are falling short of expectations.
- 6.7. The Trustee has set three stewardship priorities based on findings from recent annual due diligence processes. These represent material ESG risks, and those that the Trustee is most able to influence due to supporting legal and regulatory requirements:
 - Assessing and mitigating physical and transition risks from climate change on assets, and the Fund's own impact on, climate.
 - Collecting and reporting on assets' greenhouse gas emissions.

- Robust identification and mitigation of modern slavery.

6.8. Engagement with asset managers will pay particular attention to these priorities if a manager's approach is not considered satisfactory.

7. Reporting

7.1. The CIO Team reports regularly to the IFC through quarterly committee meetings. This reporting will encompass information on ESG factors and responsible investment, presenting pertinent details when applicable.

7.2. As part of the asset manager's annual due diligence process conducted by the CIO Team, reports on asset managers identified as deficient in their approach to ESG factors will be presented to the IFC.

7.3. Annually, the Trustee publishes the Fund's CRR, which details the Fund's approach to governance, strategy, risk management, and metrics and targets associated with climate change.

8. Monitoring and review of policy

8.1. On an annual basis, the IFC reviews the Fund's performance against this Policy. Instances where the Fund has not aligned with this Policy are noted, and mechanisms are implemented to ensure future compliance.

8.2. This Policy undergoes an annual review to ensure its alignment with the responsible investment activities of the Fund.

9. Members' views and non-financial factors

9.1. 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 factors' in the Occupation Pension Schemes Regulations 2018). However, the complex nature of asset liability modelling and the requirement for professional expertise in investment management, means that the Trustee does not separately consider non-financial factors in its investment approach. The Trustee sets and implements the Fund's investment strategy in line with the principles set out in the Statements of Investment Principles and this Responsible Investing Policy.

Appendix 1 – Climate Mission Statement

The Trustee believes that climate change is one of the most significant global challenges of this century. The Trustee does not believe that markets are adequately pricing in the risks associated with climate change, nor that companies that are exposed to the risk of stranded assets are equipped to find other means to replace the potential revenue loss from a transition to a low-carbon economy.

The risks associated with climate change may therefore materially impact on the Fund's investment returns within the timeframe that the Trustee is concerned about – which the Trustee defines as the next 20 years – and, as such, the Trustee seeks to integrate assessments of climate change risk into its investment decisions. In assessing the Fund's climate change risk exposure, the Trustee considers these risks over the short (1-3 years), medium (4-10 years) and long (11-20 years) term.

The Trustee believes that the Fund's investment portfolio should reflect its commitment to a low carbon future, focusing on lower carbon investment products. As such, when assessing the impact of climate change on the Fund, the Trustee will seek to identify investment opportunities that are aligned with the transition to a low carbon economy. This may include investments in green technologies and infrastructure, low-carbon/ESG-tilted investments or through an impact investing approach.

The Trustee believes that it can practically prepare for the risks associated with climate change and that it has a duty to help drive positive change and action on climate change through its investments. The Trustee will seek to support the United Kingdom's and the world's transition to a low carbon economy through a programme of responsible investment combined with active engagement on climate change issues, including through membership of industry groups and networks of like-minded investors. Where possible and appropriate, the Trustee will work with the sponsoring employer to address these issues.

The Trustee board has overall responsibility for setting the Fund's climate change risk management framework. As a first step, the Trustee will formalise its climate change risk management framework, which will set out the Trustee's processes for identifying and managing climate change-related risks. The Trustee will review its climate change risk framework annually and will monitor progress against its objectives at least bi-annually and more frequently if required. The Trustee board has delegated day-to-day implementation of its climate risk management framework to the CIO Team and investment Consultant.