



Acting against aggression

✔ A spokesperson from the National Employment Savings Trust (Nest) speaks to Jack Gray about the action the scheme took following the Russian invasion of Ukraine, the assets it held and sought to divest from, and the challenges the scheme faced in reducing its exposure to Russian assets

Nearly three months ago, Russia shocked the world when it began its invasion into Ukraine. Pension schemes from across the UK sought to act quickly to reduce their exposure to Russian assets, with schemes such as Nest, the BT Pension Scheme, the Universities Superannuation Scheme and the Church of England Pensions Board among the first to take action.

The Pensions Regulator outlined its expectations soon after, calling on pension scheme trustees to be vigilant and speak with their advisers about steps that may need to be taken, and stating that trustees should consider any action they may need to take to align with sanctions announced by the UK government.

Progress was hampered by the closure of the Russian stock exchange and heavy restrictions on foreign investors selling their holdings in Russian assets. Meanwhile, in light of the conflict, many schemes have re-evaluated their environmental, social and governance (ESG) approaches.

Speaking to *Pensions Age*, a Nest spokesperson details the process the scheme undertook to reduce its exposure to Russian assets and the ongoing challenges facing UK schemes looking to divest.

Can you detail what types of assets Nest divested from and what level of exposure the scheme had to Russian assets at the point of invasion?

Nest spokesperson: “Nest’s investment in Russian assets has always been small; as of 25 February 2022 we put our exposure at less than 0.2 per cent of our assets under management.

“Our exposure to Russian companies and entities was through emerging market debt (bonds), emerging market equities, commodities and one dual-listed company in our developed market equity fund.”

Did Nest have anything in place prior to the invasion of Ukraine that helped it during the process of divestment?

Nest spokesperson: “The environmental, social and governance (ESG) screens Nest has in place in our emerging market equity fund, particularly on strong corporate governance and reducing carbon emissions, meant our investment in Russian companies was much lower than it would have been if we were fully passive investors.”

Why did Nest take the decision to divest from Russian assets?

Nest spokesperson: “The impact of sanctions and the removal of Russia’s emerging market status means the prospects for the Russian economy are poor. Investors will also rightly be concerned about the respect for international law and property rights in Russia.

“We therefore concluded Russia was a no-go area for investors and on 28 February 2022 we instructed the relevant fund managers to remove our exposure to Russian markets. This decision was taken by Nest’s Investment Committee.

“Our active fund managers for emerging market debt and commodities were already reducing Nest’s investment in Russian markets before we instructed them to do so.”

What challenges did you encounter during the process?

Nest spokesperson: “Overall, our fund managers have sold off the Russian investments they can and will remove the few remaining assets at the soonest opportunity.

“Their progress has been impacted by a number of factors, including a prolonged closure to the Russian stock exchange markets and while trading has partly resumed, there are heavy restrictions; for example, foreign investors cannot sell their holdings.”

What types of assets were invested in, in place of the Russian investments?

Nest spokesperson: “Given Russian assets were always a small part of our portfolio we have not needed to implement a significant reallocation.”

✔ Written by Jack Gray