NEST shifts assets to U.S., absorbs €1.6 m fraud

By Editor Test *Wed, Jul 17, 2013*

The U.K.'s national publicly-supported defined contribution plan increased investment in North America to 35.9%, its single largest regional exposure. Allocation to Continental Europe, up nearly 3 percentage points, now accounts for 18.4% of investments.

Britain's National Employment Savings Trust (NEST) has lowered its exposure to UK investments markedly in the last year, with domestic holdings now only 30% of assets, down from nearly 50% last March. Publishing its annual report for the financial year 2012-13, the "public option" defined contribution plan said its default investment options, retirement date funds, performed as expected.

The fund also said NEST Corporation, the entity responsible for the day-to-day running of the fund, had been the victim of a $2.1 million fraud. Chairman Lawrence Churchill said the plans defenses had been strengthened since the £1.4m (€1.6m) payment had been uncovered. He added that, despite the money not coming straight from members' pots, if the scheme were unable to recover the money, it might increase running costs.

"They have delivered above-inflation returns within our given risk budgets while protecting members from excessive volatility in uncertain conditions," the report said. The 2021, 2040 and 2055 retirement date funds all saw double-digit returns. A member retiring in eight years saw investments grow by 12.2% over the year and by 10% since the fund was launched in August 2010. A member retiring in 27 years saw returns of 13.6% over the year.

Members with a greater risk appetite invested in the NEST Higher Risk Fund saw returns of 15.6%, only 1.1 percentage points above the Sharia-compliant fund. Those who opted for the lower-risk fund only saw returns of 0.4%, in line with the option's benchmark return both last year and since the fund's inception.

NEST has also significantly rebalanced its asset allocation away from the UK; instead, it increased investment in North America to 35.9%, its single largest regional exposure. A greater emphasis was also placed on Continental Europe, up nearly 3 percentage points to account for 18.4% of investments. Latin and South America remained the smallest identified region, with investments in the area nonetheless rising over the 12 months from 0.4% to 1.9% of total assets.

In other matters, NEST justified its decision to allocate 20% of its assets in growth-oriented funds to real estate as "reasonable" and essential to its mandate to offer above-inflation returns. NEST appointed Legal & General Investment Management to a "property mandate," thus helping NEST invest in UK property and a global real estate investment trust (REIT) index.

NEST CIO Mark Fawcett described the allocation as hedge against investment risk. "There is this strategic question as to how much we should have in real assets, and then there is this risk management question [on] relative attractiveness of other assets in the shorter term," he told *IPE.com*. "About one-fifth in real assets – almost whichever way we run the models and crunch the numbers – that seems to be a reasonable position.” He explained that, in NEST’s view, real assets are a “good way of hedging some of that inflation risk” – with the fund seeking to outperform the UK consumer prices index (CPI).