DEEP DIVE: SETTING TIME-BOUND OBJECTIVES FOR EXTERNAL MANAGERS
NEST

Nest has been at the forefront of asset owner action to support the net zero transition. The pension fund developed a Climate Change Policy in 2020/21 which sets out an ambition to align its investment strategy with the 1.5°C global goal by reaching net zero emissions across its investment portfolio by 2050 at the latest. An important part of Nest's climate strategy focuses on the fund's engagement with its external investment managers.

In December 2020, Nest wrote to all existing external investment managers to set out its expectation that they will work towards aligning the portfolio they manage for the Scheme with a 1.5°C global warming limit. Specifically, Nest has formulated three key expectations for all investment managers:

- **Reducing emissions** – Nest expects its investment managers to develop a strategy to align the portfolio with the 1.5°C global warming limit.
- **Reporting** – Nest expects investment managers to report on the climate-related risks and opportunities in the portfolio they manage using the TCFD framework.
- **Voting** – Nest expects its investment managers to exercise their voting rights and engagement resource to positively influence the companies in their portfolio to transition to a low carbon economy.

To ensure delivery against these expectations, Nest set objectives and benchmarks for each fund manager based on how far they have already progressed in evolving their investment approach towards a low carbon economy. Nest set time-bound, mandate-specific climate-related objectives for existing managers and expects all objectives to be met by 2023 at the latest. If limited progress has been made in any individual portfolio by the end of 2023, Nest will withdraw their members' assets.

In total, Nest set 69 objectives across 23 portfolios and 13 fund managers. As of 31 March 2022:

- 65.2% objectives had been met
- 7.2% of objectives were on track
- 14.5% of objectives were in progress
- 13% of objectives had not progressed.