

NEST's objectives and principles for investing responsibly



NEST's objectives for investing responsibly

Like many pension schemes, NEST has a set of investment beliefs that helps the organisation make better decisions about how we invest members' money. One of NEST's beliefs, developed from a significant body of evidence, sets out the importance of considering environmental, social and governance (ESG) risk factors. NEST believes that: 'As long-term investors, incorporating ESG factors is integral to the investment management process.'

We have four main objectives that follow from this investment belief. These objectives help guide and prioritise our activities:

1. Better risk adjusted return

We want to target an improvement in ESG performance where there's evidence doing so can lower the amount of risk we need to take in order to achieve a return.

2. Better functioning markets

We want to improve how markets operate and are regulated in jurisdictions where we invest.

3. Support long-term wealth creation

We want to encourage the companies we invest in to deliver sustainable and stable performance to support good returns for our members over many years.

4. Manage reputational risks

We want to protect NEST's reputation and grow trust with our members by encouraging companies to act in ways our members can feel confident about. Companies that aren't properly run, or don't consider the environment or people in a way our members would expect, damage how they're seen. This can affect how members feel about investing.

NEST's principles for investing responsibly

Our responsible investment principles provide a rationale for action to meet our responsible investment objectives. They are developed on the basis of empirical evidence and sustainable finance theory. We'll review them periodically to ensure they remain fit for purpose in light of the latest evidence.

The principles are:

1. ESG issues can be a source of risk and financial performance

It's possible to quantify and measure some ESG issues. We can use the magnitude of ESG factors and their statistical significance in explaining investment risk. We can use this to prioritise our resources in order to lower the amount of risk we need to take to achieve a return.

2. Supporting standard setters is necessary to support better markets

We need to be active owners to help meet the objectives of standard-setters and of codes of good practice that benefit entire markets.

3. Being a good corporate citizen¹ can be a sufficient rationale for action

This is why we signed the Principles for Responsible Investment, the FRC UK Stewardship Code, Institutional Investors Group on Climate Change, and the Carbon Disclosure Project.

4. Values are a legitimate basis for action

NEST should look to understand our members' values and look for common ground to inform our responsible investment priorities and action.

¹ By this, we mean having a good standing in the environment and society in which we operate, and being good owners of the companies in which we invest – stewardship in its broadest sense.